Innovation policies in the EBRD region – need for a more differentiated approach?
There is a significant gap in the EBRD region in terms of innovation capabilities…

- Broader business environment conditions
  - Quality of institutions
  - Macro-economic stability
  - Functioning of product, labour and financial markets

- Conditions specifically affecting firms’ innovation capacity
  - Access to (foreign) technology (e.g. economic openness, ICT infrastructure, extent of FDI technology transfer)
  - Absorptive capacity (e.g. secondary and tertiary education, extent of brain drain)
  - Capacity to create knowledge / creative capacity (post-graduate tertiary education, flexible markets, science-industry links, IPR, early-stage financing availability)

(based on the methodology from Veugelers (2011))
...especially in absorptive and creative capacities

Sources: WEF (2013), TR authors’ calculations
There are large differences within the EBRD region...

- Predominant ways of obtaining knowledge:
  - Low innovation countries (e.g. Uzbekistan)
  - Buy (e.g. Serbia, Turkey, Poland)
  - Buy / Make (e.g. Estonia)
  - Make

Sources: WEF (2013), TR authors’ calculations, BEEPS V
…but the existing innovation policy objectives / instruments are very similar…

- Survey of innovation policy objectives and instruments in the region indicates lack of heterogeneity, lack of alignment with the level of development and high persistency over time
- Focus on technology creation and less attention to facilitating absorption of technologies (e.g. lower priority to education / training, management skills, economic openness vs. contribution of public research organisations)
- Vertical targeting of similar sectors across the region (ICT, energy, biotech)
“One size fits all approach” does not suit most countries
Policies should be tailored to the level of development, vary across countries and over time
Less developed countries – focus on absorptive capacity, improving governance standards
More advanced countries – strengthening creative capacity, specialised skills and finance, competition, facilitating entry and exit of firms
Imitate policy design / governance rather than objectives and instruments

- Private sector involvement in identification of bottlenecks to innovation
- Temporary nature / built-in sunset clauses
- Systematic evaluation, review and adaptation
Vertical targeting requires high standard of governance – may not be suitable for most transition countries

Specific safeguards needed if vertical targeting is used:
- Strict transparent eligibility criteria
- Private sector participation
- Complementary horizontal measures
- Temporary nature / sunset clauses
Conclusions

- Need for a better alignment of policies with level of development / local conditions
- Focus on binding obstacles and measures that require long time to develop – often these are still basic elements of the business environment
- Imitate proper governance rather than outcomes
  - Private sector involvement
  - Temporary nature
  - Evaluation, review and adaptation
- Vertical targeting only once governance safeguards are in place