

Innovation Performance Review of Ukraine Chapters 6 and 7

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Recommendation 6.1:

Overall framework conditions have a strong influence on the development of start-ups and SMEs and the impact of other policy interventions. The authorities should carry out focused and sustained efforts in improving the legal and regulatory environment for these companies. Within this overall effort, the authorities could consider the following actions:

- Emphasise quick interventions with a large potential impact, including easing administrative regulations, rather than time-consuming legal reforms;
- Target female entrepreneurs, who are less likely to start a business but display high success rates;
- Reform company laws in line with international experiences, so it is easier for entrepreneurs and venture capital firms to set up business in Ukraine, reversing the observed trend to be established abroad; and
- Document these actions in an annual report to track progress.

Recommendation 6.2

Public support is necessary to address the financing problems of innovative companies. A new innovation fund, although limited in size, would have positive effects on facilitating the development of start-ups and help them to attract private financing. To increase the potential beneficial impact of this innovation fund, the authorities could consider the following principles and actions:

- The innovation fund should be initially of a limited size. Once it has a proven track record of successfully supporting innovative SMEs, resources could be increased. A fund that is run well, with stringent but transparent criteria to select companies, would attract a good quality deal flow and would also encourage private sector interest in the companies that are being financed;
- As innovation is always beset with risk, it is crucial that there is a tolerance for failure. Funding should be stable, preferably in the form of a contribution to the capital of the fund, so risks can be managed on a portfolio basis, without requiring a positive outcome for all projects financed; and
- Given the limited resources available and the need to enhance the credibility of interventions in this area, it would be useful to engage international know-how in the administration of the fund. An option would be that the set-up of the fund is carried out under a twinning agreement with a well-established European funding organisation.

Recommendation 6.2

- Introduce some experimentation in funding possibilities: Some examples would be introducing counter-cyclical loans, which respond to economic cycles, deferring tax payments until a certain profit threshold or ROI is achieved; rolling over SMEs loans (e.g. as interest rates fall); risk-sharing in the form of joint control of the organization between the owner and investor (e.g. business angel), this contributes to diminishing the VC's power over companies; and supporting the creation of risk capital funds (high risk/high potential with management guidance); and risk-sharing with the use of public funds.

Recommendation 6.3

The authorities could provide further impetus to the development of the venture capital industry in Ukraine by considering the following actions:

- Paying continued attention to the improvement of framework conditions for SMEs in order to increase potential investment opportunities;
- Engage the private sector in public technology programmes, so venture capitalists can have better information on possible commercialization possibilities; and
- Encourage the emergence of business angel financing as a way to explore small scale opportunities that can later be developed further by venture capital firms. This could be done through support to the formation of business angels networks and the creation of platforms for communication with research organisations and universities.

Recommendation 6.3

- Improve the financing environment for entrepreneurs and SMEs by encouraging the following:
 - o A forum or round-table that brings together bankers and small business organizations to identify and reduce the barriers to finance.
 - o Linkages with the EU's Competitiveness and Innovation Programme (CIP), which provides financial instruments (equity finance, loan guarantees) to small businesses.
 - o Peer-to-peer" lending (P2P) or corporate venture capital where established larger firms take equity stakes in new innovative firms.

Support involvement of private actors (e.g. professionals in the fields of private equity, corporate law, tax, banking and audit) to provide information to entrepreneurs and SMEs about the various financial actors and instruments available and legislation concerning their business activities. For example,

A communications platform (website) dedicated to entrepreneurs/innovators (e.g. Kauffman Foundation, Le Réseau (CH))

Recommendation 7.1

Ukraine has a well educated population, but continued improvement of human capital and the ability to retain local talent are ongoing challenges. The authorities could consider a number of actions to foster these aims, including:

- Building on existing initiatives, introducing new measures to facilitate the international mobility of graduate students, young researchers and educators. These could include taking advantage of existing EU programmes, developing new forms of cooperation through regional integration initiatives and establishing mechanisms of collaboration with the private sector through shared sponsorships;
- Developing R&D programmes, including with the participation of foreign partners and private investors, to create long run employment opportunities for returning students and researchers; and
- Introducing appropriate mechanisms for attracting foreign experts and leading scholars to work with Ukrainian partners especially on projects of high priority for the country (national projects).

Recommendation 7.1

OR...

- Attracting the world's leading scientific competences to Ukrainian universities by offering grants earmarked for integrating internationally renowned academics into university research labs;
- Encouraging and facilitating tertiary educational exchanges such as Erasmus Mundus by finalizing the standardization of the educational system in accordance with the Bologna Process (mutual recognition of diplomas, credits, etc.).
- Sending personnel for advanced technical training to countries and companies with specific expertise or technological leadership.

Recommendation 7.2

International cooperation in science can be encouraged by strengthening coordination mechanisms and the circulation of information. Engaging in these exchanges requires specific linguistic and managerial skills that can be developed through appropriate training. Building on current efforts, the Ukrainian authorities could consider measures to:

- Develop Internet-based platforms to enhance skills in international research collaboration, including managerial and administrative aspects related to grant applications, research collaboration and commercialization of research projects;
- Support existing services and establish new ones to provide foreign language translation and other assistance with research articles and manuscripts for publication in international academic journals; and
- Promote the emergence of a network of private business and non-profit NGOs to provide training services in preparation for grants and fellowship competitions and legal, managerial and administrative aspects of international collaboration.

Recommendation 7.2

- Develop cooperation agreements with foreign investors to encourage the transfer of international best practices, management training and technical skills.
- Enhance the existing legal and regulatory framework to promote innovation and facilitate international cooperation and innovation linkages (improve the investment climate by reducing administrative barriers; encourage technology transfer by providing tax-based incentives and ensuring IPR protection; encourage immigration of skilled workers, facilitate student mobility, etc.).

Recommendation 7.3

The authorities should build on existing initiatives and common traditions to derive greater benefits from bilateral and regional economic cooperation in areas related to innovation, including through a number of possible actions such as:

- Strengthening R&D and S&T links with similar programmes in the CIS, and champion those programmes and projects where Ukrainian institutions and scientists have potential to become regional leaders and centres of excellence;
- Facilitating the integration of the emerging innovation infrastructure into various regional and international networks in the CIS, EU and BSEC; and
- Promoting the establishment of joint educational and training programmes in the field of higher education by establishing dual diploma/ degree programmes or joint graduate programmes with major international universities.

Recommendation 7.3

- Initiating a cross-border innovation ecosystem within the CIS region based on bilateral and multilateral collaborations and public-private partnerships to encourage knowledge transfer and innovation linkages. OR...
- Developing regional innovation clusters, bringing together appropriate infrastructure and closely located and interlinked companies, R&D organizations, and universities (to ensure positive externalities to the overall innovation ecosystem of the region).The authorities can also support and encourage university-industry cooperative ventures.
- Facilitate the spill-over effects of R&D by encouraging regional networks of university laboratories, research incubators and technoparks and develop multi-stakeholder forums for interaction and cooperation.

Recommendation 7.4

The authorities should build on the growing network of cooperation with international partners to ensure increased recognition of the potential for cooperation by implementing new measures that could include:

- Identifying or developing a single national flagship project that would be promoted internationally, as a rallying point and catalyst for the interest of foreign partners;
- Improving coordination between different R&D and innovation programmes, identifying elements that would benefit from international cooperation, so these can be communicated in a consistent way to foreign partners; and
- Developing a strategy for the promotion of national goals and priorities among key partners, which defines a specific role for international cooperation in the achievement of these goals.

Recommendation 7.4

- Supporting national delegations comprising multiple stakeholders (public officials, business leaders, scientists and academics) to visit European and Asian countries to develop commercial, R&D and S&T partnerships as well as educational and knowledge linkages.
- Implement a monitoring and evaluation system to provide an informed assessment of the impact of integration initiatives.