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# *Innovation policies in the EBRD region – need for a more differentiated approach?*

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# There is a significant gap in the EBRD region in terms of innovation capabilities...



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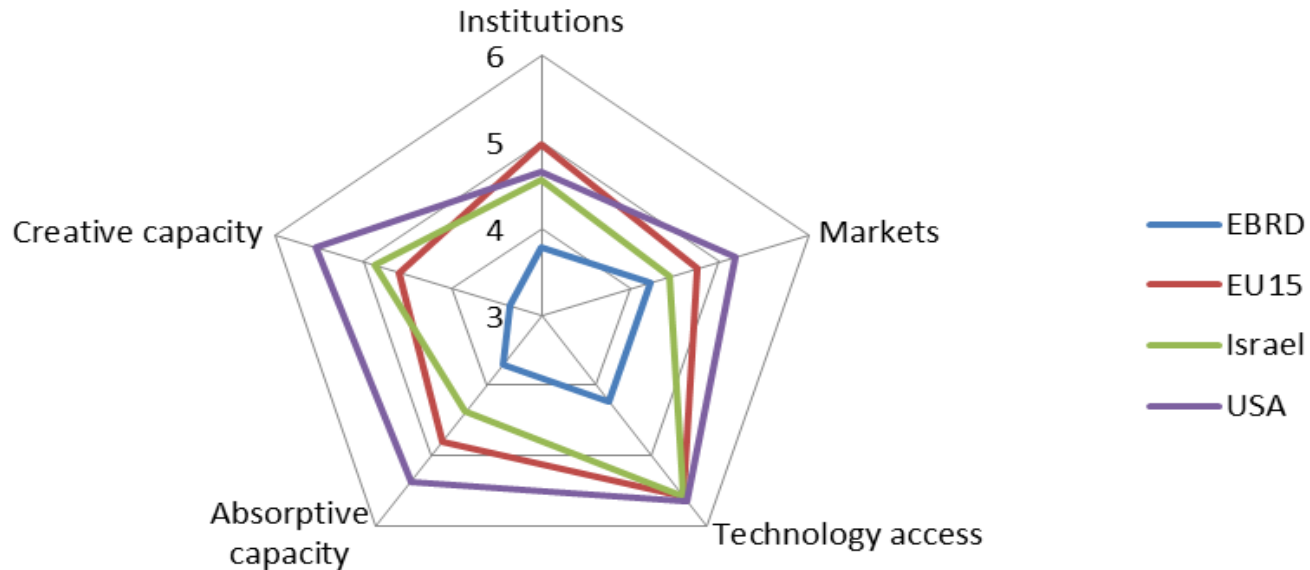
- Broader business environment conditions
  - Quality of institutions
  - Macro-economic stability
  - Functioning of product, labour and financial markets
- Conditions specifically affecting firms' innovation capacity
  - Access to (foreign) technology (e.g. economic openness, ICT infrastructure, extent 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



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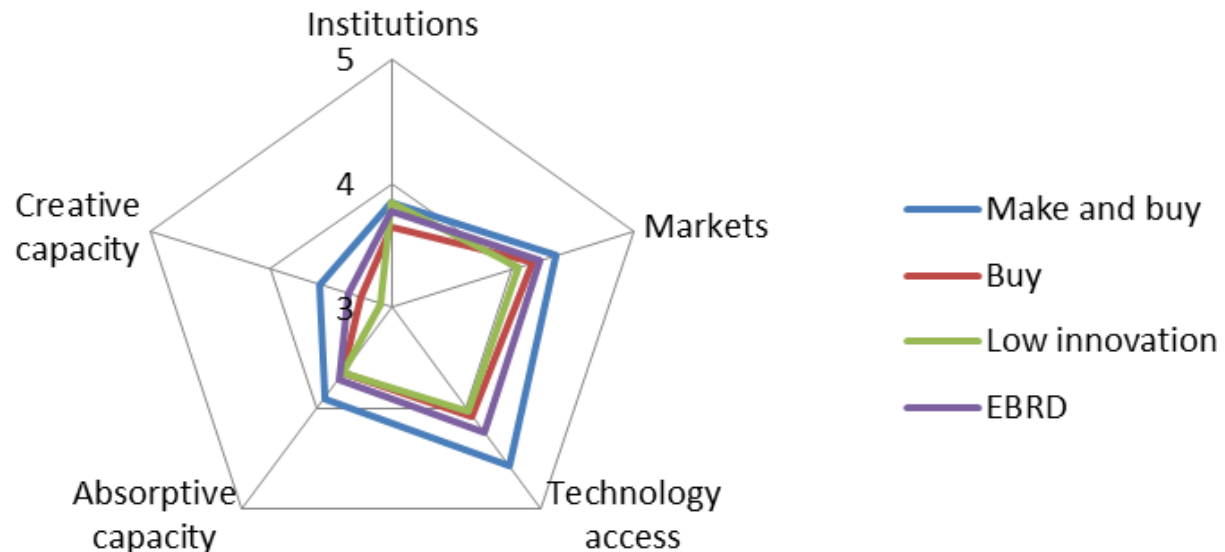
Sources: WEF (2013), TR authors' calculations

# There are large differences within the EBRD region...



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



## ...but the existing innovation policy objectives / instruments are very similar...



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- 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)

# ...indicating substantial room for improvement



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- “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



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- Private sector involvement in identification of bottlenecks to innovation
- Temporary nature / built-in sunset clauses
- Systematic evaluation, review and adaptation

# Use of vertical / sector targeting dependent on the quality of institutions / governance



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- 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



- 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