



Economic Commission for Europe**Committee on Innovation, Competitiveness and Public-Private Partnerships****Team of Specialists on Innovation and Competitiveness Policies****Fourteenth session**

Geneva (hybrid), 14 and 15 November 2022

Item 3 of the provisional agenda

Review of the work of the Team of Specialists on Innovation and Competitiveness Policies since its thirteenth session**Progress report on the interim Innovation Policy Outlook for Eastern Europe and the Caucasus****Note by the secretariat****I. Background**

1. The UNECE Committee on Innovation, Competitiveness and Public-Private Partnerships (CICPPP) endorsed the decision to undertake¹ the Sub-regional Innovation Policy Outlook (IPO) project at its twelfth session, which took place from 26 to 28 May 2018. The pilot IPO for Eastern Europe and the South Caucasus (EESC) was published in 2020 (henceforth referred to as IPO 2020). It assesses the scope and quality of innovation policies, institutions, and processes across Armenia, Azerbaijan, Belarus, Georgia, Republic of Moldova, and Ukraine. The project identifies strengths and weaknesses in innovation policy governance, enlarges the evidence base for mutual policy learning, and makes recommendations on how to improve innovation policies, institutions and processes, and enhance productivity and competitiveness.

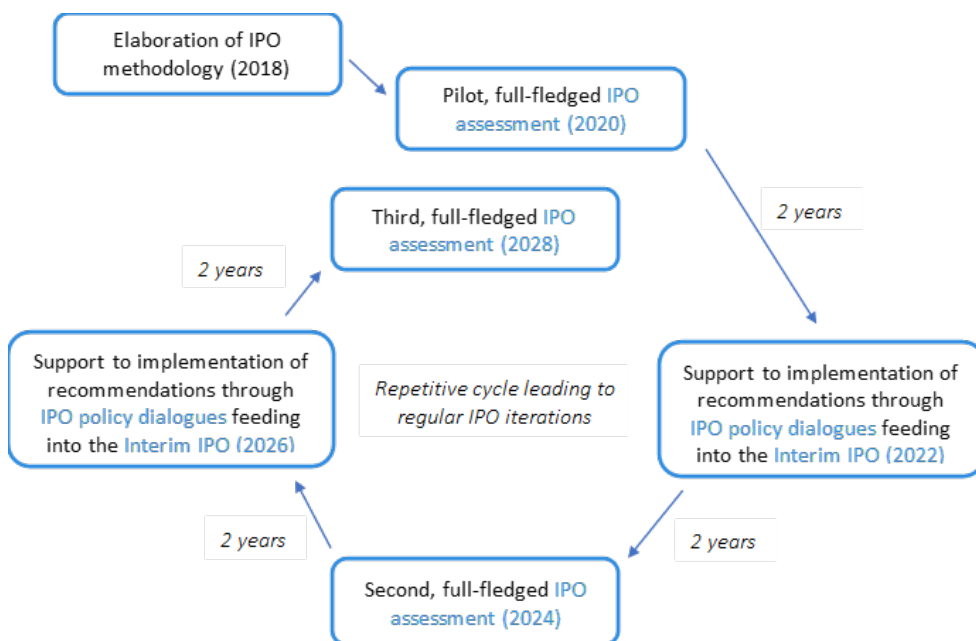
2. The IPO uses quantitative and qualitative indicators to capture the scope and quality of policy processes and institutional capacities for implementation. It is based on a solid understanding of the economic, political, structural, historical, and institutional factors that strongly influence innovation-led development in UNECE member States. As many UNECE transition economies share features that set them apart from other countries at comparable output levels, such as strong institutional legacies, high levels of educational attainment, and a legacy of frontier research, there is a clear need for analysis that captures these specificities to guide policy and institutional reform efforts.

3. Given the success of the pilot IPO 2020 and the positive feedback on its value from beneficiary countries, the UNECE secretariat aims to repeat full-fledged IPO assessments in EESC countries at regular intervals of three to four years (Figure 1). This will allow countries to track their own policy progress, benchmark their performance vis-à-vis other EESC countries in a peer-learning context, and continue using the IPO as a tool to guide and measure the effects of policy design and reform for building sustainable national innovation

¹ [ECE/CECI/2018/2](#), decision 4.8.9

systems. The UNECE secretariat will take further stock of the lessons learnt from the pilot IPO 2020, to enhance and streamline the IPO methodology and the overall research process.

Figure 1 – Sub-regional Innovation Policy Outlook Project Cycle



4. To complement the analysis from the full-fledged IPO assessments (2020, 2024) and maintain momentum, the UNECE secretariat is developing an Interim IPO (IIPO) assessment for EESC countries, to be published as an official UN publication in early 2023. The IIPO assessment contains an update on sub-regional economic and innovation developments and is set to include two in-depth chapters on important topics of concern to the beneficiaries, with concrete sub-regional recommendations. The topics of these in-depth chapters were chosen by the IPO national focal points at the Fourth Meeting of the National Focal Points of the Sub-regional Innovation Policy Outlook: Eastern Europe and South Caucasus (30 September 2021)². These include:

- i. enhancing science-business linkages in the EESC sub-region; and
- ii. using innovation-enhancing procurement (IEP) as a tool to foster innovative activity.

5. Extrabudgetary support for the IPO 2020 and the IIPO 2022 for EESC has been provided by the Government of Sweden under the project “Promoting innovation policy capacities in Eastern Europe and the Caucasus”.

6. Based on expressions of interest from Governments, the UNECE secretariat is exploring options for doing IPOs in other country groupings or sub-regions with common characteristics, where such assessments would complement existing innovation policy support.

II. Current status

7. To support research for the IIPO elective chapters, the UNECE secretariat organized three IPO policy dialogue meetings, inviting leading international experts to present their

² <https://unece.org/first-innovation-policy-outlook-dialogue-innovation-policy-coordination-and-science-technology-0>

work in this area and gather feedback on recent developments from both public and private sector IPO stakeholders³.

8. IIPO draft chapters were developed in the second quarter of 2022 and subsequently underwent an extensive peer review process, a technical peer review by international and local experts in the subject matter followed by a review by IPO focal points, their ministries, and international partner organizations⁴.

9. The UNECE secretariat thanks the Government of Sweden and the national IPO focal points for their continuous and valuable support during the IPO project.

III. Initial findings

10. UNECE member States are not on track to achieve the Sustainable Development Goals⁵. This also holds for the EESC countries as a sub-group. The situation is compounded by the structural economic weaknesses unveiled by recent external shocks, such as the COVID-19 pandemic and the war in Ukraine. It is therefore essential for EESC economies to facilitate and encourage innovation, and develop new products, services, processes and business models, which create sustainable value and can foster economic diversification and resilience.

11. With a strong legacy in research retained from the Soviet era, as well as high levels of educational attainment and emerging pockets of excellence in the ICT sector, EESC countries show significant potential for innovation-led development. However, the missing absorptive capacity (the capacity to adapt and integrate external knowledge for innovation), and the low levels R&D investment (especially by the private sector), leave room for improvement. To effectively translate innovation inputs into innovation outcomes, and spur coordination, collaboration and co-creation, innovation policy will need to provide incentives and targeted support to both public and private actors within the national and sub-regional innovation systems.

12. Preliminary findings of the IIPO indicate that low levels of innovation policy coordination in the EESC sub-region impede the efficacy of public innovation support. Many initiatives are developed in isolation and do not effectively create synergies and complementarities between each other. This leads to an overall fragmented innovation policy environment.

13. Science-business linkages are one of the most important elements to make a national innovation system work effectively. Strengthening them requires a context-specific approach. An important challenge to these linkages in the EESC sub-region is the mismatch between the capacities and resources of the public sector and the needs of the private sector. In order to enable technological upgrading for innovation, science-business linkages will need to shift of public R&D more towards adapting to the concrete needs of firms and supporting the interactions between domestic and foreign firms. This will require not only strengthening the applied R&D capacities of public research organisations, but also strengthening the absorptive capacity of the private sector.

14. Given the significant share of public expenditure on public procurement, innovation-enhancing procurement has emerged as a policy tool that has significant potential to increase demand for innovative activity towards long-term sustainable development in EESC economies. Some upper-income European economies have already begun to leverage IEP, albeit not yet reaching its full potential. However, barriers to IEP remain, including the lack of legal frameworks for IEP, insufficient coordination between actors, and lack of capacity. Based on international experiences, and the more recent UNECE support to Georgia in IEP,

³ <https://unece.org/economic-cooperation-and-integration/innovation-and-competitiveness-policies-icp/policy-dialogues>

⁴ IPO partner organisations include the European Commission's Joint Research Centre, the World Intellectual Property Organization, and the Organisation for Economic Cooperation and Development.

⁵ <https://w3.unece.org/sdg2022/>

the IIPO suggests an IEP Capacity Building Framework, which provides an overview of various capacities needed and steps involved in implementing IEP in EESC economies.

15. The findings and recommendations of the IIPO will support EESC governments in shaping and improving innovation policies in line with the strategic priorities of the countries, including the transition to a circular economy, digital and green transformations, and support to SMEs. UNECE stands ready to continue to support innovation policy in the sub-region through national Innovation for Sustainable Development Reviews (I4SDR)⁶ and subsequent national capacity building activities to assist with the implementation of the recommendations emerging from the IPO, IIPO and I4SDRs.

IV. Next steps

16. Following the peer review process, the IIPO will be professionally copy-edited and prepared for publishing by early 2023.

⁶ UNECE is currently developing the I4SDR of Armenia, to be published in Q2 2023.