Investment, Enterprise and Development Commission
5th session

29 April - 3 May 2013
Geneva

Investing in Innovation for Development
Background Note

By
Angel González Sanz
Chief, Policy Review Section
Science, Technology and ICT Branch
Division on Technology and Logistics
UNCTAD

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Background note for the Commission on Investment, Enterprise and Development

Angel González Sanz
Chief, Policy Review Section,
Science, Technology and ICT Branch,
Division on Technology and Logistics, UNCTAD

1 May 2013
Geneva, Switzerland

Contents

1 Finance as a key resource for innovation

2 Investment in innovation among countries

- Trends
- Instruments
- Success stories

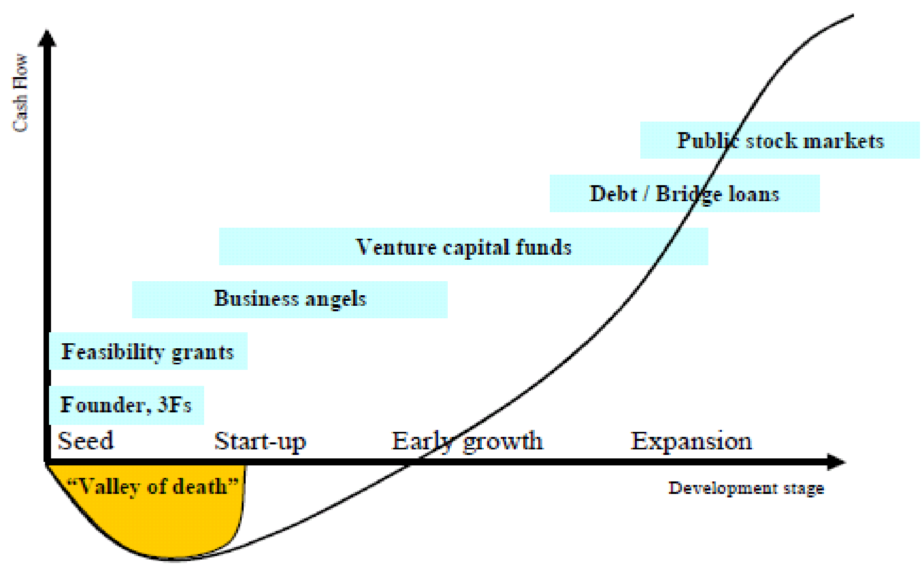
3 Conclusions and issues for discussion

Finance, a key resource for innovation

- Availability and modes of financing strongly influence technological development
- But finance is not the only factor enabling innovation:
  - Firms' learning capabilities
  - Coordination and collaboration frameworks
  - Research/industry linkages
  - Education, training
  - FDI, trade linkages
  - Entrepreneurship
  - Infrastructure…
- Investing in STI is not just about investing in R&D

Finance, a key resource for innovation

Financing instruments should match financing gaps



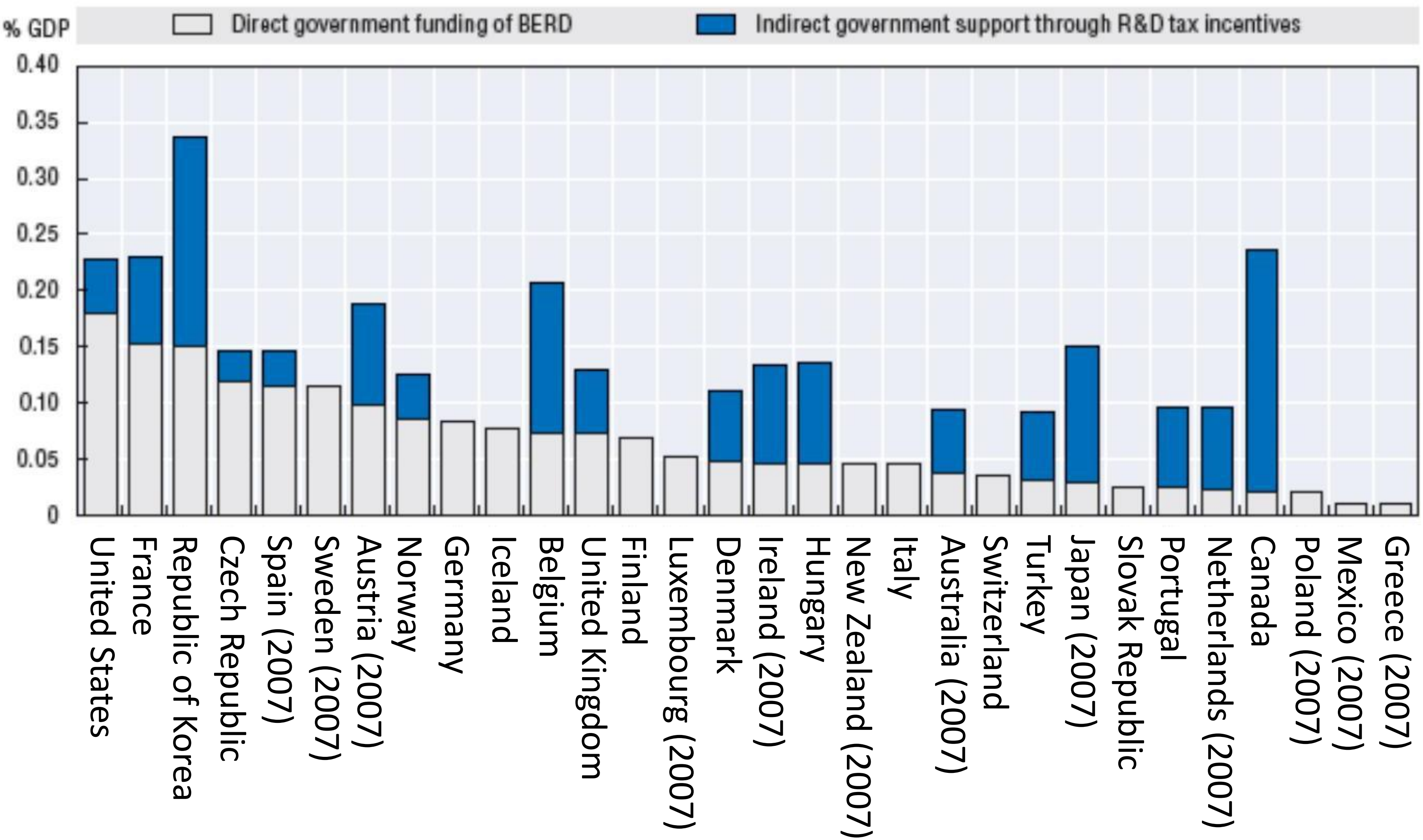
Low investment in innovation in developing countries

- GERD as a proxy for investment in innovation
- GERD low in most developing countries compared to developed countries
- Exceptions: Brazil, China, India, Republic of Korea, Singapore
- GERD by enterprises low compared to developed countries

Direct and indirect instruments for financing innovation

Direct financing: Private	Direct financing: public	Indirect financing
-Personal savings, family, friends and partners -Retained earnings -Business Angel finance -Venture capital -Commercial bank loans -Stock exchange -Bonds -Value chain financing -Microloans -Crowdfunding -Innovation prizes	Seed finance schemes Co-investment funds Innovation or technology funds Development banks Innovation prizes International development assistance	Tax incentives (tax credits, allowances, deductions) Public loan guarantees Public R&D spending, business-academic-government R&D partnerships

Direct and indirect government funding of business R&D, 2008



Source: OECD Science, Technology and Industry Outlook 2010

Some examples of sucess

- Seed finance: Chile, Start-Up programme (2010).
- Seed finance, angels and VC: Brazil, INOVAR programme (2000).
- Innovation funds: Mexico Programme of Incentives for Innovation (PPI) (2009), Mexico National Council of Science and Technology; Peru Science and Technology Programme (FINCYT) (2007); Peru Innovation for Competitiveness Project (2012).
- R&D grants: USA, Small Business Innovation Research (SBIR) program.

Conclusions and suggested issues

- Understanding and adapting to firms needs and capabilities is key. Capacity-building for managers and beneficiaries of innovation financing programmes needed.
  - How to identify critical financing gaps?
  - What are the key capabilities and skills that are critical for sustainable programme impact?
- Indicators to link innovation investments and outcomes
  - What can be learned from the experience of developing countries that have put in place general and/or specialized innovation funding programmes?
- Link to national development strategies and address systemic issues in coordination.
  - How to improve the visibility of innovation support in national and international development agendas?
  - How to strengthen synergies between investment in innovation and in other critical development priorities