

BUSINESS ENVIRONMENT AND FINANCING CONDITIONS FOR TECHNOLOGICAL PROGRESS AND INNOVATION

Panel on Financing technological change and innovation – heterogeneous growth opportunities across Europe

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Adopt, Adapt, Advance: Picking the low-hanging fruit

Innovation = improving productivity within firms

Innovation goes well **beyond R&D** in high-tech sectors

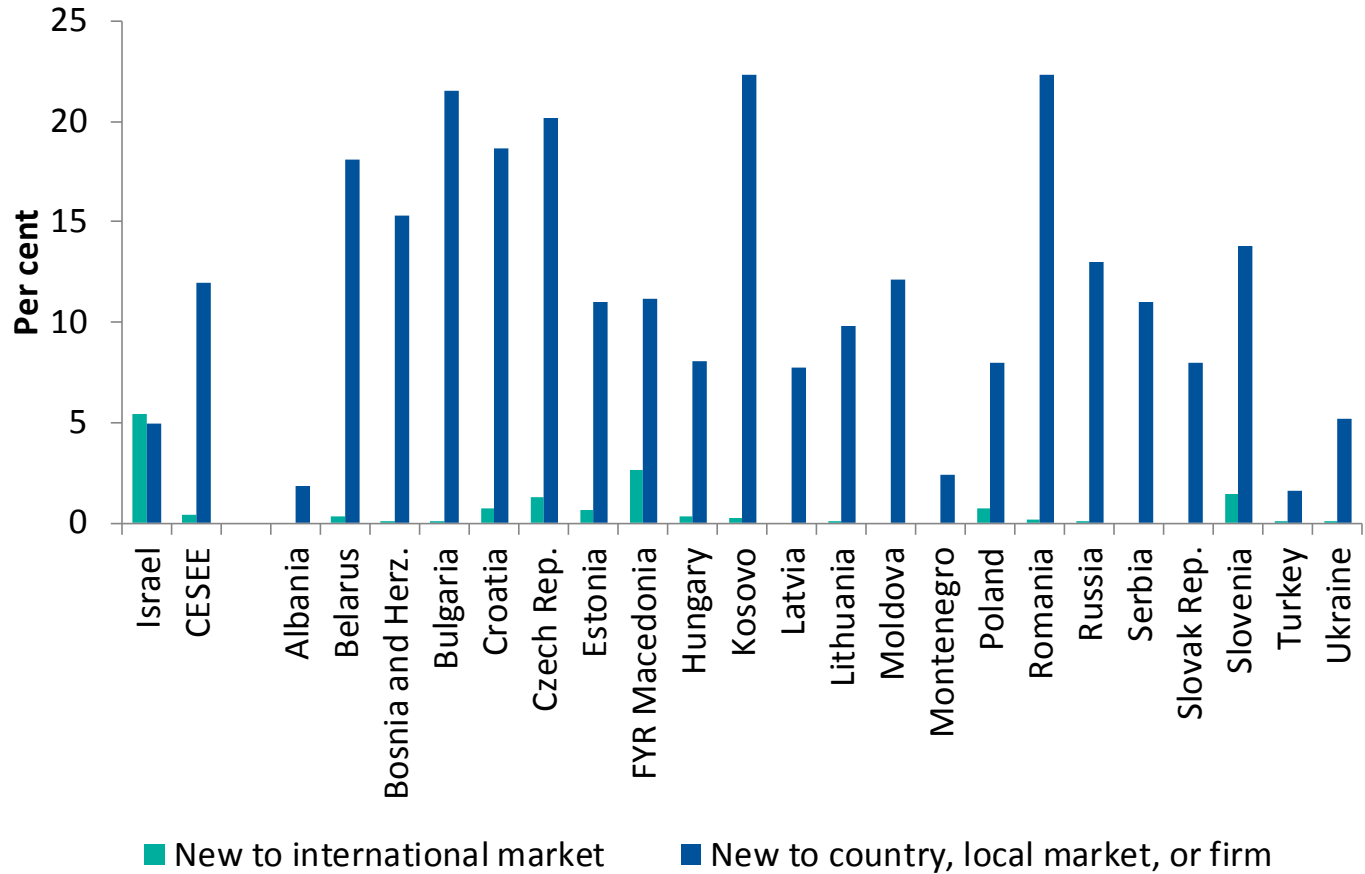
Products and production processes **new to the firm**

Firms need to **adopt, adapt** and **advance** towards technological frontier



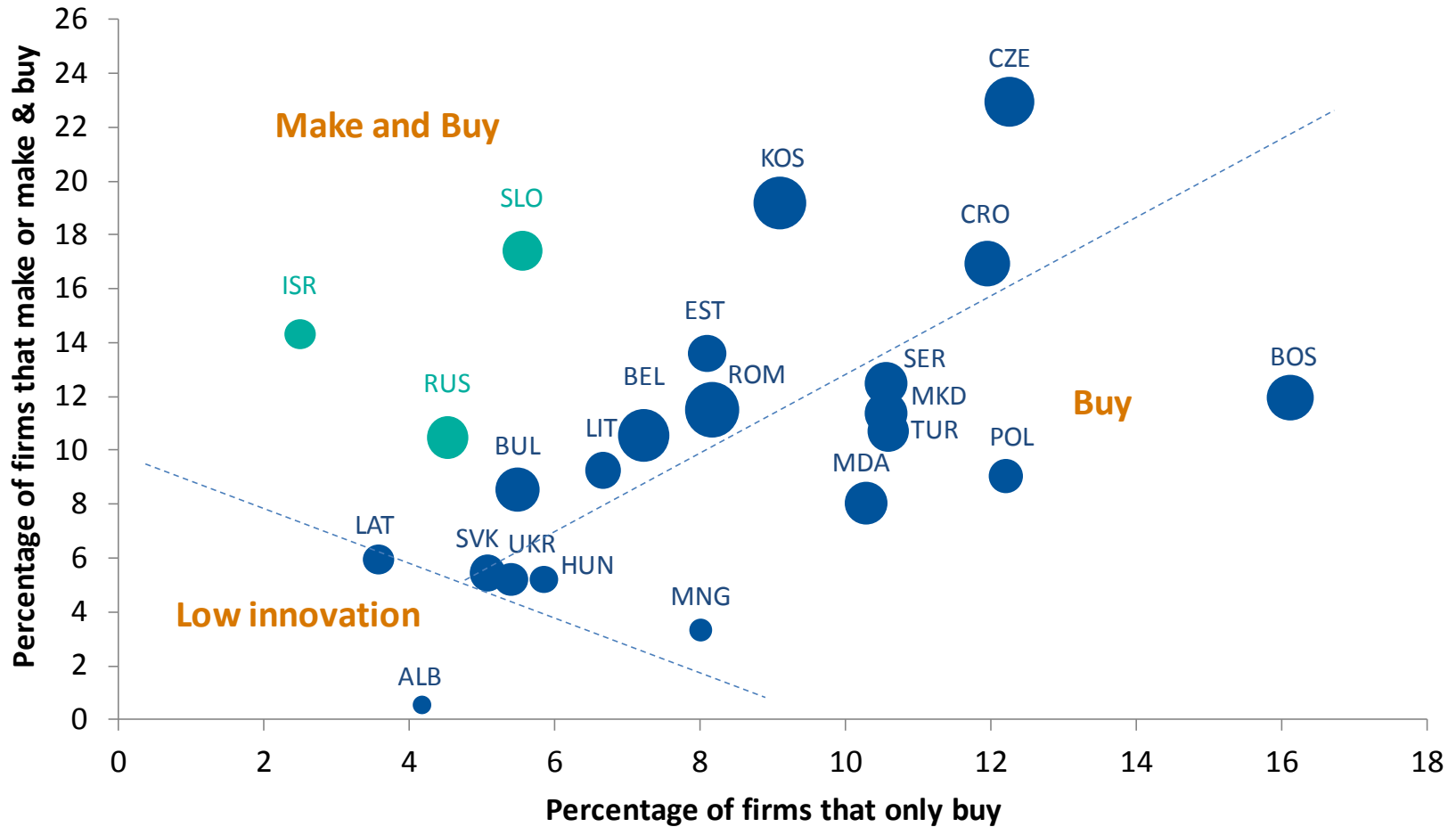
Firms in the CESEE region focus on technology adoption

↑ % of firms with a new product



Source: BEEPS V

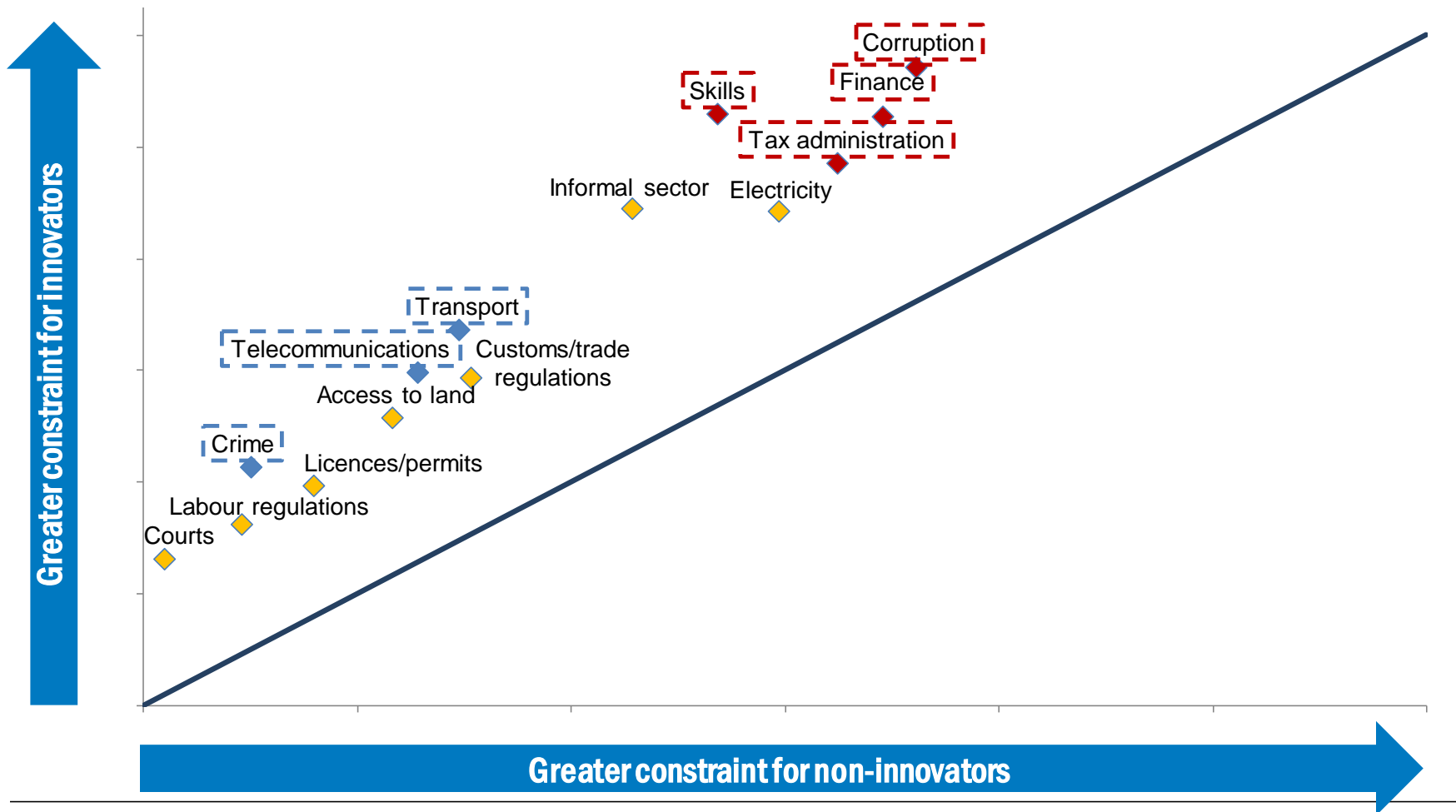
Firm level innovation is often best achieved by simply acquiring foreign know-how



Source: BEEPS V

Innovative firms are more sensitive to the business environment

In particular: corruption, skills and access to finance



Can banks help firms to innovate?

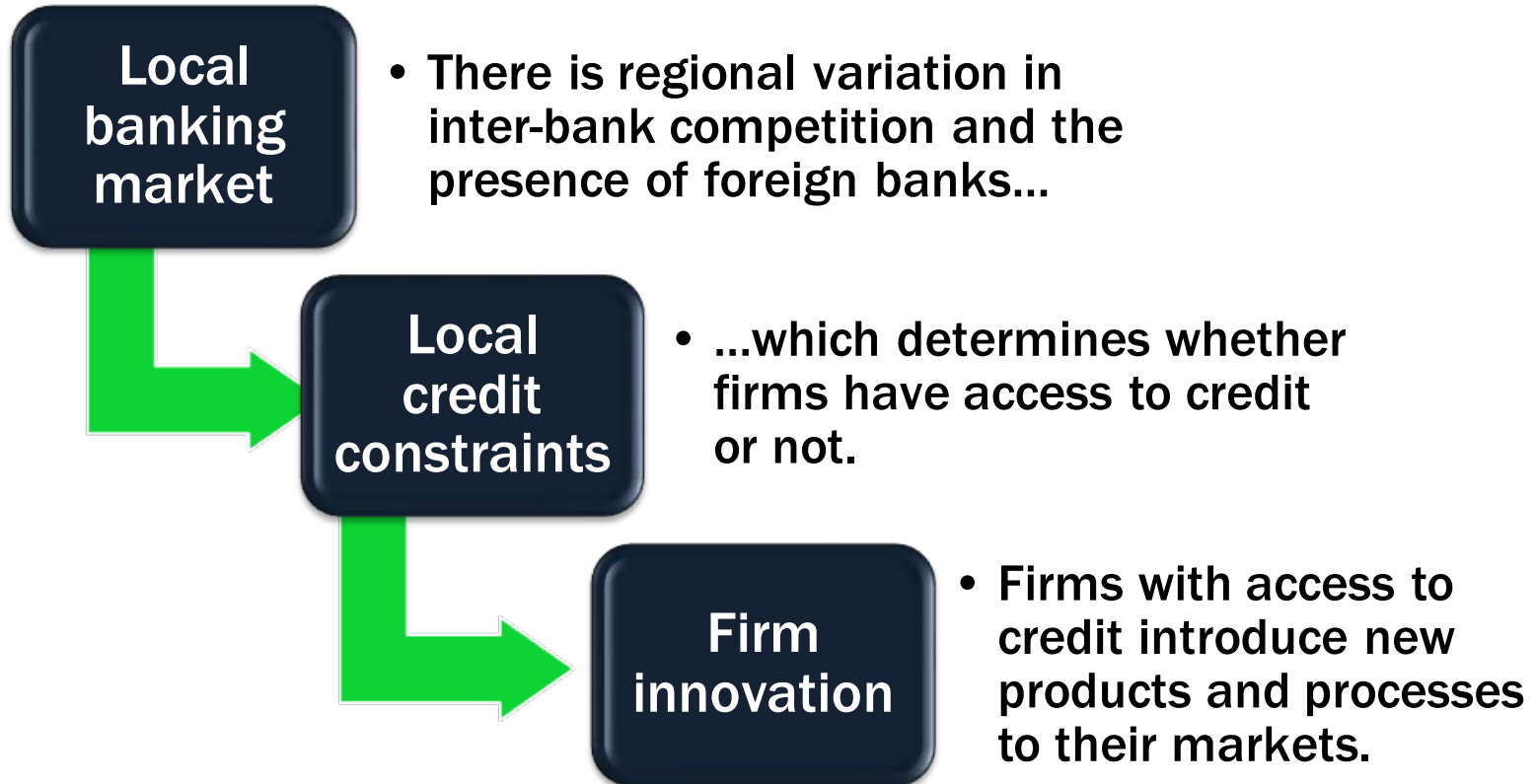
NO

- Intangible and firm-specific assets cannot be used as collateral
- Firms are hesitant to disclose sensitive information on innovative activity
- Banks are technologically conservative

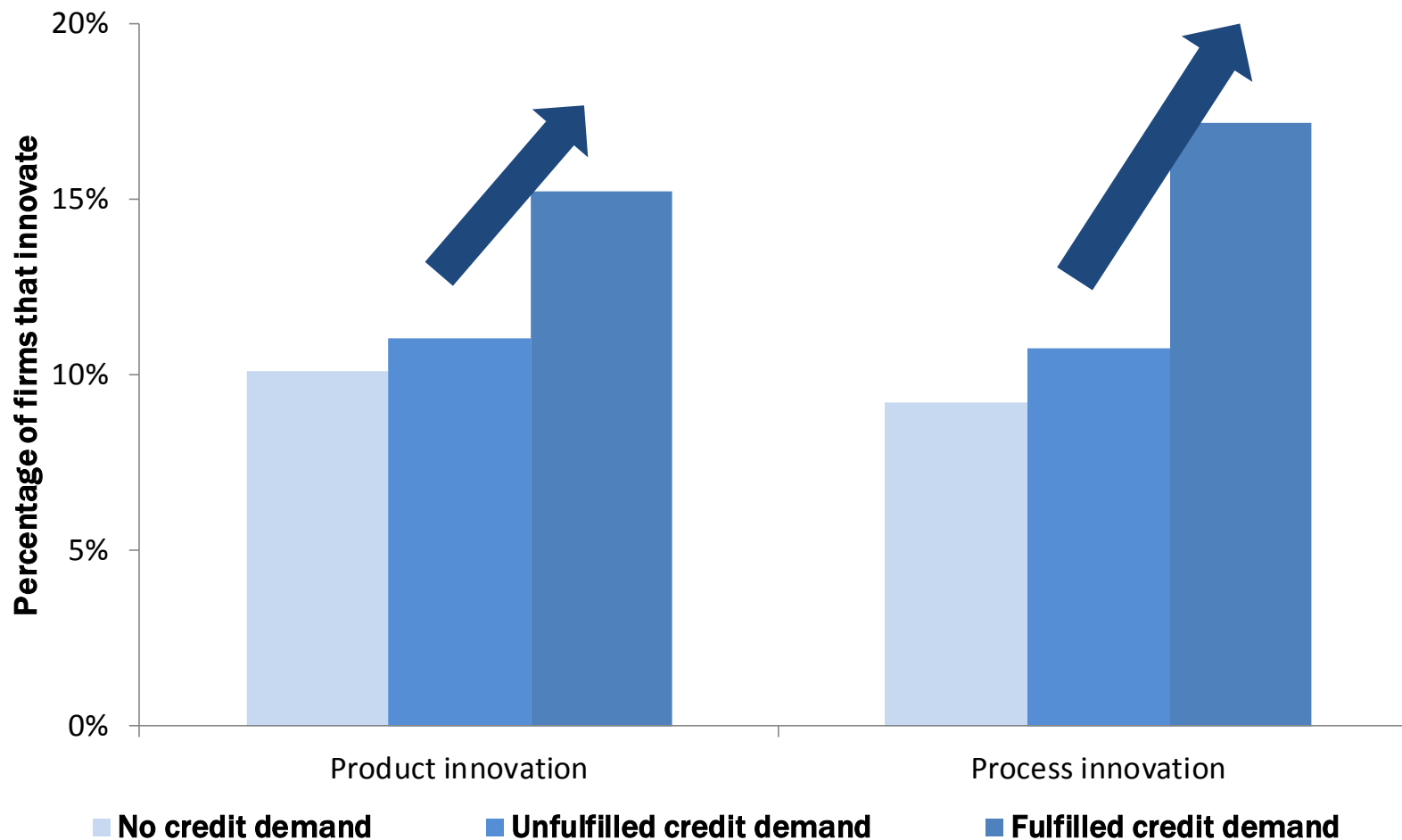
YES

- Banks specialise in building lending relationships with clients
- Innovation is more than just R&D
- In some countries, bank credit may be the only source of external finance

Yes, if they relieve credit constraints



Variation in local banking markets and credit constraints affects the firms' ability to innovate



Reforms for enhancing productivity and technological progress at the firm level

One size does not fit all, economic institutions and policies need to evolve as a country climbs the income ladder and approaches the technological frontier

- **Tackle general barriers like corruption, lack of skilled labour, red tape and limited access to finance**
- **Facilitate efficient reallocation of resources**
 - Flexible labour and capital markets, better competition policies
 - Create a business environment that hastens the exit of less productive firms and fosters the growth of more productive ones
- **Support greater trade integration with the rest of the world**
- **Encourage highly specialised human capital**
- **Facilitate access to VCs and private equity for young start-up firms**