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

New to international market
New to country, local market, or firm
Firm level innovation is often best achieved by simply acquiring foreign know-how.
Innovative firms are more sensitive to the business environment

In particular: corruption, skills and access to finance

- Corruption
- Skills
- Tax administration
- Informal sector
- Electricity
- Transport
- Telecommunications
- Customs/trade regulations
- Access to land
- Crime
- Licences/permits
- Labour regulations
- Courts

Source: BEEPS V.
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

- There is regional variation in inter-bank competition and the presence of foreign banks...
- ...which determines whether firms have access to credit or not.
- Firms with access to credit introduce new products and processes to their markets.
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