

Role of Public funding in Enhancing Innovation

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Key barriers for innovation

❑ Institutional barriers

- ✓ Economic (e.g. high infrastructure costs)
- ✓ Social (e.g. traditions, established practice)
- ✓ Political (e.g. legal, geographical)

❑ Market barriers

- ✓ Dominant market actors
- ✓ High access cost (e.g. visibility, regulations, fragmentation)

❑ Competence

- ✓ Business model
- ✓ User acceptance
- ✓ Access to relevant competences

Role of public funding

❑ Systemic innovation

- ✓ Addressing large scale systemic challenges (e.g. societal)
- ✓ Combinations of different types of innovations (e.g. platform, service/product, technological and non-technological)
- ✓ Experimentation and demonstration

❑ Challenging the dominant design

- ✓ From incremental towards radical innovation
- ✓ Significant market potential, high risk for current dominant actors
- ✓ High risk funding, demand side policies (e.g. regulatory, procurement, etc.)

❑ Strengthening the base

- ✓ Increasing the number of actors and networks capable of innovation
- ✓ Feasibility and small scale experimentation, strategic intelligence, networking, demand side policies

Requirements for State aid

❑ Experimentation and demonstrations

- ✓ Multiple actors
- ✓ Address high risk and high institutional cost

❑ Young Innovative Enterprises

- ✓ Administratively simple
- ✓ Flexible
- ✓ Address high risks and high access costs

❑ SMEs that could potentially become innovative

- ✓ Administratively simple
- ✓ Flexible
- ✓ Focus on building competences (both actors and networks)

State aid for innovation activities

❑ Experimentation and demonstrations

- ✓ Funding for collaboration, knowledge transfer and mediation
- ✓ Aid for Pilots and Demonstrations

❑ Young Innovative Enterprises

- ✓ Funding for knowledge transfer and mediation
- ✓ Aid for Young Innovative Enterprises
- ✓ Aid for Risk Capital

❑ SMEs that could potentially become innovative

- ✓ Funding for knowledge transfer, mediation and networking
- ✓ Aid for Feasibility Studies
- ✓ Aid for Innovation Activities

Funding for Mediation and Networking

- ❑ Establish actors that can facilitate innovative activities, especially in various collaborative forms.
- ❑ Not State aid if activities are based on open access, are not-for-profit and are the sole purpose of these actors (similar to research organisations).
- ❑ State aid allowed for non-open arrangements for a limited time and amount.
- ❑ Investment aid should be considered in the context of aid for pilots and demonstrations, funding for research and innovation infrastructures and other forms of investment aid.

Aid for Pilot and Demonstrations

- ❑ Encourage experimentation in large scale. Facilitate demonstration in real-life environment and scale to convince markets.
- ❑ Low levels of aid, e.g. 20 % (+10 % for SMEs).
- ❑ Preference on reimbursable forms of aid.
- ❑ Limited to first-of-a-kind pilots and demonstrations.
- ❑ Similar to ship building, no requirement to follow up potential income/profits (after pilot/demonstration period, e.g. 5 years).
- ❑ Not limited to technological, i.e. Including services and other non-technological solutions.
- ❑ Can be complemented with public procurement of innovation.

Aid for Young Innovative Enterprises

- ❑ Encourage commercialisation of research results in the form of new innovative enterprises. Enhance the dynamics of structural renewal of industries.
- ❑ Administratively simple – accept cumulation of all R&D&I aids, risk capital aids and de-minimis types of aids.
- ❑ Emphasise the development of private venture capital markets in Europe, i.e. more emphasis on developing the leverage of public risk capital aid measures instead of increasing the level of aid for young innovative enterprises (risk of crowding out of private early stage risk capital).

Aid for Feasibility Studies

- ❑ Facilitate experimentation in small scale. Encourage more systematic use of strategic intelligence before and during innovation activities.
- ❑ Not clear what type of R&D&I activity will be appropriate to eventually start at the time of launching a feasibility study.
- ❑ Feasibility of R&D&I is increasingly about identifying the appropriate business model instead of merely verifying that the technology works.
- ❑ Aid should be allowed for all feasibility studies targeting R&D&I activities at one level, 75 % for SMEs and 50 % for other.
- ❑ An upper limit for feasibility studies could be considered.

Aid for Innovation Activities

- ❑ Encourage especially SMEs to build innovation capabilities. Lower the risk and speed up the introduction of innovative products, services and solutions to the market.
- ❑ Current rules include a number of innovation aids. However, they are administratively complex and lack the necessary flexibility.
- ❑ Either current innovation aids should be made more flexible, or they should be replaced with a more flexible and administratively simple innovation aid.
- ❑ A flexible and administratively simple aid for innovation activities could be a de-minimis type aid with a maximum allocation for any period of time, e.g. 300 000 EUR for any 3 year period.
- ❑ Aid for innovation activities should target those enterprises which invest sufficiently in R&D, thereby ensuring that it would eventually cover only a small share of total innovation costs.