

Supply-side policy instruments for innovation in firms

Supply-side policies for innovation in firms aim at increasing firms' incentives to invest in innovation by reducing costs. They include direct funding of firms' R&D, fiscal measures, debt and risk sharing schemes, and technology extension services. One of the main rationales for supply-side instruments is that investments in innovative activities might not be undertaken as liquidity constrained caused by capital market imperfections can be substantial when it comes to innovation.

Page Contents:

[What are supply-side policy instruments for innovation in firms?](#)

[What are the rationales for supply-side policy instruments in support to innovation in firms?](#)

[Examples of supply-side policy instruments for innovation in firms](#)

What are supply-side policy instruments for innovation in firms?

Supply-side innovation policies consist in offering support to firms undertaking R&D and innovation. Supply-side instruments aim at increasing firms' incentives to invest in innovation by reducing investment costs.

Supply-side instrument include:

- **Direct funding of firms' R&D** (see [Direct funding of firms' R&D](#) [1]). Direct funding of business R&D allows the government to directly fund the best projects. It can be used to target specific projects with high potential social returns.
- **Fiscal measures** (see [Fiscal measures](#) [2]). Fiscal incentives for innovation in firms consist in accelerated depreciation on R&D equipment, tax holidays, income tax exemptions on equipment and other research inputs, and exemption on social taxes for R&D employees.
- **Debt and risk sharing schemes** (see [Debt and risk sharing schemes](#) [3]). These instruments cover the lender's risk in providing credit. Guarantee programs protect a part of the losses caused by the eventual default of the borrower.
- **Technology extension services** (see [Technology extension services](#) [4]). These services provided the firms followed by a proposal of an improvement plan and a assistance in their implementation.

What are the rationales for supply-side policy instruments in support to innovation in firms?

Beyond the market failure affecting R&D, investment associated with R&D spillovers, the main rationale for supply-side instruments is that potentially profitable projects might not be financed. Capital markets can be inefficient and

Examples of supply-side policy instruments for innovation in firms

The table below provides a set of examples of supply-side policy instruments in support of innovation in firms.

Policy instrument	Objective of the policy	Condition/Node	Rationale	
Direct support to innovative firms through grants and subsidies	Facilitate access to finance	<ul style="list-style-type: none"> • Direct funding of firms' R&D (see Direct funding of firms' R&D [1]). 	Capital market imperfection	

		<ul style="list-style-type: none"> Other types of finance (see Other types of finance [5]). 		
Competitive R&D grants	Adopt market-friendly approaches that avoid “picking winners” and encourage competitive selection of investments that are likely to have the highest social return	<ul style="list-style-type: none"> Direct funding of firms’ R&D (see Direct funding of firms’ R&D [1]). Other types of finance (see Other types of finance [5]). 	Capital market imperfection	
Credit guarantees	Increase the incentive for banks to engage in innovative firm lending	<ul style="list-style-type: none"> Debt and risk sharing schemes (see Debt and risk sharing schemes [3]) Debt financing (see Debt financing [6]) 	Capital market imperfection	
Government subsidised loans	Reduce the cost of debt financing	<ul style="list-style-type: none"> Debt and risk sharing schemes (see Debt and risk sharing schemes [3]) Debt financing (see Debt financing [6]) 	Capital market imperfection	
Support of alternative types of debt finance such as convertible loans and subordinated loans through fiscal incentives to lenders and/or the partial coverage of losses in case of bankruptcy/liquidation	Increase the incentive for lenders to engage in innovative firm lending	<ul style="list-style-type: none"> Debt and risk sharing schemes (see Debt and risk sharing schemes [3]) Debt financing (see Debt financing [6]) 	Capital market imperfection	

Contributor: OECD.

Related Link: Supply-side policy instruments for innovative entrepreneurship
R&D and other investments in innovation
Public budgets for innovation
Public Policy and Governance
Policy instruments

Source URL: <https://www.innovationpolicyplatform.org/content/supply-side-policy-instruments-innovation-firms>

Links

- [1] <https://www.innovationpolicyplatform.org/ipp/filters/result-page?topic-filters=12327>
- [2] <https://www.innovationpolicyplatform.org/ipp/filters/result-page?topic-filters=12340>
- [3] <https://www.innovationpolicyplatform.org/ipp/filters/result-page?topic-filters=12335>
- [4] <https://www.innovationpolicyplatform.org/content/technology-extension-services?topic-filters=11995>
- [5] <https://www.innovationpolicyplatform.org/content/other-types-finance?topic-filters=12110>
- [6] <https://www.innovationpolicyplatform.org/ipp/filters/result-page?topic-filters=12306>