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?

Supply-side innovation policies consist in offering support to firms undertaking R&D and innovation. They 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 [illegible] funding agency selects 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 [illegible] accelerated depreciation on R&D equipment, tax holidays, import tariff 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 [illegible] constrained otherwise. For instance, 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]) are services provided [illegible] the firm, followed by a proposal of an improvement plan and by 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 [illegible] potentially profitable projects might not be financed.

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	• Direct funding of firms' R&D (see [Direct funding of firms' R&D](#) [1]).	Capital market imperfectio	

		• 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	• 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 imperfectio	
Credit guarantees	Increase the incentive for banks to engage in innovative firm lending	• Debt and risk sharing schemes (see Debt and risk sharing schemes [3]) • Debt financing (see Debt financing [6])	Capital market imperfectio	
Government subsidised loans	Reduce the cost of debt financing	• Debt and risk sharing schemes (see Debt and risk sharing schemes [3]) • Debt financing (see Debt financing [6])	Capital market imperfectio	
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	• Debt and risk sharing schemes (see Debt and risk sharing schemes [3]) • Debt financing (see Debt financing [6])	Capital market imperfectio	

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?topic-filters=12228

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