Policy intervention on financing for innovation

How does policy intervention affect financing for innovation?

Innovative firms face multiple barriers for accessing finance due to the inherent risk of innovative projects, market failures caused by asymmetric information, and lack of collateral or credit history. These potential market imperfections render public intervention for financing innovation relevant.

Public funding may also be particularly important for innovation during economic downturns as it tends to be counter-cyclical, and serves as a buffer by complementing funding gaps due to a decline in private R&D investment.

What are policy questions regarding policy intervention for financing innovation?

Common policy challenges include:

- Why is public intervention for financing innovation necessary? (see Policy rationales and objectives on financing innovation [1])
- How can governments ensure efficient coordination between the various actors involved in financing innovation? How can they achieve coherence and balance of their policy portfolio? (see Policy-making contexts regarding finance for innovation [2])
- What policy instruments can be used to finance innovation? (see Direct funding of firms' R&D [3], Debt and risk sharing schemes [4], and Fiscal measures [5], Government support for private finance for innovation [6])

What are the main policy approaches to address policy intervention for financing innovation?

The main policy approaches to address challenges associated to policy intervention for financing innovation include the following:

- For direct funding of firms' R&D (see Direct funding of firms' R&D [3]):

- Providing stable direct funding over time
- Taking into consideration the various needs of firms at different stages of the R&D cycle
- Balancing the use of direct funding of firms' R&D with other types of instruments

- For fiscal measures (see Fiscal measures [5]):

- Designing R&D tax incentives to meet the needs of young, innovative 'stand-alone' firms
- Assessing R&D tax incentive policies through systematic evaluation of tax relief measures, through a review of the scope of eligible R&D, the firms that qualify, the treatment of large R&D performers, as well as carry-back and carry-forward provisions

- For debt and risk sharing schemes (see Debt and risk sharing schemes [4]):

- Designing credit guarantee schemes (e.g. setting the right share of loan guaranteed by the program) in order to allow more constrained borrowers who lack collateral to get more external financing without having a negative impact on lenders' screening and monitoring efforts.

- For government support for private finance for innovation (see Government support for private finance for innovation [6]):

- Using direct investment through government funds, fund-of-funds or public/private co-investment funds to increase the availability of equity finance for innovation.
- Providing insurance against the venture fund's losses and subsidising part of a fund's operating costs.
- Supporting the training of angel investors and the financing for angel networks, groups, associations and federations
- Providing adequate framework conditions for crowd funding

Sources

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- OECD (2012), OECD Science, Technology and Industry Outlook 2012, OECD Publishing, Paris. doi: 10.1787/sti_outlook-2012-en [7]
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