

Innovation Policies for Inclusiveness – Policy Cases

Innovation Fund for SMEs

Country: People's Republic of China

1. Short Description

In 1999, China established a dedicated **Innovation Fund** to **enhance the capability of SMEs to engage in S&T innovation**, and to encourage local authorities, enterprises, venture capitalists and financial institutions to increase investment in technology innovation by SMEs. The Innovation Fund provides financial support in the form of grants, loan interest subsidies and equity investment, as well as technical support to innovative SMEs.

This policy profile is part of a [policy toolkit on innovation policies for inclusiveness](#). It is relevant for territorial and industrial inclusiveness.

2. Policy Characteristics

Basic Information

Country and implementing institution(s):	Timeline:
China Ministry of Science and Technology (MOST)	1999 to the present (as of December 2016)
Target group	Size and budget:
Firms: SMEs	The budget of the Innovation Fund has grown steadily. Following the international financial crisis in 2008, the State Council issued a series of policies and measures to support the development of SMEs in innovation and entrepreneurship. The overall budget of the Innovation Fund has grown from CNY 1 billion in 1999 (USD 368 million, PPP) to CNY 4.37 billion in 2012 (USD 1.2 billion, PPP).
Type of policy instrument(s)	Inclusiveness focus
Financial support: grant/loans/venture capital, etc. Advisory support	Territorial and industrial inclusiveness



Policy objectives

The objective of the Innovation Fund for SMEs is to **enhance the capability of SMEs to engage in innovation**, and to encourage local authorities, enterprises, venture capitalists and financial institutions to increase investment in technology innovation by SMEs. In particular, the fund is designed to support the technological innovations of science and technology firms, and facilitate the transformation of scientific outcomes, by providing finance in the forms of appropriation, loan interest subsidy and equity investment, as well as advisory support.

Rationale

Lack of finance is a barrier to the development of SMEs in China. Government intervention could leverage and catalyse future private investments.

Policy target recipient and selection mechanism

The Innovation Fund is oriented towards small R&D firms registered in China, and the production and provision of services in the new and high-tech industrial technology sectors. To be eligible for funding, firms should be compliant with national industrial technology policies, have a relatively high innovation capacity and hold a strong market position in terms of competition. Applicants should be business corporations with no more than 500 employees.

Priority will be accorded to: (i) projects with innovative technology or independent intellectual property and high value-added; (ii) projects founded by research personnel or returned overseas students to transfer their scientific achievements; (iii) innovation projects jointly initiated by the industrial sector, universities and research institutions; and (iv) projects that make use of new and high technology to revive the stock assets of traditional industries and drive job creation.

Policy instrument(s)

The Innovation Fund involves several instruments:

- **Financial support** for S&T SMEs in the early stage includes:
 - Appropriation: mainly in the form of start-up capital to small firms founded by research personnel aiming to commercialise their own scientific achievements. The appropriation amount for each project will generally not exceed CNY 1 million with a maximum of CNY 2 million for key projects.
 - Loan interest subsidies for new product development and pilot production.
 - Equity investment.
- **Advisory support** for SMEs is provided by qualified service agencies that offer basic, non-profit, open, professional technical services for SMEs to carry out technological innovation and promote entrepreneurship.



Policy challenges

Low efficiency of management of the fund: Initially, the Innovation Fund was managed at the central government level. However, the large number of applications resulted in lengthy processing times.

Actions undertaken to address challenges

To increase efficiency, the centrally managed programme was cancelled and replaced with a programme managed by local governments. The new programme receives transfer payments from the central government.

Evaluation and outcomes of the scheme

By the end of 2012, the Innovation Fund had invested a total of CNY 22.1 billion (approx. USD 6.3 billion, PPP) in 39 836 projects supporting more than 30 000 S&T SMEs and generating more than CNY 150 billion. It also supported a variety of technical innovation services (platforms) and provided more than 30 million technical innovation services to over 1.5 million S&T SMEs and training to 1.82 million employees. The fund supported over 1 100 venture capital institutions and projects, directly contributing more than CNY 10 billion (USD 2.8 billion, PPP). It also encouraged local governments to set up a variety of guiding venture capital funds, indirectly stimulating over CNY 150 billion (USD 42.5 billion, PPP) in social capital. All these actions enhanced the technological innovation of China's S&T SMEs and increased their economic benefits. Overall, the Innovation Fund nurtures and develops strategic emerging industries such as electronic information, biological medicine and new materials, and creates millions of jobs.

Sources

Wang, F., R. Wang, F. Sun, Z. Li, D. Liu, Y. Zhao, F. Liu, R. Guo, G. He, J. Hao, Y. Shi, Y. Li, N. Su, J. Fu, Z. Xu, X. Zhu, X. Lin, Y. Gao and Y. Zhu (2016), *Overview of Inclusive Innovation Policies in the People's Republic of China*, Chinese Academy of Science and Technology for Development (CASTED), Beijing,

https://innovationpolicyplatform.org/system/files/imce/InclusiveInnovationPoliciesChina_FINAL.pdf

Information provided to the OECD by the Chinese Academy of Science and Technology for Development.



Background

*This document is part of a repository of examples of **innovation policies that have for explicit aim to contribute to territorial, industrial and social inclusiveness**. The repository is part of an innovation policy toolkit developed for the **Innovation for Inclusive Growth** project and gathers national innovation policy programmes that:*

- A.** Explicitly target **lagging and less innovative regions** (outside of regions that are highly innovative) or by design are more likely to support these lagging / less innovative regions.*
- B.** Explicitly aim to include in innovation activities **individuals and groups that are not usually participating** in those activities and in support of broadening the group of innovators.*
- C.** Explicitly aim to foster innovation activities in non-innovative firms, in particular by targeting **non-innovative sectors and non-innovative Small and Medium-sized Enterprises (SMEs)**.*

*Policies are searchable by inclusiveness type, objective and implementation challenge on:
<https://innovationpolicyplatform.org/inclusivetoolkit>*