Policy-making contexts regarding finance for innovation

The larger number of policy instruments used, the variety of objectives pursued and the wider number of actors involved in innovation policy has increased the complexity of the policy landscape. The challenges of policy-making contexts regarding finance for innovation include, in particular, challenges related to strategy and coherence between the various financial instruments that can help support innovation.

What are policy questions regarding policy-making contexts in the context of finance for innovation?

Common policy challenges include the following:

- What policy instruments can be used to finance innovation? What are the advantage and disadvantages of various instruments? (see Direct funding of firms' R&D [1], Debt and risk sharing schemes [2], and Fiscal measures [3], Government support for private finance for innovation [4])
- How can governments achieve coherence and balance in policy portfolios? How can they avoid inconsistencies and redundancies between individual financial instruments and create synergies between them? (see Strategy and policy coherence [5])

What are the main policy instruments for financing for innovation?

- Direct funding of firms' R&D (see Direct funding of firms' R&D [1]) refers to direct financial supports that are provided to specific firms and projects. It includes grants, subsidies, venture capital and seed funds. Direct funding allows governments to channel resources towards activities and actors deemed to have the highest social return.
- Debt and risk sharing schemes (see Debt and risk sharing schemes [2]) aim to reduce the risk for lenders/ investors in order to facilitate access to external finance for innovative firms. They include government subsidized loans and credit guarantees.
- Fiscal measures (see Fiscal measures [3]) include diverse tax incentives, such as expenditure-based tax incentives (most importantly R&D tax credits, R&D tax allowances and payroll withholding tax credit for R&D wages) and income-based tax incentives (most importantly preferential rates on royalty income and other income from knowledge capital).
- Government support for private finance for innovation (see Government support for private finance for innovation [4]) aim to stimulate finance for innovation from private sources, such as venture capital, money and capital provided by family and friends to start a business, entrepreneurs' personal financial resources and crowd funding**.**

References

- OECD (2012), OECD Science, Technology and Industry Outlook 2012, OECD Publishing, Paris. http://dx.doi.org/10.1787/sti_outlook-2012-en [6]

- OECD (2011), Business Innovation Policies: Selected Country Comparisons, OECD Publishing, Paris. http://dx.doi.org/10.1787/9789264115668-en [7]

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