Current Approaches to STI Policy Making in the Context of SDGs

3rd session

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Risk capital for innovative enterprises: policy options for Belarus

UNECE
Belarus: unfulfilled potential for innovative entrepreneurship

Middle income economy that used to be a manufacturing hub in the Soviet Union
Well-qualified labor force, R&D tradition, but ranked 95th on innovation outputs in 2019 GII

Has developed an internationally competitive software industry

Some large state-controlled manufacturers that export globally, and that generate mostly incremental innovations

Some small innovative companies with int’l markets, but virtually no evidence of dynamic growth
Few new businesses created

Policy support for innovative entrepreneurship has not yielded expected results
Science-push approach, lack of market orientation, high risk aversion of policy makers
One constraint: supply of suitable finance

At early stage, innovative enterprises have negative cash flows, little collateral, no track record, untried business models, high risk => trad’l loans not a suitable form of external finance, equity-type finance needed

Case for gov’t intervention: catalyze the emergence of specialized providers of equity finance to innovative entrepreneurs

BUT: lack of supply of finance is not the only problem. There is also a lack of innovative projects that could be financed. Hence in addition to policies catalyzing the supply of finance, broader efforts needed to improve the business climate, building SME capacities, and promoting access to markets
One possible solution: Public-private venture capital financing

Based on experience of United States (1950s), Israel, Chile

Programs should seek to maximize private sector participation; to achieve this government funds may be offered on a matching basis. Care must be taken not to drive private investors from the market by providing excessively easy terms. The objective is to build a diversified and competitive VC sector by sending a signal to private investors that the country is ready to receive VC investments.

The ability of the public sector to pick winners is typically regarded with notable skepticism. Hence, it is preferable that public officials are not directly involved in the investment process; rather, this responsibility should be delegated to top-quality venture capitalists from the private sector.

3 basic options: equity carry, co-investment, fund of funds
Aim to bring in foreign fund managers and investors
Possibly cooperate with IFIs in setting up the vehicle
Thank you

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