

Sub-regional Innovation Policy Outlook 2020: Eastern Europe and the South Caucasus

Summary & insights



UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE

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UNITED NATIONS

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Countries of Eastern Europe and the South Caucasus (EESC) (Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova, and Ukraine) have gone through a rocky transition period since the fall of the Soviet Union – plagued by regional conflicts, political instability, and growing inequality. Despite these challenges, most have managed to grow considerably over the past decades – in many ways an astonishing achievement. EESC countries have some of the highest levels of educational achievement compared to other countries in the same income group. All countries of the region show strong political and societal commitment to innovation, while making progress in reforming governance and reducing corruption over the past decades.

Yet, manifold structural problems ranging from limited academia-industry collaboration to institutional constraints hinder innovation-led sustainable development. The Sub-regional Innovation Policy Outlook (IPO), which builds on long-standing intergovernmental engagement on innovation and competitiveness, seeks to guide policy makers in EESC countries in their efforts to enable and promote innovation for sustainable development. The IPO provides a platform for mutual learning and proliferation of best practices in innovation policy and governance across EESC countries.

A handwritten signature in black ink, which appears to read 'Olga Algayerova'. The signature is stylized and cursive.

Olga Algayerova
Executive Secretary
UNECE



The Sub-regional Innovation Policy Outlook (IPO) of the United Nations Economic Commission for Europe (UNECE) aims to offer policymakers in Eastern Europe and the South Caucasus (EESC) a framework for identifying strengths and weaknesses in their national innovation systems and setting up effective innovation policies and support mechanisms, as well as the institutions and processes to design and run them efficiently. The IPO also provides guidance to international donors and private investors on opportunities to support and invest in innovation for sustainable development in the EESC sub-region.

By engaging the EESC countries in an intensive process with high-level buy-in and strong national ownership, the IPO has already created momentum. Scoring and evaluating countries across a range of indicators forms the basis for sustained peer learning. I strongly hope that this dynamic will continue and intensify, as innovation is essential for the EESC countries to progress towards the Sustainable Development Goals. UNECE Economic and Trade Division stands ready to support the implementation of the IPO recommendations with the support of donors and the aim of building back better after COVID-19.

A handwritten signature in black ink, reading "Elisabeth Tuerk".

Elisabeth Tuerk

Director, Economic Cooperation and Trade
UNECE



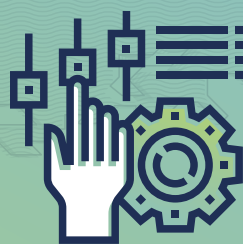
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INTRODUCTION TO THE IPO PROJECT

The Sub-regional Innovation Policy Outlook (IPO) of the United Nations Economic Commission for Europe (UNECE) rests on a mandate from the UNECE Committee on Innovation, Competitiveness and Public-Private Partnerships. It helps Eastern Europe and the South Caucasus (EESC) countries assess their innovation systems and design, run, and evaluate effective policies, institutions, and support mechanisms.

The IPO complements international composite indices, such as the Global Innovation Index of the World Intellectual Property Organization (WIPO), by looking more closely at the role, scope, and effectiveness of innovation policies and institutions across countries with shared economic, structural, legacy and institutional features, challenges and opportunities.



THE IMPORTANCE OF INNOVATION TO DRIVE SUSTAINABLE DEVELOPMENT IN THE EESC REGION

EESC countries have significant potential for innovation-led sustainable development. High levels of educational attainment, competitive wages, and strong political and social commitment to innovation form a solid foundation. In contrast to most countries at comparable income levels, EESC countries have maintained networks of public research institutions – many generating, but not systematically exploiting, findings that have commercial potential.

As innovation is inherently risky and impossible to predict, innovation and related policies and institutions need to shift towards supporting broad experimentation with ideas. A clear orientation towards sustainable development should guide these efforts: long-term economic growth relies on good, sustainable use of human and environmental resources.

Many of the growth drivers of previous decades in the EESC region, such as consumer credit, remittances, construction, and commodity exports, are running out of steam and creating mounting challenges for social inclusion and environmental sustainability. This is why boosting innovation for sustainable development, now more than ever, is so important. This goal can be realized by enabling all innovation stakeholders – citizens, Higher Education Institutions, entrepreneurs, policy makers – to experiment with new ways of value creation.

Only through such broad experimentation can EESC countries find and scale up ideas that will provide the foundation for long-term, sustainable development. Helping countries set up the mechanisms that effectively enable and catalyse such a dynamic is at the core of the IPO.



WHAT IS HOLDING BACK INNOVATION IN THE EESC REGION?

Despite several success stories, innovation does not happen systematically across the economy. Several constraints hold it back, including regulatory barriers, insufficient market competition in many sectors, insufficient levels of private sector organizational and managerial capacities, and fledgling financial markets – especially for the kind of equity mechanisms that are best able to finance the substantial risk that innovation entails. A common concern is the imperative to develop vibrant linkages and systematic interaction among innovation system actors, including between science and industry.

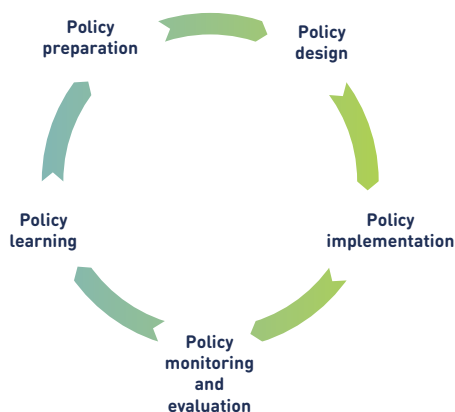
The complexity of innovation systems, spanning far beyond the remit of science and technology, especially in the broader context of the United Nations Sustainable Development Goals (SDGs), coupled with the unpredictable nature and risk inherent to innovation, require a significant shift in the focus of policies and governance arrangements. This includes a significantly higher degree of coordination and alignment across ministries and policy areas.

At the policy level, long-term innovation strategies do not systematically align with SDG priorities and those of central, related policy areas such as industrial development, promotion of Small and Medium-sized Enterprises (SMEs) and public research. At the level of design and implementation, few systematic mechanisms exist for inter-ministerial coordination and multi-stakeholder consultations to explore needs and complementarities, align and consolidate efforts, and monitor and evaluate impact. Finally, funding and institutional capacities are at times not sufficient to put ambitious plans into practice.

IPO OBJECTIVES

- Identify policy and institutional strengths and weaknesses.
- Promote as well as enlarge and continuously update the evidence base for policy dialogue and learning.
- Help countries identify, monitor and evaluate opportunities, emerging constraints, and potential market failures systematically and continuously as the foundation for designing and trying out interventions.
- Ultimately improve innovation policies, institutions and processes in line with good policy practices and principles.

The IPO project secured active engagement and national ownership in all EESC countries. A clear process, with detailed questionnaires, several rounds of stakeholders roundtables and missions, and frequent and structured interaction through national focal points, was central to the research process.



Source: UNECE.



THREE PILLARS OF THE IPO

The IPO has three pillars. The first, innovation policy governance, assesses the overarching strategic, institutional and legal framework for innovation policy, as well as the nature, capacities, incentive structure, quality and effectiveness of the corresponding agencies, coordination bodies and processes.

The second pillar, innovation policy tools, covers the nature, scale, scope, quality, impact and implementation status of key policy areas related to innovation.

The third pillar, innovation policy processes, examines the scope, nature and effectiveness of rules, procedures and mechanisms, as well as the role of evidence and data during policy design, implementation and post-implementation, using a specific project or programme under way or completed in each country.

PILLAR I



Legal and institutional frameworks are not sufficiently robust to support innovation policy effectively

Improve the enforcement of laws and regulations. Simplify and adapt rules where possible, aiming to enable rather than constrain innovation. Remove regulatory gaps and constraints on risk capital investment, insolvency, start-ups and spin-offs. Harmonize national legal frameworks with international standards and best practices.

Coordination across policy areas relevant to innovation is insufficient

Integrate different elements of innovation policy into a coherent strategic document covering, in particular, research, technology and private sector development. Align the strategy carefully with overarching strategies for socioeconomic and sustainable development. Set up and empower mechanisms for supervision and coordination, at both the ministerial and the working levels.

Funding of strategic initiatives in innovation is low

Move from suboptimal financing mechanisms to new arrangements for allocating funding. In parallel, improve the quality of governance and the accountability and transparency of public institutions. Explore alternative funding by taking advantage of private and international sources.

Good policy examples

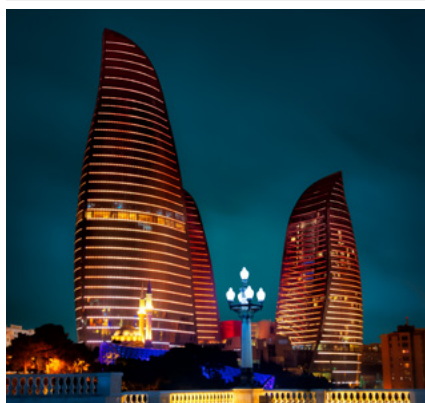
Azerbaijan: Azerbaijan Service and Assessment Network (ASAN)

Promoting innovation effectively requires, importantly, innovation in governance. Azerbaijan has taken a step in this direction. In 2011, the State Agency for Public Service and Social Innovations founded the Azerbaijan Service and Assessment Network (ASAN) to improve the quality and transparency of public services. Some examples of ASAN services include a digital system for electronic visas, the ASAN payment system, a digital platform for communal services and the Abad platform to help entrepreneurs to find national and international sale channels. In 2015, for its governance model and its contribution to the effectiveness and efficiency of public services, ASAN received the United Nations Public Service Award.

Ukraine: support of innovation in creative and industries with low R&D intensity

A common tendency among EESC countries is to concentrate innovation policies and institutions narrowly – on research or on high-technology start-ups, missing most of the potential of experimenting with ideas throughout the economy and society. Ukraine has put in place a range of efforts to promote innovation in creative industries and industrial sectors with low R&D intensity. Public support of innovation in Ukraine goes beyond high-tech industries and encompass measures for acceleration of innovation activities throughout the entire economy.

Source: UNECE.



Baku Flame Towers



Sophia Square, Kyiv

PILLAR II



The lack of systematic support throughout the different phases of firm development, compounded by low access to finance for innovation, limits efforts to promote innovation

Engage in regular consultations to scout needs and opportunities to inform policy design. Develop a framework for regular monitoring and evaluation of support schemes for the different stages in the firm life cycle, as well as post-evaluation of beneficiary projects. Enable and catalyse risk finance, such as venture capital, to address the gap between seed funding and early-stage development of innovative start-ups and to systematically finance innovation across the economy.

Relationships and linkages among actors in the innovation system are limited, especially among science, academia, and the private sector

Integrate different elements of innovation policy into a coherent strategic document covering, in particular, research, technology and private sector development. Align the strategy carefully with overarching strategies for socioeconomic and sustainable development. Set up and empower mechanisms for supervision and coordination, at both the ministerial and the working levels.

Policy tools do not sufficiently support the systematic diffusion of knowledge through industrial technology assistance and brokerage schemes for technology upgrading, and the potential of public procurement policy is not fully explored

Stimulate innovative development through demand-based policies and contribute to the diffusion of innovation for broad public use by enhancing public procurement.

Extend policy support for industrial technology assistance to stimulate technological advancement of production processes. Develop further the digital infrastructure to enhance connectivity in the sub-region of private and international sources.

Good policy examples

Belarus: International research collaboration

Cross-border research cooperation is important to the National Academy of Sciences (NAS), which oversees several joint international centres and research institutes. Since 2017, the NAS has been the headquarters of the International Association of Academies of Sciences, whose membership includes all national academies of the IPO sub-region. Best practices in research and innovation are continuously identified, drawing on intensive historical cooperation with EU member states, the Russian Federation, members of the Commonwealth of Independent States and other countries worldwide.

Georgia: Higher connectivity through digitalization and the emergence of e-government enabling openness and transparency

Georgia Innovation and Technology Agency (GITA) runs an internet development programme for families and enterprises in rural areas. The programme provides training, broadband connection portals and online vouchers. The Data Exchange Agency is an e-governance development agency that has created a national open database and led projects in cybersecurity and data exchange infrastructure.

Source: UNECE.



The National Library of Belarus, Minsk



City of Batumi

PILLAR III



Policy evaluation and impact assessments are of poor quality or not implemented at all

Establish a culture of evaluating policies and promote the quality of policies, for instance through guidelines, capacity-building and ex-post review and control mechanisms. Adopt a more systemic linkage of monitoring and evaluation practices with policy design, including in government bodies responsible for science, technology and innovation policy.

The underlying analysis that should inform effective innovation policy design is limited and not sufficiently based on evidence

Integrate innovation foresight practices into the policymaking processes of relevant ministries to capture future trends in and perspectives on research activities for incorporation in the long-term strategic direction of innovation development. Review the legal frameworks for preparing policy to ensure that they are clear, flexible, appropriate for the purpose and consistently used. Build on regulatory impact analysis efforts to enhance the quality of policy preparation and its evidence base, ensuring that efforts add value, not administrative burden, and become sustainable.

Multi-stakeholder scrutiny of government work and participation in innovation policy design is not systematically ensured

Develop or enhance approaches to public-private consultations by relevant line ministries on policy design and implementation, as part of the regular policy cycle and decision-making processes. Strengthen inter-ministerial consultation processes, ensuring that all relevant government bodies take part in the policy design process and have enough time to comment.

Good policy examples

Armenia: Rolling out Regulatory Impact Assessment (RIA)

Armenia has piloted Regulatory Impact Assessments (RIA) into the innovation policy process, with strong political backing and international expertise. RIA has improved the quality of policy design and formulation significantly.

Moldova: Inclusive policy design processes

Moldova introduced sound legal frameworks for public-private consultation practices. Innovation-related laws and policies increasingly incorporate feedback from the private sector (e.g. the recent Law on SMEs).

Source: UNECE.



The "Matenadaran" Mesrop Mashtots Institute of Ancient Manuscripts, Yerevan



Triumphal Arch and Nativity Cathedral, Chişinău

Sub-regional Innovation Policy Outlook 2020: Eastern Europe and the South Caucasus

The COVID-19 pandemic and the associated lockdown measures have significantly affected the economies and societies of all UNECE member States, including the six countries of EESC, causing a contraction of up to 8 per cent in real Gross Domestic Product (GDP) in 2020.

UNECE supports closer cooperation among its 56 member States in the pursuit of the SDGs) and the 2030 Agenda. Its Economic Cooperation and Trade Division (ECTD) assists member States with economic integration and in promoting and enabling a better policy, financial and regulatory environment.

To foster sustainable development, including progressing towards an increasingly circular economy and building resilience to events such as the COVID-19 pandemic, experimentation with ideas and technologies must become systematic across UNECE member States' economies and societies. The Innovative Policies Development Section within ECTD focuses on promoting a supportive environment for innovative development and knowledge-based competitiveness. Activities include policy dialogue, recommendations and good practices, analytical reviews, and capacity-building.

IPO project website:

<http://www.unece.org/innovationpolicyoutlook.html>

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