

OECD Reviews of Innovation Policy: Russian Federation 2011

The review of innovation policy in the Russian Federation is the latest in a series of OECD innovation policy reviews. Conducted in partnership with the Russian Ministry of Education and Science, the review examines Russia's innovation performance and the factors that shape it, and pays particular attention to the role of government policy. This short briefing note highlights some main findings of the review.

Background

The challenge of diversifying Russia's economic structure and reducing its reliance on natural resource sectors has loomed large on the policy agenda for well over a decade. Even during the boom years before 2008, there was widespread awareness that growth was being driven by transitory factors, and the global economic crisis has since exposed the vulnerability of this model. Russia needs to transition into self-sustaining, innovation-led growth. The government recognises this and has focused increasingly on modernisation and, in particular, on innovation, as the key to Russia's successful development over the longer term.

A new publication, *OECD Reviews of Innovation Policy: Russian Federation*, takes Russia's modernisation agenda as its starting point. It examines Russia's innovation performance and its determinants, including available resources (particularly finance and human capital), the innovation capabilities of firms, and the institutions and incentives that shape and support innovation activities. In doing so, it identifies the strengths and weaknesses of Russia's innovation system. It pays particular attention to government initiatives to build on these strengths and to offset and overcome the weaknesses.

Russia's innovation strengths and weaknesses

On the positive side, Russia's innovation system has formidable strengths, notably a high level of education and long-standing excellence in several fields of science and technology. Recent policy initiatives to build further on these assets are themselves a sign of strength, reflecting the government's seriousness in making innovation a key national priority.

At the same time, several weaknesses continue to undermine the performance of Russia's innovation system. Among these are the very low levels of R&D and innovation activities in firms, weak framework conditions for innovation (particularly weak competition and regulatory frameworks, corruption and lack of trust), and inadequate infrastructures.

Towards a more firm-centred innovation system

The review concludes that the primary goal of Russia's innovation policy should be to shift the national innovation system's "centre of gravity" away from the publicly-owned R&D system and towards production firms, whether public or private. Various arrangements have hindered the emergence of a more firm-centred national innovation system, including an organisational separation of industrial R&D from industrial production, a legacy of the Soviet era. But the main obstacle lies with firms themselves, which have too few capabilities to innovate, little absorptive capacity for innovations, weak links to public research institutes and universities, and, above all else, easy access to economic rents that provide few incentives to innovate.

A broad-based, balanced innovation policy

These obstacles highlight the need for a broad-based innovation policy that goes well beyond government support for R&D. A whole-of-government approach to innovation policy is required, involving greater levels of co-ordination between different ministries and agencies. Government policy also needs to be balanced in several aspects:

- Firstly, policy should support innovation in both large firms and SMEs, as both play a crucial, often complementary, role in innovation systems.
- Secondly, there should be stronger recognition of the scope and benefits of innovation in low-tech and services industries. Current innovation policy is overly focused on high technology, which means it neglects large parts of the Russian economy.
- Thirdly, the innovation system needs to open up more extensively to foreign sources of knowledge, not as substitutes for Russian knowledge but as complements. Russian research policy is increasingly geared to greater international co-operation and a similar openness is needed in support of learning and accumulation of innovation capabilities in firms.

- Fourthly, policy should pay greater attention to the demand side of knowledge creation. Up until now, a technology-push philosophy has strongly influenced innovation policy and given too much emphasis to the supply side. This orientation has serious limitations in a market economy, where the knowledge of customers is critically important in shaping innovations.
- Finally, policy should find an appropriate balance between the need for industry competition and consolidation. Both have potential benefits for innovation, but too much of either will be inhibiting.

Acting for change

In carrying out these balancing acts, Russia needs to create and empower agents of change. The federal government cannot and should not try to do everything itself but should instead enable others to take more initiative through appropriate incentives. In some instances, this will mean nurturing a great deal of capacity-building, *e.g.* at regional level, where the authorities often lack the necessary capabilities to formulate and implement a bespoke innovation policy.

Policy makers also need to bear in mind the opportunity costs associated with any intervention. For example, the Skolkovo initiative looks set to boost efforts to attract major overseas technology-based firms and promises to function as a useful demonstrator and incubator for policy experiments. But it is also an expensive initiative that takes up much of the innovation debate in Russia. In doing so, it risks diverting attention and resources away from much-needed reforms in other critical areas.

Pursuit of the dual goals of excellence and relevance should also lie at the heart of Russian innovation policy. Too much R&D funding is still allocated without adequate accountability or reference to performance, and this leads to waste. Prioritisation and selectivity should be used to focus public R&D resources in centres with a critical mass of research excellence.

Transitional measures and long-term solutions

While recent years have seen some important beneficial reforms, there is still much to do. The transformation of Russia's innovation system will not happen overnight. Many initiatives will take time to bear fruit and transitory imbalances in the innovation system will have to be, where possible, counter-balanced by transitional measures. At the same time, transitional measures should not postpone indefinitely longer-term solutions. The new *Innovative Russia 2020* strategy co-ordinated by the Ministry of Economic Development recognises the risk of this happening and sets out a two-stage implementation process to avoid it. This will require some bold decisions, but if they are taken, then Russia will have reached an important turning point in exploiting its remarkable innovation potential.

The report, *OECD Reviews of Innovation Policy: Russian Federation*, will be officially presented in Moscow in June 2011. It will be available in English on the OECD web site (www.oecd.org/sti/innovation/reviews) and in Russian from the Centre for Science Research and Statistics (CSRS) web site (www.csrs.ru).

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