

Major Reforms Necessary For State Support Of Commercial Innovation To Promote Growth, Lower Poverty

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Prague, March 27, 2006 – Countries from Central Europe to Central Asia are trailing most of the developed world in spending on research and development. Additional public funding to encourage innovation will be wasted without also improving economic incentives, upgrading information infrastructure, and reforming education, according to a new World Bank report.

To discuss how these countries can improve their innovation systems and foster better use of knowledge by firms, the World Bank is hosting a Knowledge Economy Forum in Prague, March 28-30. The Forum is co-sponsored by the Ministry of Finance and Government Office of the Czech Republic.

“Translating research and development into commercial success is key to achieving sustained, long-term economic growth,” said **Shigeo Katsu, Vice-President for the Europe and Central Asia Region of the World Bank**. *“This will only happen if we create the incentives for researchers and businesses to work together to raise overall competitiveness and create quality jobs.”*

The new World Bank report, titled **Public Financial Support for Commercial Innovation** (<http://www.worldbank.org/eca/kestudy>), analyzes the various financial instruments to encourage innovation and recommends a series of reforms before these instruments can be put to good use.

Despite large numbers of researchers and a legacy of educational achievement from the communist period, countries which used to part of the Eastern Bloc will be hard put to translate these potential strengths into commercially-successful innovations unless universities and research institutions work seamlessly with the private sector.

Average spending on R&D in countries from Central Europe to Central Asia is now under 1 percent of GDP, well below the European Union's target of 3 percent. Furthermore, some two-thirds of it is publicly funded, whereas in Western Europe 65-70 percent of research spending comes from the private sector. Increases in expenditure are unlikely to improve matters until the private sector plays a bigger role, says the report.

“Government funds are scarce and should only be used to fund research when the conditions are in place for them to bear fruit,” says **Itzhak Goldberg, Lead Author** of the report.

KEI Country Indicators (Scale 1 to 10)		
Rank	Country	KEI
1	Estonia	8.26
2	Slovenia	7.88
3	Lithuania	7.17
4	Hungary	7.01
5	Czech Republic	7.00
6	Latvia	6.98
7	Poland	6.86
8	Slovak Republic	6.70
9	Croatia	6.22
10	Bulgaria	6.19
11	Russia	6.05
12	Romania	5.27
13	Ukraine	5.23
14	Armenia	5.10
15	Belarus	5.02
16	Turkey	4.73
17	Serbia and Montenegro	4.55
18	Moldova	4.43
19	Georgia	4.39
20	Kazakhstan	3.92
21	Kyrgyz Republic	3.53
22	Uzbekistan	3.26
23	Bosnia and Herzegovina	3.02
24	Albania	2.99
25	Tajikistan	2.18
Source: World Bank Institute		

These conditions include incentives to encourage collaboration between researchers and the private sector, as well as broad public access to computers and the internet. The rule of law is also essential, according to Goldberg. The same goes for the enforcement of rules to protect intellectual property rights and efforts to fight corruption.

The study ranks countries based on their ability to invest effectively in innovation (see chart). The World Bank Institute's Knowledge Economy Indicators (KEI) are designed to help countries determine which reforms to pursue before investing more government funds to boost innovation. While there are significant differences across the region, most countries need to reform education, upgrade information infrastructure, and improve economic incentives before committing additional public funds, says the report.

While the new EU member states are doing fairly well, the rankings for EU-candidate countries reveal a range of weaknesses. Romania, for example, is ranked 12th among countries surveyed but on education it is in 20th position because of low public spending. Turkey, which has a similar GDP per capita to

Lithuania and the Slovak Republic, is ranked behind these countries on the KEI index because of low scores on average years of schooling and mathematical achievement.

These are among the key issues that will be discussed with participants from the 27 country delegations in attendance at the Prague Forum. Participants will include representatives from ministries of education, finance, science, industry and trade; innovative technology firms; think tanks; nongovernmental organizations; as well as partner international organizations such as the British Council, the European Union, the Organization for Economic Cooperation and Development, and numerous local institutions in the Czech Republic.

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The overview of the report and related materials will be available immediately after the embargo expires at: <http://www.worldbank.org/eca/kestudy>

For further information about the Knowledge Economy Forum, visit <http://www.worldbank.org/eca/ke>