KNOWLEDGE ECONOMY AND INNOVATION
It’s all about productivity. Innovation enables businesses to produce more and better-quality goods and services while consuming fewer natural resources and enabling more efficient use of human resources. This is particularly important in the EBRD’s countries of investment as many of them have a legacy of energy waste, labour-intensive production processes and an over-reliance on natural resources. In order for the Bank’s region to compete successfully on the world stage, it needs to harness the power of technology and embrace innovation in all areas of economic activity.

WHAT is the knowledge economy?

The term “knowledge economy” conjures up images of Silicon Valley, hi-tech start-ups and people tweeting from Wi-Fi-enabled cafes. But those are just some aspects of a concept that covers a wide range of activities that foster growth through innovation. The knowledge economy can be defined as one marked by technological dynamism, including in those sectors not always associated with cutting edge innovation, such as agribusiness or heavy industry. In order to thrive, the knowledge economy relies on an adequate institutional framework, good education, strong communications infrastructure and a supportive financing environment.

WHY is the knowledge economy important?

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The Bank has always encouraged clients to adopt modern ways of working, but the EBRD’s recently-launched Knowledge Economy Initiative promotes innovation in a more systematic way. Its four targets areas are: innovation policy, information infrastructure, technological upgrading for industry and financing for small innovative tech companies. It combines investment activities with policy dialogue and donor-funded technical assistance to address the obstacles preventing the region from reaching its full potential. The initiative takes into account the different levels of technological development in the Bank’s countries of investment and tailors its response accordingly, helping each part of the region develop its own knowledge economy.

**HOW is the EBRD helping to build the knowledge economy?**
The EBRD recognises that the knowledge economy needs a favourable business environment that is governed by the rule of law, supported by government and free of corruption. As part of the Knowledge Economy Initiative, the Bank works with countries on innovation-related issues such as improving telecoms regulation and developing ecosystems that allow venture capital and private equity firms to grow. It will also look at the impact of intellectual property regimes. In all cases, the EBRD collaborates with other major stakeholders – including fellow international financial institutions (IFIs) and international organisations, the European Union (EU), business associations and institutional investors – to ensure a co-ordinated approach. These efforts take into account the different levels of development across the region while seeking to stimulate competition, attract investors and encourage entrepreneurs to commercialise their ideas.
The Baltic States are famed for their innovative flair. Estonia, for example, was the home of Skype and the knowledge economy is more integrated into daily life in these countries than in many other parts of the EBRD region. But the financial crisis and the deep recession that followed took their toll on the private equity and venture capital sectors in the Baltics, resulting in a loss of expertise and capital formation. The EBRD is helping to reverse this trend with a dual approach. On the policy and capacity-building side, the Bank is working with venture capital and private equity associations to improve the availability of information that investors require before entering the market. The EBRD is also providing training for various actors in the sector to boost levels of know-how and advice for governments on regulatory issues, such as collective investment laws for capital formation. The second part of the approach sees the Bank investing in venture capital and private equity funds across the full company financing lifecycle, from early-stage venture capital financing onwards. The EBRD believes that this two-pronged effort will contribute to the emergence of a strong and sustainable private equity and venture capital sector in the Baltics.

Over the last few years the Bank has delivered a regulatory training programme, funded by donors, for electronic communications officials in the Commonwealth of Independent States (CIS). Courses lasting eight weeks in each country have taken place in Armenia, Azerbaijan, Georgia, the Kyrgyz Republic and Ukraine and looked at issues, including how to create a competitive market, broadband delivery, broadcasting regulation and the analogue to digital switchover. The training helps local regulators ensure that they are creating the conditions for a modern and competitive electronic communications sector that benefits customers and attracts investors alike.
Modern and reliable communications networks – and in particular fixed or wireless broadband – are an essential component of the knowledge economy, which depends on people’s ability to access and share information. The EBRD invests in communications infrastructure throughout its countries of investment so that businesses and consumers in big cities and remote regions alike can share the benefits of the internet and mobile technology revolutions. The Bank also supports services that build upon this infrastructure, such as data centres, technology parks and software and hardware production, thereby creating the conditions for knowledge-based businesses to thrive.
Investing in Tunisian software

Vermeg Solutions is a software company specialised in fund administration and securities processing. It counts fund managers, brokers, investment banks and other financial institutions among its clients. In 2013 the EBRD extended a €5 million loan to the Tunisian company to help finance its growth, in particular through synergies with Belgian business BSB, in which Vermeg’s parent company owns a significant stake. Vermeg has built its success on state-of-the-art technology and high-quality, knowledgeable and well-trained staff. The Bank provided the loan under the Local Enterprise Facility, which invests in small and medium-sized enterprises in the Balkans, Turkey and the southern and eastern Mediterranean (SEMED) region.

Expanding broadband coverage in Romania

A €75 million EBRD senior loan to COSMOTE Romania, the country’s third-largest mobile phone operator with 6.3 million subscribers, is aimed at enabling the company to finance the growth of its broadband infrastructure. COSMOTE will use the financing to fund the expansion of its 4G network and renew its existing spectrum licences. The operation promotes greater competition in the Romanian telecoms sector and increased access to high-speed broadband infrastructure in Romania, where broadband penetration lags behind the EU average.
The manufacturing, agribusiness, energy, transport and infrastructure sectors play a major role in the knowledge economy: as well as generating much of the research and development that contributes to innovation, these industries constitute a huge market for new technologies capable of raising productivity. Traditional businesses in the EBRD’s countries of investment, in particular, offer large scope for absorbing innovation, given the knowledge gap that separates them from industries in more technologically-advanced regions. EBRD projects strongly support efforts by industrial clients to modernise their products and processes. For instance, the Bank leads the way in promoting industrial energy efficiency in the region through its investments in cutting edge equipment and systems. These have repeatedly shown their ability to slash production costs and boost profits while also curbing greenhouse gas emissions.

The EBRD invests in many other forms of technological improvement within industry, as well as in research and development that pushes the frontiers of innovation. Under the Knowledge Economy Initiative, the Bank will seek opportunities to increase financing for R&D and training and apprenticeship programmes. The EBRD is also looking to invest in transformational technologies. For example, it is examining how the success of mobile banking in countries like Kenya can be replicated in parts of its own region.
Better tractors for more sustainable farming

CASE STUDY

A new tractor plant and a more efficient tractor engine will be built in Turkey with help from the EBRD. In 2013, TürkTraktör--one of the country’s leading manufacturers of farm tractors and other agricultural machinery-- received €75 million in financing arranged by the Bank, including a €30 million senior loan from the EBRD and up to €45 million syndicated to commercial banks. The company will use the loan to modernise its plant in Ankara and build a brand new plant in Sakarya province, east of Istanbul. The EBRD financing will also support research and development and engineering support from the TürkTraktör shareholder, CNH Global, an Illinois-based manufacturer of agricultural equipment. This will enable the company to build better engines and tractors for more sustainable agriculture in the country and abroad. TürkTraktör will then pass this technological expertise to local suppliers of tractor parts in a move to improve manufacturing practices and quality standards across the sector.

Modernising steel production in Croatia

CASE STUDY

In 2013 the EBRD signed an investment with Italian company Danieli aimed at restarting production at a steel factory in the Croatian city of Sisak. Danieli owns Sisak Ironworks through its steel subsidiary ABS and has launched a restructuring and modernisation programme, which benefited from a €20 million Bank loan. As well as helping to restore the plant’s production capacity, the investment is expected to result in significant environmental, energy and resource efficiencies and cut greenhouse gas emissions. The project will also boost local research and development capacity, introduce Sisak’s employees to innovative technology and provide them with training.
Small and medium-sized enterprises are often innovation pioneers, yet hi-tech small businesses in the EBRD region often struggle to get the finance they need and end up taking their ideas elsewhere. This is especially true at the start-up and growth phases of the corporate lifecycle as early stage venture capital is under-developed in this part of the world.

Under the Knowledge Economy Initiative, the EBRD will seek to improve small hi-tech companies access to the entire chain of financing, thereby encouraging forward-thinking entrepreneurs to stay in the region and contribute to growth. The Bank invests directly and indirectly through local venture capital funds and leading venture capital funds from outside the region, as well as in private equity funds, offering its services as a reliable and knowledgeable partner. At the same time, the EBRD’s Small Business Support programme connects entrepreneurs with the best local and international experts, giving them the know-how they need to develop their companies successfully.
Earlybird enters EBRD region

CASE STUDY

Germany’s Earlybird, a leading western European venture capital house, has teamed up with the EBRD to create a fund dedicated to central and eastern Europe and Turkey – the Digital East Fund. This pioneering partnership focuses on early and expansion-stage technology companies. Investment recipients include Flipps, an online video-streaming platform based in Bulgaria, and Tjobs, a private recruitment platform used by most recruitment agencies in Romania. The Fund has attracted in excess of 40 investors from the regional and global investment community at first closing and represents a flagship project in supporting the knowledge economy, innovation and job creation in the Bank’s region. The EBRD’s involvement is aimed at encouraging other major players from the venture capital sector to discover the region’s enormous potential.

Venture Capital Investment Programme

CASE STUDY

The VCIP is a €100 million facility dedicated to direct equity investments in early and growth-stage technology companies. By championing these businesses, the Bank aims to encourage international venture capitalists to enter the region and foster a venture capital financing ecosystem. There have been five investments to date, with a further three to five expected in 2014. The investments send a signal to international investors that innovative drive and entrepreneurial spirit are in strong supply in the EBRD’s region.
The EBRD actively seeks opportunities to:
- work with clients to develop, expand and upgrade networks, fixed, mobile or virtual, and bring broadband to the regions.
- work with industrial clients in the region who are interested in R&D and in developing the skills required to boost innovative capacity on a sustainable basis.
- invest in early and growth-stage innovative companies throughout its region and welcomes enquiries from entrepreneurs and potential fellow investors.
- work with private equity and venture capital funds operating in the countries where we invest.
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THE EBRD IS INVESTING IN CHANGING PEOPLE’S LIVES AND ENVIRONMENTS FROM CENTRAL EUROPE TO CENTRAL ASIA AND THE SOUTHERN AND EASTERN MEDITERRANEAN.

WORKING TOGETHER WITH THE PRIVATE SECTOR, WE INVEST IN PROJECTS, ENGAGE IN POLICY DIALOGUE AND PROVIDE TECHNICAL ADVICE THAT FOSTERS INNOVATION AND BUILDS SUSTAINABLE AND OPEN MARKET ECONOMIES.