Introduction and context

- Policy-makers and researchers widely acknowledge that innovation is essential for increasing productivity.
- Innovation is critical to achieving government’s policy goals of reindustrialising the economy and expanding exports to achieve higher economic growth.
- SA spent 0.73% of its GDP on R&D in 2013/14 according to HSRC R&D survey.
- OECD average is 2.4% of GDP – although these countries have larger GDPs.

R&D tax incentive

- Government recognises the important role of innovation policy and introduced the R&D tax incentive in November 2006.
- Science and Technology Minister, Naledi Pandor, recently announced a new R&D expenditure target of 1.5% of GDP by 2019, more than double the current spend.
- Incentive offers 150% tax deduction for approved R&D expenditure – accessible to firms of all sizes in all industries.
- From 1 Oct 2012, procedure changed from retrospective to pre-approval – backlog of applications, complexity, need to simplify administrative processes.

Productivity and the innovation process

- The literature emphasises a positive correlation between firm-level innovation and productivity gains, although evidence for developing countries is mixed.
- On average – manufacturing firms investing in R&D, claiming the R&D tax incentive deduction, completing learnership agreements, and spending on training are more productive than firms that do not. This holds across years.

Trading behaviour and R&D expenditure

- Empirical literature suggests that innovative firms are more likely to export, and generally export more products to more countries.
- Trading firms more likely to be involved in R&D activity compared to those that do not trade - this likelihood increases as gross sales of a firm increases.
- Manufacturing trading firms investing in R&D more productive than those that do not invest.

Next steps

- Create an innovation index to evaluate investment in innovation inputs and productivity more comprehensively.
- Evaluate the impact of the procedural change for the R&D tax incentive in 2012 on R&D spend more robustly.
- Test these descriptive relationships econometrically.

*Total firms refers to those that record positive gross sales and fixed capital stock.