
The Governance of Innovation Policy: The Case of Estonia

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Why innovation policy?

- Innovation and knowledge-based economy are crucial building stones of
 - Lisbon strategy:
 - Competitiveness
 - Social cohesion
 - Government's agenda
 - Knowledge-based Estonia
 - SPD for EU Structural funds
 - Success of Estonia 2014
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Governance

- Governance is a mode of public policy making where importance is given to
 - stakeholders in policy formulation, design and evaluation
 - competitive market-based approaches to create a certain balance between stakeholders
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Innovation Policy

- Innovation policy is
 - about changing and/or enhancing competitive advantages of a nation towards sectors with rising or higher value-added activities and thus
 - about pushing resource reallocation (ie motivating entrepreneurs to move) into higher value-added activities,
 - usually via creating externalities (bearing costs)
 - Innovation policy by its nature about setting priorities and activity specific policy
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Governance and Innovation Policy

- Governance is perceived to give this reallocation
 - Legitimacy via participatory process
 - Strategic priority setting (e.g. via foresight)
 - Effectiveness via competition
 - European Structural Funds:
 - To let different countries set different priorities according to their specific context
 - Partnership in design, formulation, evaluation, implementation
 - Competitive
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Estonian Innovation Policy

- *Knowledge-based Estonia* defines three key areas:
 - User-friendly IT
 - Biomedicine
 - Nanotechnology
 - Measures:
 - In 2004, open or about to be opened 10-12 specific measures or programmes from innovation awareness programm, R&D project support, competence centers to venture capital fund
 - Strong influence of Finnish innovation policy in terms of structure and functioning (EAS)
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Characteristics of IP measures

- Only one has activity specific priority (tourism);
 - All are competition-based (project funding)
 - All are partnership-based in design, formulation and evaluation (EU structural funds);
 - Mostly directed at bringing research and industry together
 - Support for entrepreneurs is
 - Infrastructure-oriented
 - Training-oriented
 - Managed by EAS
 - Strongly influenced by governance
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Results and problems so far I

- The problem to be solved is perceived to be the “European paradox”
 - Thus, focus on commercialization, where
 - Often same groups/projects seek/win funding from different measures (underfunding)
 - The very same groups more often than not also participate in designing policy measures, where they are tasked with setting priorities because: „how should the government know?“ and „fight out the priorities first among yourselves, and then come to us“
 - Policies based on one background analysis
 - Most funded areas/groups in innovation policy correspond to areas of scientific excellence (biomedicine; IT and electronics; neuroscience; materials)
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Results and problems so far II

- Thus, there is no real market, just a few excellent research groups and companies that have to seek funding from very different sources
 - Reliance on market signals where there is no market has brought
 - Needlessly high administrative costs and hurdles for the state as well as for the applicants
 - and voided all set priority areas (priority setting key function of innovation policy, **it should motivate entrepreneurs into higher value-added**)
 - In sum: result is small excellent elite R&D that has little to do with local existing industry, its problems and needs
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Results and problems so far III

- However, the Estonian economy is getting less competitive since the mid-1990s in terms of value-added; medium technology enterprises hit hardest by the problem
 - For most Estonian entrepreneurs, innovation is too expensive and risky (in terms of training, R&D); labour and resource intensive areas promise much faster and larger gains and thus human resources not valued
 - Innovation policy should work on externalities that make these costs lower, right now there are no specific measures and focus on upgrading skills and technological base of Estonian enterprises (Kubo)
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Summary

- **Estonian innovation policy does not motivate entrepreneurs into higher value-added activities and this is strongly due to**
 - **policy transfer that stresses governance mode of policy making**
 - **weak administrative capacity**
 - This, in turn, makes achieving Lisbon strategy goals – competitiveness and social cohesion – probably unattainable
 - Innovation policy should focus on
 - Upgrading skills and technology
 - Priority-setting
 - **No governance without government**
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