The Governance of Innovation Policy: The Case of Estonia

Rainer Kattel
Tallinn University of Technology
PRAXIS Center for Policy Studies
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
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
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 (i.e., 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
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
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)
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
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)
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.
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)
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