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EU SF Support to Innovation in Lithuania: **Lessons** and **Challenges**

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OUTLINE

SF funded RTDI policy in Lithuania

- Are we doing the right things?
- Are we doing things right?
- Are there better ways of doing it?

Insights, based on:

- **system level** evaluations for the Knowledge Economy Forum (2010), the Prime Minister's Office (2010);
- ERAWATCH country report (2010);
- SF indicators' system evaluation for the Ministry of Finance (2010)



CONTEXT: **SHIFT** OF POLICY AND GOVERNANCE MODE



POLICY CONTEXT

 → Europe 2020 Strategy, Innovation Union

 → Progress Strategy – Lithuania 2030,
Lithuanian Innovation Strategy 2020, SITA (Science,
Innovation and Technology Agency)

2011 – 2013

Effective implementation of current
priorities (2007-2013)

Designing new SF funding
priorities (2014 - 2020)

GOVERNANCE CHALLENGES

“Linear” governance mode

Narrowly defined innov. policy

Policy designed by departments

Politicized decision making

Fragmented policy

Control and accountability

Top-down priorities

“New” governance mode

→ Broadly defined innovation policy

→ Policy designed by expert networks

→ Evidence based decision making

→ Policy mixes

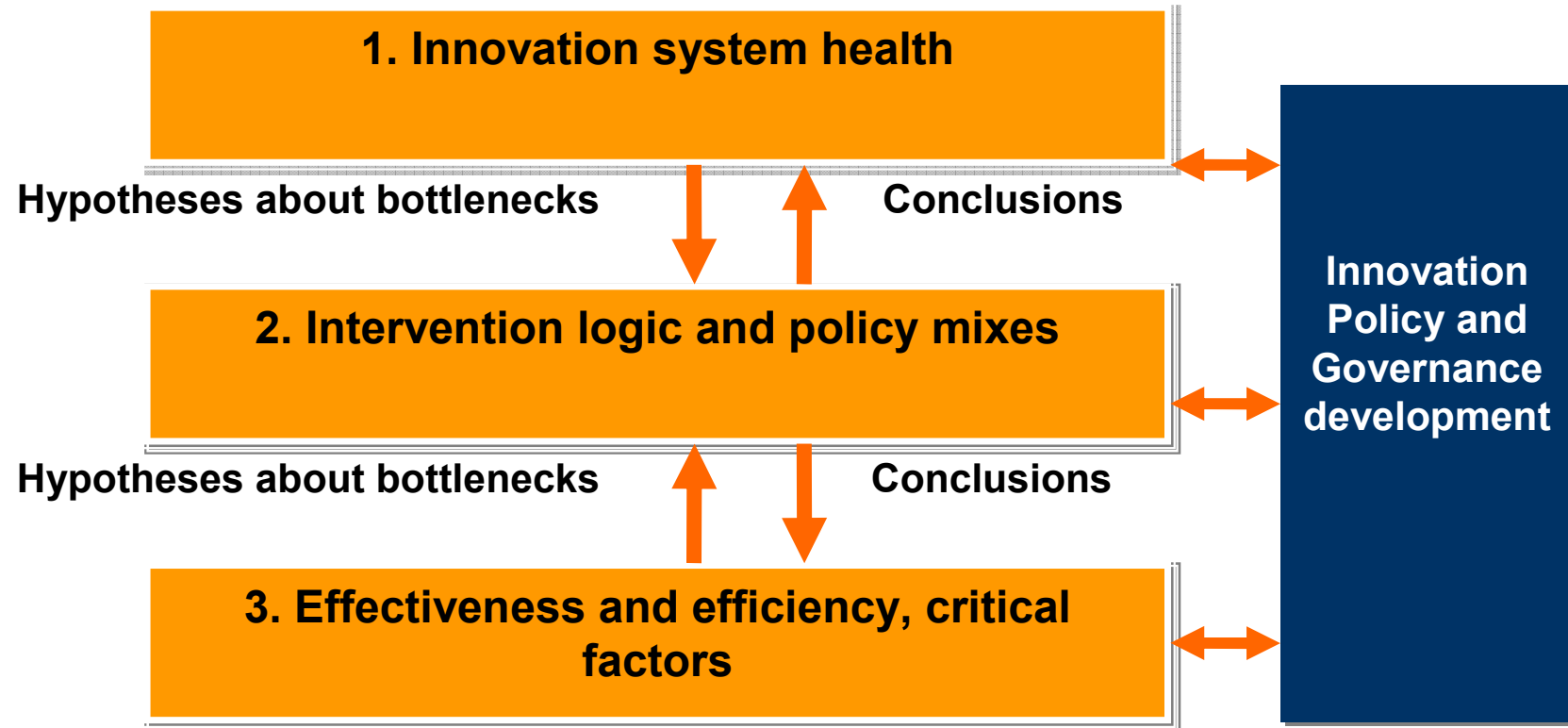
→ “Arm’s length” governance

vs Entrepreneurship and

EXPERIMENTATION?

RELEVANCE OF THE
SF FUNDED RTDI POLICY MIX:
ARE WE DOING THE RIGHT
THINGS?

EVALUATION FRAMEWORK



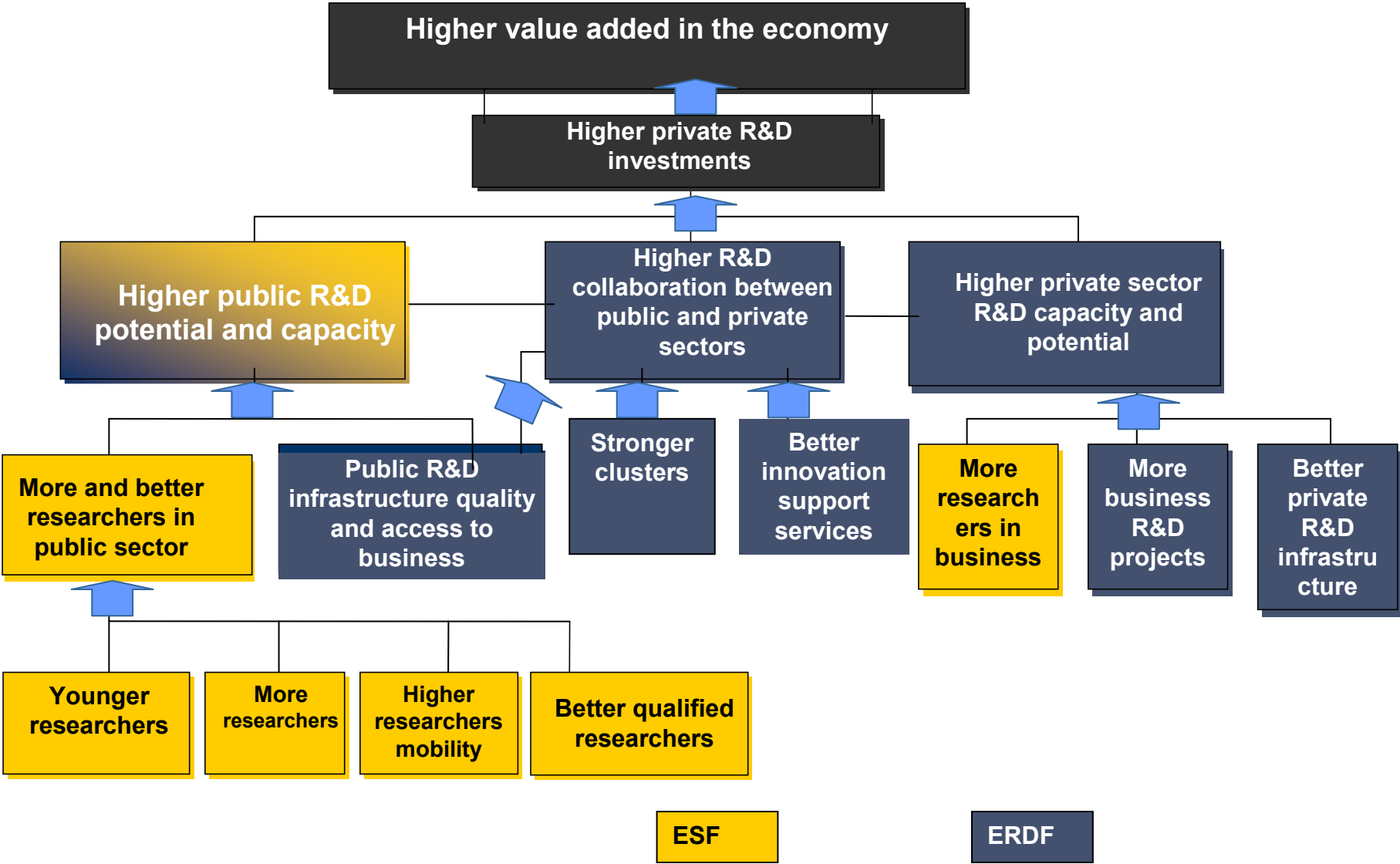
Based on: Arnold E. *Evaluating research and innovation policy: a systems world needs systems evaluations*, Research Evaluation, volume 13(1), 2004

NIS BOTTLENECKS

- Structural gap: few innovators. Lack of knowledge intensive firms. Few newborn firms
- Lithuanian innovation system suffers from both innovation supply and **demand** gaps. Low innovation **absorptive capacity** in business and society
- Lithuanian **paradox** (most educated, least innovative): failure of knowledge quality and knowledge transfer



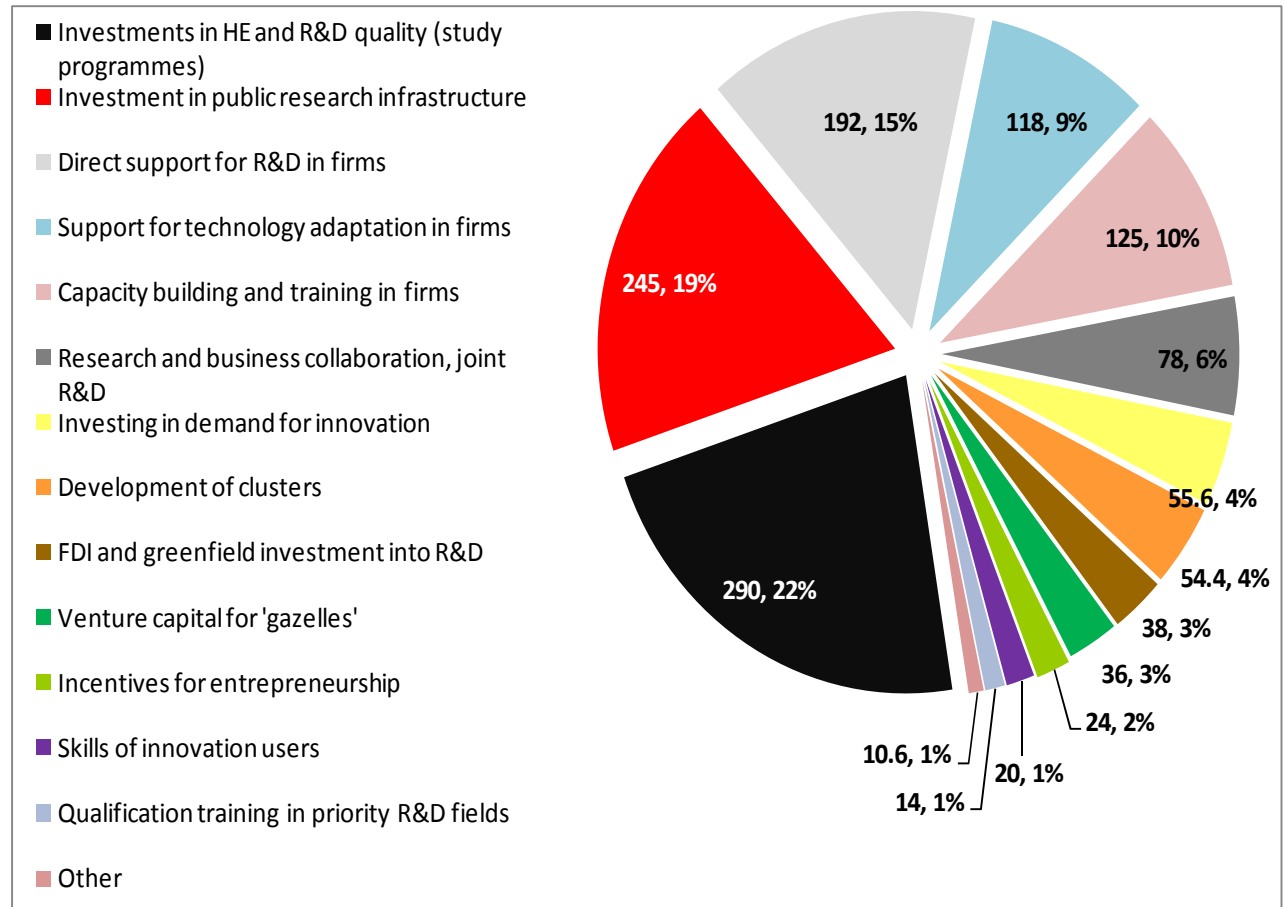
INTERVENTION LOGIC 2007-2013



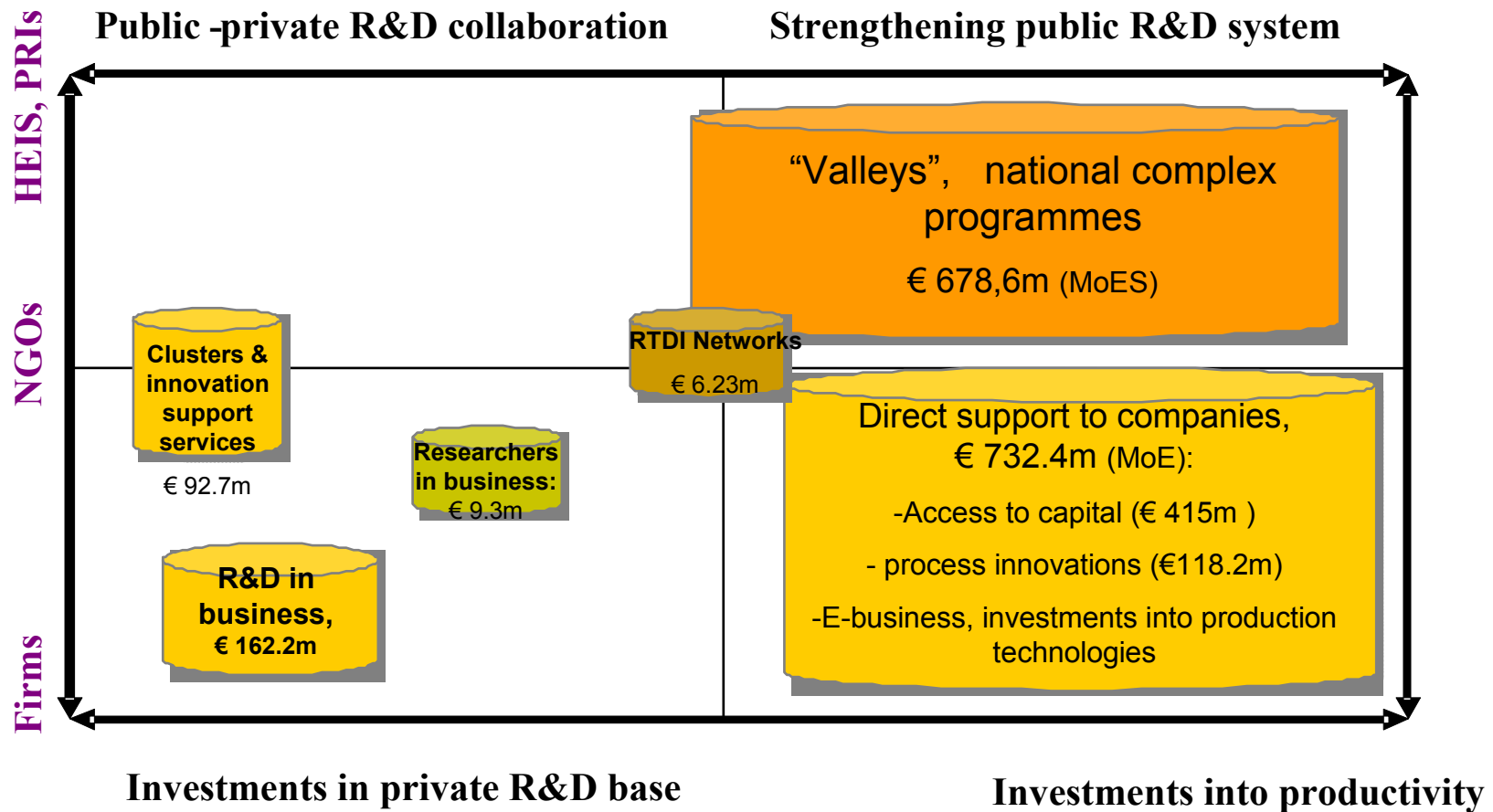
POLICY MIX

Mostly reflects
“**linear**” innovation
model, but
demonstrates
progress: non-R&D
innovations,
networking,
e-business

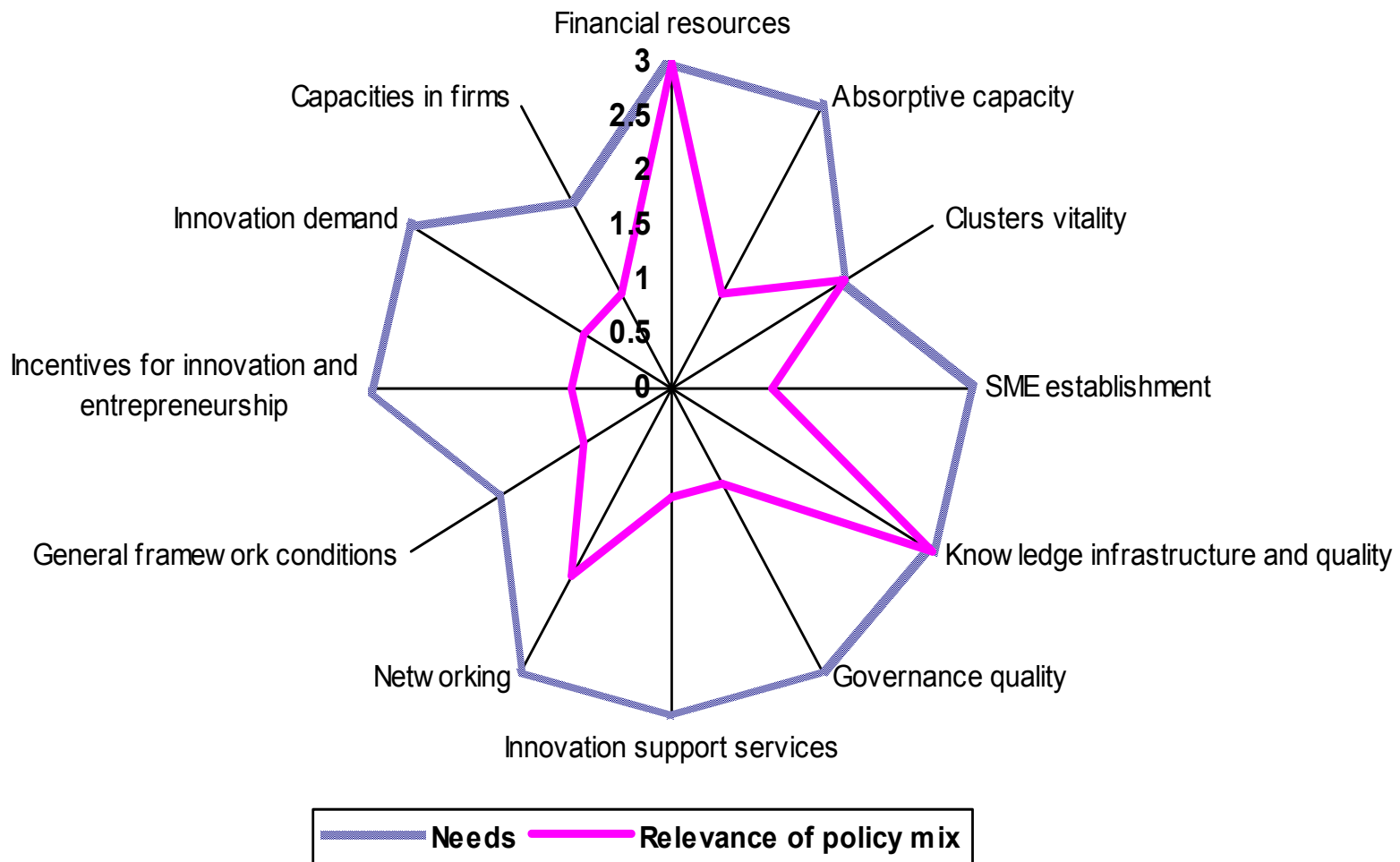
Typical policy mix
for an innovation
“**follower**”, no
essential theory of
change



- The policy mix mainly follows two routes: (1) to strengthen public R&D base, and (2) to invest in R&D in R&D performing firms
- Lack of critical mass to implement some other objectives (e.g. R&D collaboration)



WEAKEST ELEMENTS: framework conditions, innovation support services, entrepreneurship, demand side, governance

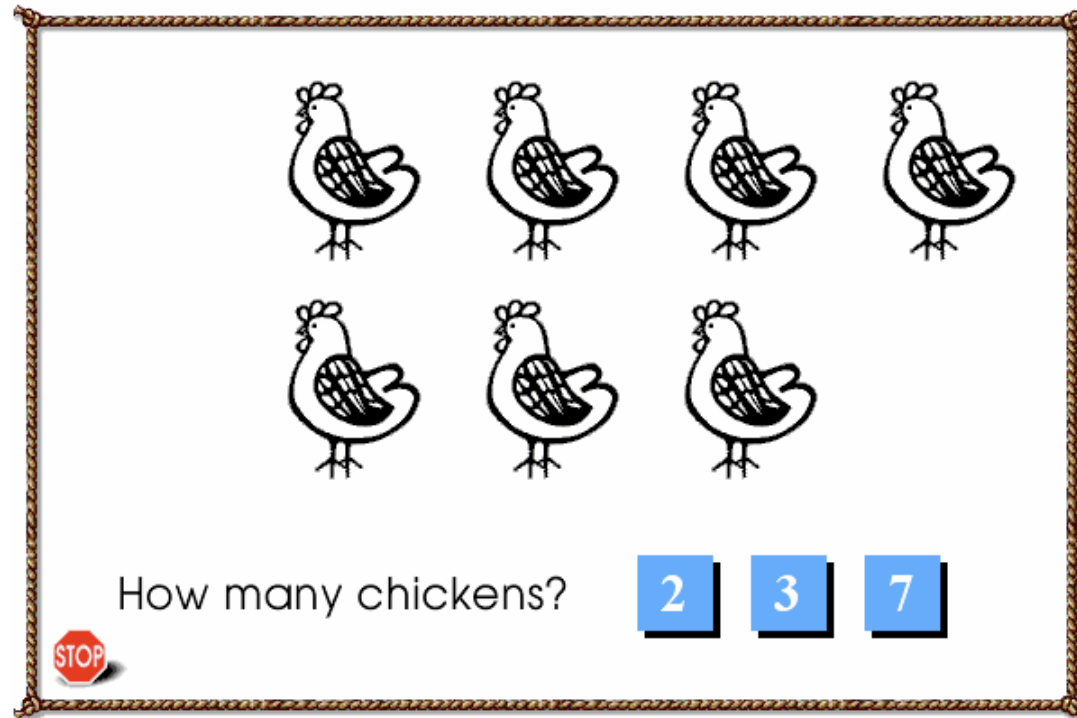


ADDRESSING THE STRUCTURAL GAPS?


- It is in line with the national policy to invest in existing strengths (“supporting the champions”), and it is in line with the Structural Fund framework regarding absorption capacity, but the line of reasoning is sometimes contradictory to the systemic characteristics of NIS
- Hypothesis: only a **minor part of economy** benefits from innovation measures.
- Financially marginal “soft” measures are important for behavioral additionality
 - project **pipeline** building activities
 - effective innovation **brokering** activities (services)

- So far, failure to address the **structural gap** and to increase the **absorptive capacity** in business and society.
- Dominance of innovation **supply** side measures.
 - Demand side measures: regulation, procurement, standardisation, clusters
 - need to stimulate firms that **do not yet** perform R&D
 - Zones of opportunity for start-ups, spin-offs etc

COUNTING THE CHICKEN: WHAT RESULTS CAN BE EXPECTED?



How many chickens? 2 3 7



ABSORPTION OF FUNDS

Figure 1. VP2-1, „Valleys“ measures, MoES

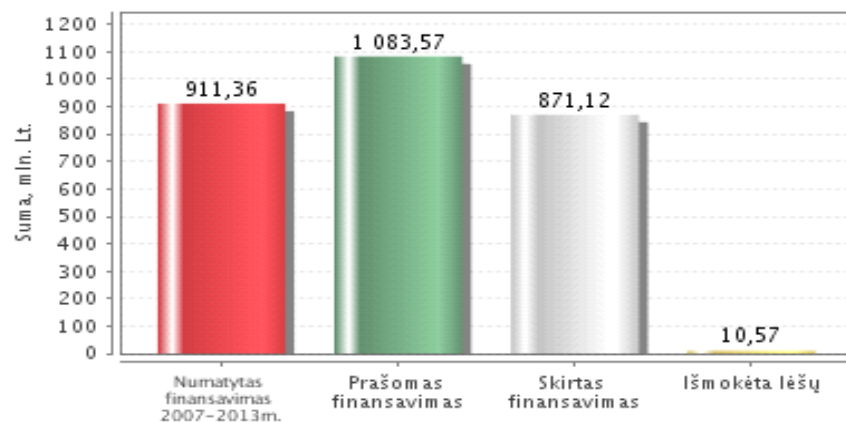


Figure 2. VP2-1, Direct support for R&D in business

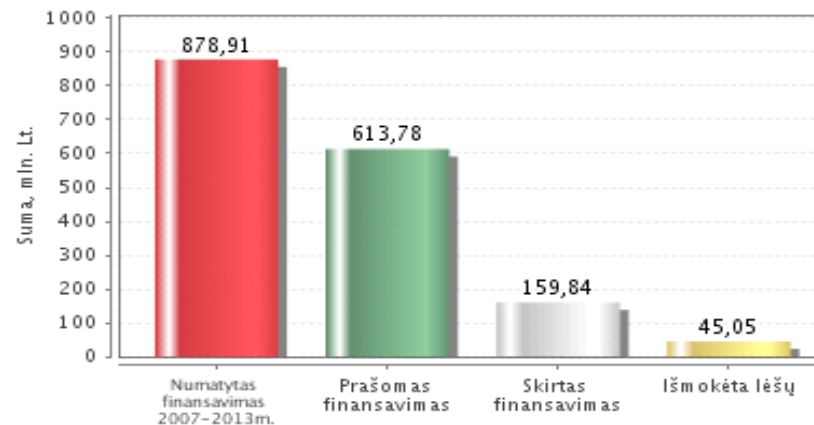


Figure 3. VP1-3, Researchers career, MoES

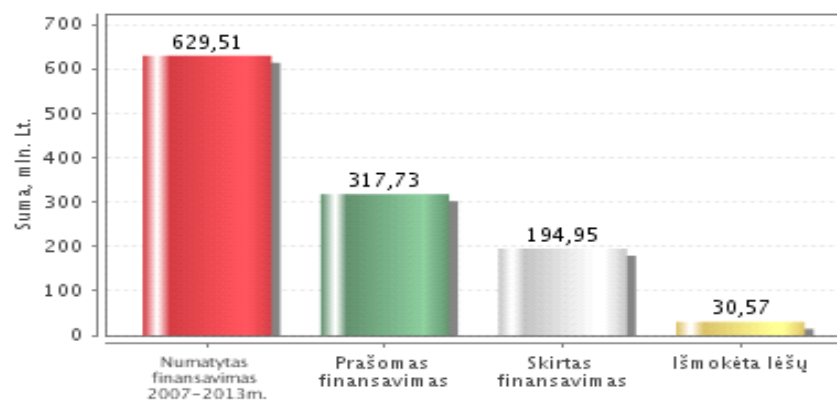
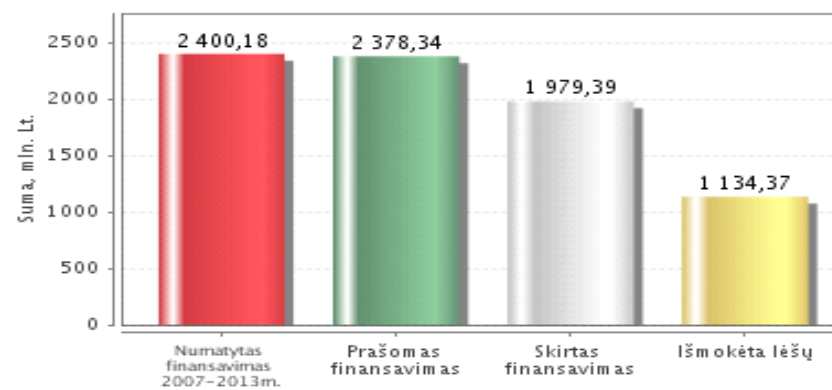


Figure 4. VP2-2, direct support for productivity in business



Source: www.esparama.lt, data of 2010-08-06

CRITICAL FACTORS

- Economic and financial **downturn**:
 - Applicants' own resources
 - **Competition** between measures
 - **Reallocation** of SF resources: €145 m from the “valleys” to financial engineering measures after integration of the Economy Recovery Plan
- Legal, administrative difficulties (i.e. for private investments in the “valleys”; employment of researchers in firms)

DOES THE SYSTEM OF INDICATORS SHOW THE REAL VALUE ADDED?

- **Insufficient links** between priority indicators and measures; activities funded and measures
 - **Separate systems** of indicators for accountability purposes (EC) and policy improvement
 - In some cases the **ratio** of value added and administrative costs unjustified
- Quantitative targets will be met in most cases, however **it does not mean that qualitative objectives are met**. System of indicators does not show real policy value added.

INDICATOR	LEVEL OF ACHIEVEMENT BEFORE 2015	REMARKS
<i>1 OBJECTIVE: TO STRENGTHEN PRIVATE AND PUBLIC R&D BASE</i>		
PRIVATE INVESTMENTS (million EUR) - R	LOW	OBSTACLES FOR PRIVATE INVESTMENTS, THUS THIS INDICATOR CAN ONLY BE APPLIED AT IMPACT LEVEL
R&D CENTRES CREATED AND FUNCTIONAL – R	HIGH	NO THREATS
NUMBER OF R&D BASE DEVELOPMENT PROJECTS– P	MEDIUM	INDICATOR ACHIEVED WILL BE TWICE LOWER AS PLANNED, HOWEVER THIS DOES NOT REFLECT THE REAL DECREASE OF ALLOCATED RESOURCES (-300 MILLION EUR FROM THE “VALLEYS” TO FINANCIAL ENGINEERING MEASURES).
<i>2 OBJECTIVE - TO INCREASE PUBLIC SECTOR R&D EFFECTIVENESS AND ACCESSIBILITY TO COMPANIES</i>		
NUMBER OF GENERAL WORK PLACES CREATED IN THE R&D SECTOR - R	MEDIUM	NEW MEASURES ARE BEING CREATED
NUMBER OF COOPERATION CONTRACTS SEIGNED BETWEEN PUBLIC AND PRIVATE SECTOR INSTITUTIONS- R	HIGH	NO THREATS
NUMBER OF R&D PROJECTS- P	LOW	NEW MEASURES TO ENSURE ACHIEVEMENT OF THE INDICATOR VALUE ARE BEING CREATED
<i>3 OBJECTIVE: TO INCREASE R&D ACTIVITY IN PRIVATE SECTOR</i>		
PRIVATE INVESTMENTS (million EUR) - R	HIGH	NO THREATS
NUMBER OF R&D PROJECTS (R&D ACTIVITY IN COMPANIES) – P	HIGH	NO THREATS
<i>4 OBJECTIVE – TO INCREASE BUSINESS AND SCIENCE COLLABORATION, INTENSIFY THE KNOWLEDGE FLOWS</i>		
NEW BORN TECHNOLOGY INTENSIVE COMPANIES- R	HIGH	THIS IS AN IMPACT LEVEL INDICATOR
R&D AND INNOVATION ENVIRONMENT IMPROVEMENT PROJECTS- P	HIGH	NO THREATS

ARE WE DOING THINGS RIGHT?

‘Governance failures’ jeopardize efficiency:

- Risk-averse approach
- Incapability to evaluate content of the proposals
- Overly bureaucratic procedures
 - High administrative costs of innovation measures as an obstacle for quality ideas entering the ‘market’?
 - Programming deadweight effect?
 - Missing the target?

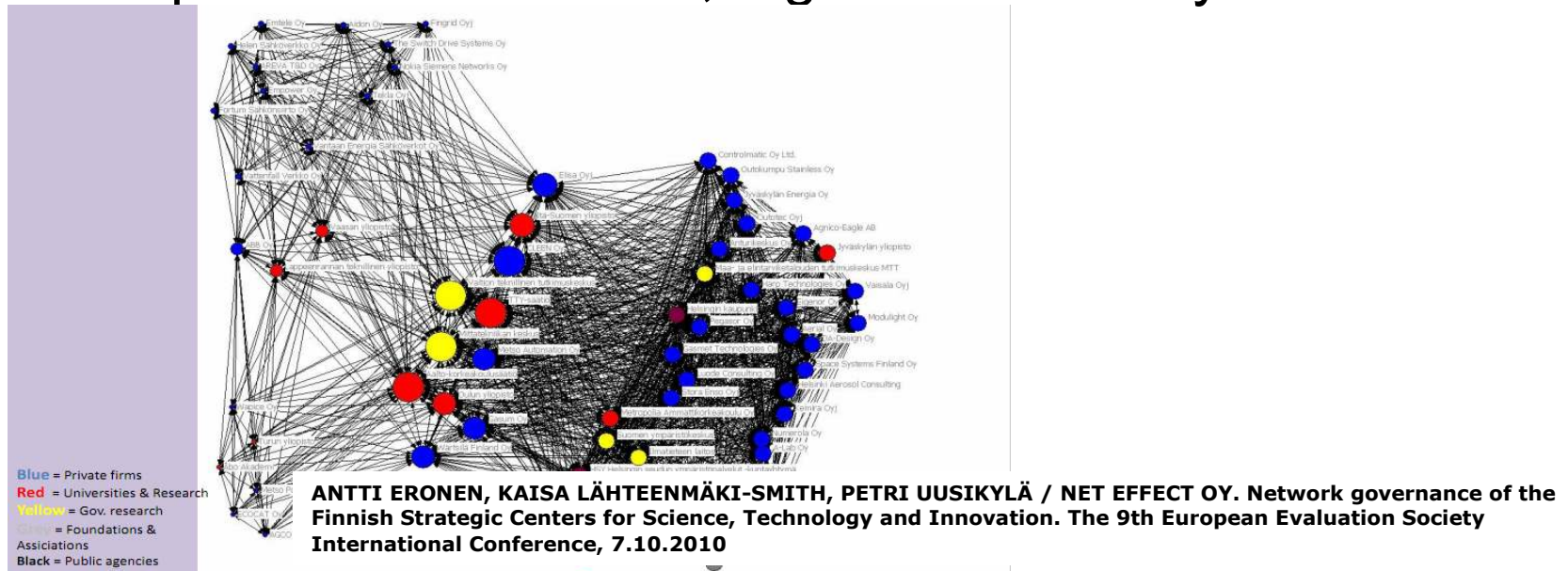
WHAT'S NEXT?



**"Here are some of my policy assumptions.
Find something to base them on."**

EVALUATION CHALLENGES

- **Impact evaluation** – tracing the real change and explaining obtained effects:
 - Look for **behavioural additionality** (knowledge spillovers, changes in innovation process related behavioral patterns, interaction additionality, input additionality)
 - Experimental methods, e.g. network analysis



GOVERNANCE CHALLENGES

- Boosting capability to develop RTDI policy:
 - MoE as a coordinating leader
 - Strong analytical support
 - Inclusive approach, users perspective
- Strengthening project and programme level **intelligence**
- **Stability** of project implementation period
- Novel approaches to funding innovative projects?
Building of administrative **capacity** – capacities to evaluate innovative project proposals. SITA?

INSTITUTIONAL SYSTEM: DEVELOPMENT OF SITA

Opportunities	Threats
<ul style="list-style-type: none">- Reduced fragmentation in the RTDI policy implementation institutional system- Building expertise and analytical capacities in RTDI field- Gradually, division of policy design and implementation functions between the MoE and SITA in the field of RTDI. Possibly, serves as a policy monitoring and coordination body.	<ul style="list-style-type: none">- No value added will be created without sufficient administrative and expert/analytical capacities- Without clear separation of functions between SITA and other agencies (LBSA, LIC, SPMA, LRC), fragmentation will increase and will lead to inefficient use of State resources.

INNOVATIVE POLICY

- Promoting innovative, risky, flexible, “bottom-up” approaches
- Project pipeline building – need for critical mass of professional innovation support services, specialised coaching
- Empowering people to innovate: early seed packages for start-ups, spin-offs, spin-outs, early stage inno projects
- Demand side: procurement, regulation, clusters along the value chain, networks around societal problems



THANK YOU FOR ATTENTION!



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