RIO Country Report 2017: Estonia

Research and Innovation Observatory country report series

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Summary

Estonia’s economic landscape in general and the R&I field specifically have remained stable in 2017. In 2016, R&D intensity decreased to 1.28% of GDP (1.50% in 2015) and business enterprise expenditure in R&D also diminished to 0.66 % (0.69% in 2015). Estonia’s exports and value added are driven mostly by contract manufacturing of relatively complex products. Estonia continues to have a very favourable business environment but it is faced with a short supply of highly qualified human resources. The Estonian R&D system relies overwhelmingly on competitive project-based policy measures, both in funding public universities and in supporting private companies.

Challenges for R&I policy-making in Estonia

Addressing the asymmetry between the public and the private R&I efforts. The Estonian science system follows very different specialisation from the business sector as it finances and supports mostly curiosity-driven basic research for which there is little immediate economic demand. Perhaps the most ambitious policy measure addressing this challenge is the Support for applied research in the areas of smart specialisation (NUTIKAS) as this measure explicitly encourages and supports companies to contact and collaborate with research institutions (the main applicant has to be a company). While initially the interest in this measure was quite low from the private sector, the number of applications has increased in 2017.

Promoting private investment in R&I by addressing the low pace of technological upgrading in industry. Due to their contract manufacturing profile, most Estonian manufacturing companies are not very strong in design and development capacities, both in terms of in-house capabilities and networks they belong to, thus these companies have strong obstacles in climbing the value ladder. The Enterprise Development Programme is the main programme that aims to support well-thought-out company development, improved action planning, innovation implementation and product development. In the course of the development programme, each participating enterprise is supposed to launch new products and services that are more profitable than their predecessors.

Decrease reliance on European Structural Funds in public R&I funding. Around 50% of government spending on research comes from European structural funds. As there is no certainty about structural funds in the next EU financial perspective (from 2020 onwards), Estonia should take steps to decrease its reliance on EU’s structural funding. While successive governments have been very supportive in rhetoric, actual funding increases have been quite modest. The only substantial change is the recent increase of basic funding for research institutions by 50% from 2014 to 2017.

Insufficient supply of R&I human resources. Lack of qualified labour is one of the long standing challenges for the Estonian economy due to ageing population, outward migration and low attractiveness of research careers. In response, the Alien’s Act was amended in 2015 to more easily allow foreign labour force to come in the country. Moreover, with a recent Act the government created a list of 339 start-up companies that can hire foreign (non-EU) workers according to less stringent criteria.

Main R&I policy developments in 2017
• **Additional non-competitive funding** for public universities (increases from 9.3 million euros in 2015 to 16.9 million euros in 2017 changing the ratio between competitive and non-competitive funding to roughly 70:30).

• **Additional funding for large scale industrial investors** (Large Investor Support Scheme, budget of 3 million euros in 2017).

• **Additional funding for digital agenda**: for 2018-2021, government plans to invest additional 28 million euros into four areas: furthering ICT skills, smart immigration, increasing visibility of e-Estonia, and digitalization in industry.

• **Relaxing of migration regulations** for start-up companies making it easier to hire foreign (non-EU) workers.

• Implementation of the **ASTRA programme** that supports consolidations among research and higher education institutions; it also supports their strategic goals and infrastructure investments. (Overall budget 120 million euros)

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**Smart Specialisation Strategy Monitoring and Implementation**

The management and monitoring of smart specialization measures has been moved from the Estonian Development Fund (following its closure) to Ministry of Economic Affairs and Communications (MEAC) and the Ministry of Education and Research (MER) in 2016. Monitoring and evaluation of smart specialisation is under a special inter-ministerial commission which consists of civil servants, university and industry representatives. The key task of the commission is to monitor progress of different smart specialization measures and propose corrective actions if needed. The commission leadership rotates annually between the MEAC and MER.

There are altogether 5 special smart specialization measures implemented. In addition ca 25 measures that are partly financed from structural fund have a full or strong smart specialization focus. Implementation is on track and in line with the strategic framework. Innovative procurement and applied R&D support measures are novel policies and hence with relatively slow pick up. However, in both cases the situation has improved in 2017 as there are more applicants.
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