

Executive summary

Strengthen innovation to further narrow the income gap

Following independence Lithuania has made much progress in developing the institutions and framework conditions of a modern market-based economy, which provided the basis for Lithuania's success in narrowing the gap with the more advanced countries in the OECD. While in 1995, Lithuania's gross domestic product (GDP) per capita stood at one-third of the OECD average, it exceeded two-thirds in 2015. Thanks to its economy's high degree of flexibility, underpinned by a generally favourable regulatory framework, Lithuania weathered the crisis of the late 2000s better than many peer countries.

But Lithuania is also facing challenges. The gap in income per capita is still large, and the speed of convergence to the OECD average level of income has slowed in recent years. To close the income gap with the leading countries – which is largely accounted for by lagging productivity – Lithuania has to improve its innovation capability substantially. While EU membership has resulted in qualitative changes in its innovation system and a step-change in the availability of funding – including from European Structural Funds – Lithuania's innovation performance, notably business innovation, remains low overall.

Foster the quality of human resources for innovation

Innovation performance critically depends on highly skilled human resources, and Lithuania shows strengths in this area, e.g. regarding tertiary education attainment. However, skill mismatch appears to be high. Moreover, demographic trends are unfavourable and have been exacerbated by a substantial brain drain; the working population is decreasing overall.

Skill mismatches can be reduced by improved information on skills needed and encouraging dialogue between higher education institutions (HEIs) and business in the development of tertiary education curricula and programmes. Strengthening and extending measures promoting the development of the vocational education and training (VET) system are also beneficial in this regard.

Attracting highly-skilled foreigners – including students and researchers – remains a challenge; the number of foreign students in Lithuania is among the lowest in Europe. One way to attract and retain talent from abroad, including non-EU citizens, consists of expanding the offer of post-doctorate studies and facilitating access to visas and work permits for foreign scientists.

Improve public governance of the innovation system

Lithuania has made progress in developing its research and development (R&D) and innovation policy governance. The development of Research and Innovation Strategies for Smart Specialisation (RIS3) – which included a process for establishing policy priorities engaging key stakeholders including industry – and the Innovation Development Programme 2014-20 can be seen as important milestones. However, innovation system governance still shows a number of weaknesses.

Lithuania lacks horizontal science, technology and innovation (STI) policy co-ordination, which was particularly evident in the design and implementation of the Valleys Programme. Weak co-ordination between ministries has contributed to a fragmentation of policies, instruments and their delivery; however, the establishment of the Strategic Council for Research Development and Innovation (SMIT) was a step forward. Reinforcing the council's strategic role, e.g. in reviewing the STI policy mix and the institutions involved in its implementation, would help to sharpen strategic orientation and improve policy coherence. It will be important to link R&D and innovation, societal challenges and economic opportunities.

Further efforts will be needed to enhance co-ordination at operational levels. The large number of agencies responsible for a plethora of support programmes and instruments makes the R&D and innovation support system fragmented and difficult to access and use by businesses. Its impact can be increased by consolidating institutions and support schemes where overlaps exist, and by adopting a more industry and society need-based approach.

There is a need to nurture a stronger culture of evidence-based STI policy making and to use principles of good practice in policy evaluation. Ministries would benefit from building their in-house strategic intelligence competences while options for strengthening the development and use of high-quality strategic intelligence across the STI system should be explored.

Foster innovation in the wider business sector

Raising the currently low innovation capabilities of Lithuanian businesses deserves priority attention. Against the country's unfavourable demographic trends, innovation is the most important sustainable driver of long-term productivity and income growth.

Within the STI policy mix, there has been a strong emphasis on research and science-driven innovation. Much effort has been put to developing infrastructures supporting R&D and innovation (Valleys, open access centres, technology centres, science parks, etc.). Business support measures have focused on two main target groups: companies already active in R&D and innovation, and potential high-growth start-ups. There is a need to assist a much larger range of companies to become involved in innovation and R&D. This will entail improving the participation of SMEs in policy programmes through a number of measures.

Improving the policy mix to expand the range of support to other forms of innovation activity – such as organisational innovation and to other sectors (services) – are also relevant lines of action. The extent to which the apparent mismatch might be closed through shifts in policy, including policy towards financing, must be further examined.

Strengthen the contribution of universities and public research institutes (PRIs)

The HEI and PRI sectors have been reformed over recent years; institutional funding was complemented by competitive funding. Yet, their scientific performance in terms of international co-publications, publications in peer-reviewed journals and citations are relatively poor. A recent international research assessment of research groups showed that some are strong national players with international recognition, but there were no strong international players among Lithuanian research actors. Even though large investments have provided the research sector with a good research infrastructure, this has still to be translated into internationally attractive research. Across all scientific domains research management was considered inadequate. The collaboration between public research and the business sector is still weak, some positive exceptions and a number of initiatives regarding commercialisation notwithstanding. In view of the relatively large number of HEIs, but also science parks etc., some consolidation should be considered to achieve advantages of scale and scope.



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