

THE GOVERNMENT SUPPORT FOR THE INNOVATION PROCESS IN LATVIA

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Abstract. *For Latvia, being a small country with an open economy, the rapid improvement of national economy and the increase of social welfare are largely dependent on the ability to create and sell competitive goods and services in the worldwide market. In increase the country's general competitiveness, a determined implementation of country's innovation policy is required, thus it would facilitate the development of new and knowledge based fields and increase of high added value goods in the traditional fields. The ability to come up with new ideas and then utilise them commercially is the main driving force of economic growth. To reach the innovation and development level of developed countries, the current innovation policy in Latvia required reforms and increased support from government.*

Key words: *Innovation, the government support, development, competition, education*

The economic and social development level in Latvia is still one of the lowest among European Union countries. The economic development in Latvia has highlighted a string of serious macro-economic and social issues that can be only solved by implementing certain further structural changes in the economy of Latvia. To ensure further stable development of Latvian economy and the continuous increase of its competitiveness, one must create preconditions for transition for an economy model that is based on the use of unskilled labour producing goods and services with low added value to the innovative (knowledge based) development model.

The experience of economy-wise strongest world's countries has proven that in the last decades they have chosen the path that leads to economy that is open to innovations. The globalisation of economy and the rapid development of technologies in certain countries provide unique opportunities for rapid growth, for others – threats of economic stagnation or even recession. The ability to create new ideas and utilise them commercially is the main driving force of economic development. This process is crucial to all types of entrepreneurship and fields (manufacturing, services, tourism, and farming), to companies of any type (micro, independent, medium, large and international companies, as well as to all social layers and regions.

The report on European Innovation indicators published by the European commission shows that during the past years Latvia's general innovation index has not changed substantial, and our country in 2010 was last among 27 surveyed European Union and associated countries. That indicates the serious backwardness of our National Innovation System comparing to the average rates of European Union Countries, especially in terms of intellectual property, high technology goods' export and introduction of news products in the market. The main findings of the IUS 2010 are based on their average innovation performance across 24 indicators, the Member States fall into four performance groups (Picture 1): Innovation leaders, Innovation followers, Moderate innovators and Modest innovators¹.

Performance groups²:

1) Denmark, Finland, Germany, Sweden shows a performance well above that of the EU27. These countries are the Innovation leaders.

2) Austria, Belgium, Cyprus, Estonia, France, Ireland, Luxembourg, Netherlands, Slovenia and the UK all show a performance close to that of the EU27. These countries are the Innovation followers.

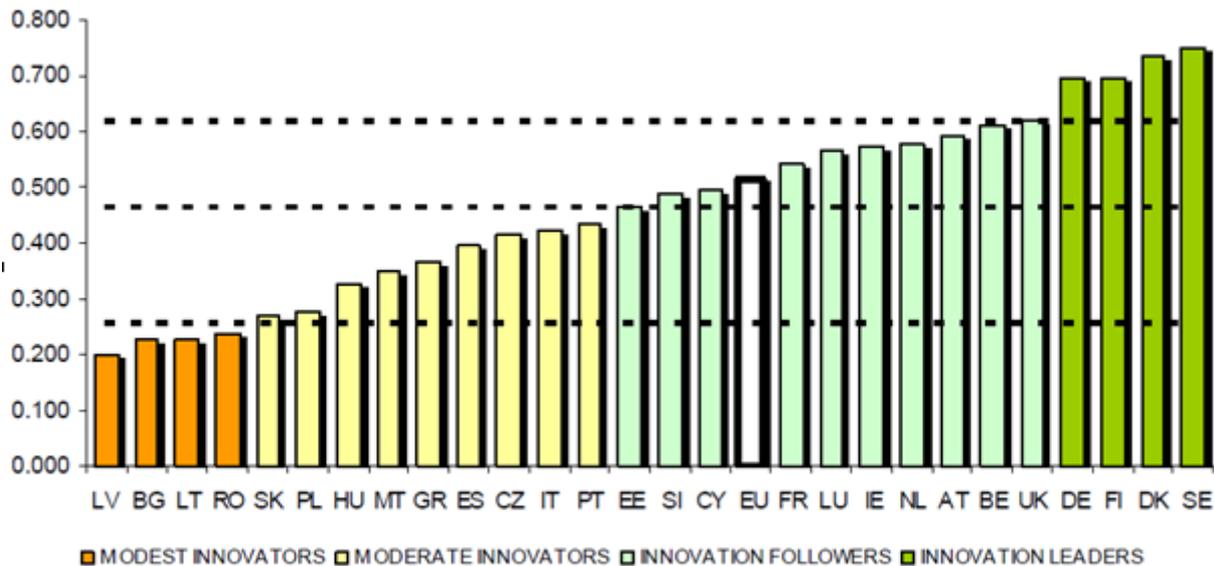
3) The performance of Czech Republic, Greece, Hungary, Italy, Malta, Poland, Portugal, Slovakia and Spain is below that of the EU27. These countries are Moderate innovators.

4) The performance of Bulgaria, Latvia, Lithuania and Romania is well below that of the EU27. These countries are modest innovators.

¹ *Innovation Union Scoreboard* [interactive]. Brussels: European Commission Enterprise and Industry DG, 2010 [accessed 2011-02-01] http://ec.europa.eu/enterprise/policies/innovation/facts-figures-analysis/innovation-scoreboard/index_en.htm

² Ibid.

5) Bulgaria, Estonia, Malta, Romania, Portugal and Slovenia are the growth leaders with an average annual growth rate well above 5%. There continues to be a steady convergence, where less innovative Member States have – on average – been growing faster than the more innovative Member States.



Picture 1. EU Member States' innovation performance³

Note: Average performance is measured using a composite indicator building on data for 24 indicators going from a lowest possible performance of 0 to a maximum possible performance of 1. Average performance in 2010 reflects performance in 2008/2009 due to a lag in data availability. The performance of Innovation leaders is 20% or more above that of the EU27; of Innovation followers it is less than 20% above but more than 10% below that of the EU27; of Moderate innovators it is less than 10% below but more than 50% below that of the EU27; and for Modest innovators it is below 50%

Latvia is one of the modest innovators with a below average performance. Relative strengths are in Human resources and Finance and support. Relative weaknesses are in Open, excellent and attractive research systems, Linkages & entrepreneurship and Innovators. High growth is observed for PCT patent applications in societal challenges and

Community trademarks. A strong decline is observed for Most cited publications, Innovative SMEs collaborating with others and License and patent revenues from abroad. Growth performance in Finance and support and Intellectual assets is above average. In the other dimensions it is below average⁴.

The modest innovator countries have shown low rates in Human resources, with an exception to Latvia, where this rate is above the European average. It must be noted, that most of the countries have shown similar results last years. In terms of Innovation Finance and Support the modest innovator countries have displayed rates below the European average, however, comparing to last year, Latvia's growth has been positive. In terms of Cooperation and Entrepreneurship none of the modest innovator countries have reached rates above the European average, especially in Latvia, where a significant decrease has been observed. However in terms of Intellectual Property Rights in the innovation process, even though still below the European average, Latvia has been displaying significant improvements⁵.

Latvia currently has one of the lowest national and private investments amount in research and development among all European countries. It is one of the most important factors causing the slowdown of applied research development, research results' commercial utilisation and innovative business development.

The government has the decisive role in creating a innovation favourable environment by rationally performing the restructuring of economy and by utilising the available resources facilitate the development of technology oriented businesses. The primary strategic goal is to create preconditions for innovation – the development of new and competitive products and services, realisation of practically applicable research,

³ Ibid.

⁴ Innovation Union Scoreboard [interactive].

⁵ Ibid.

quality system implementation, facilitation of high technologies and prospective fields with high added value etc., that would facilitate the competitive capacity of companies and in turn the country itself.

The National Innovation Development Policy is a common of processes started, performed and coordinated by the government: legislation acts and administrative norms, priority and their determining mechanisms, realisation tools etc., that provide a coordinated, sustainable and balanced innovative action⁶.

To achieve the innovation process in Latvia, the government is implementing the following projects “National Innovation Programmes from 2003 to 2006”, “Latvian Export Facilitation Programme from 2005 to 2009”, “Development Programme for small and independent businesses in Latvia from 2004 to 2006”, “Entrepreneurship competitive capacity facilitation and innovation programme from 2007-2013”. As well as the government has developed a “National Development Plan from 2007-2013” that includes efforts and European Union Finance Prospective from 2007 to 2013 advising on the opportunities to use the European Structural Funds. Every programme has its own goals and strategies that are directed towards national development and the creation of innovative economy model⁷.

The innovation support is achieved through various structures – international associations (The Baltic network of innovation centres, International Association of Science Parks, European Business Network, Belgium), associations in Latvia (The Commercial Bank Association of Latvia, The Technology Park of Latvia, Centre and Business Incubator Associations, The Quality Association of Latvia etc), institutions and structural units (The Investment and Development Association of Latvia, The Sales and Manufacture Chamber of Latvia, “Hipoteku Banka”, Guarantee Agency of Latvia, Regional Development Agency of Riga), as well as education and scientific institutions (University of Latvia, Technical University of Riga, BA School of Business and Finance, University of Ventspils)⁸.

The following innovation support programmes are currently implemented in Latvia⁹:

1. Market oriented research. The Ministry of Science, based on scientific and economic expertise, distributes the finance among the market oriented research projects.

2. European Union Structure Funds – Largest financial tools, from which Latvia can receive financial aid (European Regional Development Fund, European Social Fund and Cohesion Fund). In addition to that, Latvia receives finance from European Common Incentive “Equal and Interreg”, as well as it takes part in other programmes funded by EU, European Farming Fund for the development of rural areas and European Fish Hatchery Fund.

3. International Cooperation Programme EUREKA – to facilitate the international cooperation between companies and research facilities in order to develop demanded technologies, products and services.

4. Enterprise Europe Network Latvia is the largest entrepreneurship and innovation support contact point network that provides practical information regarding specific questions about European Union entrepreneurs and European Union matters, especially assisting the small and medium businesses. European Business Network is a part of European Commission Competitiveness and Innovation Framework Programme that acts as a one stop agency to provide unified services.

5. Regional Innovation Strategies. The goal of the project is to increase the number of knowledge based small and medium enterprises in Latvia and to improve their competitiveness. To reach it a coherent Innovation strategy will be developed in co-operation with other innovative regions in Europe.

The Author concludes that regardless of the current development programmes, realised projects and good development velocities of certain innovation aspects, Latvia is one of the modest innovators. That indicates drawbacks within the innovation programmes and non-achievement of goals comparing to what was planned. This means that innovation programme reforms are required as well as it is necessary to conduct an in-depth research of weakest points that could possibly play an important role in the innovative and National development as a whole. The strength and weaknesses, as well as the actual threats and development opportunities within innovative operations in Latvia are summarised in the SWOT matrix (Table 1).

Latvia must employ its strengths to facilitate innovations. Beneficial geographic location, human resources and financial aid to the businesses are crucial preconditions to development. The government must provide better communication among universities, companies and national authorities. A closer cooperation is required to create demanded and competitively capacitive products, create new innovative companies and provide a timely information exchange. The access to financial aid is one of the main factors of market oriented innovative development. However, the only financial currently is the EU funds, but the government su-

⁶ *Latvian Innovation portal* [interactive]. Riga: Latvian Technological Center, 1992 -2005 [accessed 2010-04-10] http://www.innovation.lv/ino2/eng/?kat=par_portalu

⁷ Ibid.

⁸ *Latvian Innovation portals* [interactive].

⁹ Ibid.

support to science and research with along with the outcome of the crisis has been reduced. Thus it is crucial to attract both local and foreign funds which could be used to support local innovations and direct them in the Latvian market in various regions. The innovative and entrepreneurial development in several areas in Latvia is very weak, regardless of the fact that a development programme is being put in place. To increase the innovation level, the country must provide a demand for highly skilled specialists so that they would not emigrate from the country. Qualified specialists should be provided with employment right after graduation from University with a remuneration that corresponds their knowledge, however, at the current state, the country is financing knowledge and innovations that is emigrating to other countries.

Table 1. Innovation process in Latvia SWOT analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> -beneficial geographic location; -human resources; -finance and support for innovations in companies; -reasonable innovative operation growth velocity 	<ul style="list-style-type: none"> -lack of information regarding innovative operations' opportunities; -insufficient cooperation with universities, government and entrepreneurs; -difficult to start a business and obtain a starting capital; -the range of financing incentives dedicated to innovations is still relatively limited; -qualified and educated workforce is emigrating from the country; -lack of highest class specialist
Threats	Opportunities
<ul style="list-style-type: none"> -the competitive capacity of Latvian goods and services will decrease in European and Worldwide markets; -the economic dependency on other countries will increase; -in terms of economic development, Latvia will significantly fall behind other European Union countries; -foreign investment rates will not increase; -national funding invested into research and development will not facilitate the country's economy but rather the economies of large and economically developed countries; -a sharp competitive capacity decline of currently successful Latvian companies (Banking, Sea freight, Transit, Textile Industry etc.) not only in European markets, but also within the local and neighbouring country markets; -external trading deficit will increase; -insufficient innovation operation will lead to negative social outcomes 	<ul style="list-style-type: none"> -adjusting the accomplishments of European Union and other countries to the Latvian environment; -provision of modern and well-functioning infrastructure throughout the whole country; -facilitation of manufacturing businesses' facilitation in the financing of applied research; -must facilitate future oriented research work in universities; -must facilitate the international technology transition and collaboration of Latvian companies within international research and technology development projects; -provision of national accreditation system and measurement etalon common, its development and international recognition; -development of suggestions for changes within the legislation, so it would facilitate the further innovative development; -facilitation of national and private funding attraction for research and entrepreneurship; -attain effective and mutually beneficial collaboration among companies, research facilities, education and consulting institutions and technology market.

By not initiating a focused development and control of innovative operations' facilitation and development efforts, negative economic and political outcome is to be expected. The competitive capacity of Latvian products and services will remain low in worldwide and European markets and thus in turn will complicate the actual integration of Latvia into the European Union. The foreign investments will not increase, due to the fact the one of the most attractive investment forms concern investments in fields with high technological development level, and thus the creation of competitive national economy will be impeded which in turn will threaten the further development of certain fields and can decrease the ability to compete in European markets. The current competitive capacity of so far successful companies will decrease consecutively.

The social outcome of insufficient innovative operations in Latvia can be observed already today. Smaller towns and especially rural areas are suffering from high unemployment rates; social problems also facili-

tate an increased segregation of population in terms of buying power, material welfare and location. Thus the preconditions for social conflicts and actions of political nature are created.

It is necessary to carry out innovative operation improvement activities. One shall continuously follow innovation policy trends in EU cooperation, compare them, assess them and apply the best of them to the Latvian environment. Finland's as innovation leader country strengths include dynamic universities, joint research projects, license and patent income, and investment into research. Denmark gives a large quantity of high-quality foreign aid and contributes a significant amount of personnel and finance to international peace-keeping and humanitarian interventions, and encourages research and development. Germany's technological performance is essential for German companies' success in international technological competition. It is the basis for economic growth and viable jobs in Germany. Technological performance is documented by new, innovative products and processes which can compete on international markets. They depend on the creativity of German entrepreneurs and on the commercialization of the results of our efficient public research. But above all, Germany's technological performance will in future depend on the availability of highly qualified workers. Education and research are therefore a top priority for the Germany government¹⁰. Latvia being a small country with an open economy must to invest in universities development as Finland, use more foreign experience as Denmark and have to invest in technologies. The government must facilitate and support the establishment of new innovative companies by assisting them with starting capital. The government must constitute that the main priority in education should be oriented towards modern technologies with comprehension of innovations, modern technologies, technically efficient company management methods, their role and importance within the economic development. This shows Germany innovation policy.

Conclusions

The government support for the innovation policy in Latvia needs improvement. To realize the innovation process in Latvia, the government is implementing projects and programmes, which needs reforms for being more real and achievable. The Author offers some ideas and proposals, which could be used by the government. To achieve the above, ministers must be interested and their actions must be coordinated to facilitate the development of innovative activities, they are to understand that innovation must cover economic, social and governing structures. Making correct innovation policy, using all of the strengths and financial support from European Union, Latvia can develop innovations and reach good indexes.

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¹⁰ Innovation Union Scoreboard [interactive].