



# GUIDELINES ON NATIONAL INDUSTRIAL POLICY OF LATVIA

2021-2027

(UNOFFICIAL TRANSLATION)

#### 4.4. DIRECTION OF ACTION: INNOVATION

The competitiveness advantage of Latvia is based on the introduction of innovation, the use of modern and digital technologies and increased productivity. The ability to create and apply several types of innovation or new or improved products and processes can provide the necessary push for the country's economic growth. Moreover, cooperation between the private sector (entrepreneurs), public sector (state institutions), and academic sector (research organizations) is an essential prerequisite for the development of strategic innovations in the enterprise, such as the development of new products, technologies, services, and business models, as well as the development of existing solutions and the promotion of cooperation. This also means closer cooperation between research and industry for infrastructure development and accessibility.

In the overall innovation ecosystem, start-ups play a key role in enabling to deliver innovative business ideas and contribute to a faster shift in the economic paradigm towards the knowledge economy. The Law on Aid for the Activities of Start-up Companies to promote the development and research of an innovative product currently provides for the possibility for start-ups to receive the following support programmes:

- a) aid programme for the fixed payment for employees, by applying Personal Income Tax reliefs, and
- b) support programme for the recruitment of highly skilled employees.

On 3 of October 2019, a Memorandum of Cooperation was signed with three organisations representing the start-ups – the Latvian start-up association “Startin.lv” (*Latvijas jaunuzņēmumu asociācija “Startin.lv”*), the Latvian Private Equity and Venture Capital Association (*Latvijas Privātā un riska kapitāla asociācija*) and the Latvian Business Angels Network (*Latvijas Biznesa Engēļu Tīkls*), which defines the priorities for the development of the start-up sector.<sup>1</sup> Based on the signed memorandum on 5 November 2019, funding has been allocated to the organizations mentioned in Cabinet Regulation No 538 to ensure the implementation of activities promoting the development of the start-up ecosystem through NGOs, including by strengthening the role and capacity of the non-governmental sector, as well as by increasing its contribution to the start-up ecosystem in Latvia as a whole. As a result, the cooperation of ecosystem organizations and associations has been improved through regular meetings with the members of the start-up ecosystem, maintained the database of start-ups, improved regulatory enactments regulating the activities of start-ups, organized the development and promotion of state aid programmes, promoted the interest of foreign investors in Latvia's start-ups and raised awareness about the success stories of Latvian start-ups. Therefore, the innovation ecosystem needs to further strengthen cooperation with the representatives of start-ups and their representative organizations, thereby ensuring a wider involvement of start-ups in increasing the innovation potential of Latvia and the growth of the country's economy. Extensive support for international enforcement of industrial property rights for Latvian companies, including professional services, such as patent search, application preparation, patent payments, also in situations where original patents are applied for jurisdictions outside Latvia or outside the European Union (within the framework of the Paris Agreement). The preconditions for the development of innovation include an orderly legal environment for the protection of industrial property rights and a consistent national industrial policy for the development of the Research and Innovation Strategy for Smart Specialization (RIS3) areas, considering the needs and recommendations of economic operators in the field.

Universities have developed effective innovation ecosystems that are essential for the development of undergraduates' and graduates' entrepreneurial skills. The Student Innovation Grant Programme (*Studentu Inovāciju grantu programma*) has been launched. University incubators and an inter-university incubator – the Green Technology incubator (*Zaļo Tehnoloģiju inkubators*) which specializes in the development of

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<sup>1</sup> <https://em.gov.lv/lv/jaunumi/25894-nemiro-jaunuznemumu-izaugsmes-sekmesanai-svarigi-stiprinat-publiska-un-nevalstiska-sektora-sadarbibu>

technologically intensive companies have been successfully operating for several years. Riga Technical University has created Design Factory (*Dizaina fabrika*) which is part of the Alto University global network. Riga Stradins University and Riga Technical University have cooperated with the European Institute of Innovation and Technology <https://eit.europa.eu> and represented it in multiple communities: Heath-KIC, Climate-KIC, Raw Material-KIC and Food-KIC.

The capacity to raise financial capital, high-skilled labor (talent recruitment) and to ensure high-quality cooperation with research organizations also play a significant role in strengthening innovation capacity. Close cooperation between entrepreneurs and research organizations provides an opportunity to carry out joint research and development (R&D) activities that can result in new or improved products or services with high commercialization potential and market demand. It is therefore necessary to develop human capital, for instance, including R&D human capital capacity and research and innovations' (R&I) infrastructure sharing, by strengthening digital and ICT skills to develop knowledge and technologically intensive products and services as well as raise productivity levels.

At the same time, statistics indicate that Latvia is far behind other countries in terms of innovation and workforce productivity.<sup>2</sup> Company business models are not sufficiently focused on developing innovation, business leaders still have insufficient knowledge of the diverse opportunities of different innovations, strategic innovation management for the creation of business competitiveness advantages and ways to protect innovation, as well as understanding of the material and intangible values at their disposal, such as available know-how, intellectual property and technological potential, which can form the basis for the development of various strategic innovations. At the same time, the exchange of information among stakeholders should be strengthened, and awareness of the opportunities provided by cluster initiatives should be raised. In general, state intervention should be designed to support full-cycle innovation, with a view to reducing the time needed to bring innovation into the market. This means both the support for new pilot projects, which would ensure faster commercialization and market entry of these developments, and support for companies to purchase specialized production assets to produce new, innovative products. At the same time, the possibilities for improving the existing innovation support instruments should be assessed to ensure more financially intensive business innovation projects, for example by extending the state support for innovation vouchers.

In the context of the implementation of the Guidelines on National Industrial Policy of Latvia (NIP) 2021-2027, the concept of the smart municipality ecosystem, as set out in the Regional Policy Guidelines for 2021-2027 (approved by Cabinet of Ministers Regulation No 587 of 26 November 2019)<sup>3</sup>, aims to create an environment in cities and their functional areas for the provision of smart solutions, (products for new service provision or existing service improvement, including export potential) development through the establishment of cross-sectoral and intercross-institutional coordination mechanism which promotes co-responsible cooperation between all stakeholders in developing innovative solutions in the long term. Consequently, in order to promote innovation and knowledge transfer in regions, a new type of service, such as innovative mobility solutions (e.g. unmanned aircraft in the transport system for goods, share-driving solutions, on-demand transport, use of electricity mobility, etc.), use of virtual reality in education, solutions to promote remote medicine (analysis, reading and carrying out online data), use of artificial intelligence in municipal administration, etc. will be introduced as a pilot in each planning region. In the context of smart municipalities, The Ministry of Environmental Protection and Regional Development, is planning to implement support instruments in the following directions: 1) creating the environment needed for business and innovation development, which also includes the creation of test sites and major role of planning regions in promoting innovation, 2) improving the efficiency and accessibility of public

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<sup>2</sup> OECD Economic Surveys: Latvia, OECD 2019. <http://www.oecd.org/economy/surveys/Latvia-2019-OECD-economic-survey-overview.pdf>

<sup>3</sup> <https://likumi.lv/ta/id/310954-par-regionalas-politikas-pamatnostadnem-2021-2027-gadam>

services, not limited to energy and mobility alone, but also supporting smart solutions in such municipal competence areas such as utilities and territory improvement, tourism, education and culture, health care, healthy lifestyle and social care, public order (including security), energy efficiency, general administration, including public engagement; 3) the development and functioning of regional innovation and knowledge platforms, including planning regions and municipalities is a key role in promoting innovation, both by creating the necessary ecosystem (regular cooperation between public administration, the private and academic sector, other stakeholders) and infrastructure, by providing support for testing innovative products and further market development, suchlike contributing to the development of the content of training, to ensure that specialists are relevant to the economic specialization of the region and to the needs of entrepreneurs. Additional tools for bringing innovative ideas and activities to life in business environment include the promotion of cooperation between the public, private and academic sectors, authors of stable business ideas, new entrepreneurs, state business cooperation system, development of cluster approaches, creation of networking opportunities, independent awareness of entrepreneurs and the general public and involvement in the adoption of various public decisions, support for technological and non-technological innovations, and strengthening the image of Latvia in international business environment.

In the context of the COVID-19 crisis, the need to provide public support instruments for both applied research and business investment in R&D has been identified, thereby ensuring a more rapid development and deployment of new products, technologies and services that respond to the crisis and post-crisis needs. At the same time, fundamental and applied research must be continued, providing a basis for the transfer of knowledge and technology to the business sector, for the commercialization of innovative solutions and new products, and for economic development in the long term.

The main tasks for the implementation of the [action](#):

- 4.4.1. **Extending existing successful support mechanisms** to ensure cooperation and complementarity between support instruments and a balanced funding structure throughout the R&I cycle, balancing available funding for research, commercialization, and market innovation.
- 4.4.2. **Promote the public sector's willingness to invest in innovative solutions** through public procurement. Developing new and innovative solutions for service provision in municipalities: smart municipalities (complex solutions, combining investment in infrastructure with ICT, environment, and climate-friendly solutions).
- 4.4.3. **Promoting innovation activities in State owned enterprises (SOEs)**, including by strengthening the R&D and analytical capacity of state and local municipal institutions and SOEs, by promoting leadership in ordering research and the introduction of exportable products or services.
- 4.4.4. **Promoting the innovation ecosystem of large SOEs**, involving sectors of the relevant sphere, to enable large SOEs, in cooperation with industry, to participate in the creation and testing of innovative products and services in the relevant sectors of the production environment.
- 4.4.5. **Promoting digital transformation and technologically intensive solutions**, including the deployment of artificial intelligence solutions in the private and public sectors.
- 4.4.6. **Encourage private and public investment in research, development, and innovation** by supporting fundamental and applied research, supporting knowledge and technology transfer, and the development and deployment of technological and non-technological innovations at various stages of innovation development.
- 4.4.7. **Promoting the use of financial instruments** in the implementation of innovative and technologically intensive solutions. Providing new financial instruments for entrepreneurs

for the development and promotion of innovation, including support for increased productivity in regions.

- 4.4.8. **Provide support for the development of the start-up ecosystem.**
- 4.4.9. **Provide a high-quality legal and consultative base** and support for companies, particularly in the field of intellectual property rights protection, patent protection.
- 4.4.10. **Continue business-led applied research (competence centers)**, which would also ensure the attraction of further investment in high value-added industries and a significant role in ensuring the competitiveness and transformation of the Latvian economy, including by implementing the principle of full-cycle innovation.
- 4.4.11. **Promoting the development of the innovation ecosystem in universities** by developing support programmes for the development of business skills, business incubators and co-creation facilities. Cooperation with the EIT must be enhanced.
- 4.4.12. **Ensure the establishment of a legal framework for the establishment of pilot areas, or innovation zones**, where the process of coordinating innovative solution and technology testing is facilitated, thereby accelerating the commercialization of smart mobility solutions, increasing the capacity of local companies to create export solutions, and creating an attractive environment for foreign technology innovation companies.

It is planned that the key outcome of support provided will be an increase of the competitiveness of Latvian companies by promoting the creation and introduction of products and services with high added value in production, thereby increasing the productivity of Latvian entrepreneurs, the economic growth of the country and the well-being of the society. It is planned to step up public and private investments in the development and deployment of innovation, ensuring access to investment throughout the R&I cycle, and to strengthen cooperation between research organizations, businesses, including start-ups and SOEs and the creation of competitive products, services, and processes for the public sector. Economic awareness will be raised about the need to invest in R&I and to look for and implement innovation opportunities within their scope, including by informing the public about the opportunities and the role of innovation and global value chains in economic growth.