



## **Weekly Briefing**

### **Latvia economy briefing:**

### **Is Latvia a growing European innovator? Achievements and challenges for the Latvian society in innovation promotion**

**Nina Linde**


#### **China-CEE Institute**

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Chen Xin

Kiadásért felelős személy: Huang Ping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 [office@china-cee.eu](mailto:office@china-cee.eu)

 [china-cee.eu](http://china-cee.eu)

## **Is Latvia a growing European innovator? Achievements and challenges for the Latvian society in innovation promotion**

The European Commission's European Innovation Rating 2020 Scoreboard, published by the European Commission, has recognised Latvia's progress in promoting innovation. Latvia has the second highest performance in business activity among the European Union countries, thus more than twice exceeding the European Union average.<sup>1</sup> In 2019, Latvia was ranked 23rd in the competition of European Union Member States, stepping up by one place compared to the results of the 2018 survey, while maintaining its place in the group of “average innovators” whose performance in the field of innovation is between 50-95% of the European Union-27 average level.

In the recent year's innovation development has become an emerging priority of the Latvian economy in both mid-term and long-term period. In the Latvian economy innovation is seen as contributor to ensuring faster pace of economic and productivity growth. Because of that in the recent years more focus has been put on innovation implementation in various fields such as pilot projects and support programs, in fields of information and communication technologies, smart cities, biomedicine and others to strengthen the global competitiveness of the Latvian economy.

In comparison to the Year of 2018 Latvia has improved its achievements in seven out of ten categories that influence the European Innovation Rating. The representatives of the European Commission have especially recognised Latvia's achievements in three categories – finances and support, innovation impact on employment rates and entrepreneurial environment for innovation promotion. In comparison to the European Union's average levels, Latvia has received additional acknowledgement in entrepreneurship activity, growth of Gross Domestic Product and establishment of new enterprises.

One of the reasons why the Latvian innovation environment is emerging is the fact that in the recent years Latvian government has been developing policies that contribute to start-up and innovation promotion. Within the years the interest of Latvian government in start-up promotion has only increased, therefore there have been developed State supported programs to boost the development of start-up environment, therefore, the State aid is provided at various

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<sup>1</sup> <https://www.em.gov.lv/lv/jaunumi/28451-uznemejdarbibas-aktivitate-latvija-otra-augstaka-eiropa>

stages: from creating an idea and concept to development and expansion. Additionally, in the recent years the government of Latvia developed a Start-up Law, which supports a favourable tax regime for start-ups. The law foresees two benefit scenarios: 1) a special flat tax regime, currently 302 euros/month per employee, regardless of salary paid, combined with the 0% individual income tax rate, or 2) 45% co-financing for the highly qualified specialists.<sup>2</sup> Furthermore, star-up visa, is offered to all non-EU startup founders who are willing to come and develop their start-up ideas in Latvia. One start-up can have up to 5 founders with a start-up visa. The visa is given for the period of maximum 3 years and it is also issued to the spouse and children. To promote the star-up and innovation environment in Latvia there are also available multiple funds for founding start-ups.

The contribution of the European Union within the past years has transformed the perception of Latvia as emerging innovation European Union member. For example, experts from the Institute of Solid-State Physics department of Latvia are changing the way in which the field of solid-state physics is carried out and applied. Not only has it just been upgraded to advanced Centre of Excellence for education, research, innovation and technology in the Baltic States, but it is now becoming from only academic-basis focused research center to industry-oriented project creation center as well. Programs like European Commission's Horizon 2020 funding have boosted the creation of science-based innovative solutions for commercialization.

This year's European Innovation Rating marks that Latvia has improved multiple indicators, that serve as precondition for innovative and competitive entrepreneurship development. For example, entrepreneurial activity among the economically active population is 221% higher than the EU average.<sup>3</sup> Since the previous reporting year, investments in areas important for innovation have increased - public sector investments in research and development have increased by 18%, the amount of venture capital investments has increased by 24%. Furthermore, the share of companies in the Latvian economy that invest in employee training to improve information and communication skills has increased by 35%. The number of Latvian international patent applications has also experienced growth by 30% in 2019.

As for the shortcomings according to the European Innovation Rating Latvia still has the lowest rates of private investment in research and development, small and medium-sized enterprises that innovate internally, and the number of doctorate graduates, therefore the importance of continuing and developing measures to promote research, development and

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<sup>2</sup> <http://www.liaa.gov.lv/en/invest-latvia/start-up-ecosystem>

<sup>3</sup> [https://ec.europa.eu/growth/industry/policy/innovation/scoreboards\\_en](https://ec.europa.eu/growth/industry/policy/innovation/scoreboards_en)

innovation and thus improve these indicators is emphasized. According to the European Innovation Rating Latvia has the third lowest ranking regarding new doctorate graduates. The low number of doctoral degree holders in Latvia has been a major concern in the recent years. In 2018, the number of doctors registered in Latvia per 1000 people was the lowest in the European Union.<sup>4</sup> This has significantly affected and hindered the Latvian innovation segment. Additional data from Eurostat implies that the human resources in science and technology are also below the European Union average, which hinders major innovation promotion.<sup>5</sup>

To improve the educational sector regarding new doctorate graduates the Ministry of Education and Science developed new doctoral model – a doctoral motivation tool. It envisages a significant improvement in the quality of doctoral studies and the introduction of a new funding procedure, ensuring doctoral students a competitive salary during their studies, as well as the establishment of a unified promotion procedure. The concept envisages that a representative of the academic staff receives a salary during the development of the doctoral thesis, one part of which consists of EU funding (1000 euros), and the other part of the doctoral student's involvement in research and development projects in various programs, such as basic and applied research. in the research program, etc.<sup>6</sup>

The availability to human resources in fields of applied sciences and technology and engineering is seen to be as one of the biggest upcoming challenges in labor market and education field as it is foreseen that already in the Year of 2027 there could be shortcoming of highest qualification STEM specialists by 14 thousand.<sup>7</sup> However, a surplus is expected directly in higher-skilled workforce with education in the social sciences, business and humanities. By 2027, the surplus of labor force with higher education in the thematic fields of social sciences, business and humanities may increase to around 17 thousand. Because of the existing imbalance between the social sciences and STEM sciences regarding the human resources the potential development of innovation sector in Latvia is delayed.

Additional challenge for the Latvian society in regards of innovation promotion within the upcoming years will be the decrement of demographic indicators. The population of Latvia will continue to decline in the coming years, and the aging of the population will become much more pronounced. By 2027, the population could decrease by about 65 thousand, and by 2040

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<sup>4</sup> <https://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do>

<sup>5</sup> <https://ec.europa.eu/eurostat/databrowser/view/tsc00025/default/bar?lang=en>

<sup>6</sup> <https://www.izm.gov.lv/lv/aktualitates/4136-jaunais-doktoranturas-modelis-doktorantu-motivacijas-riks>

<sup>7</sup> <https://www.em.gov.lv/lv/jaunumi/28370-sagatavotas-latvijas-darba-tirgus-prognozes-lidz-2040-gadam>

- by almost 122 thousand, compared to the beginning of 2020. In total, in 2040, the population of Latvia could reach 1.79 million.<sup>8</sup> The most significant decrease in the population will be observed among the working age population. It is expected that the population aged 15-64 by 2027 could decrease by almost 90 thousand or more than 7%, which in general will also have a negative impact on the total labor supply. Within the years the shortcoming in labor supply could potentially slow down innovation promotion and development in Latvia.

## **Summary**

According to the European Innovation Rating Latvia has been ranked in the 23<sup>rd</sup> place in the European Union stepping up by one place compared to the previous survey. In all, Latvia has been ranked as a “average innovator” whose performance in the field of innovation is between 50-95% of the European Union -27 average level. The main advantages of Latvia in field of innovation promotion have been marked as finances and support, innovation impact on employment rates and entrepreneurial environment, which has been achieved by the recent policies in innovation and start-up promotion, such as Start-up Law, start-up visa, European Union support mechanisms and others. Latvia has showed an especially outstanding result in entrepreneurial activity since it has been marked as the second highest in the European Union and two times higher than the average in European Union countries. In addition, the number of Latvian international patent applications has also increased by 30%. Although Latvia has showed great improvements in field of innovation there is still a large space for improvement. Currently one of the biggest challenges for innovation promotion in Latvia have been identified low rates of private investment in research and development, small and medium-sized enterprises that innovate internally, and the number of doctoral graduates. The imbalance between workers in STEM field and social sciences and the decreasing number of populations in working age within the years could become as obstacles for fast-paced innovation promotion in Latvia.

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<sup>8</sup> <https://www.em.gov.lv/lv/jaunumi/28370-sagatavotas-latvijas-darba-tirgus-prognozes-lidz-2040-gadam>