

Private Sector Interaction in the Decision Making Processes of Public Research Policies

Country Profile:Latvia

1. Political, institutional and economic framework and important actors

Reforms accomplished by Latvia in recent years, EU accession and a stable macroeconomic environment have fuelled a continuous growth of the Latvian economy. However, this positive development started from a low initial base and GDP is still considerably below EU average. Latvia ranks also not only below average on the summary innovation index of the 2005 European Innovation Scoreboard (EIS), but it scores also low on EIS criteria compared to its neighbour countries Lithuania and Estonia. Latvia's R&D intensity has stagnated since 2001 around the 0.42% of GDP achieved in 2004 (For comparison: EU-25 average is 1.93% of GDP). The Private Sector funds 34% of total R&D expenditure, the public sector 46% and 20% come from abroad.¹

Latvia inherited a strong science and research tradition from the time of the USSR. Its traditional strengths are based on its R&D potential in a range of research fields and well-educated citizens. But Public Sector research capacity was (and remains today) concentrated in public research institutes without cultivating any demand for technology by the enterprise sector. Today, only a small fraction of total Government R&D spending is allocated on a competitive basis, with clear transparent rules of the game, peer review of applications, and a clearly defined link between goals, priorities and spending. Consequently, the European Trend Chart's *Annual Innovation Policy Trends and Appraisal Report Latvia 2004-2005* describes Latvia's research and innovation policy challenge as follows:

"The main innovation challenge currently faced by Latvia is to promote stronger business involvement in the innovative development of the country, thus ensuring a sizeable increase in business R&D expenditure. There is a need for efforts to increase the level of innovation activity in enterprises and to improve national capacities in transferring research results into innovation."

In the Latvian National Innovation System, several actors interact on several levels:

a. Political and governmental authorities

The *Parliament* of Latvia (Saeima) is the policy instigating body which approves the Government's Programme and defines the national research and innovation policy framework and its main objectives through the preparation and adoption of legislative acts. The parliamentary *Commission on Education, Culture and Science* decided recently to establish a *Futures Sub-Commission* to deal with the development of science and research in Latvia and the elaboration of a national strategic development plan in the field of science and application of new technologies.

The *Government* of the Republic of Latvia is the highest executive body for the preparation and implementation of research policies. The responsibilities related with research and innovation policy are shared between two ministries.

The *Ministry of Education and Science* has the central responsibility for the development and realisation of state policy in the area of science, research and education and for the education budget. Research related issues are dealt with by the ministry's Department of Higher Education and Science. The implementation of the Lisbon strategy has a high priority. Under the guidance of the European Affairs Bureau, a *Steering Group for the co-ordination of implementation of the Lisbon Strategy* has been formed on the initiative of the Ministry of Education and Science. This Steering group is responsible for preparing a comprehensive list of Latvia's priorities in the framework of the Lisbon Strategy. Its members include Private Sector representatives.

¹ Source: *Latvia: Toward a Knowledge Economy*, World Bank, 2004.

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The *Ministry of Economics* coordinates economic development policies and has the overall responsibility for elaboration and implementation of innovation policy. Its Innovation Division, hosted in the Industrial Department, is responsible for elaboration, co-ordination and implementation of legislation, policy documents/programmes/projects, funding system, and co-operation with other related governmental and non-governmental actors in the field of innovation-oriented policies.

Three advisory councils operate under the auspices of the Ministry of Economics. The *National Economy Council* is an advisory council of representatives of Latvian entrepreneurs, governmental institutions and non-governmental organisations revising and following the process of solving issues of prime importance for the development of the national economy, preparing suggestions and making permissive decisions on these issues along with forging a dialogue between entrepreneurs and the Ministry of Economics as well as with other public authorities and organisations. The *Latvian Council of Cooperation of SME's and Craftsmanship* consists of representatives of the legal entities representing SME's and businessmen. The *Advisory Board of Scientists* has recently been established at the Ministry of Economics in order to provide expertise on economic and innovation policies. One of the primary tasks of the board is the development of a dialogue between economic scientists and the Ministry. In addition to these councils, the *Experts Council* of the Ministry of Economics is an important R&D consultative institution consisting of the above mentioned National Economics Council and 19 Sector Expert Councils.

The *Steering Council of the National Programme for Innovation*, headed by the Minister of Economics, administrates the innovation processes in Latvia, promotes the development of the National Science and Innovation System and prepares proposals for the action plan of the National Programme on Innovation for the coming years.²

b. Intermediate bodies

Traditionally, the *Latvian Council of Science* plays a role as a semi-governmental decision-making and expert body. In close coordination with the Ministry of Education and Science, it prepares the draft of the Republic's science budget, makes conceptual proposals for science and technology policy in Latvia and defines priorities for the development of science and research areas. The council is a collegial body of researchers, which works through its expert commissions with responsibilities for advancement, evaluation, financing and coordination of scientific research in Latvia.

The *Latvian Academy of Sciences* facilitates research in basic and applied sciences, participates in the establishment of the Latvian science policy and advises the Government on scientific issues. Members of the Academy are elected prominent scientists. The Academy's collaboration with the Private Sector is based on formal mutual agreements.

The *Latvian Investment and Development Agency* (LIDA) is responsible for the administration of state support programmes, for attracting EU Structural Funds and for implementing a range of research and innovation policy measures. The *Latvian Guarantee Agency*, which operates under the auspices of the Ministry of Economics, LIDA and Chamber of Commerce and Industry, provides guarantees for starting businesses and for support and development of business activities.

c. Research performing institutions

Latvia's major research performers are the relatively autonomous public research institutions (universities, state research institutes and establishments). State research centres and re-

² According to the new provision issued by the Cabinet of Ministers on 17 November 2004, the Steering Council of the National Programme for Innovation includes representatives of the ministries of Economics, Finance, Education and Science, Regional Development and Local Government, Environment, Agriculture as well as the Latvian Academy of Sciences, Latvian Investment and Development Agency, Union of Local Governments, Information Society Office, Council of Higher Education, Economic Council and Association of technology parks, centres and business incubators of Latvia and the Free Trade Union Confederation of Latvia. It has to hold two meetings a year.

search institutes receive funding on the basis of their scientific merit, their productivity, their contribution to the social and economic sectors, and achievements in higher education and international collaboration.

A major problem is the lack of connection between academic research and the commercial sector. Researchers and academic institutions have few incentives to implement their innovations. Practically all research in universities is financed by state budget funds, which are allocated to universities as lump sums. This allocation system contributes to making university research unresponsive to industry demands.

Incubators, techno-parks and innovation centres are established increasingly to nurture start-up activities and to host research and development activities. Several policy measures target the intensification of collaborative research between universities, research institutes and Private Sector enterprises.

d. Private Sector

Due to the historical development, there is no long-standing tradition of business networking and of an organised Private Sector engagement in research policy making.

The business community is represented by the *Latvian Chamber of Commerce and Industry*, a non-governmental voluntary organisation of Latvian companies. It focuses on creating a favourable business environment, representing the economic interests of Latvian enterprises and on business promotion services.

The *Latvian Employers' Confederation* is the biggest organization representing employers' interests in the Government, Saeima and in negotiations with trade unions. It is the only employers' representative in the employment, education and social legislation process in Latvia, representing the interests of employers in a number of councils, including the sub-councils which act within the framework of *National Tripartite Cooperation Council (NTCC)*. It has recently undertaken some initiatives to help linking the scientific and business community, but has no dedicated committee or equivalent which focuses on such issues.

Several sectoral business associations (e.g. the *Latvian Electrical and Electronics Industry Association* or *Infobalt*) are active in the area research and innovation, but there is no overarching Private Sector association focusing on research and innovation. The creation of start-up companies as well as technology transfers and co-operation between research institutions and enterprises is promoted by the Latvian Technological Centre, Latvian Technology Park as well as Latvian Electrical Industry Business Innovation Centre.

2. National research policy decision processes and Private Sector involvement

Instigation and design stages

The instigation of research and innovation policies is a part of the competencies of the Latvian Parliament and Government. Regular hearings of the parliamentary committees which are responsible for research and innovation policy involve Private Sector representatives in policy debates. Although the regular interventions of the representatives of the Private Sector are not obligatory, they can informally influence the conclusions and recommendations of the committees.

Policy measures are primarily designed by Government officials on the basis of a partnership-oriented interaction process which involves key stakeholders and external experts. Some issues in designing certain programmes and/or measures are developed in consultation with Private Sector representatives. Thus, for example the elaboration of the National SME Development Programme involved negotiations with entrepreneurs and representatives from the Chamber of Trade and Commerce of Latvia. Specific research and innovation policy measures are prepared by the Innovation Division of the Ministry of Economics. These are discussed with the members of the Steering Council of the National Programme for Innovation which includes representatives of the Private Sector. Unfortunately, these discussions have not yet become a common practice, which is consequently applied. This can probably

be explained by the frequent reallocation of the responsibility for innovation policy to different ministers and resulting frequent changes in the chairmanship of the respective councils. Some research and innovation policy-related measures are developed by the Ministry of Education and Science (Science division) in consultation with the Latvian Council of Science.

Private Sector representatives are involved in many elements of the national research and innovation governance system. The Latvian Council of Science involves fourteen expert commissions from various fields of science and research, including representatives of the Private Sector. The Steering Council and the Advisory Board of Scientists, both at the Ministry of Economics, and the Group for the co-ordination of implementation of the Lisbon Strategy at the Ministry of Education and Science consist partially of Private Sector representatives, too. The Experts Council of the Ministry of Economy comprises representatives of the Latvian Chamber of Trade and Industry, the Latvian Employers Confederation, the Industry Confederation, the Latvian Free Trade Union Confederation and the Union of Local and Regional Governments of Latvia. The National Economy Council activities are nowadays mainly focussing on proposals received from entrepreneurs.

The creation of awareness and of a dialogue which involves all actors is supported by a large number of seminars and conferences. Nowadays, stakeholder participation is most visible. The main stakeholders involved in national debates on innovation include the University of Latvia, Riga Technical University, Latvian Technology Centre, Latvian Electrical Industry Business Innovation Centre, Latvian Academy of Science and Latvian Association for Electro-Technology and Electronics in Industry.

Implementation and assessment/revision stages

The ministries are also responsible for the implementation of research and innovation policies. They are the main initiators of research programmes and projects which are performed mostly by public research institutes. Each ministry creates the conditions and terms of reference for its projects and the Ministry of Education and Science finances them. In a complementary responsibility, the Ministry of Economy carries out the new National Programme for the development of SME's, which promotes the development of technological parks and business incubators, launched the Latvian Agency for the Development of SME's and created an R&D fund.

The main funding of the research system goes through the Latvian Council of Science. Grants for research projects as the main form of funding are allocated on a competitive basis. There is an ongoing state support for market-orientated research projects performed by institutes, laboratories and for practical research by companies as well as activities enhancing knowledge-based production and development of modern technologies. This includes state funding for innovation activities.³ In a series of interviews with private operators and government officials, a lack of well-established, stable companies which are able to perform R&D activities, the lack of coordination between partners and the absence of government support for training programs and R&D expenses were identified as the major barriers.

Only a limited number of Private Sector enterprises are directly involved in R&D activities in Latvia, because only one-third of the firms (about 120 enterprises) have developed a minimum level of internal R&D capacity. By far most research and innovative activities take place in larger firms (more than four times more likely to innovate than small or medium size enterprises). However, several successful examples have evolved already. For example, Siemens has developed two regional centres of excellence for microwave data transmission and indoor networking solutions.⁴

³ On average 80-90 market-orientated research contracts which receive around ten percent of the science budget are signed on an annual basis with universities, scientific institutes and private companies on co-funding basis. These are considered to be the most innovative initiatives in Latvia for the promotion of science-intensive entrepreneurship.

⁴ Source: *Foreign Investment Advisory Service Survey*, published in *Latvia: Toward a Knowledge Economy*, World Bank, 2004.

So far, research and innovation policy measures are not subject to systematic evaluations. Appraisals are undertaken only in selected cases, mainly to fulfil requirements of the European Commission or of other external research sponsors whose procedures require monitoring and auditing.⁵ But the use and availability of evaluations and their findings for improving research and innovation policies is increasing. Related to this, more documents produced by the government, ministries and commissions are published. The most recent example related to innovation policy is the publication of the conclusions of the Latvian Steering Council of the Lisbon Strategy on the website of the Ministry of Foreign Affairs.

Several evaluations of Latvian research and innovation policy were carried out by Private Sector actors. One of those was carried out by the Latvian company BDO Invest, mainly with the aim to assess the situation of innovation policy in Latvia prior to the elaboration of the National Programme for Innovation. However, the involvement of the Private Sector in the revision stage of R&D policy is not yet established on a regular basis.

Observations: Possible barriers and current initiatives

The Government of Latvia emphasises the need to create an environment which is favourable for innovations and conducive to co-operation between research and Private Sector enterprises. In the last two to three years, considerable progress has been achieved in terms of a more efficient policy co-ordination through the establishment of a range of new governance structures in charge of this task (e.g. the Innovation Division and the Steering Council of the National Programme on Innovation). In addition to this, dialogue- and negotiation-based processes involve stakeholders increasingly. Such discussions range from various events organised either upon individual or collective initiatives of governmental and/or external bodies to issue-oriented in-depth debates.

3. Other important examples of policy decisions with Private Sector involvement

Regional innovation systems and policies

One of Latvia's greatest R&D policy drawbacks has been a serious lack of government stimulation for regional development. There is a considerable gap between the capital and the regions, indicated by development indicators comparing for example Riga and less advanced regions (Latgola⁶). Although the situation is slowly changing with support from the EU, activities in the regions are still far from being developed.

There is no particular focus or specific rules for regional activities with regard to research, technology, development and innovation, but rather on economic development and entrepreneurship in general (e.g. Regional Development Law; Free (special) economic zones).⁷

Research policies of research organizations

The Latvian Research centres and organisations are beginning to act as lobbyists. The *Latvian Association of Technological Parks, Centres and Business Incubators* (LTICA) attempts to unite the efforts of experts with the aim of making an impact on various governmental and

⁵ Any evaluation of the innovation policy mix is therefore rather fragmented and limited, except for some external evaluations carried out e.g. by the World Bank and European Commission (Innovation Trend Chart, Scoreboard etc.), brief assessments published by the Ministry of Economics within their biannual reports on the Economic Development of Latvia and own-initiative studies carried out by other institutions.

⁶ The Business Innovation centre of the Latvian Electronic Industry (LEBIC) – in co-operation with regional universities (Daugavpils University, Rezekne Higher Education Institution) and the Regional Enterprise support centres (in Daugavpils, Liepaja, Madona), from Latvian side, and The Business & Innovation Centre Noord-Nederland (Netherlands) and The Emilia Romagna Technological Development Agency (ASTER)(Italy), from the EU side – has developed a project which aims to develop commercial activities in the Latgola region.

⁷ One of the key goals of the National Development Plan (2003-2006) includes regional development by decreasing and eliminating the unfavourable regional differences and supporting the favourable regional disparity. Balanced regional development is also set as one of the goals in the Sustainable Development Baselines for Latvia.

non-governmental institutions, and organisations by explaining the economic and social background of business support structures and by influencing the state R&D policies.⁸

4. Overview: Types and extent of Private Sector involvement

Most Private Sector involvement takes place in an informal way:

- Several forms of *networking, general dialogue and informal involvement* are used to maintain a general exchange of views with the Private Sector. A somewhat new turn in the overall innovation policy development and its orientation has been marked in March 2004 by the formation of a new Government interested in a growing range and frequency of various discussions, meetings, workshops, seminars and conferences devoted to innovation-related issues and involving various stakeholders.

In March 2004, a discussion *Co-operation of the State, entrepreneurs and scientists in the implementation of the National programme on innovation: Problems and solutions* took place and was organised by the Nordic Industrial Park in co-operation with the Latvian Association of Technology Parks/Centres and Business Incubators. Issues such as actual cooperation between entrepreneurs and scientists and the role of the state in the technological modernisation were also considered. In September 2004 an annual conference 'Baltic Dynamics – Innovations and development of Knowledge-based entrepreneurship' was held in Riga that provided an opportunity to learn more about the needs of the business sector and to receive feedback from the private community.

- An important part of Private Sector involvement takes place through an *advisory role* without participation in research policy decisions. Most prominent examples for this type of involvement are advisory boards for research policy formulation and scientific advisory boards of research institutions.
- *Formal involvement* is presumed by several programmes on innovation. The Law on Scientific Activity and especially the new "National Programme on Innovation" mention more intensive co-operation of science institutions and Private Sector. However, there is no explicit mention of a potentially possible membership of Private Sector representatives in supervisory boards of public research institutions or in the advisory boards for research policy formulation.
- *Joint activities* between the Public and the Private Sector can be observed in the joint funding of research projects as well as in the establishment of the S&T parks and innovation centres where the co-founder position is held by the Private Sector.⁹ In July 2004, an agreement protocol on further collaboration was signed by the Ministry of Economy, the National Economy Council and 11 sectoral expert councils. This initiative was undertaken in order to enhance business R&D in Latvia, to achieve professional representation of sectoral interests and to promote more efficient co-operation between the Ministry, councils and business associations.
- *Staff interaction* as a way to enhance mutual understanding and involvement of Private Sector expertise in Public Sector research decision making is only gradually developed in Latvia. Centres, such as the Innovation Relay Centre, Latvia's Electronic Industry Business Innovation Centre, Fellow Member to the Innovation Relay Centres, and others have been established to encourage the mobility of students, researchers and teachers and to provide general information on R&D.
- *Proactive involvement* is driven especially by business associations. Their activities aim particularly at instigation and design of research policy measures with a potentially high impact on Private Sector R&D and innovation activities.
- *Research funding* is used increasingly, but still not sufficiently by individual large companies to stimulate research in public research institutions. Private Sector foundations do

⁸ See Chapter 5.2 on page 7 for details.

⁹ For example Latvia Technology Park (LTP), see Chapter 5.2 for details.

not yet play an important role in the stimulation and support of research in Public Sector institutions.

5. Selected useful examples of transferable approaches and experiences

Lithuania's national research policy and governance system is still under construction. However, several approaches have already emerged which may be of interest especially for countries with comparable challenges.

5.1 National Programme on Innovation

The National Innovation Concept as a predecessor of the National Innovation Programme was supposed to define guidelines for the creation of an innovation culture and a society open to innovation and to provide proposals for necessary amendments or drafts of new legislation. It pointed already out the importance of a free dialogue which has to be stimulated and facilitated between researchers, businesses, government and institutions involved in the promotion of research and innovation and in the diffusion of research knowledge and of results created through research.

The National Programme on Innovation¹⁰ (NPI), which was initiated also by the Private Sector, was elaborated by 16 representatives from ministries, universities, public organisations, the Private Sector and the Patent office. NPI defines the National Research and Innovation System as 'a set of measures initiated by institutions of the government, society and the Private Sector to promote implementation, facilitation, creation, accumulation and exchange of new knowledge, which is necessary for the productive development of society'. To achieve the above mentioned objectives, these measures and projects should include mainly the creation of an institution which coordinates the research and innovation system, promotes industry-initiated research projects, develops an innovation support network and infrastructure (e.g. technology parks and centres), promotes the foundation and the development of new innovative enterprises, increases the number of research projects financed or co-financed by the Private Sector and promotes the cooperation activities between Government, Public Sector research institutions and the Private Sector.

According to NPI, in the process of consensus building, an active dialogue should be established with entrepreneurs, industry associations, small and medium enterprises, universities, research centres, local governments, decision makers on regional development and development agencies, international partners and local coordinators of the EU Programmes oriented towards the development of R&D policies and partnership networks.

The Strategy and Action Plan (for 2005-2010) of the NPI, prepared with the participation of Private Sector representatives, includes measures for the promotion of international cooperation of scientists and entrepreneurs as well as promotion of effective links between industrial, educational and research sectors. The Ministry of Economy is responsible for the administration and implementation of the NPI which is currently in the implementation phase.

5.2 Science and Technology Parks, Innovation Centres and Competence Centres

In order to promote increased competitiveness between the research and development sector and the integration of other business sectors, the Latvian Development Agency in cooperation with the University of Latvia, Riga Technical University and Riga Stradins University, has initiated a project on Science and Technological Parks, Innovation Centres and other similar institutions.

¹⁰ In December 2003, the European Commission approved the Development Plan of Latvia for 2004-2006, which officially became the Single Programming Document as of 1 May 2004. The second out of five priorities is directly related to the National Programme on Innovation and is directed towards the promotion of entrepreneurship and innovation envisaging the following measures: promotion of applied research, innovations and technology transfer in enterprises; development of business infrastructure; strengthening SME business support efforts; SME access to funding; advancement of public research.

Latvian Technology Centre (LTC), established in 1993, was originally a 'guinea pig' for the development of innovation and technology oriented SME support structures in Latvia. LTC is a non-profit limited liability company initiated and financed by public organisations, such as ministries and municipalities. LTC is located in a scientific area of Riga, with scientific institutes of electronics, energetics and chemistry located in this part of town. One of the main objectives of LTC is to facilitate co-operation between science and industry and to create permanent contacts between scientific laboratories and industry. LTC also houses the Innovation Relay Centre (IRC) LATVIA, which is a joint European Commission - Latvian project. IRC LATVIA is a full member of the European Innovation Relay Centre Network for the promotion and support of international co-operation in technology transfer and innovation.

*Latvia Technology Park (LTP)*¹¹ is a non-profit organisation founded in 1996. The aim of the LTP is to promote the commercialisation of science through modern technologies and by developing and supporting SME's, mainly through the incubation of the technology commerce. The founders and members of LTP are the Riga Technical University, the Riga City Council, the State companies, the Latvian Development Agency, the Latvian Privatisation Agency, as well as the Chamber of Trade and Industry of Latvia and several Private Sector enterprises. The Ministry of Education and Science, the Ministry of Economy and the Ministry of Environment and Regional Development of Latvia support LTP. The Business Innovation Centre of LTP (BIC) is one of the main parts of LTP structure. BIC constantly provides manufacturers, scientific institutes, industrial enterprises and other local or international institutions with information about participation opportunities in different projects.

With the support of EU programmes, five *Centres of Excellence*¹² have been formed in scientific institutes and universities of Latvia with co-operation between research and companies set as one precondition for their formation. Latvian Electronic Industry Business Innovation Centre (LEBIC) is aimed to promote commercialisation of science through modern technologies and by developing and supporting SME's, mainly through the incubation of technology commerce. It currently consists of 28 businesses.

These and other related organisations are members of the *Latvian Association of Technological Parks, Centres and Business Incubators (LTICA)*, which attempts to unite the efforts of experts and to create an impact on various governmental, non-governmental institutions and organisations by elucidating the economic and social background of business support structures. The first activities of the LTICA were to create contacts with particular Government bodies (e.g., the Ministry of Education and Science, the Ministry of Economy, the Ministry of Environment and Regional Development), with the Latvian Development Agency, the Agency of Privatisation and with the Private Sector.

The *Baltic Association of Science/Technology Parks and Innovation Centres (BASTIC)* unites institutions in Latvia, Lithuania and Estonia in one organisation linking representatives of national associations and innovative business support structures. BASTIC develops contacts with governmental bodies responsible for the development of SME's and for R&D policy in the respective member countries.

Fellow Member to the Innovation Relay Centres (FEMIRC) integrates specialists from Latvian research and industry into the European R&D context. The Centre has created and developed a structure which informs society at large about European R&D activities and stimulates technology distribution and transactional co-operation. FEMIRC working in cooperation with governmental institutions provides access to information about European R&D programmes and R&D results for companies, educational and research institutes.

¹¹ LTP possesses a developed scientific potential in chemistry and biology, mechanics and engineering, electrical engineering, computer science, energy and electronics. There are essential developments at LTP in vibro-technology, laser, cluster, membrane and ion plasma technologies as well as electric transport.

¹² These centres include the Institute of Solid State Physics (University of Latvia), Latvian State Institute of Wood Chemistry, Institute of Physics (University of Latvia), Institute of Atomic Physics and Spectroscopy (University of Latvia), Institute of Materials and Structures (Riga Technical University).

5.3 Development of innovative industrial clusters

Since 2000, Latvian industrial policy has increasingly focused on industrial clusters as an instrument to enhance industrial competitiveness, to deliver focused State support and to organise a dialogue between the State and the industry in the R&D area.

The Project *Support to Industrial Cluster Restructuring*, funded by the EU's Phare programme is considered as the first successful cluster development initiative in Latvia. The aim of the project was to raise the competitiveness of Latvian industry by popularising the concept of clusters and providing consultative support to individual potential clusters.¹³ One of the objectives of the project was to look for possible co-operation with enterprises of other sectors and research institutions, which in the future could potentially become the basis for the creation of new innovative products.

On the strategic policy level, the *Long Term Economic Strategy* published in May 2001, and the *National Innovation Programme 2003-2006* both recognise the importance of enterprise clusters. The Latvian Development agency (LDA), a non-profit state joint stock company, stipulates in its action plan for 2005 the development of the enterprise clusters, too.

Until now, there has been no specific evaluation of cluster-oriented activities in Latvia.

5.4 Law on Scientific Activity and Taxation Policy

Provisions in the Law on Scientific Activity, adopted on 10 May 2001, foster co-operation between the scientific community and public authorities and thus initiate further co-operation between Private and Public bodies concerned with innovative developments. Apparently, this law intends also to raise awareness of the general public, to involve those concerned by R&D and to promote clustering and co-operation for innovation also through joint private and public co-financing.

A conviction that the development of innovation activities could be promoted via a targeted fiscal policy, starting with tax credits for innovative SME's persists in the business and scientific community of Latvia¹⁴. To qualify for such tax benefits, the investor's investment plan should be accepted by the Government in the case of continuing innovation and R&D activities of the enterprise.

¹³ Numerous areas of business activity were analysed in the initial phase of the project implementation, identifying fields, where Latvia has good prospects for the development of enterprise clusters. Four potential enterprise clusters were chosen for further consultative support, which, according to the type of basic activity, may be grouped in the following clusters - information systems cluster, forest cluster, composite materials cluster and engineering cluster.

¹⁴ At the same time, experts of the World Bank suggest avoiding to take such a route.

Appendix 1: Overview of identified instruments for Private Sector involvement and their use in Latvia

Instrument		Intensity of use	Initiated by	Used for	Used in				Examples and remarks
					Instigation	Design	Implement.	Review	
General dialogue	Insight studies, road mapping, foresight	Frequent	Both sides	Awareness, identification of emerging technologies & trends	✓				
	Conferences	Occasional	Public Sector	Discussion platform	✓				Conf. Baltic Dynamics
	Brainstorming / task forces	Occasional	Public Sector	Identification of priorities and possible policy actions	✓				
Informal decision involvement	Evaluation studies	Not common	Public Sector	Programme review, identification of policy need					
	Advisory groups	Regular	Public Sector	Participation in design, evaluation, etc.	✓	✓	✓		National Programme on Innovation
	Informal consultations	Frequent	Public Sector	Exchange of viewpoints between stakeholders	✓	✓	✓	✓	
	Formal consultations	Frequent	Public Sector	“Official” opinion	✓	✓	✓	✓	
Formal decision involvement	Task force	Beginning to use	Public Sector	Joint policy development		✓	✓		
	Participation in decision making bodies (observer status)	Not common	Public Sector	Decision involvement					
	Participation in decision making bodies with (co-) decision right	Not common	Public Sector	Decision involvement, shared responsibility					
	Administrative / supervisory boards	Beginning to use	Public Sector	Private Sector representatives involved in important institutional decisions		✓	✓		Steering Group
Joint activities	Initiation of networks	Frequent	Public Sector	Stimulation of joint Public-Private Sector initiatives			✓		Innovation Centres
	Co-financing of projects / programmes	Occasional	Both sides	Sharing of cost / risks			✓		
	Public Private Partnership	Not common	Both sides	Pooling of resources					
Staff interaction	(Temporary) Staff exchange	Beginning to use	Both sides	Enhance mutual understanding and mobility			✓		
	Staff mobility	Not common	Public Sector	Public Sector expertise in research leadership positions					
Unsolicited contributions	Statements, studies, white papers, etc.	Not common	Private Sector	Express views, recommend changes, influence decisions					
	Dialogue platforms	Beginning to use	Private Sector	Initiate / facilitate dialogue with public sector	✓	✓			
	Research funding	Occasional	Private Sector	Initiate / support research in desired areas			✓		

Table 1: Overview of instruments used for Private Sector involvement

Appendix 2: Selected relevant sources and literature

1. General and country information

European Commission (DG Enterprise), *Innovation Policy Profile: Latvia*, 2003

European Commission (DG Enterprise), Trend Chart on Innovation, *Annual Innovation Policy Trends and Appraisal Report Latvia 2004-2005*

Latvian Parliament, *Law on Scientific Activity*, adopted on 10 May 2001

Government of Lithuania, *National Programme on Innovation (2003-2006)*

United Nations (Economic Commission for Europe), *Latvia. Towards a knowledge-based economy*, 2003

Government of Lithuania, *National Employment Plan*, 2005

2. Important actors

http://www.saeima.lv	National Parliament (Saeima)
http://www.mk.gov.lv	Government of Lithuania
http://www.izm.gov.lv	Ministry of Education and Science
http://www.em.gov.lv	Ministry of Economy
http://www.lzp.lv	Latvian Council of Science
http://www.lza.lv	Latvian Academy of Sciences
http://www.aip.lv	Council of Higher Education
http://www.chamber.lv	Latvian Chamber of Commerce and Industry
http://www.liaa.gov.lv	Latvian Investment and Development Agency
http://www.scanbalt.org/sw99.asp	ScanBalt

3. Other information

http://www.innovation.lv	Innovation Portal
http://www.rtu.lv/www_ltp/ltp.htm	Latvian Technological Park
http://www.innovation.lv/ltc	Latvian Technological Centre
http://www.lebic.lv	Latvian Electronic Industry Business Innovation Centre
http://www.edi.lv/ltc/femirc.htm	Fellow Member to the Innovation Relay Centres
http://www.innovation.lv/LTICA.htm	Latvian Association of Technological Parks, Centres and Business Incubators
http://www.innovation.lv/BASTIC.htm	Baltic Association of S&T Parks and Innovation Centres
http://www.industrial-park.lv	Nordic Industrial Park
http://www.csb.lv	Central Statistical Bureau of Latvia

4. Further information and feedback

This country profile has been prepared by Dr. Michael Siman. For further information and feedback, please contact the responsible author under siman@flaw.uniba.sk