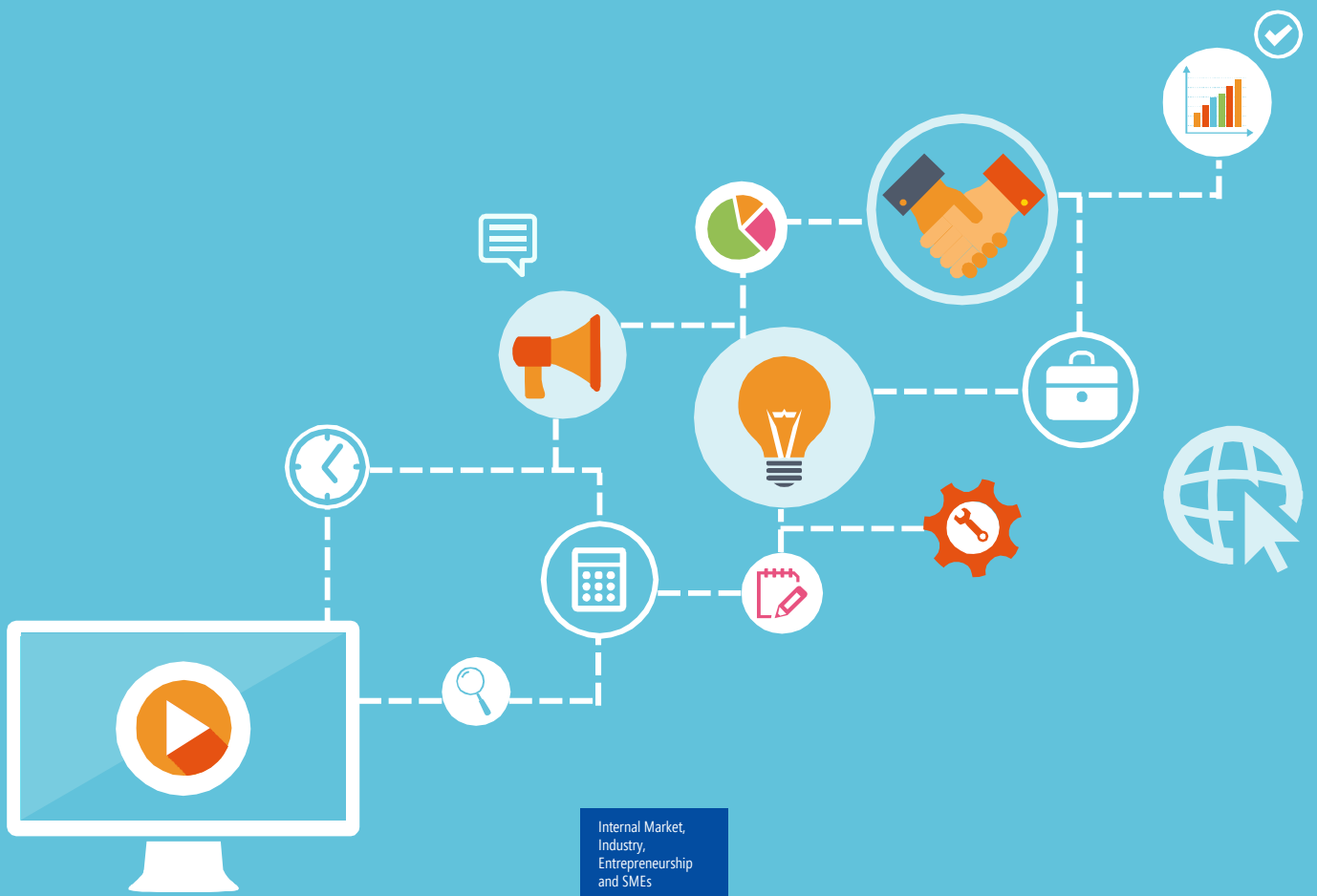




Digital Transformation Monitor

# Latvia: "National Industrial Policy Guidelines 2014-2020"

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# Latvia: “National Industrial Policy Guidelines 2014-2020”

## Fact box for the National Industrial Policy Guidelines 2014-2020

 <b>Policy Lever(s)</b>	Bottom-up initiative; financed by the public and private sector; focus on infrastructure development as well as on training the workforce.
 <b>Funding Model</b>	The financing of the activities set up in the NPI is ensured by both, the public and private sector despite initial hesitation from the private sector to invest
 <b>Target audience(s)</b>	This broad initiative will influence the national industry, managers, employees, students, clusters, etc.
 <b>Concepts &amp; Focus Areas</b>	The six directions of the initiative will focus on workforce and education, industrial development, financing, innovation fostering, export stimulation, and reduction of energy costs
 <b>Key drivers</b>	The Ministry of Economy, together with other ministries (e.g. the Ministry of Environmental Protection and Regional Development or the Ministry of Education and Science)
 <b>Key barriers</b>	Some of the key barriers that were identified are the potential rapid increase of labour costs, the relatively low degree of business culture and insufficient innovation performance of the country
 <b>Results achieved</b>	While the related support programmes established in the NPI are operational, the NPI only established expected outcomes
 <b>Budget</b>	Public funds (EU and national) amount to more than €6 billion for 2014-2020, while private financing (no details available) is expected to continue growing
 <b>Uniqueness factor</b>	Long term evaluation and analysis of the economic and industrial needs of the country
 <b>Value-added for policy-makers</b>	Micro level analysis of the industry became a fundamental part of policy makers’ learning and understanding of the state of play
 <b>Expected Impact</b>	Structural economic changes will favour a higher added value production of goods and services by increasing the role of a more modernised industry and expanding exports

Source: Digital Transformation Monitor

## Executive summary

The economic crisis proved that the Latvian economic model –mainly based on internal demand– was not sustainable. For that reason, action was taken to support the transition towards a more sustainable economy: An export focus paired with increased attraction of capital to be more competitive in both internal and external markets were the basis of this new model. In this context, the need to revise the different national policies arose, specifically regarding the national industry.

Even if Latvia does not have a specific strategy for digitising industry in place, the National Industrial Policy Guidelines 2014-2020<sup>1</sup> (NPI) aim to promote structural economic changes that favour a higher added value production of goods and services. This is to be achieved by increasing the role of a more modernised industry and by expanding exports.

This bottom-up initiative is financed by both public and private sectors and focuses on six key areas: improve education systems and skills of the workforce, encourage industrial development, increase financing, foster innovation, stimulate exports and reduce energy costs. Regarding its implementation, three main areas of activity or targets were identified: the elimination of market failures, the development of particular sectors and the exploitation of existing regional strengths.

## Digital Latvia

Latvia is part of the group of EU countries that are catching up regarding their digital transformation

according to the European Digital Transformation Scoreboard 2017.

In the context of digital transformation, Latvian companies are adopting different technologies to enhance productivity, such as sharing internal information electronically or using RFID, e-Invoicing, social media and cloud. However, enterprises are exploiting technologies in a limited way, according to the Digital Economy and Society Index 2017. In that regard, Latvia ranks 25<sup>th</sup> (26<sup>th</sup> last year) in the dimension 'Integration of Digital Technology by businesses'; in other words, efforts still need to be made allowing Latvia to catch up with the performance of EU countries.<sup>2</sup>

## The path to a modern industrial policy

The Ministry of the Economy presented the NPI in 2012. This plan - closely linked to other policies such as the 2030 Sustainable Development Strategy, the Programme for the implementation of the EU Strategy 2020 or the National Development Plan 2014-2020 - builds on the latest scientific developments (e.g. the concept of new industrial policy developed by Harvard economy professors Rodrik and Hausmann). Based on these theories, a new approach for industrial policy was established with the following key directions aiming to transform the national economy:

- 1) Align the supply of the workforce and education to the needs of economic development;
- 2) Boost manufacturing in industrialised areas;
- 3) Improve the availability of

- 2) financing;
- 3) Promoting an open, creative and innovative environment;
- 4) Stimulate exports;
- 5) Reduce energy costs.

In addition, the NPI has specific targets to be achieved by 2020:

- the proportion of the manufacturing industry shall reach 20% of GDP (it was 17.4% in 2016);
- the increase of the manufacturing sector productivity shall reach 40% in comparison to 2011 (22% in 2016);
- the increase of the manufacturing industry shall reach 60% in comparison to 2011 (in 2016, it was 29%);
- R&D investments shall reach 1,5% of the GDP (1,1% in 2016).

*"In the next three years Latvia's economy will grow by more than 3% every year."<sup>4</sup>*

**Dana Reizniece-Ozola,**  
Finance Minister

## Mixed financing, bottom-up driven

The financing of the activities set up in the NPI is ensured by both, the public and the private sector despite initial hesitation of the private sector to invest. Whereas the private sector has invested €9 million, public funds mainly stem from the European Structural and Investment Fund (€5,6 billion), the European Regional Development Fund (the ERDF) (€16,7 million), and the 'Promote training of employees' scheme (€7,7 million). For "ICT and non-technological training"

### Policy levers for the National Industrial Policy Guidelines 2014-2020



Source: Digital Transformation Monitor

activities, the ERDF contributes another €2,7 million, whereas the private sector provides €0,7 million.<sup>3</sup>

The financing is not only intended for the development of technological infrastructures, but also for the improvement of technical skills of the workforce.

Last but not least, the NPI can be classified as a bottom-up initiative as the government, in particular the National Economic Council, is steering the initiative while relying on expert inputs from industry.

### Three main targets

Three main targets were identified in the NPI: 1) the elimination of market failures and the improvement of competitiveness, 2) the development of particular sectors, and 3) the activation of regional advantages.

To achieve the goals established in the first area – the elimination of market failures and improvement of competitiveness -, administrative burdens will be reduced and client-oriented public administrations will be enhanced. On the other hand, employment and innovation will be promoted – e.g. creation of an effective framework for collaboration among scientists and entrepreneurs – the tax system will be reviewed, and managerial skills will be developed especially in state enterprises.

Secondly, specific sectors - among others nanostructured materials, biopharmacy, organic chemistry, and smart technologies in engineering and ICT according to the Smart Specialisation Strategy - will be developed. Moreover, existing support mechanisms will be improved, guaranteeing the access to finance all interested stakeholders. What is more, measures to attract foreign direct investment will be created, ensuring support for entering foreign markets with higher added value exports at the same time. Finally, a modern cluster policy will be developed.

Moreover, a study of the different Latvian regions will be carried out to identify regional comparative advantages. In addition, regional support instruments will be set up to

promote infrastructure development and knowledge transfer in the regions. Finally, a series of barriers and obstacles that could endanger the accomplishment of these goals were identified:

- Limited access to finance due to creditors and investors’ risk perception.
- Rise in labour costs and in prices.
- Low productivity of the manufacturing sector, as well as a weak innovation performance.
- Emergence of new business models at national and international level.
- Demographic situation characterised by a drop in the working-age population.

### Guiding the industry towards modernisation

As industrial policy is related to a wide plethora of fields, the institutional model for the implementation of the initiative could count on the collaboration of the Ministry of Environmental Protection and Regional Development, the Ministry of Education and Science and entrepreneurs’ associations.

For ensuring the abovementioned dialogue (‘Dialogue 2.0’), the National Economic Council, set up by the Ministry of Economy, the Latvian Chamber of Commerce and Industry, the Employers’ Confederation of Latvia

the Free Trade Union Confederation of Latvia and the Latvian Association of Local and Regional Governments, will operate as a collegial supervisory authority, for instance, by developing an annual report on the NIP implementation progress.

As the main driver of the initiative, the Ministry of Economy, identified six steps in the implementation strategy:

1. Evaluation of the existing resources (e.g. human resources, production capacity, etc.).
2. Identification of the most export-oriented niches and corresponding products with high added value potential.
3. Comprehensive analysis of the manufacturing sector to identify skills, product focus, strategies, shortages, bottlenecks, etc.
4. Dialogue with companies through interviews and multiple discussions with industry associations.
5. Internal (self-appraisal) and external evaluation of current support instruments.
6. Elaboration of effective support instruments.

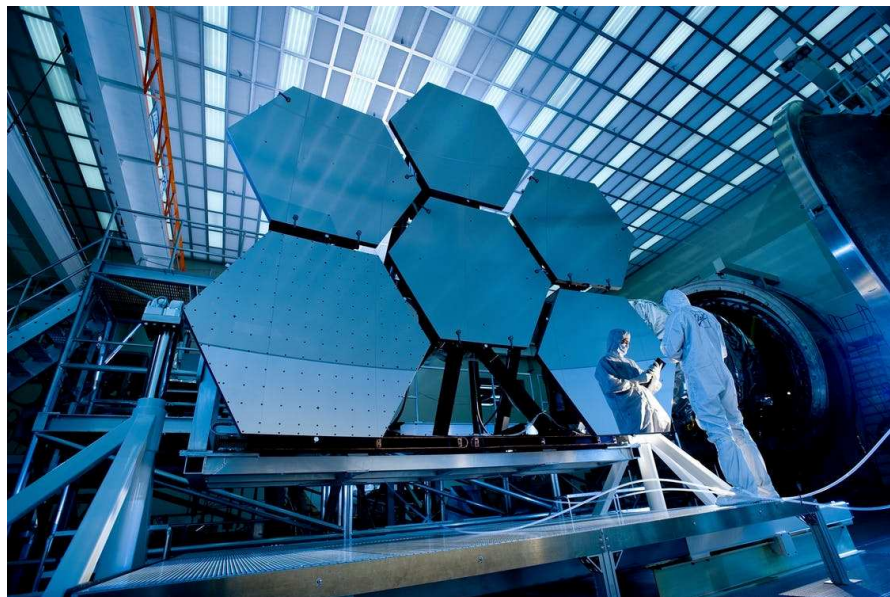
### Expected results

Annex IV of the NPI establishes the expected results of the implementation of the initiative per activity:

SWOT Matrix for the National Industrial Policy Guidelines 2014-2020	
<p style="text-align: center;"><b>Strength</b></p> <ul style="list-style-type: none"> <li>• Well developed communication and IT infrastructure in industrial centres</li> <li>• Ability to adapt to specific market needs</li> </ul>	<p style="text-align: center;"><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Poorly developed business culture and capital market</li> <li>• Poorly developed clusters and insufficient innovation performance</li> </ul>
<p style="text-align: center;"><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Improve regional capacity in attracting productive investments</li> <li>• Stimulation of technology transfer and innovation by focusing on cost / risk reduction</li> </ul>	<p style="text-align: center;"><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Political instability and possible changes in global currency systems</li> <li>• Possible rapid increase in labour costs</li> </ul>

Source: Digital Transformation Monitor

1. Managerial training of 10,500 employees by 2020; development of a proposal for the training of industry specialists; increase the number of modernised higher education programmes; and implementation of a pilot project of the dual system (apprenticeship) in at least one manufacturing industry.
- 2) By 2020, an increase in the amount of business surface to 874 ha. and the creation of 730 new jobs are expected.
- 3) Financial support to 45 companies to foster their growth; and to 700 enterprises through loan guarantees by 2020. Moreover, a new Law on Corporate Income Tax will be adopted.
- 4) By 2020, the government expects to support 400 development projects of new products and technologies, to create 6 competence centres, 40 research collaboration projects, 50 industrial research projects, 10 scientific infrastructure development projects and 150 creative industry enterprises. In addition, 350 researchers will have received technology transfer services, and 500 new enterprises will have received incubation services. The implementation of 100 partnership projects is equally foreseen. In 2016, the government achieved two objectives: support the development and introduction of products or technology: 70 and 15, respectively.
- 5) Support 1000 individual projects for participation in expositions; support to 900 Latvian companies for entering foreign markets; and support 5 clusters. All of the results are expected by 2020.
- 6) Audit the Mandatory Procurement Component support mechanism to reduce its total burden on electricity consumers; and support 135 companies that reduce their consumption of energy resources by 2020.



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The expected outcomes and activities will be analysed in a mid-term evaluation which is expected to be published in the first trimester of 2018.

### Policy lessons learned

The Latvian Ministry of Economy had the preconceived idea that different industrial sectors – textile, automotive, agricultural, etc. - face issues of their own. Following the same line of thought, they assumed that the different Latvian regions would also have different issues. Although there are specific problems for each sector and region, a thorough analysis carried out during the first implementation phases of the NPI proved that the majority of sectors and regions are facing very similar problems. In other words, thanks to the micro level analysis of industry, policy makers were able to gain a better understanding of the Latvian state of play in digitisation.

On the other hand, the Government realised that the assessment of the technological needs of Latvian companies was inaccurate, although one of the main goals of the NPI was the provision of new technological solutions. Indeed, the Government targeted this goal without a prior assessment of the state of play related to the technological solutions that had already been provided by Latvian companies.

### References

- <sup>1</sup> National Industrial Policy Guidelines 2014-2020: [https://www.em.gov.lv/files/uznemejdarbiba/finl\\_en.pdf](https://www.em.gov.lv/files/uznemejdarbiba/finl_en.pdf)
- <sup>2</sup> Digital scoreboard – Latvia: <https://ec.europa.eu/digital-single-market/en/scoreboard/latvia>
- <sup>3</sup> Digital scoreboard 2016: [https://ec.europa.eu/futurium/en/system/files/ged/latvia\\_211117.pdf](https://ec.europa.eu/futurium/en/system/files/ged/latvia_211117.pdf)
- <sup>4</sup> <http://www.latviannews.lv/business/11474/>

## About the Digital Transformation Monitor

The Digital Transformation Monitor aims to foster the knowledge base on the state of play and evolution of digital transformation in Europe. The site provides a monitoring mechanism to examine key trends in digital transformation. It offers a unique insight into statistics and initiatives to support digital transformation, as well as reports on key industrial and technological opportunities, challenges and policy initiatives related to digital transformation.

Web page: <https://ec.europa.eu/growth/tools-databases/dem/>

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