



JRC SCIENCE FOR POLICY REPORT

# RIO Country Report 2017: Latvia

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## Summary

Gross Expenditure on R&D in 2016 in Latvia decreased quite significantly both in absolute terms and relative to GDP (from 0.63% in 2015 to 0.44% of GDP in 2016). As R&D investment in Latvia is very strongly dependent on EU funding, this drop can be explained by the downturn in the EU funding cycle but also because the government did not increase national funding as it was planned in the STDI policy guidelines. The share of high-tech firms in the economy is small and the private sector's demand for R&D activities is therefore low. Although tax incentives for R&D investment exist, the take-up has been low. In the context of the recent reform of the tax system, the current R&D tax incentive will be replaced by a zero tax regime on re-invested profits.

## Challenges for R&I policy-making in Latvia

***Insufficient supply of human capital for science and innovation:*** this relates not only to the number of people, but also to the relevance of their knowledge. The main public policy initiatives related to this challenge are the introduction of performance-related components in higher education financing and study programme licensing and accreditation. In addition, in 2017 the Ministry of Education and Science initiated steps to ensure that the development of higher education and science is in line with industry needs. Mandatory state exams in natural sciences were also introduced.

***Fragmented public research and education system:*** a high level of fragmentation exists both in terms of the high number of institutions and their geographical dispersion. The most notable policy response to this challenge has been the consolidation process of the Latvian higher education system through base financing allocation. In 2017, the process continued by closing one HEI – Riga Teacher Training and Educational Management Academy which became part of University of Latvia. However, further consolidations are not envisaged in the near future.

***Lack of demand-side policy measures for the creation and stimulation of markets:*** Demand-side innovation promotion instruments such as public procurement for innovation and pre-commercial procurement are largely absent in Latvia, which significantly influences innovation performance of both the public and the private sector. Recent amendments to the Law of Public Procurement made it easier to involve external evaluation experts and decreased the level of bureaucratic costs of R&I performers.

***Limited effectiveness and efficiency of the RD&I funding system:*** insufficient funding, lack of trust between stakeholders (agencies, scientists and universities), low risk tolerance of the agencies managing EU funding schemes and the practice of excessive programme framing and reporting requirements for R&D performers limit further efficiency improvements in RD&I funding. Some programmes (e.g. *Competence Centres*) have already been reformed by delegating part of project selection and evaluation to competence centres themselves, which by design are managed by industry leaders. In addition, the managing authorities are adopting a new approach to risk management by requesting only a fraction of the documents for review.

## Main general policy developments in 2017

- [The Law on Support of Start-up Activity](#) entered into force aiming to create a tax regime that will stimulate the growth of innovative Latvian start-ups by introducing favourable income and social taxation of highly qualified employees.

- [A tax reform package](#) consisting of 11 regulatory reform proposals was adopted, including introducing a progressive personal income tax, increasing the minimum wage and amending the corporate income tax by applying no taxes to reinvested profits.
- *Implementation of a new [national support measure "Portfolio guarantees"](#) aiming to improve access to finance for SMEs, support the creation of new enterprises and the expansion of existing ones.*

### **Smart Specialisation Strategy Monitoring and Implementation**

According to the Smart Specialisation Strategy Monitoring System Report (2014), the RIS3 monitoring system in Latvia revolves around three monitoring levels: the overall goals of the specialisation strategy, macro- and micro-level indicators. It was designed in such a way so that it would be more likely to capture the broad scope of the potential impact of public investment in science, technology development and innovation.

In February 2017, the government decided not to dedicate a separate budget for the RIS3 monitoring system (as was initially planned in 2015) arguing that the financing for the Smart Specialization monitoring system and related activities is included in various EU Structural Funds support programmes.

There is one main EU Structural Funds Programmes for Research and Innovation for the period of 2014-2020 that is directly targeted at promotion of RIS3 fields (total budget of €115.3m). In addition, many other state budget and EU funds financed programmes, aimed at RIS3 facilitation, contribute to achieving RIS3 micro level indicators. However, the planned outcome indicators (e.g. investment in R&D as a percentage of GDP, private sector investments in R&D, the number of R&D personnel) may not be achieved by the current policy mix indicating a need for a revision of incentives created by the programmes.

The first RIS3 monitoring report has been published in 2017. Three indicators were concluded to have improved in the informative report: the number of papers published in international databases, the proportion of population (aged 30-34 years) having higher education and the smaller number of state financed scientific institutions (due to the consolidation process). Most of the indicators related to RIS3 goals, however, showed either slight improvements and were assigned a "steady" status, or decreased.

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