



# BusDEV - Business Development Opportunities at External EU Borders

Targeted Analysis

## **Annex I** **Stakeholder territory** **report Latgale, Latvia**

15/02/2021

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#### **Authors**

Sandra Spūle, Sabine Zillmer (Spatial Foresight, Luxembourg)  
Aleksandrs Antonovs (Latvia)

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**ESPON EGTC:** Zintis Hermansons (Project expert) and Johannes Kiersch (Financial expert)

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**BusDEV - Business  
Development Opportunities at  
External EU Borders**

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## Abbreviations

|            |   |
|------------|---|
| ALTUM      | State-owned Development Finance Institution   |
| CAP        | Common Agriculture Policy   |
| CBC        | Cross-border Cooperation  |
| CDFI       | Community development financial institution   |
| CF         | Cohesion Fund   |
| CLLD       | Community Lead Local Development  |
| CSB        | Central Statistical Bureau of Latvia  |
| DEGURBA    | Degree of urbanisation  |
| DU         | Daugavpils University   |
| EAFRD      | European Agricultural Fund for Rural Development  |
| EC         | European Commission   |
| EMFF       | European Maritime and Fisheries Fund  |
| EQI        | European Quality of Government Index  |
| ESF        | European Social Fund  |
| ESIF       | European Structural and Investment Funds (ERDF, ESF, EARD, EMFF, CF)                    |
| ESPON      | European Territorial Observatory Network  |
| ESPON EGTC | ESPON European Grouping of Territorial Cooperation                                      |
| ERDF       | European Regional Development Fund  |
| EU         | European Union  |
| GVA        | Gross Value Added   |
| ITI        | Integrated territorial investments  |
| LAG        | Local Action Group  |
| LAU        | Local Administrative Unit   |
| LCCI       | Latvian Chamber of Commerce and Industry  |
| LDZ        | Latvian Railway Company   |
| LIAA       | Latvian Investment and Development Agency   |
| LPR        | Latgale Planning Region   |
| LUC        | Latgale Business Centre   |
| MEPRD      | Ministry of Environmental Protection and Regional Development of the Republic of Latvia |
| NACE       | Nomenclature of Economic Activities   |
| NGA        | Next generation access  |
| NIP        | Guidelines of National Industrial Policy of Latvia 2014-2020                            |
| NUTS       | Nomenclature of Territorial Units for Statistics  |
| PISA       | Programme for International Student Assessment  |
| RAIM       | Regional development indicators module, Latvia  |
| RCI        | Regional Competitiveness Index  |
| RES        | Renewable energy resources  |
| RIS3       | Smart Specialisation Strategy   |
| RIT        | Resident income tax   |
| RRF        | Resilience and Recovery Facility  |
| RRS        | Rural Support Service   |
| RTA        | Rēzekne Academy of Technology   |
| SEA        | State Employment Agency   |
| SEZ        | Special economic zone   |
| SOE        | State owned enterprise  |
| TDI        | Territory development index   |



## Introduction

This report presents findings of the ESPON Targeted Analysis 'Business Development Opportunities at External EU Borders' in one of its three stakeholder territories – Latgale, Latvia. It captures the existing business environment and assesses effectiveness and territorial effects of business support mechanisms in the area during the European Structural and Investment Funds (ESIF) programming period 2014-2020.

Latgale is one of four rural regions in Latvia. It has its own characteristics including a backwardness determined by its peripheral location and distinct historic background. Amid the overall grim picture this analysis highlights regional strengths and potential that should be targeted by future business support policies.

A special focus is on the proximity to the EU external border and the two countries that the regions borders with – Russia and Belarus – with the potential this could entail. However, for various reasons presented in this report, not much cross-border business interactions were identified.

Chapter 1 discloses the regional potential and 'entrepreneurship ecosystem' through analysis of both 'location' (sub-chapter 1.1) and 'beyond location' aspects (sub-chapter 1.2), which is task 1 of this analysis.

The 'location' analysis is a comparative study of regional advantages made by defining locational endowments in sub-chapters - human 1.1.1, locational 1.1.2 and physical 1.1.3 The endowments have been benchmarked against the national average or a region not on an EU external border, providing an extra-regional comparison. In sub-chapter 1.1.4 the border reality has been analysed under four dimensions. For Latgale the border reality check was against two borders and the bordering countries – Russia and Belarus.

Sub-chapter 1.3 assesses the territorial effects of developments in the region within the last five years. This sub-chapter includes a comparison between the 21 municipalities, where possible distinguishing between urban and rural ones. This analysis provides further input for task 2.

Chapter 2 elaborates on business support policies and measures available in the region during the present programming period 2014-2020. The chapter starts with an overview of business support in sub-chapter 2.1. In sub-chapter 2.2 business policies at EU, national and regional levels are noted. Sub-chapter 2.3 elaborates on the analytical findings for the relevance and effectiveness of business support measures.

Conclusions are listed at the end of each of the chapters - 1.4 and 2.4.

Findings relevant to disclosing the overall territorial capital and relevant business determinants in the territory have been summarised in the Territorial capital matrix in Chapter 3. Developing the matrix involved identifying interactions between strengths and weaknesses, as well as opportunities and threats in the territory and specific territorial keys. This enables general socio-economic findings to be attributed to regional, national, cross-border and EU territorial levels.

The Territorial capital matrix was used to design proposals for future business support in task 3. It also outlined regional territorial strategy building process for the framework of territorial strategies which is documented separately. The outcome of task 3 for Latgale is embedded in the recommendations of the Chapter 4.

The analysis is based on many indicators and much data. Unless mentioned otherwise data from the Central Statistical Bureau (CSB) of Latvia has been used. Where possible CSB metadata were applied.

Elaboration of this targeted analysis coincided with the worldwide COVID-19 pandemic and lockdowns in the involved countries from mid-March to end 2020 with a slight easing in Latvia in the summer of 2020. Overall, the COVID-19 pandemic did not have a considerable impact on the planned analytical work for the experts in Latgale apart from the fact that most of the interviews which were held online instead of in person. This, however, did not negatively affect the scope and quality of the data. On the contrary, it enabled far more people to be contacted resulting in more data.

The COVID-19 pandemic could have a far-reaching impact on development in the territories that is impossible to assess at the moment. In the first three quarters of 2020 Latvia experienced a drop in GDP of at least 5.6% which will definitely leave a yet unpredictable impact on the region. Moreover, the pandemic is far from over.

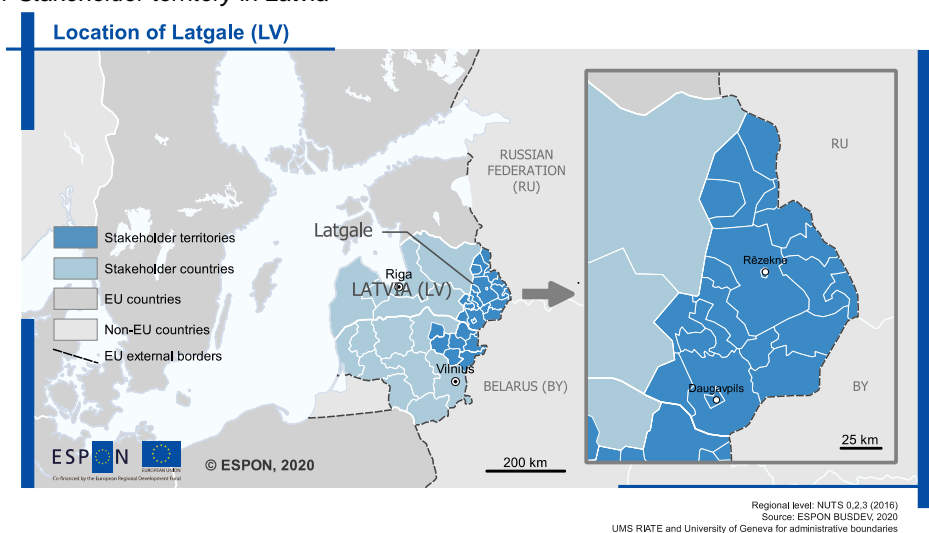
# 1 Regional potential and the ‘entrepreneurship ecosystem’

## 1.1 Analysis of the ‘location’ aspect

Latgale is the most eastern region in Latvia. Its terrestrial external border has a total length of 387 km, of which 214 km are with the Russian Federation and 173 km with the Republic of Belarus. The EU internal border is only 91.5 km with the neighbouring Lithuania.

Latgale is one of five regions in Latvia<sup>1</sup>. With a total land area of 14 550 km<sup>2</sup> it covers about 1/5 of the country. It is one of six Latvian NUTS 3 regions (LV005)<sup>2</sup>. The stakeholder territory is comprised of 21 local authorities, two of which are its major urban centres – Daugavpils and Rēzekne. Daugavpils lies 225 km south-east from the capital city of Rīga and just 30 km from the Republic of Belarus border, while Rēzekne is 238 km east of Rīga and approximately 50 km from the border with the Russian Federation. The other 19 municipalities are predominantly rural.

Map 1.1 Stakeholder territory in Latvia



Source: Consortium, 2020

### 1.1.1 Human capital

#### Population

In 2019 Latgale had a **population** of 260,226 which was 14% or 1/7 of the 1.9 million people in the country. In Latvia 52% of the population resides in and around the capital city of Rīga (NUTS3=LV006 (Rīga) and NUTS3=LV007 (Pierīga)). Latgale has the most inhabitants of the four rural regions.

Since 2004, when Latvia joined the EU, outward migration has caused a decrease in the Latgale population of almost 100,000 inhabitants or 28%. Between 2009 and 2018 average annual **net migration per 1,000 inhabitants** in the region was -12, while in the country as a whole it was

<sup>1</sup> There are four historic rural regions in Latvia. The fifth is the capital city of Rīga.

<sup>2</sup> For statistics Rīga is split into two NUTS 3 regions - Rīga (LV006) and its surrounding area Pierīga (LV007).

-8. All regions except Pierīga, around the capital city of Rīga, have experienced population decline.

At the national level, between 2008 and 2017, about 260,000 people left the country, equivalent to the current population of Latgale. The emigration flow peaked in 2009 and 2010 when nearly 2% of the population left each year. In 2017 more than 80% of emigrants were of working age, and more than half were between 20 and 39<sup>3</sup> (OECD, 2019b).

At the beginning of 2019 Latgale had a **population density** of 18 people per km<sup>2</sup>, the 2<sup>nd</sup> lowest in the country among the regions. The national average population density was 30 per km<sup>2</sup>.

60% of Latgale inhabitants live in an **urban area**. In the country overall, the urban population is 68%. These ratios have been stable for at least the last five years.

The **dependency ratio** in Latgale at the beginning of 2019 was 55, i.e. there were 55 persons not of working age (aged 0-14 and 65+ and over) per 100 working age people. It is the lowest ratio among the regions of Latvia. The dependency ratio is steadily increasing in the country as well as in Latgale. During the last 11 years, the dependency ratio in Latvia has increased from 47 to 57, while in Latgale it has increased from 49 to 55.

## Education

Over the last ten years, the levels of educational in Latgale in the 25-64 age group has changed with more people having **tertiary education** and fewer people with **very low levels of education**. See, Table 1.1. At the same time **vocational and general secondary education** attainment has also dropped.

Table 1.1 Share of people by levels of education for 25-64 year-olds, %

| LEVEL OF EDUCATION                           | LATGALE |      | RĪGA |      | LATVIA |      |
|--|---------|------|------|------|--------|------|
|  | 2010    | 2019 | 2010 | 2019 | 2010   | 2019 |
| Tertiary education                           | 15.5    | 23   | 32.4 | 40.7 | 22.6   | 31.4 |
| Vocational education                         | 37.4    | 35   | 29.4 | 24   | 31.5   | 27.6 |
| General secondary education                  | 26.1    | 24   | 25.2 | 26.2 | 26.4   | 26   |
| Basic education or less than basic education | 21      | 18   | 13   | 9.1  | 19.5   | 15   |

Source: CSB

Compared to the other three regions of Latvia (excluding the capital region), Latgale is more or less on a par for tertiary educational attainment in 2019, while considerably lagging behind Rīga and its surroundings. It is presumed that some of these changes, for example, a drop in the ratio of people with the general secondary education, is a direct result of emigration. It is likely that more people with lower than tertiary education have emigrated from the region.

<sup>3</sup> <http://www.oecd.org/economy/surveys/latvia-2019-OECD-economic-survey-overview.pdf>

## Tertiary education

There are three regional **establishments of higher education** in Latgale – the University of Daugavpils and Rēzekne Academy of Technology. These play a vital role in development providing important added value to the regional economy. Thanks to the ESIF, the establishments are well equipped and provide high-quality education and scientific work options for students as well as enterprises and other cooperation partners.

The U-Multirank<sup>4</sup> recent assessment, based on data from 2015-2017, rates the profile of an institution across various indicators. Daugavpils University was assessed with 5 'A' (very good) scores overall, while Rēzekne Academy of Technology has 7 'A's. Regional engagement of the institutions is seen as satisfactory. The share of graduates working in the region is above 75%. Several businesses are established annually by graduates of these schools. Both also have a considerable international orientation with students and academic staff actively taking part in EU projects, including ERASMUS.

**Daugavpils University** was founded in 1921 and has five faculties: (1) Education and Management, (2) Natural Sciences and Mathematics, (3) Humanities, (4) Social Science and (5) Music and Arts<sup>5</sup>. During the 2018/2019 academic year the university had 2 514<sup>6</sup> students of which 476 were graduates. 80% of students study in state-funded programmes.

There is regular co-operation with big enterprises in the region as well as other places in Latvia. SMEs, however, are less active, though there are good examples of graduate companies in the region. Representatives of the educational establishments point to the complex national bureaucratic procedures that do not always enable a flexible response to regional labour market demand.

Daugavpils University finds synergy in cooperating with counterparts from Belarus in various cross-border co-operation projects as well as other means of knowledge exchange. For example, a Belarus-Latvia Material Surface Reinforcement Centre has been established with the Belarus National Technical University. Here Belarus scientists benefit from high-tech laboratory equipment in Daugavpils as well as academic freedom and possibilities for international publication. At the same time Daugavpils University benefits from building on the specific academic knowledge of the Belarus scientists.

**Rēzekne Technology Academy** is a comparatively small public university founded in 1993. It has three faculties: (1) Education, Languages and Design, (2) Engineering and (3) Economy and Management<sup>7</sup>. During the 2019/2020 academic year there were 1 632<sup>8</sup> students studying

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4

<https://www.umultirank.org/compare?trackType=compare&sightMode=undefined&mode=likewithlike&section=compareRanking&institutionalField=true&pref-4=1&pref-4=2&country=26&name=null> , last accessed 10 June, 2020

<sup>5</sup> <https://du.lv/en/> (last accessed 21 March 2020)

<sup>6</sup> Review on higher education in Latvia, Main Statistics, Ministry of Education and Science of the Republic of Latvia, 2018 (available at [https://www.izm.gov.lv/images/statistika/augst\\_izgl/Augstakas\\_izglitiba\\_LV\\_parskats\\_2018.pdf](https://www.izm.gov.lv/images/statistika/augst_izgl/Augstakas_izglitiba_LV_parskats_2018.pdf))

<sup>7</sup> <https://www.rta.lv/en/> (last accessed March 21, 2020)

<sup>8</sup> Review on the higher education in Latvia, Main Statistics, Ministry of Education and Science of the Republic of Latvia, 2018

at Rēzekne Academy of Technology of which 277 were graduates. 70% of students study in state-funded programmes.

Being a regional tertiary education establishment Rēzekne Academy of Technology tries to respond flexibly to the demands of the regional labour market, offering 1<sup>st</sup> level educational study programmes<sup>9</sup>. For example, Rēzekne Academy of Technology has a branch in Līvāni to serve local entrepreneurs. Approximately 100 students can work and acquire skills demanded by local entrepreneurs, i.e., IT, metal processing and construction.

There is also good co-operation with regional enterprises. Research is being done for them in mechatronics, laser technology and food technology.

### **Vocational education**

In the 2018/2019 academic year there were **13 vocational education schools** in the stakeholder territory with 4 463 students<sup>10</sup>. Of these, three schools are for music and arts under the Ministry of Culture and three count as establishments of higher education or colleges – the State Border Guard College in Rēzekne, Malnava College and Medicine College at Daugavpils University. Altogether four vocational education establishments (three in Daugavpils and one in Rēzekne) are subordinate to the Ministry of Education and Science (MES), one to the Ministry of Interior while the remaining three have been handed to the local municipalities of Ilūkste, Balvi and Daugavpils town. Streamlining the education system foresees only five vocational education establishments in the region. Three professional competence centres and a few specialised schools are also planned.

The schools under the municipalities and MES presently offer the following:

- the State Border Guard College<sup>11</sup> is a higher education institution under the Ministry of the Interior providing the first-level professional higher professional education
- Malnava College provides vocational and 1<sup>st</sup> level tertiary education training in agricultural and entrepreneurial skills
- Bebrene vocational education school in Ilūkste offers veterinary, catering and tourism training
- In Balvi there are education programmes in entrepreneurship, wood-processing, sewing, construction, childcare and basic cosmetology
- Four schools in Daugavpils offer vocational education programs in medicine, construction, trade and mechanics, including railway technicians, etc.
- One school in Rēzekne offers a wide range of skills including programming, Horeca, electricians, food technology and wood processing.

### **Labour market**

In 2019 there were 152,270 **people of working age** (15-64) in Latgale or 62% of the region's population. The ratio is approximately the same everywhere in Latvia and has been decreasing slightly since 2010 from an average of 65%.

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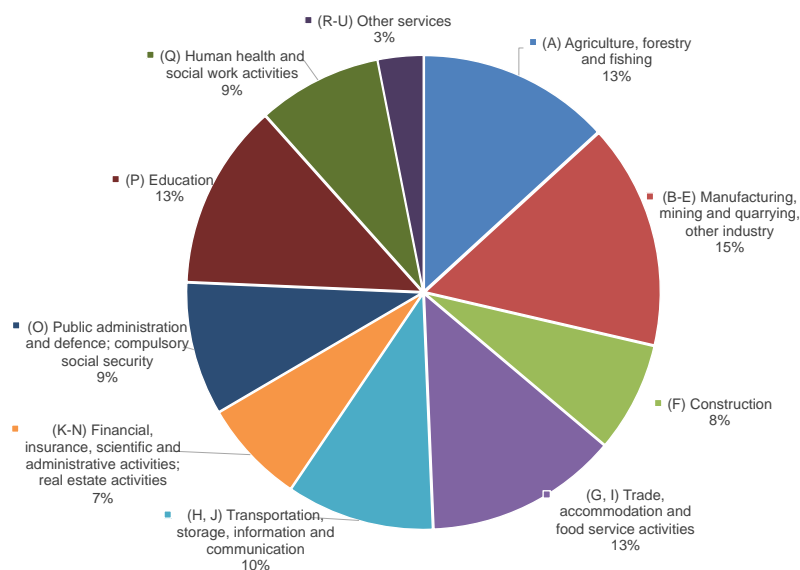
<sup>9</sup> 2-years of studies, not yet bachelor

<sup>10</sup> <https://izm.gov.lv/lv/publikacijas-un-statistika/statistika-par-izglitiba/statistika-par-profesionalo-izglitiba/2018-2019-m-g-3>

<sup>11</sup> <http://www.vrk.rs.gov.lv/main.php?valoda=en>

In 2019 CSB counts 107 800 **employed persons** in Latgale. Most employment by NACE<sup>12</sup> sectors are in manufacturing (B-E) with 15%, followed by agriculture (A) and trade, accommodation and food service activities (G, I) at 13% each, see Figure 1.1 below. The next sectors are education (P), transportation, information and communication (H, J) and public administration (O) with on average 10% each. All of these three sectors face risks of employment reduction - education and public administration due to ongoing reforms, while transportation sector in general is experiencing a significant decline.

Figure 1.1 Employment in Latgale by NACE sectors, 2019



Source: CSB

According to State Employment Agency (SEA) data<sup>13</sup> in the spring of 2020 the **unemployment rate**<sup>14</sup> in Latgale was 14.5%. It is the highest in the country followed by 7.7% in the region of Kurzeme. The national average in 2019 was 6.8% while in the Rīga region unemployment was 4.9%. Part of the decline can be attributed to outward migration. COVID-19 has also impacted the labour market, which is currently difficult to assess, however in June 2020 unemployment in Latgale was already 16%, against 8.6% nationally.

The share of **long-term unemployed** in Latgale in the spring of 2020 was 47%, which is more than twice the nearby region of Vidzeme with the 2<sup>nd</sup> largest share of long-term unemployed – 20%. On average 20% of registered unemployment in the country is long term, while in the Rīga region it is only 5%.

Considerable unemployment in Latgale does not mean there is a sufficient labour force. Local authorities point out that part of the unemployed, especially the long-term unemployed do not

<sup>12</sup> <http://www.export.gov.il/files/EEN/ListNACEcodes.pdf>

<sup>13</sup> Review on the Unemployment Situation in the Country (December), State Employment Agency, Rīga, March 2020 (available at [https://www.nva.gov.lv/sites/nva/files/content/270720/parskats-par-bezdarba-situaciju\\_marts\\_2020.pdf](https://www.nva.gov.lv/sites/nva/files/content/270720/parskats-par-bezdarba-situaciju_marts_2020.pdf))

<sup>14</sup> Share of unemployed persons in the population aged 15-64 (in %).

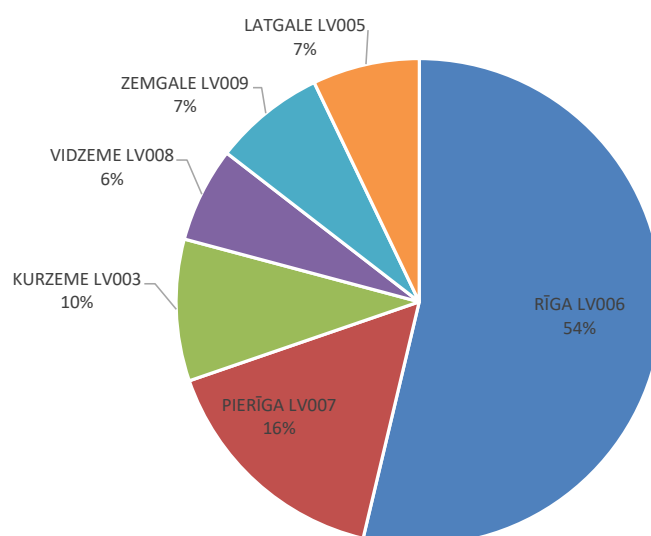
match labour market demands and have little motivation to reintegrate. Most are of pre-retirement age and it is unlikely they could be retrained.

Opinions among businesses on the suitability of the labour force is contradictory. Some businesspeople say a lack of labour is an impediment to their business development. At the same time business representatives admit that labour can be found given adequate payment and, if necessary, also trained in the educational establishments.

## Economy

The share of the stakeholder territory in the national **GDP** in 2017 was 7%, within the 6-10% range of the other four rural regions.

Figure 1.2 Share of Latgale in national GDP, 2017, %



Source: CSB

The **GDP per capita** in Latgale in 2017 was EUR 7 164, which is 52% of the national average (EUR 13 805) and 32% of the capital city, Rīga (EUR 22 458). The GDP per capita in Latgale in 2017 was the lowest in the country and the 2<sup>nd</sup> lowest in the EU among NUTS3 regions.

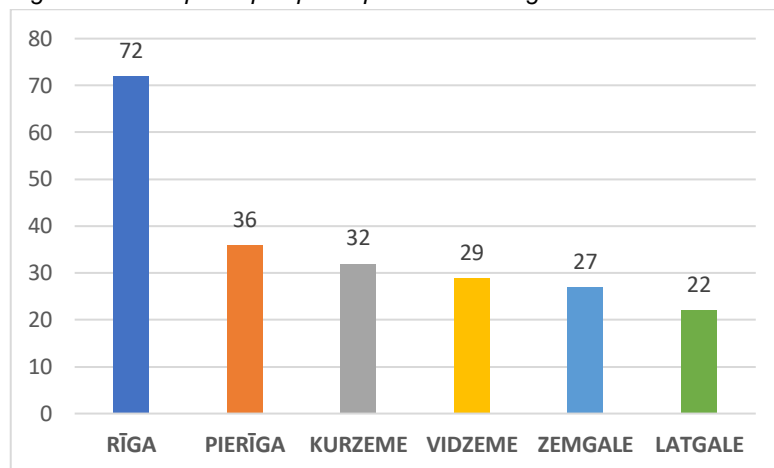
Over the last five years (2013-2017) GDP per capita in Latgale has an average annual growth of 3.8%, which is a little below the national average of 4.4%, but slightly behind the national 'front-runners' – Pierīga (5.2%) and Vidzeme (5.9%). Since the 2008 economic crisis (2009-2017) national GDP grew by 4% annually.

According to the OECD: 'Latvia remains the country with the 3<sup>rd</sup> highest regional economic disparities among 30 OECD countries with comparable data.'<sup>15</sup> The country is obviously developing at different speeds with regions outside the capital city and its surrounding region considerably lagging behind. See, also Figure 1.3.

<sup>15</sup> <https://www.oecd.org/cfe/LATVIA-Regions-and-Cities-2018.pdf>



Figure 1.3 GDP per capita per capita in Latvia regions as % of the EU average (not in PPP), 2017



Source: CSB

In 2017 Latgale had the lowest **value added at factor cost per employed person** compared to the other regions with EUR 10 800 being 59% of the national average (EUR18 256) and 52% of Rīga (EUR 20 841)<sup>16</sup>. Nonetheless, there are a few industries where Latgale stands out in terms of value added per employed person, for example:

- B – Mining and quarrying – EUR 33 033
- C26 - Manufacture of computer, electronic and optical products - EUR 28 086
- C27 - Manufacture of electrical equipment - EUR 31 237
- C28 - Manufacture of machinery and equipment - EUR 19 797

Presently there are few enterprises in the above industries, i.e., 32 in March 2020<sup>17</sup> with comparatively little employment (1,652 in 2017). Overall, the region is trapped with low technology / low value-added business activity.

### Business activity

Approximately **700 new enterprises** are registered in Latgale **annually**. In 2018, there were 18 107 **economically active market sector enterprises** in Latgale or circa 10% of the 175 578 businesses in Latvia. In Latgale that makes 69 enterprises per 1,000 inhabitants, which is an increase from 62 in 2008. At the same time there are 91 business units per 1 000 inhabitants in Latvia, which is 32% more than in Latgale.

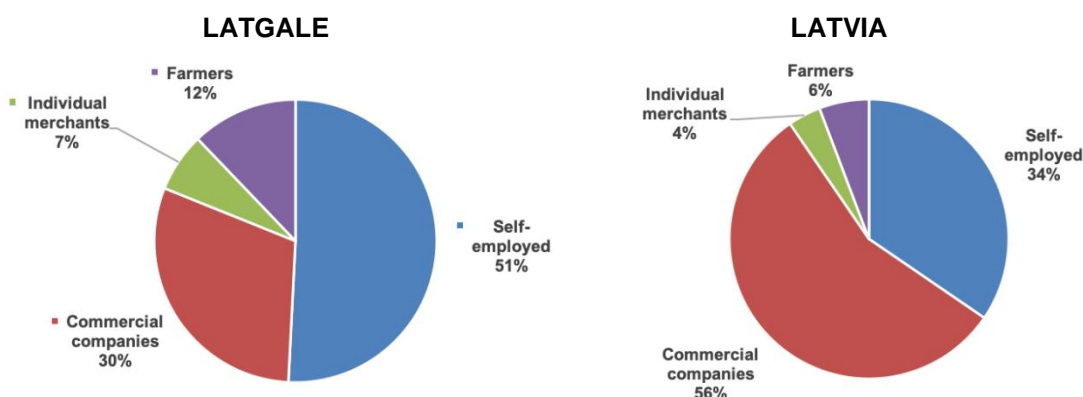
These statistics distinguish between four types of entrepreneurship: (1) self-employed persons, (2) farmers, (3) individual merchants (*individuālie komersanti*) and (4) commercial companies.

The **share of self-employed** in Latgale in 2017 was 51%, while the **share of commercial companies** was at 30%. This is almost the opposite of the national average which is 34% self-employed and 55% commercial companies. Overall, it seems that outside Rīga there are more self-employed than commercial companies. This can point to the considerable entrepreneurial spirit of people in the regions, probably due to a lack of employment opportunities.

<sup>16</sup> NACE (B-J\_L-N\_S95)

<sup>17</sup> Data from the Register of Companies via Lursoft, Ltd. On 3 844 enterprises (commercial companies and individual merchants) in Latgale in NACE sectors B to M and S.95

Figure 1.4 Share of different types of economically active market sector enterprises in Latgale and Latvia, 2018, %



Source: CSB

In 2018, **per 1 000 inhabitants the active business units** in Latgale were:

- 1) **35 self-employed per 1 000 inhabitants**, which is the 3<sup>rd</sup> highest among the regions after Vidzeme (40) and Kurzeme (37). The national average was 31.
- 2) **25 enterprises per 1 000 inhabitants**<sup>18</sup> is the lowest rate in the country. The national average is 50 with the highest being 84 in the Rīga region. The three other predominantly rural regions of Latvia have on average 30 enterprises per 1 000 inhabitants.

In 2018, 95% of local business units in Latgale employed **0-9 employees**. Altogether, only 11 enterprises in the stakeholder territory have more than **250 employees** while in Latvia overall there are 250 such enterprises.

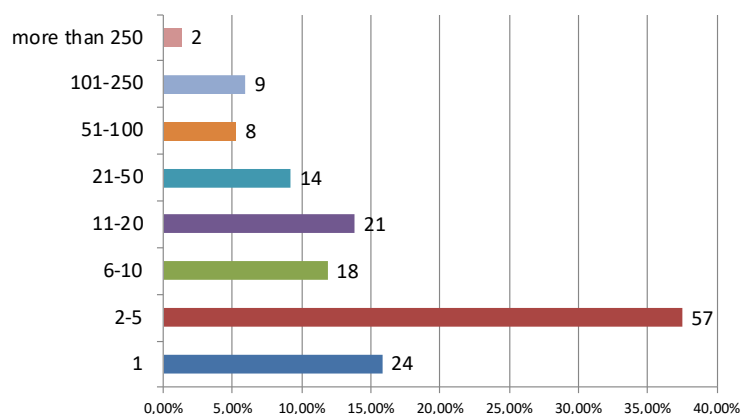
In the early 1990s newly introduced forms of private business were striving to adjust to the sudden open market realities. They tried utilising 'historic' assets, a legacy of Soviet industrialisation such as mechanical engineering and metal processing plants. Though some momentum was lost for most of the industries, a number of businesses have evolved from the former factories such as Light Guide Optics International, Ltd. in Livāni and Axxon Cable, Ltd. and Zieglera mašīnbūve, Ltd. in Daugavpils. These have new products and market niches and many other new or related businesses have grown in the region.

In 2017 the top 100 exporting companies of Latgale **exported goods** with a total value of EUR 549 million which was some 1/3 of the 2017 GDP for the region and 4.5% of national exports of EUR 11 506 million.

The business survey carried out within this analysis reached out to 152 enterprises, see Table 1.5. Most of these represented services and trade, manufacturing, rural tourism and agriculture.

<sup>18</sup> Enterprises are commercial companies and individual merchants due to similarities in their legal and operational regulations, i.e. requirement for an Annual Report that includes balance sheet and profit-loss accounts.

Figure 1.5 Respondents to the Latgale business survey by number of employed



Source: Consortium, 2020

## Industries

More detailed data on 3 844 market enterprises (NACE sectors B to M and S.95)<sup>19</sup> in Latgale covering the last five years have been analysed. They show that most businesses are registered in (G) Wholesale and retail trade; repair of motor vehicles and motorcycles – 1 346. For a full list of Latgale businesses by NACE classification and their location / concentration in the region, please see Annex 1. Most businesses are concentrated in and around Daugavpils and Rēzekne. There is some concentration of business also in Līvāni, Balvi, Preiļi, Krāslava and Ludza.

567 companies are operational in subsectors of (C) Manufacturing. Among them, the top activity is in:

- C16 - Manufacture of wood and of products of wood
- C25 - Manufacture of fabricated metal products
- C33 - Repair and installation of machinery and equipment
- C31 - Manufacture of furniture

Most manufacturing companies operate in **low-technology sectors** – 354, followed by **medium-low technologies** – 161, **medium-technologies** – 31 and **high-technologies** – 12<sup>20</sup>. See the description in Annex 2.

The number of enterprises in other significant business activities are:

- 330 in (H) Transporting and storage
- 297 in (M) Professional, scientific and technical activities
- 276 in (L) Real estate activities
- 191 in (I) Accommodation and food service activities
- 189 in (F) Construction

<sup>19</sup> Data from the Register of Enterprises via <https://www.lursoft.lv> retrieved in April 2020

<sup>20</sup> <https://www.csb.gov.lv/en/statistics/statistics-by-theme/enterprises/structural-business-statistics/tables/metadata-key-structural-business>

In 2018, 269 companies in Latgale are in **ICT**<sup>21</sup> related sectors. They constitute 1.4% of ICT companies in the country and put Latgale on a par with Kurzeme as leaders among the rural regions. Most ICT companies (96%) are in Rīga and Pierīga.

From 2014 to 2018 the ICT sector in Latvia experienced steady growth of 1/3 and the same happened in Latgale. There was a considerable increase in the number of people employed by ICT companies, 55% in Latgale, against 39% in the country and increased added value of 101% in Latgale, and 58% in the country. In 2018 1,053 people were employed in ICT, 1% of the total employed in the region.

The total value added per employed person in the ICT sector; however, was considerably lower in Latgale than in the country, i.e., EUR 16 373 versus EUR 33 882. Nevertheless, it was the highest of the rural regions and 52% above the regional average.

### **Urban-rural divide**

There is a distinct **urban-rural divide in terms of business activity** for sectors as well as the size of enterprises. In **rural municipalities, agriculture** and **forestry** with **basic wood processing** activities dominate. The most important agricultural produce is arable, grain in particular, followed by dairy farming. In 2018 the share of organic products in agricultural produce did not exceed 5%, except for honey (24%) and milk (10%).

In some rural areas there are also **transportation** and **Horeca** activities, which are service sectors with **lower added value**, at least in the countryside. As a result, the average gross income of residents<sup>22</sup> is lower than in the 2<sup>nd</sup> and 3<sup>rd</sup> tier towns of Latgale, i.e. of EUR 450 to 680 per month.

## **1.1.2 Locational endowments**

### **Market access and size**

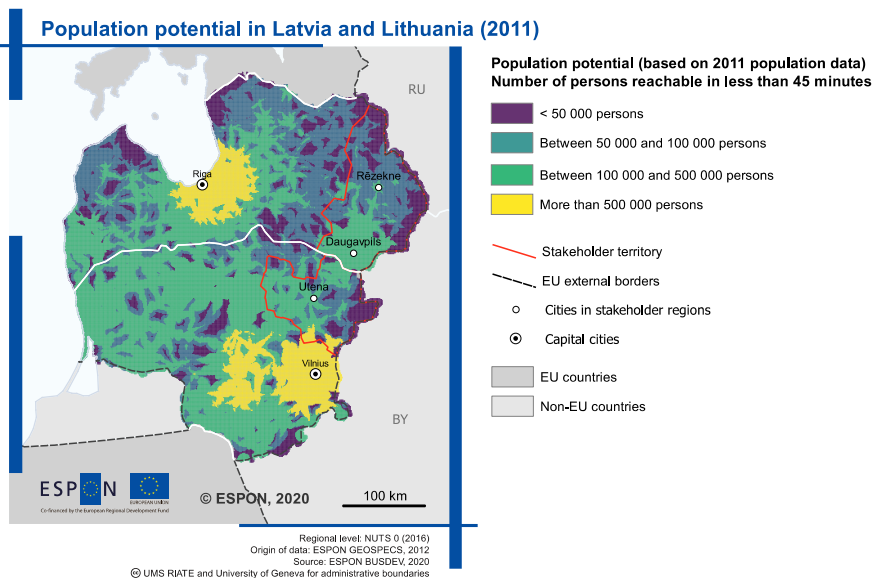
While the **regional market** of Latgale is limited by its shrinking population, comparatively low incomes for local inhabitants (see chapter also 1.3.7), proximity to the EU external terrestrial border and its peripheral location, the potential economic space is delineated by the EU external border. It literally cuts off ½ of the potential economic space in the neighbourhood leaving it to the national market that concentrates around Rīga, the EU Single market and beyond. The below map provides an overview on the population potential reachable in less than 45 minutes.

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<sup>21</sup> [https://ec.europa.eu/eurostat/cache/metadata/en/isoc\\_se\\_esms.htm](https://ec.europa.eu/eurostat/cache/metadata/en/isoc_se_esms.htm)

<sup>22</sup> Wages before taxes paid to employees by enterprises registered at LAU. Companies registered at LAU rarely do business elsewhere.

Map 1.2 Population potential reachable in less than 45 minutes, 2011



Source: Consortium based ESPON GEOSPECS, 2012

Latgale has had longstanding economic relations with the neighbouring regions of Russia and Belarus. For hundreds of years merchants, craftsmen and farmers from Latgale would trade all over the place including deep into Russia and Belarus. Basically, a broad range 360 degrees around the stakeholder territory could be the local regional market. The bordering regions of Russia and Belarus would provide a market population the size of Latvia with circa 1.75 million inhabitants in Pskov and Vitebsk oblast, east of Latgale.

For the thirty years since Latvia regained its independence in 1991 the situation, however, has deteriorated significantly, mostly due to a rigid border regime and tense relations with Russia. The political dimension has amplified reduced economic relations, as detailed in sub-chapter 1.1.4 on border realities. For many traditional businesses such as agriculture and food the market has been cut in two at some point. Even though some interviews highlight a certain nostalgia, in reality the gap is widening further due to increasingly divergent socio-economic developments, social structure and values.

With part of the regional market cut off and the remainder having constraints, a great part of the region's businesses relies on the **national market** (mainly the Riga area) and exports, mostly to the **EU Single market**.

Various industries have their own approaches to conquering the markets outside of the region. The **national market**, but especially the capital city region, is a main market for the agricultural produce and organic farming, in particular. This leads to regional farmers co-operating in mutual sales efforts.

Various industries have their own approaches to conquering markets outside the region. The **national market**, but especially the capital city region, is the main market for agricultural produce and organic farming. Regional farmers co-operate in mutual sales and marketing.

Exports to the **EU market** are also important. In 2017 approximately 1/3 of the regional GDP was exports by the 100 top exporting companies.

For most industries physical **accessibility** of the region is crucial, and most interviewees deem it a serious impediment to regional business development. Every extra mile is an additional cost that makes Latgale enterprises less competitive in the national and EU markets, so investments in the territory are less lucrative.

The **nearest international airport** as well as **seaport** is in Rīga which is a 300 km or a 3.5 to 4-hour drive from the EU border. The region is crossed by three significant international transport corridors, including **railways**. The train journey to the capital city takes 2.5 – 3 hours, as detailed in chapter 1.1.3. on infrastructure.

### **Services of General Interest**

Since 2015, there have been **unified state and municipal service centres** at all LAU level centres in the country. They also cover the State Revenue Service and State Social Security Agency. Most of the services are available online at free public internet points in public libraries.

At the beginning of the 2019 school year in Latgale there were 114 general secondary education schools<sup>23</sup>. Streamlining the **education system** in Latvia has been underway for the last few years to cope with demographic challenges as well as the quality of education through increased cost efficiency. The modest quality of education is seen as a cause of comparatively low economic productivity in the country<sup>24</sup>.

Various **healthcare** services are available at six in-patient medical care institutions (hospitals) of which Daugavpils is the biggest. In 2017, there were 1,588 beds in these medical institutions or 59 per 10,000 population<sup>25</sup> with a utilised capacity of 71%. There are also a number of out-patient medical care providers, including general practitioners. In 2017, there were 584 doctors at public healthcare institutions in Latgale or 22 per 10,000 people, while at the national level there were 35. The average number of hospital beds per year were 1,588. A shortage of medical doctors was noted during the interviews.

**Public transport** in the region is provided by several companies and the state joint-stock company 'Pasažieru vilciens'. The two main **railway** nodes are Daugavpils and Rēzekne connected to the capital city with three daily passenger trains (taking from 2 hours 43 mins to 3 hours 26 mins) between Daugavpils and Rīga and two between Rēzekne and Rīga (3.5 hours). Lithuanian Railways operates a daily passenger train from Daugavpils to Vilnius.

Six companies provide **public bus transport** within the region. There are on average 17 025 journeys per month covering a total of 553 838 km. Altogether some 136,100 passengers each month travel an average of 5.11 km. Public buses are subsidised by the national government. The bus schedule has been acknowledged as inappropriate for the needs of the labour force.

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<sup>23</sup> <https://raim.gov.lv/lv/node/39>

<sup>24</sup> <https://www.izm.gov.lv/lv/petijumi-0>

<sup>25</sup> [https://spkc.gov.lv/en/statistics?glo\\_template=text](https://spkc.gov.lv/en/statistics?glo_template=text)

## Financial services

Commercial banks are reducing their physical presence in the regions, including Latgale. There are also fewer ATMs and a lot of customer relations are being digitalised. Bank branches remain only in Daugavpils and Rēzekne.

## Tourism and culture

Latgale has good potential for tourism development with many lakes, a scenically attractive rural environment, large state forests with public access, and **historic and cultural heritage**. This includes outstanding architectural monuments such as cathedrals, churches, rural homesteads, characteristic settlements as well as cultural landscapes. Many sites are also valuable and play an important role in shaping the region's identity.

While the rest of Latvia is predominantly Lutheran, the Roman Catholic church dominates in Latgale. Due to **strong religious traditions**, many churches are well preserved and maintained, as are many art objects like icons and crucifixes. They are an integral part of the image of Latgale that attracts tourists. Aglona Basilica is the most important Roman Catholic shrine in Latvia and one of the largest centres of Baltic Catholicism attracting thousands of pilgrims.

Latgale also has a number of **museums and cultural centres**, notably the Daugavpils Mark Rothko Art Centre, named after the world-renowned artist, born in Daugavpils<sup>26</sup>. It opened in 2013 in a renovated part of the Daugavpils Fortress. The first and only acoustic multifunctional concert hall in Latgale opened in Rēzekne in 2013. Altogether there are 56 museums in the region<sup>27</sup>.

Latgale is **rich in lakes** and is often called the Land of Blue Lakes. The largest in Latvia, Lubāns, is a unique European nature site of world significance. Together with its surrounding wetland – bogs, wet meadows and humid forests - it covers 813 km<sup>2</sup>. Another lake, Ežezers, attracts tourists with its impressive 41 islands, but the water in lake Velnezers is so extraordinarily clear that it is believed to have supernatural powers<sup>28</sup>. Many lakes in Latgale have sandy beaches making them ideal for leisure and recreation.

There are 13 **tourism information centres** in the region managed by local authorities and a dedicated **webpage** <http://visitlatgale.com/lv/>.

Over the last ten years (2010-2019) **accommodation facilities** have almost doubled from 50 to 94 according to national statistics Guest nights almost tripled from 50 000 to 148 000 guests and from 81 000 to 230 000 nights of which one third were foreign visitors. In addition to this the national rural tourism association counts another 57 guest houses in Latgale<sup>29</sup>.

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<sup>26</sup> <http://www.markrothko.org>

<sup>27</sup> <http://visitlatgale.com/en/objects/list?d=0&c=8&q=>

<sup>28</sup> [http://visitlatgale.com/lv/files/download?id=29&v=33&file=latgales\\_zurnals\\_final\\_web\\_eng.pdf](http://visitlatgale.com/lv/files/download?id=29&v=33&file=latgales_zurnals_final_web_eng.pdf)

<sup>29</sup>

[https://www.celotajs.lv/en/entity/list/active/true/locale/lv/objectType/Accommodation/regionGroup/LV\\_LATGALE/page/2?1](https://www.celotajs.lv/en/entity/list/active/true/locale/lv/objectType/Accommodation/regionGroup/LV_LATGALE/page/2?1)

Much more accommodation is accounted for by CBS<sup>30</sup>. Nevertheless, representatives of some rural municipalities have noted the insufficient capacity of tourist accommodation to host more tourists at the same time. For example, Aglona Basilica sees a sharp annual increase in visitors around August 15 and there is not enough accommodation in the vicinity.

### 1.1.3 Physical and sectoral endowments

#### Natural resources

45% of the region is **agricultural**<sup>31</sup>. It is the 2<sup>nd</sup> highest share of arable land among Latvian regions after Zemgale (48%) which is historically the main agricultural region. The soil in the region is less productive than anywhere else in Latvia. In 2017 Latgale had the most farms in Latvia (24 086) suggesting that most farms are comparatively smaller.

The region has a significant share of **organic crop area**. At the beginning of 2020 1/3 of the national organic crop area was in Latgale and it makes up 14% of agricultural land, i.e. 290 000 ha. Vārkava municipality has a record share of 40% of organic crop area compared to an EU average of 7.5%.

39% of the stakeholder territory is covered with **forests**. This is the least coverage among Latvian regions with the neighbouring region of Vidzeme having 57% coverage. The forests of Latgale are rich in biodiversity and to protect this, there are a number of areas where only limited business activity is allowed.

The region hosts **half of all lakes of Latvia** and the 703 lakes cover 452 km<sup>2</sup>. Latgale has the deepest lake in the Baltics – Drīdzis, 65 metres deep. The largest lake of Latvia, Lubāns, covers 81 km<sup>2</sup>.

Among **extracted materials**, the most notable is peat – 31% of the national volume. 216 300 tons of peat were extracted in the region in 2018. Dolomite, sand, gravel, clay, sapropel and lime are also found in the region. However, only a fraction of them have been utilised, mostly for construction. Due to the high share of sandy clay in the region (80% of the national total) Latgale stands out for its traditional pottery craftsmanship.

There are a few small hydroelectric power stations in the region, but **renewable energy potential** such as sun and wind has yet to be explored in Latgale. Some local authorities mentioned their first successful attempts in the use of solar energy, while wind energy is not yet exploited though preliminary research suggests there is potential<sup>32</sup>.

The natural resources in Latgale provide limited opportunities for business, but a good quality of life close to nature.

#### Infrastructure and logistics

OECD: "One element to strengthen economic development and quality of life in Latvia's more remote regions would be better infrastructure. The **quality of transport infrastructure** lags

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<sup>30</sup> [https://www.celotajs.lv/lv/entity/list/active/true/locale/lv/page/3/regionGroup/LV\\_LATGALE?8](https://www.celotajs.lv/lv/entity/list/active/true/locale/lv/page/3/regionGroup/LV_LATGALE?8)

<sup>31</sup> <https://www.zm.gov.lv/zemkopibas-ministrija/presei/latgale-ekonomiski-nozimigaka-nozare-ir-graudkopiba?id=8814>

<sup>32</sup> <http://www.windenergy.lv/map/lv/veja-atrums-10-metru-augstuma/>



behind neighbouring countries. For instance, train connections to Rīga from Daugavpils and Rēzekne, the main cities in the Latgale region, are slow and infrequent. Roads connecting the largest regional cities to neighbouring countries are single lane, for the most part, and lead through small villages, slowing down traffic and making it more dangerous. While the number of road accidents has decreased, they are still among the highest in the EU.” (OECD, 2019b)<sup>33</sup>

Three significant international **transport corridors** cross the region providing direct links to major urban centres in neighbouring countries – Moscow, St.Petersbourg, Pskov, Vilnius and Warsaw. Main roads are in fairly good condition.

### **Railroads**

There are three **railway lines** on these corridors, none of them is electrified. So far, the most important transport corridor for Latvia as well as Latgale has been the crossing from East to West connecting Russia and Belarus to the ports of Latvia. Two railway lines also provide passenger transport connecting the region with the capital city of Rīga.

Daugavpils and Rēzekne are important **transport junctions** in the region as well as in the country as a whole. However, with the decrease of transit cargo from Russia in the last decade freight transport by railway has dropped by almost half. That has affected the state-owned company ‘Latvijas dzelzceļš’ (LDZ) and its development plans for the railway network and Daugavpils, in particular. Electrification of the railway network has been cancelled along with the upgrade of the Daugavpils railway logistics centre.

Local businesses have not relied much on railway transport. Of all rail freight transported across Latvia, about 3.5% is **inland**<sup>34</sup>. With transit cargo in decline, LDZ is turning its focus on inland shipments. There is also a growing interest from regional businesses in better access to rail transport. Some of them have expressed intentions to co-finance construction of access to their industrial sites.

### **Roads**

In 2018 there were 14 235 km of **roads** in Latgale, of which only 3 020 km are asphalted, while the rest are gravel roads. The main urban areas and LAU centres are well connected, however some villages at the periphery are not so accessible. Due to the eastern border most roads lead west, i.e., away from the border to functional centres and transportation along the border is underdeveloped.

**Road network and its quality** are key factors for accessibility in the region. For many farmers, foresters and those engaged in extracting and manufacturing, the distance to market, i.e. **road network** as well as **its quality** is a big concern. Entrepreneurs located further from the main transportation nodes and closer to the EU border often highlight the extra costs that distance adds to their business.

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<sup>33</sup> <http://www.oecd.org/economy/surveys/latvia-2019-OECD-economic-survey-overview.pdf>

<sup>34</sup> <https://www.ldz.lv/lv/pārvadā-kraavu-apjoms>

The external EU border means that **passenger and cargo flows** are subject to strict border controls.

**Daugavpils airport** can only accept small carriers but can be important to a multi-modal transport network in the region. A feasibility study is underway to explore a possible upgrade of the airport and its potential contribution to the region's economic potential.

### **Broad band**

In 2018, 74% households of Latgale had internet. It is the lowest among Latvian regions where the national average is 82%. Availability of the internet is in direct ratio to household income, which is the lowest in Latgale, as seen in sub-chapter 1.3.7.

Latvia has relatively low basic fixed **broadband** coverage (93% compared to the EU average of 98%). Remarkably, almost all (91% of households) have next generation access. This explains subscriptions to fast broadband ( $\geq 30$ Mbps) well above the EU average (62%, as opposed to only 37% in the EU overall). Rural fixed next generation access coverage grew significantly by 10% to 77% in 2016, well above the EU average. At 91%, 4G coverage is high in comparison with the EU average of 84%<sup>35</sup>.

There is no specific data on the territory, but the situation seems similar to the rest of the country. Internet access was mentioned as satisfactory during the interviews, however there are a few 'black holes' with limited or even non-existent connection in very distant rural areas, e.g., Cibla municipality.

### **Energy**

Latgale is a part of the Baltic energy supply system which imports **electricity** from Estonia, Russia and Lithuania. The Baltic grids are still a part of the post-Soviet BRELL ring, which also includes Russia and Belarus, and remain dependent on the control centre in Moscow and the Russian electricity system<sup>36</sup>. The Baltic energy market interconnection plan (BEMIP)<sup>37</sup> is aimed at an open and integrated regional electricity and gas market between EU countries in the Baltic Sea region, ending energy isolation. Key electricity infrastructure projects connecting the three Baltic States with Finland, Sweden and Poland respectively, have significantly improved the Baltic countries' integration into the EU energy market, and their security of supply. Nevertheless, the three Baltic States' electricity grid still operates synchronously with the Russian and Belarusian systems. Synchronisation of the electricity grid with the continental European network is envisaged by 2025<sup>38</sup>.

Major **gas** projects of common interest in the Baltic region include the Gas Interconnector Poland – Lithuania, the Balticconnector project, and the development of infrastructure between the Baltic States. These aim at connecting the Baltic and Finnish gas networks with the

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<sup>35</sup> <https://ec.europa.eu/digital-single-market/en/european-digital-progress-report-country>

<sup>36</sup> Guidelines for energy development 2016-2020  
<https://em.gov.lv/files/attachments/Energetikas%20pamatnostadnes.docx.pdf>

<sup>37</sup> [https://ec.europa.eu/energy/topics/infrastructure/high-level-groups/baltic-energy-market-interconnection-plan\\_en?redir=1](https://ec.europa.eu/energy/topics/infrastructure/high-level-groups/baltic-energy-market-interconnection-plan_en?redir=1)

<sup>38</sup> [https://ec.europa.eu/energy/sites/ener/files/political\\_implementation\\_roadmap.pdf](https://ec.europa.eu/energy/sites/ener/files/political_implementation_roadmap.pdf)

continental European gas network by the end of 2021, also ending Finland's gas isolation from the rest of mainland Europe. This will allow Finland and the Baltic States to diversify their gas sources, fostering market competition and providing consumers with a cheaper and more stable gas supply.

### **Facilities**

Since Latvia, including Latgale, was heavily industrialised during the Soviet occupation, a number of former **industrial sites** remain in the region. These are usually not attractive to potential investors mostly because they require a substantial upgrade and access to modern public utilities. Though many have been refurbished and upgraded to current needs, including through ESIF, many still remain to be renovated.

During the interviews, a need for **modern A class office space** was mentioned as well as **co-working spaces** for modern ICT related service companies. Presently there are none available in the region.

### **Functional areas**

The two major urban functional areas are Daugavpils and Rēzekne, as detailed in sub-chapter 1.3.1 on settlements in the region. In 2019, 42% of the regional population was living in these two towns. Their GDP per capita is considerably higher than the regional average. In 2017 it was EUR 9 050 in Daugavpils and EUR 10 917 in Rēzekne. Nationally these two towns are 2<sup>nd</sup> tier cities.

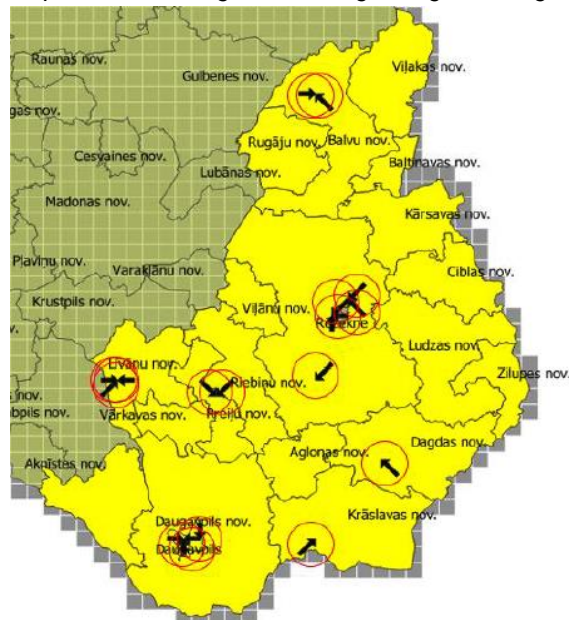
A joint study by the University of Latvia and one of the largest mobile telecommunications operators in Latvia – LMT – suggests that regional economic activity can be seen from mobile phone data and the commuting patterns they reveal (Arhipova et al., 2020). See Map 1.3. The areas of Līvāni, Preiļi and Balvi match this pattern, i.e., high to moderate activity on workdays and moderate to low activity on weekends and holidays. According to the study “The group has a balanced development but insufficient resources for the next breakthrough. Depending on the priorities, it is necessary to develop wither the production or the service sectors.” These towns are 3<sup>rd</sup> tier cities on the national scale.

“In a previous study it has been acknowledged that mobile phone activities have a statistically significant relation to regional economic activity such as the gross domestic product, the number of economically active enterprises per thousand inhabitants, municipal budget expenditures, etc. As a result, the hypothesis that municipalities and regions with lower call activity have lower economic activity compared with other regions with higher call activity could not be rejected” (Arhipova et al., 2019).

Data from 2018 for all Latvia resulted in eight territories representing unique patterns of economic activity. The main economically active or ‘Hard Workers’ in Latgale are Daugavpils and Rēzekne towns. ‘Hard Workers’ are highly active on workdays, but less active on weekends and holidays. The study says that “This group is the driving force behind the economy of Latvia but does not fully exploit its holiday potential. These municipalities are highly dependent on fluctuations in economic activity; therefore, the service sector should be developed.”

The areas of Līvāni, Preiļi and Balvi match this pattern, i.e., high to moderate activity on workdays and moderate to low activity on weekends and holidays. According to the study “The group has a balanced development but insufficient resources for the next breakthrough. Depending on the priorities, it is necessary to develop either the production or the service sectors.” These towns are 3<sup>rd</sup> tier cities on the national scale.

Map 1.3 Internal migration in Latgale region during weekdays between 7:00 and 9:00 in 2018



Source: Mobile phone data statistics as a dynamic proxy indicator in assessing regional economic activity and human commuting patterns (Arhipova et al., 2020)

The study confirms what is suggested by the statistics that there are five functional urban areas in the region Daugavpils, Rēzekne, Līvāni, Preiļi and Balvi with the first two being undoubted regional leaders.

#### 1.1.4 Border reality - border effects with relevance for the regional potential

##### Russia and Latvia border area - Latgale region and Pskov oblast

###### Political dimension

Relations between the Republic of Latvia and the Russian Federation are regulated by 54 bilateral agreements signed between 1991 and 2018. The border agreement was signed in 2007. As an EU external border, it is also subject to international conventions and agreements.

There are four border crossings: (1) Vientuli-Ludonka, (2) Grebneva-Ubilinka, (3) Terehova-Burachki and (4) Pededze-Brunischevo<sup>39</sup> and two border control posts on the railroad: (1) Zilupe and (2) Kārsava<sup>40</sup>. Crossing and customs formalities can also be carried out in Daugavpils, Rēzekne, Jelgava and Riga. Border control is performed in each bordering country in close collaboration with their respective customs control institutions.

<sup>39</sup> Pededze has no customs officers: basic customs control is performed by border guards; more complex customs services are not available here (source: interview with former Border Guards official)

<sup>40</sup> <https://likumi.lv/ta/id/214844>

Persons living in municipalities on both sides of the border are eligible for a simpler border crossing regime allowing them to cross without a visa<sup>41</sup>. Municipal officials indicated that most residents have such permits.

Administrative procedures differ between the two countries. The system in Latgale is described in sub-chapter 1.2.4. Pskov oblast on the Russian side is run by an elected governor. Pskov oblast is part of the North-Western Federal District of Russia. Highly centralised Russian public administration does not allow much decision-making at local and regional levels. The only meaningful collaboration is on social and economic projects and the related networking. Most such projects take place within cross-border cooperation programmes.

At the national level, relationships between Latvia and Russia are tense. The Latvian political leadership largely follows the reserved approach of the EU.

**The external EU border is a restriction for business development. The limited number of border crossing points, visa requirements and border crossing formalities imply more hampering than facilitating effects.**

**Due to differences in political regimes and administrative structures, few border crossings as well as visa requirements political dimension implies mainly closing border effects. Geopolitical conditions and political tensions with Russia have further contributed to closing effects, limiting cooperation.**

### **Physical dimension**

The territory of Pskov oblast covers 55 300 km<sup>2</sup>, almost four times Latgale region. Despite many lakes and marshes, small rivers and creeks on both sides of the border the topography does not pose any issues to trade or other economic and social collaboration. The region is flat and there are no significant topographic challenges to developing a transport network, communication links or other infrastructure.

Road infrastructure is fairly dense with well-developed networks of local gravel roads on both sides of the border. Roads are important for cargo transportation in international trade between Latvia and Russia. Public transport is underdeveloped and cannot be reliably used for commuting on both sides of the border. There is an active passenger flow between the countries by car and bus and rail is significant for cargo.

There is a pipeline for oil and oil-products from Russia to Latvian ports. The pipeline has operated below capacity for the last decade as a result of political and processes in the region and is not related to capacity or performance restrictions.

In 2019, the population of the border area was 889 877 with Pskov oblast having 2.4 times more people than Latgale - 629 651 and 260 226 respectively. Like Latgale, the Pskov oblast has two dominant urban centres - Pskov and Velikie Luki. There are 24 municipalities in the

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<sup>41</sup> <https://m.likumi.lv/doc.php?id=210807>

oblast. Pskov together with Velikie Luki account for 300 665 residents as opposed to 110 424 in Daugavpils and Rēzekne together.

Population density is low on both sides of the border and thus comparable, i.e., 18 per km<sup>2</sup> in Latgale and 11 per km<sup>2</sup> in Pskov oblast. Immediate border areas are particularly sparsely populated: 8 per km<sup>2</sup> on the Latvian side and 6.5 per km<sup>2</sup> on the Russian side<sup>42</sup>.

**The geographic / physical dimension of the border reality has mostly opening effects due to low transport barriers and comparable settlement structures. These opening effects are, however, subject to closing effects from other dimensions and thus cannot be fully utilised.**

### **Economic dimension**

The transport of goods has been very active in recent decades promoting development of many Latgale-based small- and medium-sized logistics businesses. EU restrictive measures in response to the crisis in Ukraine<sup>43</sup> and Russia's countersanctions and import substitution policies have led to a significant drop in trade with Russia since March 2014. Russia's strategic decision to redirect its transit goods to its own port on the Baltic Sea Ust-Luga<sup>44</sup> has affected the regional potential of Latgale, particularly logistics.

Trade turnover decreased by 14% to its lowest point in 2016 but had grown back to above 2014 levels by 2019<sup>45</sup>. However, the structure of goods and services that are traded has changed during this period pushing businesses to adjust or close. The economic discontinuities are seen as another obstacle to business with Russia. Over the last 20 years many political and economic incidents have impacted businesses in Latvia.

Due to the 2014 depreciation of the rouble, businesses in Russia gained trade competitiveness against Latvia and all other euro-zone countries, at least in the short-term. Thus, Russia is attractive for Latgale businesses as a source of cheaper raw material such as timber. In turn a few Russian entrepreneurs have appreciated the single market potential by transferring production to Latgale obtaining a label 'produced in EU'. Due to geopolitical constraints this is not yet a trend but there is considerable Russian investment in the region.

The recent anti-money laundering action plan and amendments to legal regulations in Latvia impose additional difficulties on doing business with countries such as Russia and Belarus.

**The economic dimension could produce some opening effects based on trade in comparatively cheaper Russian resources and access to the EU market through Latvian enterprises. But in practice it is quite the contrary: due to international sanctions cross-border economic collaboration is closing.**

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<sup>42</sup> Population size: [https://pskovstat.gks.ru/storage/mediabank/nas190923\\_5.htm](https://pskovstat.gks.ru/storage/mediabank/nas190923_5.htm)

<sup>43</sup> <https://www.consilium.europa.eu/en/policies/sanctions/ukraine-crisis/>

<sup>44</sup> <http://www.ust-luga.ru/en/activity/port/>

<sup>45</sup> [http://eksports.liaa.gov.lv/files/liaa\\_export/attachments/2020.03\\_LV\\_Krievija\\_ekon\\_sad.pdf](http://eksports.liaa.gov.lv/files/liaa_export/attachments/2020.03_LV_Krievija_ekon_sad.pdf)

## **Socio-cultural dimension**

Both regions are multi-ethnic, Latvians, Russians, Belarusians, and Poles have lived there for centuries. The official language in Latvia is Latvian and in the Russian Federation is Russian. Russian and Latvian are not similar in their roots, words, grammar or phonetics.

English is not widely used in the region, posing additional challenges to CBC programmes. While many Latvian residents are reasonably fluent in Russian, Russian citizens rarely have Latvian skills.

Differences in the perception of state powers differ. In a Latvian survey of late 2019, 77% of respondents consider that public servants take their job very responsibly, and 82% replied that civil servants are professional and well-informed<sup>46</sup>. Also, the Transparency International Corruption Perception Index 2019 rated Latvia positively with 56 out of 100, in spite of a decline following recent issues with money-laundering.

A Russia-based survey<sup>47</sup> returned 44% positive assessment of the work of the Government. The TI CPI ranking is 28/100. This suggests a negative view of the public sector in the Russian Federation.

As far as civil society is concerned, the picture is very divergent as well. In Latvia there is considerable civil engagement in social action, i.e., every municipality has active NGOs with a lot of them concentrated in urban areas. At the same time in Russia, development of civil society is not welcomed and is always viewed as a breeding ground for political opposition.

Societies on the border are similar in their reserved view of change and preference for stability. This makes both territories more socially conservative than the capitals or more urban regions in the two countries. At the same time accession to the EU and the resulting massive changes in economic structure and competitiveness together with access to information and education provide for a diverging socio-cultural background. This is especially visible in younger generations.

***The socio-cultural dimension has historical links and mutual respect that is a good opening effect but is of less importance to young people and entrepreneurs for whom modern legal, linguistic and cultural differences and an EU orientation have an increasing closing effect.***

## **Belarus and Latvia border area – Latgale region and Vitebsk oblast**

Relations between Latvia and Belarus are regulated by 35 bilateral agreements signed between 1993 and 2018. The border agreement was signed on 21 February 1994 and refers to the borders effective on 16 June 1940. The present border and its crossing regime is set out by international agreement that came into force on 31 January 2013. The Latvia-Belarus land-

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<sup>46</sup> <http://petijumi.mk.gov.lv/node/3106> The results are not directly comparable due to differences in methodologies but can be used as an indication of sentiment among citizenry.

<sup>47</sup> <https://rg.ru/2019/11/01/piki-doveriia-rossiiane-odobriaiut-rabotu-institutov-vlasti.html> The results are not directly comparable due to differences in methodologies but can be used as an indication of sentiment among citizenry.

border has two border crossings: (1) Pāterneki-Hryharowshchyna and (2) Silene-Urbany<sup>48</sup>. There is a railroad crossing Indra-Bihosava without an actual control function.

The administrative system and procedures differ between the two countries. The system in Latgale is described in sub-chapter 1.2.4. The Belarus border with Latvia is adjacent to Vitebsk oblast - a comparatively large local administrative unit. Vitebsk oblast is subdivided into 21 districts, 2 cities of regional subordination, 19 additional cities, and circa 300 other smaller units. The two largest cities of the region (Vitebsk and Orsha) are close to the Belarus-Russian border and 250 and 300 km from the Latvian border.

At the national level, relationships between Latvia and Belarus are distant. Belarus makes advances to the EU but keeps firmly within the Russian political and economic sphere. Latvian political leadership largely follows the reserved approach towards Belarus applied by the EU. Due to Belarus participation in a customs union with Russia, the international economic sanctions on Russia have harmed the existing moderate levels of economic collaboration.

Belarus is highly centralised with few powers devolved to regions and municipalities. Laws and by-laws are not exhaustive and can be amended or by-passed via executive orders of ministers and the head of state. This creates uncertainty in business and international trade, as well as an additional unwelcome burden on cross-border relationships between regions and municipalities and all cooperation initiatives must be approved by the central government.

**Given these conditions, the external EU border with Belarus is an impediment for developing entrepreneurial cross-border cooperation: few border crossing points, visa requirements, and differences in governance imply more closing than opening effects.**

### **Physical dimension**

The Belarus–Latvia border is 173 km running from the tri-point border with Lithuania to the tri-point border with Russia. For 17 km the border runs along the Daugava River, it also crosses Lake Rychy and an island on this lake.

Vitebsk oblast on the other side of the border covers 40 000 km<sup>2</sup>, which is almost three times the size of Latgale.

The road network is dense on both sides of the border with local gravel roads complementing national-level paved roads. While public transport is underdeveloped and cannot be reliably used for commuting across the border, there is an active passenger flow between the countries by car and bus.

Every year, approximately 8 500 inhabitants of Latgale obtain facilitated Belarus border crossing permits so they can visit the neighbouring country within 50 km of the border for up to 90 days in a six-month period. There are four points for simplified crossing not available for business transit: (1) Meikšāni-Hawrylina, (2) Piedruja-Druya, (3) Vorzova-Lipawka and (4) Kaplava-Plyusy. The border crossings are used to visit living relatives as well as graveyards.

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<sup>48</sup> <http://www.rs.gov.lv/index.php?id=1457&top=0>



Inhabitants of Latgale often benefit also from lower priced goods and services in Belarus, including fuel, recreational activities and dental services.

Cargo traffic by road is still active in spite of international sanctions against Russia. Rail is less significant for cargo between Latvia and Belarus.

At the beginning of 2019 the population on both sides of the border was 1.4 million with Vitebsk oblast being 4.5 larger than Latgale - 1 171 523 in Vitebsk oblast, and 260 226 persons in Latgale. The majority is concentrated in cities. In Vitebsk oblast Orsha and Novapolock together account for 569 000 residents<sup>49</sup> which is five times Daugavpils and Rēzekne – 110 424.

Population density is low in both areas, with 29 per km<sup>2</sup> in Vitebsk oblast<sup>50</sup> as opposed to 18 per km<sup>2</sup> in Latgale. The immediate border areas are especially sparsely populated: 13 per km<sup>2</sup> on the Latvian side (Krāslava county) and 11 per km<sup>2</sup> on the Belarus side (Verhnedvinskij district). At the same time, the Latvia-Belarus border is more populated than the Latvia-Russia border.

**While topography does not pose any obstacles, poor physical infrastructure, low population density and comparative remoteness between the major urban centres contribute greatly to closing effects of the border.**

### **Economic dimension**

Belarus uses the Belarus rouble. In July 2016, a new rouble was introduced (ISO4217 code BYN), at a rate of BYN 1 = BYR 10 000. During 2014-2020 the Belarus currency depreciated by 47% against the euro from EUR 1 = BYR 13 130 on 1 January 2014 to EUR1 = BYR 23 600 = BYN 2.36 on 1 January 2020. Many prices and most salaries lagged the depreciation providing a competitive gain against Latvia and Latgale.

In 2017, the gross domestic product of Vitebsk oblast at current prices was almost two times of that in Latgale, e.g., EUR 3.4 billion (8.04 TBYN)<sup>51</sup> and EUR 1.9 billion respectively with the GDP per capita in Latgale of EUR 7 164 being by 1/3 higher than in Vitebsk region, EUR 5 400.

A greater active population aged 15-74 years old in Vitebsk oblast provides a greater labour force. Latgale had 120 700 persons in 2019, while Vitebsk oblast had 886 079<sup>52</sup>. In 2019, Latgale had average unemployment of 13.8%, while the market socialism of Belarus boasted unemployment of only 0.3% in Vitebsk oblast<sup>53</sup>.

Before sanctions in 2014, trade (exports + imports of goods and services) was EUR 591.3 million and Latvian exports to Belarus were EUR 226.6 million and imports EUR 364.7 million.

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<sup>49</sup> <https://vitebsk.belstat.gov.by/ofitsialnaya-statistika/demograficheskaya-i-sotsialnaya-statistika/naselenie-i-migratsiya/naselenie/godovye-dannye/>

<sup>50</sup>

[https://ru.wikipedia.org/wiki/%D0%92%D0%B8%D1%82%D0%B5%D0%B1%D1%81%D0%BA%D0%B0%D1%8F\\_%D0%BE%D0%B1%D0%BB%D0%B0%D1%81%D1%82%D1%8C](https://ru.wikipedia.org/wiki/%D0%92%D0%B8%D1%82%D0%B5%D0%B1%D1%81%D0%BA%D0%B0%D1%8F_%D0%BE%D0%B1%D0%BB%D0%B0%D1%81%D1%82%D1%8C)

<sup>51</sup> [https://vitebsk.belstat.gov.by/ofitsialnaya-statistika/osnovnye-pokazateli/valovoi-regionalnyi-produkt/osnovnye-pokazateli-za-period-s-\\_\\_\\_po-\\_\\_\\_gody\\_2/](https://vitebsk.belstat.gov.by/ofitsialnaya-statistika/osnovnye-pokazateli/valovoi-regionalnyi-produkt/osnovnye-pokazateli-za-period-s-___po-___gody_2/) and <https://www.nbrb.by/statistics/rates/currencybasket>

<sup>52</sup> [https://vitebsk.belstat.gov.by/ofitsialnaya-statistika/publications/public\\_bulletin/index\\_13482/?sphrase\\_id=762342](https://vitebsk.belstat.gov.by/ofitsialnaya-statistika/publications/public_bulletin/index_13482/?sphrase_id=762342)

<sup>53</sup> <https://vitebsk.belstat.gov.by/ofitsialnaya-statistika/demograficheskaya-i-sotsialnaya-statistika/trud/godovye-dannye/>

After the sanctions, trade fell by EUR 228.1 million to EUR 363.2 million in 2016. Latvian exports to Belarus were EUR 143.3 million and imports EUR 219.9 million. In 2019, trade was back to the trend levels: EUR 633.2 million, with Latvian exports to Belarus worth EUR 238.7 million and imports EUR 394.5 million<sup>54</sup>.

Manufacturing (C) is a dominant sector of the Latgale economy with a 15% share and 24% in Vitebsk region; (A) Agriculture and forestry are similarly important with 8% and 12% respectively and (G) Wholesale and trade – 11% and 9%<sup>55</sup>.

A distinct feature of the Belarus economy is the share of state-owned enterprises in its national economy. In 2017, the World Bank estimated a 47% state share of Belarusian GDP and 75% of industrial output, employing about half the Belarusian workforce<sup>56</sup>. State-owned enterprises are managed in the centralised manner of a command economy. They often participate in international trade as regular enterprises, but without the rigours of the private market they can operate without profit or even at a loss, undercutting private businesses. This makes political and economic links hard to establish and maintain with a negative effect on trade.

There is a vague trend of Belarus citizens starting businesses in Daugavpils and thus enjoying the benefits of the single market. Belarusians have invested in at least 150 Latgale companies, of which two are high-tech.

Some interviewees noted that residents of Latgale eligible for facilitated border crossing permits benefit from lower priced goods and services in Belarus, e.g., dentists. However, even the low volumes of such cases may diminish.

**Diverging and increasingly limiting economic conditions of international trade and remote location of large urban centres on the Belarus side of the border contribute to closing effects.**

### **Socio-cultural dimension**

Since 1995 Belarus has had two official languages: Belarusian and Russian<sup>57</sup>. Being dominant in the media, education and other areas of public life, Russian is de facto the main language of the country.

Latvia uses Latvian as a state language. However, many people in Latgale speak Russian fluently. English is the language of international diplomacy between two countries, at the same time collaboration between regions and municipalities as well as international trade relies heavily on Russian.

Active use of Russian poses issues for younger Latvian entrepreneurs and has a closing effect on cross-border cooperation.

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<sup>54</sup> [http://eksports.liaa.gov.lv/files/liaa\\_export/attachments/2020.03\\_LV\\_Baltkrievija\\_ekon\\_sad.pdf](http://eksports.liaa.gov.lv/files/liaa_export/attachments/2020.03_LV_Baltkrievija_ekon_sad.pdf)

<sup>55</sup> [https://vitebsk.belstat.gov.by/ofitsialnaya-statistika/osnovnye-pokazateli/valovoi-regionalnyi-produkt/osnovnye-pokazateli-za-period-s-\\_\\_-po-\\_\\_\\_gody\\_2/](https://vitebsk.belstat.gov.by/ofitsialnaya-statistika/osnovnye-pokazateli/valovoi-regionalnyi-produkt/osnovnye-pokazateli-za-period-s-__-po-___gody_2/)

<sup>56</sup> <http://kef.research.by/webroot/delivery/files/kef2018reg/201809sidirenko.pdf>

<sup>57</sup> [https://en.wikipedia.org/wiki/1995\\_Belarusian\\_referendum](https://en.wikipedia.org/wiki/1995_Belarusian_referendum)

Communities in the border regions are similar in their conservative opinions and strong preference for stability over swift reform and change. Many elected officials have held their positions since independence in 1991.

Latvian accession to the EU forced significant reforms across many areas of the economy, public administration and the social sphere. This shake-up did not happen in Belarus so everyday life is very different across the border.

Limited opportunities to cooperate and exchange practices and significant differences in the challenges facing communities lead to divergence and less understanding between communities across the border. It is especially stark for younger generations.

**Socio-cultural dimension is memories of historic cooperation with limited collaboration at present. Administrative and socio-political differences contribute to closing effects on the border.**

## **1.2 Analysis of the ‘beyond location’ aspect - existing entrepreneurial ecosystem**

### **1.2.1 Partnerships and networks in place**

On a local level **business are networking** either within their respective administrative territory or with neighbouring municipalities. Such examples are:

- Rēzekne Business Society which unites more than 20 entrepreneurs in Rēzekne city (<http://www.reub.lv/lv/parmums>).
- “Entrepreneurs of Līvāni Municipality” (<http://www.livanu-uznemeji.lv/>)
- “Club of Entrepreneurial Women “SENTIO”” in Rēzekne
- “Balvi Region Business Support Club “GRAMS””

These partnerships aim at facilitating business environment and development in the respective municipalities, as well as internal and external networking activities with businesses elsewhere in Latvia and abroad. They also represent interests of their members at municipal, state and international levels.

**Cooperation among businesses** is still rare in Latgale and the few cases relate to marketing local produce. In some instances, these are enterprises established in the form of cooperatives, such as the agriculture service cooperative ‘Viļāni’ marketing organic dairy products of Viļāni municipality farmers under a common label ‘Bryunaļa’ (<https://www.lpksvilani.lv/lv/bryunala>). In other cases, NGOs also promote the produce of their members, e.g. Council of Daugavpils Municipality Entrepreneurs aimed at business development around Daugavpils city (<http://www.uznemigie.lv/par-mums/>).

A lot of local authorities have **entrepreneurship advisory boards**, a form of communication and co-operation between local businesses and the municipality. Important business development issues are regularly discussed within these boards, adjusting municipal activities to the needs of local businesses.

Another type of **local partnership** with a significant role in rural areas are local action groups (LAGs) established to implement Community Lead Local Development (CLLD) known also as ESPON 2020

the EAFRD LEADER programme. Representatives of rural municipalities have emphasised the importance of LAGs in their territory for development and business. An example that stretches beyond one municipality is the Daugavpils and Ilūkste LAU partnership 'Kaimiņi' (Neighbours) (<http://daugavpils.partneribas.lv>). Most often their primary goal is poverty reduction including by encouraging people, especially youth, to consider undertaking business activity.

On a regional level there are a few examples of community initiated **business cooperation** including:

1. 'Latgale Region Tourism Association 'Ezerzeme' (Land of Lakes) hosting a common tourism website [www.visitlatgale.com](http://www.visitlatgale.com)
2. 'Union of the agricultural producers of Latgale' (<https://irla.lv/>) representing and promoting agricultural business activities.

Latgale businesses and farmers in particular are active members of the few **national business cooperatives** such as Latraps (<https://www.latraps.lv>) – the largest agrarian co-operative in the country uniting 1 054 farmers. Another example of national partnership is the few representatives of NACE C.27 - Manufacture of electrical equipment who are members of the Latvian Electrical Engineering and Electronics Industry Association – LETERA (<https://www.letera.lv/en>).

The **low level of regional business cooperation** especially among industries other than agriculture and tourism suggests there might not be a critical mass of enterprises for rolling it out. Historically influenced anti-cooperation and distrust has also been mentioned as another possible cause.

The **Latvian Chamber of Commerce and Industry (LCCI)** has branches in Rēzekne and Daugavpils. Over the last three years, approximately 100 LCCI members from Latgale have more actively advocated their interests. A council has been established and regular monthly networking events are held. The Latgale branch of LCCI has also developed its vision for future development including proposals for education, employment and tax. LCCI members in Latgale cooperate with the Latgale Planning Region as well as municipalities and educational institutions. A representative of LCCI Latgale emphasised the constructive cooperation of regional stakeholders. However, their abilities to represent regional interests at the national level are limited as they often have to concede to the central LCCI office.

The only institutionalised **cross-border co-operation** in the region is the Euroregion 'Ezerzeme' (Country of Lakes) which promotes business co-operation among 31 municipalities in the border regions of Latvia, Lithuania and Belarus. In most cases this is primarily cooperation between municipalities with business representatives being involved in mutual projects.

### 1.2.2 Existing clusters

Presently there are no distinct conventionally defined clusters in Latgale, though there are grounds for their development in future<sup>58</sup>. Today some industries are becoming more

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<sup>58</sup> Industrial clusters are groups of specialised enterprises, often SMEs, and other related supporting actors in a location that cooperate closely. [https://ec.europa.eu/growth/industry/policy/cluster\\_en](https://ec.europa.eu/growth/industry/policy/cluster_en)

concentrated across the region, but their co-operation is not yet very close. Nevertheless, where physical concentration is considered as a prerequisite, clusters could form in the region:

- in Līvāni municipality there are two optic fibre manufacturing companies
- in Daugavpils city there are several high-tech, ICT and electronic manufacturing companies
- in Rēzekne there are around 30 wood processing enterprises including a branch of the national leading birch plywood producer, wood processing is also in Balvi, Vijāni un Ludza
- there are many metal processing companies in Rēzekne and Daugavpils
- there is a strong dairy product manufacturing sector established in Preiļi
- Krāslava county representatives see a potential for a logistics centre
- in Kārsava county the potential for vegetable and berry production is apparently growing
- around Vārkava county organic farming is concentrating
- in Ludza there is a concentration of peat extraction companies

For a more detailed overview of the spread and concentration of businesses by NACE sector, please see Annex 1.

### 1.2.3 Innovation

**Innovation capability** for Latvia is 42 out of 100 in the Global Competitiveness Report 4.0<sup>59</sup> where 100 is an assessment of the leader Germany. Based on 12 indexes Latvia ranks 52<sup>nd</sup> in the 2018 index.

There is a scientific base for innovation in the region. Thanks to ESIF funding the two higher education establishments are well equipped for research. There is research in co-operation with regional enterprises as well as companies from other regions and the demand from enterprises is expected to grow. Overall, there is a room for more regional co-operation between scientists and businesses.

In 2018, there were 75 **innovation-active enterprises** in Latgale and 1 558 overall in Latvia. Though it has the lowest share of such enterprises among the regions at 5%, the number of such enterprises in Latgale has grown by 11 since 2016. Thus, Latgale together with Kurzeme were rural regions with an increase in innovative companies, while Vidzeme and Zemgale had a decline. This suggests there is **innovation potential** in the region, presumably in urban areas such as Līvāni, Daugavpils and Rēzekne. It is hard to judge whether it is enough to be considered a strength.

In 2018, there were 75 **innovation-active enterprises** in Latgale while 1 558 overall in Latvia. Though overall it was the lowest share of such enterprises among the regions – 4.8%, the number of such enterprises in Latgale has grown by 11 since 2016. Thus, Latgale together with Kurzeme was among the rural regions which experienced an increase in innovative companies, while Vidzeme and Zemgale had a decline. This suggests that there is a certain **innovation potential** in the region presumably in urban areas such as Līvāni, Daugavpils and Rēzekne. It is yet hard to judge of whether it is assertive enough to be considered as strengths.

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<sup>59</sup> <https://www.weforum.org/reports/the-global-competitiveness-report-2018>

“Yet, among Latvia’s large pool of small firms, many have experienced little or no productivity growth, pointing to weaknesses in their capacity to absorb new technologies and innovate” (OECD, 2019b).

The statistics show very modest **R&D investment** in the region. In 2018, it was EUR 1.1 million, which is 3% of the national total and a considerable increase since 2014 (EUR 0.1 million). Latgale is on a par with Vidzeme and Kurzeme. All three regions had the lowest **R&D investments** in 2018, but in Latgale there was an increase, while in Vidzeme and Kurzeme a considerable decline.

#### **1.2.4 Governance**

In Latvia there is **one tier of local government** and **no elected regional government** in the stakeholder territory. Partly based on history, five planning regions in Latvia were established in 2002.

**Latgale Planning Region (LPR)** is “a derived public person established in accordance with the Regional Development Law and financed from the state principal budget”<sup>60</sup>. It acts under supervision of the Ministry of Environmental Protection and Regional Development (MPERD) and provides planning and coordination of regional development issues as well as co-operation between local governments and other state administrative institutions. The LPR Development Council is the decision-making body of the region. It is composed of representatives from the 21 elected local authorities – municipalities of the region.

LPR plays a pivotal role in the otherwise fragmented governance of the region. In 2012 the first Action plan for Economic Development of Latgale Region was adopted by the Cabinet of Ministers of the Republic of Latvia. There have already been two successors to this unique regional framework and this has been the second attempt at integrated and targeted territorial investment in Latvia<sup>61</sup>. To be efficient it requires active co-ordination of measures between local administrations and the national government. LPR is a key player in achieving unity between LAUs and advocating their interests nationally. It has presumably had a positive impact on the region.

In Latvia there are 119 local authorities – 110 municipalities and 9 ‘cities of republic significance’. These cities have well-developed commercial activities, transport and public utility facilities, social and cultural infrastructure, as well as a population of at least 25,000. Rēzekne and Daugavpils are cities of republic significance. City status grants them some administrative and financial independence. Other authorities should have at least 4,000 inhabitants including a village of at least 2,000 inhabitants. Presently six out of 21 Latgale municipalities have a population below 4,000.

**“Municipalities are relatively small.** This undermines the provision of high-quality public services, including education and public transport. The government has initiated a territorial

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<sup>60</sup> <https://lpr.gov.lv/en/#.XtEKTi2B3zI>

<sup>61</sup> First attempt was the EU-cofinanced priority “Polycentric development” in 2007-2013 planning period.

reform aiming at reducing the number of municipalities significantly. This should entail large efficiency gains and help address the deepening rural-urban divide” (OECD, 2019b).

The present administrative territorial reform envisages reducing the current number of 119 local authorities by about 2/3. By end 2020, Latgale should have 9 LAUs, 2 towns and 7 municipalities.

To measure the quality of government, the **European Quality of Government Index (EQI)**<sup>62</sup> provides an insight into institutional quality in 21 EU Member States. Funded by the European Commission, it was calculated in 2010, 2013 and 2017. The EQI captures citizen perceptions and experiences with corruption, and how they rate their public services as impartial and good quality. In 2017, the EQI for Latvia was -0.51. Despite the low figure, this is progress compared to the previous two periods, i.e. -0.88 in 2013 and -0.93 in 2010; however, it is still below the average of the 21 countries assessed.

During the interviews, **civil society** in the region was mentioned as comparatively weak and immature. There are many non-governmental institutions in Latgale (823, or 9 NGOs per 1,000 inhabitants in 2018) and recently LAG initiatives (seven partnerships in the region) have also contributed significantly to local development. However, probably also due to the low population they are not sufficiently empowered compared to the capital city area and other EU regions.

### 1.2.5 Access to finance

A number of interviewees indicated that Latgale businesses face particular difficulties in accessing finance. Mostly this is due to their **inability to comply with collateral requirements** and sometimes the limited financial literacy of business owners. Though the issues are relevant mostly to businesses in their early stages (e.g., Stage I the launch, start-up or existence phase or Stage II - survival<sup>63</sup>), even more mature companies (Stage III and above) may face the issue as collateral in Latgale is worth considerably less than in Rīga or Pierīga.

Bank representatives affirmed that businesses in Latgale are considerably **disadvantaged for access to finance**.

In its justification to Regional Policy Guidelines 2021-2027<sup>64</sup> the Ministry of Environmental Protection and Regional Development stated that “regional disparities are caused by significantly **distinct volumes of capital investments by regions**”. The ministry also notes that the “same regards to investments into labour costs”.

The consortium analysed **capital investments** by Latgale companies and their sources from 2014 to 2018<sup>65</sup>. In 2018, a total of 6,807 Latgale companies submitted annual reports. The total value of their **fixed assets** was EUR 1,1 billion or 3.7% of fixed assets for companies<sup>66</sup> in

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<sup>62</sup> [https://ec.europa.eu/regional\\_policy/en/information/maps/quality\\_of\\_governance#2](https://ec.europa.eu/regional_policy/en/information/maps/quality_of_governance#2)

<sup>63</sup> <https://hbr.org/1983/05/the-five-stages-of-small-business-growth>

<sup>64</sup> <https://likumi.lv/ta/id/310954-par-regionalas-politikas-pamatnostadnem-2021-2027-gadam>

<sup>65</sup> 2018 was the latest financial year for which all the Annual Reports were available. For 2019 not all the Annual Reports were yet received and processed by the Register of Enterprises at the time of the analysis was performed, i.e. April-May 2020.

<sup>66</sup> Those submitting Annual Reports

Latvia<sup>67</sup>. In 2018, Latgale had the lowest investments in fixed assets per capita in the country at EUR 4 822, while the average in Latvia was EUR 15 533 (see also sub-chapter 1.3.5 on territorial spread of investments).

**Long-term bank loans** per enterprise in Latgale are half the national average, but more or less on a par with Kurzeme. For **working capital**, however, it is half Kurzeme and 1/3 of the country average.

Table 1.2 Aggregated balance sheet data of total assets, long-term and short-term loans per enterprise, 2018, €

|                | Total assets | Long-term loans | Short-term loans |
|----------------|--------------|-----------------|------------------|
| <b>LATVIA</b>  | 264 409      | 51 700          | 23 442           |
| <b>Kurzeme</b> | 230 948      | 28 492          | 15443            |
| <b>Latgale</b> | 164 857      | 25 771          | 7 152            |

Source, Register of Companies data via Lursoft, Ltd.

In 2018, **bank loans** to enterprises in Latgale totalled EUR 224.1 million, which was 2.6% of the national total. While capital investments in Latvia and its regions kept growing from 2014 to 2018, total bank loans declined.

Table 1.3 Change in total assets, long-term and short-term loans per enterprise, 2014-2018, %

|                | Total assets | Long-term loans | Short-term loans |
|----------------|--------------|-----------------|------------------|
| <b>LATVIA</b>  | 35           | -16             | -15              |
| <b>Kurzeme</b> | 5            | -22             | -7               |
| <b>Latgale</b> | 12           | -6              | -30              |

Source, Register of Companies data via Lursoft, Ltd.

The decline in credit has been partly attributed to the anti-money laundering action plan affecting many businesses whose owners could not prove the origins of their capital.

“While indicators of financial market development point to significantly lower performance than the OECD average and are slightly lower than the EU28 average, the legal rights index that encapsulates the strength of the credit system is above the OECD average. Farmers’ access to credit has also improved and credit for agricultural business development can be sourced through EU and national programmes, and the State Joint Stock Company ALTUM. Efforts should be continued to support the development of the financial market” (OECD, 2019a).

The **state-owned development finance institution ALTUM** fills a market gap by offering State aid through loans, credit guarantees, investing in venture capital funds, etc. For 2019, 17% of loans provided by the institution were in Latgale<sup>68</sup> which is by far the highest share among the

<sup>67</sup> Data from the Register of Enterprises via <https://www.lursoft.lv> retrieved in April 2020

<sup>68</sup> ALTUM statistics cover only 17 of 21 municipalities in Latgale. This makes the result even more impressive and suggests the share for NUTS LV005 is even higher.



regions. Altogether EUR 6.4 million (3% of bank loans in Latgale) were lent to businesses in 17 municipalities with an average loan of EUR 51 180. Almost 1% of 12 869 enterprises in the 17 municipalities were borrowers, which is again the highest among the regions. These data show that ALTUM is partly covering the financial market gap and that Latgale businesses are among the neediest for finance at facilitated terms. Notably, about 70% of the loans are for agriculture, a low added value sector.

In addition to bank loans, businesses can borrow money from **savings and loan associations**, which are a type of community development financial instrument (CDFI)<sup>69</sup>. There is only one such association in Latgale - 'Šķilbēni' in the Viļaka municipality on the border with Russia.

As for **private equity** and **venture capital**, no private financial market investments were identified in Latgale. There is an ALTUM supported (ERDF as a funding source) private equity investment in Viļāni municipality, for a company producing wooden pellets.

### 1.2.6 Other relevant aspects

The **Regional Competitiveness Index** (RCI) has measured competitiveness over the past ten years for all NUTS-2 regions across the EU. RCI uses more than 70 indicators to assess a region's ability to offer an attractive and sustainable environment for firms and residents to live and work<sup>70</sup>.

The RCI z-score<sup>71</sup> for Latvia in 2019 was -0.57, so the country is below the EU average. There is no RCI at NUTS3 level. However, judging from data covering aspects being assessed for RCI such as governance, infrastructure including digital networks, health, human capital and labour market and innovation<sup>72</sup> the region would score considerably below the country average. On the other hand, judging from indicators such as growth of the ICT sector, number of high- and medium-tech companies as well as capital effectiveness, in some areas the region is on a par with the rest of Latvia's rural regions.

## 1.3 Territorial developments

### 1.3.1 Settlement structure and population development

Latgale is **predominantly rural**<sup>73</sup> and most urban settlements comparatively small. In 2003 an ESPON project categorised Latgale as low urban influence and medium human intervention<sup>74</sup>.

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<sup>69</sup> CDFIs can be banks, credit unions, loan funds, microloan funds, or venture capital providers. CDFIs help families finance their first home, support community residents starting businesses, and invest in local health centres, schools, or community centres. CDFIs strive to foster economic opportunity and revitalise neighbourhoods.

<sup>70</sup> <https://cohesiondata.ec.europa.eu/stories/s/Regional-Competitiveness-Index-2019/363v-4uq6/>

<sup>71</sup> The regional z-score is a measurement of the relationship of the regional RCI value to the EU RCI mean (average). Positive values show higher than the EU-mean; negative values are lower than the EU-mean. <https://cohesiondata.ec.europa.eu/stories/s/Regional-Competitiveness-Index-2019/363v-4uq6/>

<sup>72</sup> [https://ec.europa.eu/regional\\_policy/en/information/maps/regional\\_competitiveness/](https://ec.europa.eu/regional_policy/en/information/maps/regional_competitiveness/)

<sup>73</sup> at least 50% of the population live in rural grid cells [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Urban-rural\\_typology](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Urban-rural_typology)

<sup>74</sup> [https://www.espon.eu/sites/default/files/attachments/presentation\\_1.1.2.pdf](https://www.espon.eu/sites/default/files/attachments/presentation_1.1.2.pdf)

There are **14 urban settlements** in the region. Only two of them are considerable **functional urban areas**<sup>75</sup> under the 2016 EUROSTAT Degree of urbanisation (DEGURBA) classification<sup>76</sup> as described in sub-chapter 1.1.3.

In 2019, **Daugavpils** had 82,604 inhabitants with a density of 1,147 people per km<sup>2</sup>. Together with the surrounding LAU (Daugavpils novads) it had 102,753 inhabitants and was the major urban area in the region.

In 2019, **Rēzekne** had a population of 27 820 with a density of 1,546 people per km<sup>2</sup>. Together with the surrounding LAU (Rēzekne novads) it had 52,507 inhabitants and was the second urban area in the region.

The other 19 local authorities are mostly rural. The biggest two are municipalities around the urban centres. Rēzekne municipality is 2 525 km<sup>2</sup> and Daugavpils municipality is 1 876 km<sup>2</sup>. The smallest rural local authorities are Baltinava covering 186 km<sup>2</sup>, Viļāni 287 km<sup>2</sup> and Vārkava 288 km<sup>2</sup>.

The remaining 12 towns have less than 10,000 inhabitants. The population density in these varies from 25 to 4 inhabitants per km<sup>2</sup>. These would not qualify as urban clusters<sup>77</sup>, although there are a few such as Līvāni, Preiļi and Balvi serving as 3<sup>rd</sup> tier LAU within the region.

The least populated LAU has 4 people per km<sup>2</sup>. Local municipalities on the border with the Russian Federation have a density below 10 people per km<sup>2</sup>.

Although **the stakeholder territory is depopulating** overall, rural areas are emptying much faster than urban ones. There is a tendency for local authorities on the border to have more outmigration. On average, since 2007 ten local authorities on the border with Lithuania, Belarus and Russia have lost 27% of their population, while other municipalities lost 11 to 21%.

People from bordering municipalities and other distant rural areas migrate to urban areas where there are jobs (1) within the region to Daugavpils, Rēzekne, Līvāni, Preiļi and Balvi, (2) the capital city of Rīga and (3) elsewhere in the EU. This further aggravates disparities between sparsely populated and urban areas within Latgale.

### 1.3.2 Labour market development

According to the Regional development indicators module (RAIM) data, in 2018, **the working age population** (aged 15-61) in Latgale was 178,312<sup>78</sup>. Over the last decade it has reduced by 50 000 or 20% mainly due to outward migration.

In 2019, **unemployment** in Latgale was 13.8%, the lowest in 10 years and down from 18% in 2009. In 2018, unemployment in the following municipalities of Latgale was<sup>79</sup>:

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<sup>75</sup> [https://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Functional\\_urban\\_area](https://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Functional_urban_area)

<sup>76</sup> <https://ec.europa.eu/eurostat/web/degree-of-urbanisation/background>

<sup>77</sup> a population density of at least 300 inhabitants per km<sup>2</sup> and a minimum population of 5 000 inhabitants  
[https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Urban\\_cluster](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Urban_cluster)

<sup>78</sup> RAIM

<sup>79</sup> RAIM

- considerably above the regional average: in Cibla (21%), Viļāni (20.3%), Zilupe (19.9%), Kārsava (18.8%), Ludza (16.3%), and Baltinava (16.1%). All of these territories, except Viļāni, border Russia.
- below 10%: Daugavpils (7.2%), Rēzekne (9,1%), Preiļi (8.1%), Ilūkste (8%) and Vārkava (7.5%). All of these are further from the border.
- significantly lower over the last ten years: Baltinava (by 10,5%), Vārkava (by 9,8%) and Viļaka (by 8,4%). Both Baltinava and Viļaka border Russia.

Despite unemployment in rural areas, employers complain about the **shortage of appropriate labour force**. Inappropriate skills often hinder employment. In 2019, in Latvia the highest share of unemployed (36%) had vocational education with half (52%) aged over 50.

Labour market indicators in lagging regions cannot be explained by only one factor, for example, low level of human capital. “On one hand there is no evidence that the education of inhabitants of Latgale would much differ from the rest of the regions both in terms of quantity and quality. On the other hand, there is a clear multiplicative impact of educational levels of the regions’ population on its unemployment rate. People with a higher education are in demand.”(Krasnopjorovs Oļegs, 2019)

Businesses in Latgale, especially manufacturing enterprises in major urban areas seek employees from all over the region. Much of the labour force already commutes to work within the region as described in 1.1.1. The labour force commutes to bigger urban centres with more lucrative employment options.

Surveying its members in 2019, the LCCI found that 57% of them assessed labour availability in Latvia as very problematic. Solutions, to attract **labour from outside the EU**, replace human labour by technology as well as remigration have been mentioned<sup>80</sup>.

As Latvia gradually loosens immigration, the missing labour force is being sought in countries outside the EU, mostly Ukraine. Interviews mentioned also that activities to encourage Latvian citizens to remigrate have been successful.

### 1.3.3 Accessibility

**Accessibility** and **population potential** within the region are less favourable for territories directly on the EU external borderline. In 2012, the north-eastern territories along the border with Russia were defined as poorly connected and sparsely populated by the ESPON GEOSPECs project<sup>81</sup>. These are the municipalities of Viļaka, Baltinava, Kārsava, Cibla, Ludza, Zilupe, Dagda, and Krāslava. Due to demographic changes in the past ten years, the situation has amplified. All of these are rural territories with insufficient road networks and public transportation that impose additional costs on businesses. Municipalities with border crossing points seem to be a bit better positioned and can count on some logistics activities.

<sup>80</sup> <https://www.chamber.lv/lv/content/jaunumi/3875> (accessed May, 2020)

<sup>81</sup> <https://mapfinder.espon.eu/?p=1282>

Due to accessibility most businesses in Latgale have concentrated around Daugavpils and Rēzekne, which have transportation nodes, or by the East-West transportation corridor – closer to Rīga, i.e., Līvāni, Preiļi, etc.

As mentioned in sub-chapter 1.1.2, the purchasing power of local inhabitants is very limited so most businesses seek markets outside the region.

For fresh agriculture produce, especially organic, the capital city of Rīga is the main market. Bigger producers of dairy and grain as well as the food industry focus on exports and the capital city.

Similarly, forestry and related wood-processing and manufacturing industries also export though some of their products such as fuel pellets are also in demand locally.

### 1.3.4 Entrepreneurial capacity

Inhabitants of Latgale can be considered as **comparatively entrepreneurial**, especially for self-employment (see also sub-chapter 1.1.1). From 2013 to 2018 self-employment in Latgale increased from 32 to 35 per 1 000 inhabitants and commercial companies from 17 to 22.

Predominantly rural areas have more **self-employment** compared to more urban areas and the number of self-employed per 1,000 inhabitants in 2018 was:

- lowest in Daugavpils (23) and Rēzekne (29)
- highest in Riebiņi (79), Rugāji (63) and Vārkava (90)

Between 2014 and 2018, the highest increase in self-employment was in Ludza (23%), Viļaka (17%) and Zilupe (12%). All three municipalities border Russia.

According to the interviews, a lot of the self-employed are engaged in **home-production** (*mājražošana*). This preserves traditional crafts including niche products such as traditional clay pots that Latgale is famous for across the whole country, or organic farm goods. However, home-production results in comparatively low added value products that are also difficult to market without additional effort.

In 2018, the number of **commercial companies** per 1,000 inhabitants is:

- higher in urban areas - Rēzekne (32), Daugavpils (28), Līvāni (21) and Preiļi (20)
- lowest in Vārkava (8), Riebiņi (11) and Rugāji (19). All three municipalities have the highest share of self-employment

Rural areas also have a comparatively high share of enterprises with 0-9 and 10-19 employees. There are 11 enterprises of more than **250 employees** in Daugavpils (7), Rēzekne town (1), Preiļi (1), Līvāni (1) and Rēzekne municipality (1). Of these, eight are manufacturers, half are in food production, one in wood-processing, one in manufacturing electrical equipment, and two manufacturing machinery and equipment.

Assessing entrepreneurial potential in the region involved analysing three dimensions / six indicators at LAU level that are key for business development and entrepreneurship or are proxies for entrepreneurship.

Table 1.4 Business proxies in Latgale

| Dimension         | Indicator   | Interpretation  |
|-------------------|---|---|
| Business vitality | Evolution of the number of commercial companies       | Strong and stable economic base                         |
|                   | Average annual business creation per 1000 inhabitants | New businesses / entrepreneurship                       |
| Attractivity      | Average annual Investments in fixed assets per capita | Continuous investment effort in local assets            |
|                   | Average annual FDI                                    | Attractivity to foreign investors                       |
| Local resources   | Active population                                     | Availability of human capital                           |
|                   | Average municipal tax revenue                         | Availability of public funding for business development |

Source: Consortium, 2020

For each LAU and each indicator, a relative position differentiated between above average (green), average (yellow) and below average (red) positioning of the LAU. Table 1.5 provides an overview of the 21 local authorities showing their relative position to the regional average. The potential is not static but shows the dynamic of each indicator from 2014 to 2018.

Table 1.5 Change in business proxies between 2014-2020

| Municipalities     | Business vitality |                | Attractivity |      | Local assets      |                   | Result |
|--------------------|-------------------|----------------|--------------|------|-------------------|-------------------|--------|
|                    | Economic base     | New businessse | Fixed assets | FDI* | Active population | Municipal revenue |        |
| Aglona             | ●                 | ●              | ●            | ●    | ●                 | ●                 | ●      |
| Baltinava          | ●                 | ●              | ●            | ●    | ●                 | ●                 | ●      |
| Balvi              | ●                 | ●              | ●            | ●    | ●                 | ●                 | ●      |
| Cibla              | ●                 | ●              | ●            | ●    | ●                 | ●                 | ●      |
| Dagda              | ●                 | ●              | ●            | ●    | ●                 | ●                 | ●      |
| Daugavpils town    | ●                 | ●              | ●            | ●    | ●                 | ●                 | ●      |
| Daugavpils municip | ●                 | ●              | ●            | ●    | ●                 | ●                 | ●      |
| Ilūkste            | ●                 | ●              | ●            | ●    | ●                 | ●                 | ●      |
| Kārsava            | ●                 | ●              | ●            | ●    | ●                 | ●                 | ●      |
| Krāslava           | ●                 | ●              | ●            | ●    | ●                 | ●                 | ●      |
| Līvāni             | ●                 | ●              | ●            | ●    | ●                 | ●                 | ●      |
| Ludza              | ●                 | ●              | ●            | ●    | ●                 | ●                 | ●      |
| Preiļi             | ●                 | ●              | ●            | ●    | ●                 | ●                 | ●      |
| Rēzekne town       | ●                 | ●              | ●            | ●    | ●                 | ●                 | ●      |
| Rēzekne municip    | ●                 | ●              | ●            | ●    | ●                 | ●                 | ●      |
| Riebiņi            | ●                 | ●              | ●            | ●    | ●                 | ●                 | ●      |
| Rugāji             | ●                 | ●              | ●            | ●    | ●                 | ●                 | ●      |
| Vārkava            | ●                 | ●              | ●            | ●    | ●                 | ●                 | ●      |
| Vījaka             | ●                 | ●              | ●            | ●    | ●                 | ●                 | ●      |
| Vīļāni             | ●                 | ●              | ●            | ●    | ●                 | ●                 | ●      |
| Zilupe             | ●                 | ●              | ●            | ●    | ●                 | ●                 | ●      |

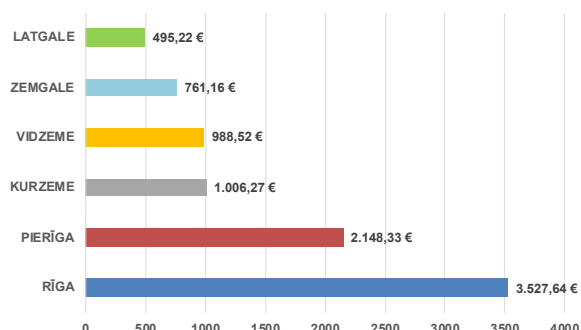
Source: Consortium calculations based on data by CSB and RAIM for tax revenues; \* FDI data 2012-2017

As a last step local authorities were categorised ('result' column) and mapped according to their entrepreneurship potential profile. The most business potential is in the towns of Daugavpils and Rēzekne and municipalities of Līvāni, Preiļi and Rugāji. Ten LAUs show *average* potential, five *low* and one *very low* - Aglona. A map capturing the entrepreneurial potential within Latgale is in the concluding part of Chapter 1.3.4 – Map 2.1. where it is related and compared to ESIF uptake.

### 1.3.5 Investments and financing

In Latgale investments in tangible fixed assets per capita are by far the lowest in Latvia. In 2017, the national average was four times higher and the Rīga region even seven times higher.

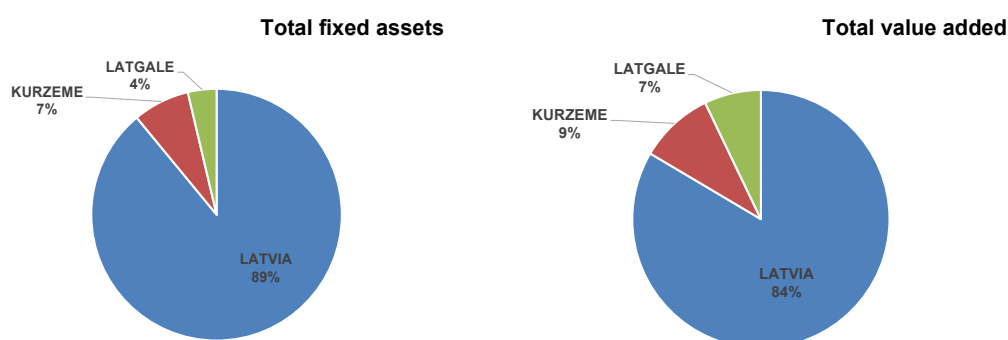
Figure 1.6 Investments in tangible fixed assets per capita, 2017, €



Source: CSB

This partly explains the low productivity and comparatively low value added per person in the region. Nevertheless, with only 4% of fixed assets in the country (EUR 1.1 billion of EUR 29.2 billion in 2017), Latgale entrepreneurs managed to produce 7% of the national added value (EUR 1.7 billion of EUR 23.4 billion in 2017).

Figure 1.7 Share of Latgale and Kurzeme fixed assets and total value added, 2017



Source: Consortium calculations based on data by CSB and the Register of Enterprises via <https://www.lursoft.lv> retrieved in April 2020

From 2014 to 2018 fixed assets in Latgale as well as in Kurzeme increased by 5%, half the increase in Latvia overall of 13%. Value added in Latgale from 2013 to 2017 increased by 9%, in Kurzeme by 11% and Latvia overall by 16% (see sub-chapter 1.3.6).

One sector which seems to be significantly increasing fixed assets in Latgale is (A) Agriculture and forestry from 2014 to 2018 they increased by 55%, but only 6% in (C) manufacturing. This could be attributed to EAFRD investments. Apparently between 2013 and 2017 this enabled value added to almost double with employment in the sector continuously declining (see sub-chapter 1.3.6).

Table 1.6 Total fixed assets per employed and total value added per employed, 2017

|                | Fixed assets | Value added |
|----------------|--------------|-------------|
| <b>LATVIA</b>  | € 32.632,77  | € 18.256,00 |
| <b>Kurzeme</b> | € 19.587,51  | € 15.955,00 |
| <b>Latgale</b> | € 9.973,15   | € 10.800,00 |

Source: Consortium calculations based on data by CSB and the Register of Enterprises via <https://www.lursoft.lv> retrieved in April 2020

Of the 21 municipalities in Latgale the following saw the largest increase in fixed assets:

- For volume Rēzekne town excels with EUR 64 million
- For share Baltinava (71%), Kārsava (71%) and Zilupe (51%) municipalities

Table 1.7 Foreign direct investments and investments into fixed assets per capita in the Latgale municipalities and the change in total volume of fixed assets 2014-2018

| Municipalities     | FDI per capita € | Fixed assets per capita € | CHANGE 2014-2018      |                      |
|--------------------|------------------|---------------------------|-----------------------|----------------------|
|                    |                  |                           | Total fixed assets M€ | Total fixed assets % |
| Aglona             | 0,00             | 1766,75                   | -1,56                 | -21,0                |
| Baltinava          | 0,00             | 7344,13                   | 3,05                  | 71,1                 |
| Balvi              | 3,14             | 2221,08                   | 2,12                  | 8,5                  |
| Cibla              | 0,00             | 1620,03                   | 0,28                  | 7,5                  |
| Dagda              | 1,17             | 2082,48                   | 1,15                  | 8,6                  |
| Daugavpils town    | 31,51            | 4490,35                   | 0,84                  | 0,2                  |
| Daugavpils municip | 2,13             | 2151,85                   | -0,52                 | -1,1                 |
| Ilūkste            | 1331,36          | 4517,83                   | 4,11                  | 15,4                 |
| Kārsava            | 0,22             | 4385,51                   | 9,83                  | 71,1                 |
| Krāslava           | 10,54            | 5329,85                   | 12,62                 | 19,4                 |
| Līvāni             | 590,50           | 4495,63                   | 6,72                  | 15,7                 |
| Ludza              | 1,10             | 2503,32                   | -4,59                 | -12,9                |
| Preiļi             | 11,16            | 5428,56                   | 2,81                  | 5,8                  |
| Rēzekne town       | 23,23            | 7767,95                   | 64,20                 | 41,5                 |
| Rēzekne municip    | 0,33             | 3474,95                   | 0,78                  | 0,9                  |
| Riebiņi            | 0,00             | 1376,50                   | 1,06                  | 19,1                 |
| Rugāji             | 0,00             | 2370,94                   | 0,77                  | 17,7                 |
| Vārkava            | 0,00             | 2376,56                   | 0,66                  | 17,4                 |
| Vilaka             | 1,76             | 3502,84                   | 4,00                  | 31,8                 |
| Vilāni             | 0,00             | 5717,77                   | 4,18                  | 14,8                 |
| Zilupe             | 0,00             | 3582,62                   | 3,34                  | 50,9                 |

Source: Consortium calculations based on data by CSB and the Register of Enterprises via <https://www.lursoft.lv> retrieved in April 2020

In 2018 Latgale had only EUR 5.3 million of **FDI** or EUR 20 per capita, the lowest among the regions. For comparison, the national average is EUR 800 led by Rīga with EUR 1 500. FDI has fluctuated significantly in both the region and the country as a whole. In 2017 Latgale had EUR 19.7 million or EUR 73 of FDI per capita. In 2018 only 11 of 21 LAU territories had any FDI. The most significant FDI per capita is in Līvāni municipality EUR 2.5 million in 2018 or EUR 193 per capita.

### 1.3.6 Gross value added

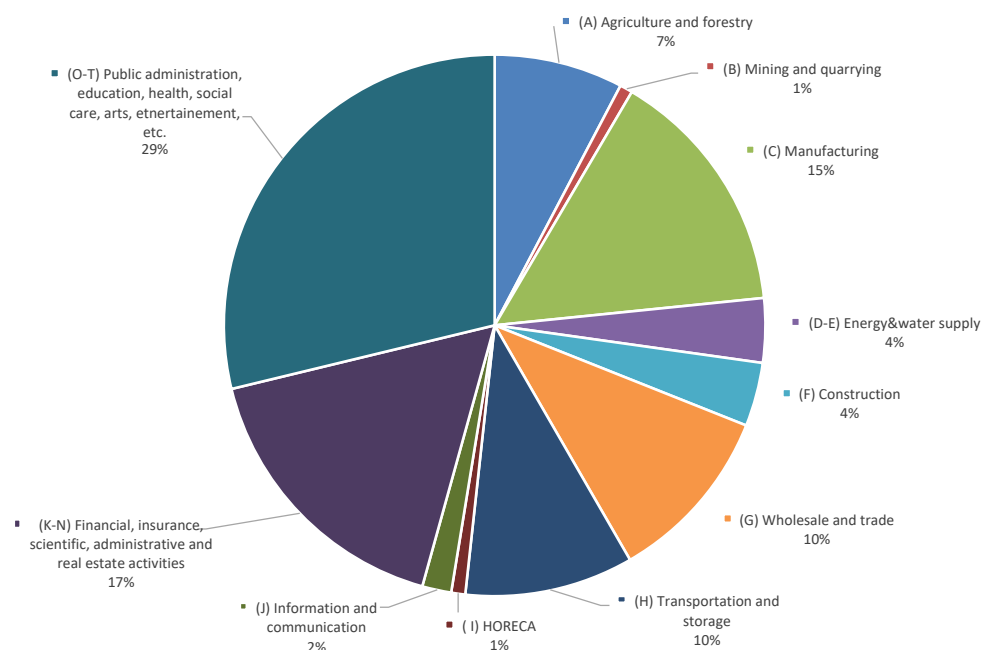
The total value added by the region in 2017 was € 1 672 M or 7% of the **total value added** in the country. Only the Vidzeme region has an even lower total value added - € 1 480 M.

The highest share of value added in the region was (C) **Manufacturing sector** with 15%. There was no big change in the share of manufacturing in the five years after 2013.

Two other equally important market sectors in terms of value added are (G) **Wholesale and trade sectors**, 11% and (H) **Transportation and storage**, 10%. Since 2013 the share of both sectors has declined both in terms of proportion as well as total value. (H) Transportation and storage companies have always been important employers in Latgale and with the transportation sector in decline (railway, in particular) layoffs can be expected.

The only sector that grew significantly from 2013 to 2017 was (A) **Agriculture and forestry**. The value added increased by 92% (EUR 67 million in 2013 to EUR 128 million in 2017) and its share in the region's value added rose from 3.5% to 7.7%. At the same time employment in the sector slightly declined from 13,900 in 2013 to 11,400 in 2017 so value added per employed person more than doubled, i.e. from EUR 4 820 in 2013 to EUR 11 282 in 2017.

Figure 1.8 Total value added by NACE, 2017



Source: CSB

At the local level the gross value added as well as GDP data are available only for 'cities of republic significance' - Daugavpils and Rēzekne. The data suggests that GDP per capita growth between Daugavpils and Rēzekne differs with the latter growing comparatively faster.

Table 1.8 Changes in GDP and total fixed assets per capita 2013-2018

|                   | GDP per capita € |        | GDP growth 2013-2017 | Fixed assets per capita € |       | Fixed assets growth 2013-2017 |
|-------------------|------------------|--------|----------------------|---------------------------|-------|-------------------------------|
|                   | 2013             | 2017   |                      | 2014                      | 2018  |                               |
| <b>Daugavpils</b> | 8 170            | 9 050  | 11%                  | 4 773                     | 4 490 | 0.2%                          |
| <b>Rēzekne</b>    | 9 435            | 10 917 | 16%                  | 5 160                     | 7 768 | 41.6%                         |

Source: Consortium calculations based on data by CSB and the Register of Enterprises via <https://www.lursoft.lv> retrieved in April 2020



Between 2013 and 2017 there was an average of 2% annual GDP growth in Daugavpils, and 3% in Rēzekne. The exceptional growth of fixed assets in Rēzekne is mainly as a result of investments in:

- A - Agriculture and forestry plus 125 %
- I - Accommodation and food service activities 82%
- C – Manufacturing 82%

### 1.3.7 Income levels

In 2018, the average **disposable income in cash and kind per month and per capita** in Latgale was EUR 552, the lowest in the country. The national average was EUR 786 while in Rīga it was EUR 876. Thus, earnings in Latgale are only 70% of the national average and 63% of the capital city.

Table 1.9 Income per capita and municipal tax revenues per capita in Latgale municipalities and the change between 2009-2018

| Municipalities     | Income per capita 2018<br>€ | Income per capita<br>CHANGE 2009-2018 |       | Tax revenues per capita<br>2018 € | Tax revenues per capita<br>CHANGE 2009-2018 |        |
|--------------------|-----------------------------|---------------------------------------|-------|-----------------------------------|---|--------|
|                    |                             | Total €                               | %     |                                   | Total €                                     | %      |
| Aglona             | 484,00                      | 128,00                                | 36,0  | 348,3                             | 188,23                                      | 117,56 |
| Baltinava          | 531,00                      | 161,00                                | 43,5  | 442,2                             | 262,74                                      | 146,44 |
| Balvi              | 514,00                      | 159,00                                | 44,8  | 465,4                             | 223,98                                      | 92,78  |
| Cibla              | 487,00                      | 125,00                                | 34,5  | 410,2                             | 228,33                                      | 125,55 |
| Dagda              | 488,00                      | 159,00                                | 48,3  | 382,7                             | 214,06                                      | 126,92 |
| Daugavpils town    | 551,00                      | 197,00                                | 55,6  | 477,7                             | 184,33                                      | 62,83  |
| Daugavpils municip | 482,00                      | 156,00                                | 47,9  | 419,6                             | 241,28                                      | 135,28 |
| Ilūkste            | 650,00                      | 383,00                                | 143,4 | 451,3                             | 252,07                                      | 126,55 |
| Kārsava            | 502,00                      | 168,00                                | 50,3  | 417,6                             | 232,65                                      | 125,79 |
| Krāslava           | 492,00                      | 179,00                                | 57,2  | 405,2                             | 208,59                                      | 106,11 |
| Līvāni             | 673,00                      | 315,00                                | 88,0  | 458,5                             | 237,51                                      | 107,49 |
| Ludza              | 509,00                      | 141,00                                | 38,3  | 435,7                             | 196,74                                      | 82,32  |
| Preiļi             | 580,00                      | 209,00                                | 56,3  | 525,9                             | 246,36                                      | 88,14  |
| Rēzekne town       | 584,00                      | 207,00                                | 54,9  | 526,0                             | 187,44                                      | 55,37  |
| Rēzekne municip    | 573,00                      | 215,00                                | 60,1  | 395,8                             | 215,58                                      | 119,64 |
| Riebiņi            | 555,00                      | 253,00                                | 83,8  | 403,1                             | 261,17                                      | 183,99 |
| Rugāji             | 506,00                      | 193,00                                | 61,7  | 413,3                             | 247,02                                      | 148,55 |
| Vārkava            | 473,00                      | 113,00                                | 31,4  | 387,0                             | 241,58                                      | 166,13 |
| Viļaka             | 474,00                      | 125,00                                | 35,8  | 427,4                             | 245,15                                      | 134,54 |
| Viļāni             | 491,00                      | 187,00                                | 61,5  | 414,7                             | 229,11                                      | 123,44 |
| Zilupe             | 453,00                      | 94,00                                 | 26,2  | 334,2                             | 181,67                                      | 119,07 |

Source: Consortium calculations based on data by CSB for income and RAIM for tax revenues

For the decade 2009-2018 national average **income increased** by 54% and in Latgale by 46%, though certainly not everywhere in the region:

- the most significant increase was in Ilūkste (143%)<sup>82</sup>, Līvāni (88%) and Vārkava (84%)
- a considerable increase of around 60% in Rugāji, Krāslava, Rēzekne and Viļāni
- a modest increase in Zilupe (26%), Vārkava (31%), Aglona (36%) and Viļaka (36%)

<sup>82</sup> LatRosTrans

In 2018 Latgale had 18% of people **under the minimum income or at poverty risk** while the national average was 8%. It is much higher than the next lowest, Vidzeme with 12%.

The annual **tax revenues of local authorities per inhabitant** in Latgale in 2018 were the lowest in the country at EUR 506, while the national average was EUR 845, and the top revenues were in Rīga at EUR 1 092. Over the decade 2009-2018 tax revenues have on average doubled.

Of the tax revenues per inhabitant in Latgale in 2018 on average EUR 368 were from **the resident income tax (RIT)**<sup>83</sup>:

- the highest overall RIT was in Rēzekne (EUR 485), Preiļi (EUR 480), Daugavpils (EUR 437), Balvi (EUR 413), Līvāni (EUR 408)
- the biggest increase from 2009 was in Riebiņi (175%), Vārkava (152%) and Rugāji (143%). All three municipalities have a significant share of self-employed persons.
- the lowest increase from 2009 was in Daugavpils (62%) and Rēzekne (51%) towns. Nevertheless, RIT per inhabitant in absolute value is still among the highest there, which suggests that cohesion has taken place in the region including through increased value added in less urban areas.

The territories with higher economic activity - Daugavpils, Rēzekne, Līvāni, Preiļi – consequently have the highest **wages** in the region with Līvāni leading in 2019 with EUR 876 monthly. These 2<sup>nd</sup> and 3<sup>rd</sup> tier Latgale towns have significantly higher average incomes due to higher added value sectors, which shows that businesses in **urban areas** can move up the economic value chain more easily.

The sectors with the highest earnings in Latgale are **manufacturing**, i.e. 27 - Manufacture of electrical equipment (gross EUR 1 962 per month on average in 2019), 26 - Manufacture of computer, electronic and optical products (EUR 1 521 EUR), and 23 – Manufacture of other non-metallic mineral products (EUR 1 022 EUR), where again Līvāni stands out.

In 2019, the average wages in Daugavpils and Rēzekne were EUR 770 and EUR 800 per month respectively. They are also mostly in manufacturing industries. In Daugavpils the specific sectors are 20 - Manufacture of chemicals and chemical products (EUR 958), 23 - Manufacture of other non-metallic mineral products (EUR 985), and 28 - Manufacture of machinery and equipment (EUR 828), while in Rēzekne - 10 - Manufacture of food products (EUR 831), Manufacture of wood and of products of wood (EUR 805), and 42 - Civil engineering (EUR 995).

Preiļi is more known for its dairy processing industry which in 2019 provided monthly average earnings of EUR 1 024 for those employed in 10 - Manufacture of food products (regional average - EUR 831).

**(F) Construction** provides considerable incomes in Rēzekne town (EUR 995) and Balvi municipality (EUR 847), while **service industry** 52 - Warehousing and support activities for

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<sup>83</sup> <https://raim.gov.lv/lv/node/39>

transportation has the highest wage earnings in Balvi municipality (936 EUR), followed by 62 - Computer programming, consultancy and related activities in Rēzekne town (804 EUR).

For many inhabitants of Latgale especially those in border areas, a considerable part of their saving comes from regular trips across the border to Russia and Belarus for fuel and everyday goods. Commodities are generally a third cheaper there than in Latvia. Even some municipalities purchase, for example, wood chips for heating in Belarus because they cost less.

## 1.4 Conclusions

1. **Three causes** of Latgale lagging are:
  - 1.1. **outlying location**, far from major national and global markets, exacerbated by poor quality roads;
  - 1.2. **proximity to the EU external border** and consequent border closing effects;
  - 1.3. **sparse population** means lack of critical mass, making the local market insignificant.
2. **In recent decades Latgale has experienced the most rapid decrease in population among the regions and outward migration continues.** There were 260,000 inhabitants in the region in 2019 a 1/5 decrease since 2010. 60% live in urban areas.
3. **In 2019 there were approximately 160,000 people of working age, of which 107,800 were employed.** Unemployment rate was almost 14%, of which almost ½ is long-term highlighting structural unemployment. Business representatives point at the shortage of appropriately skilled and motivated labour force. The main sectors of employment are manufacturing, agriculture, trade and Horeca.
4. **The capital city Rīga and the EU Single market are seen as the main markets.** This makes accessibility and distance to Rīga and its seaport an important business factor. Most interviewees consider poor access and long distance as a serious impediment to business development. The quality of transport infrastructure poses challenges.
5. **Quality and affordability of ICT networks in Latgale are on a par with other Latvian regions and among the best in the EU.** Most businesses, municipalities and residents use public and private e-services.
6. **The two universities and 13 vocational education schools play a vital role in development of the region.** National education policy is being reformed to ensure that tertiary education flexibly responds to regional labour market needs. The situation is far from optimal. However, there are already study programmes designed as a response to regional business demands.
7. **Businesses in Latgale have the lowest value added per employed and the regional economy is trapped in low technology and low added value business activity such as agriculture, forestry and basic wood-processing.** A steep increase in value added per employed has only been in agriculture and forestry. Considerable investments in agriculture in recent years have resulted in doubled value added with slightly decreasing employment at the same time. This, however, does not contribute much to regional development. On the contrary it makes people from rural areas emigrate.

8. After Latvia joined the EU, **building regional competitiveness on a low cost / low skilled labour force has turned against the country, but Latgale, in particular.** People leave the region as well as the country for better paid jobs.
9. **In 2017 the average value added per employed person in Latgale was EUR 10 800, 59% of the national average (EUR 18 256) and 52% of Rīga (EUR 20 841).** Nonetheless, a few industries in Latgale stand out in terms of value added, for example:
  - B – Mining and quarrying – EUR 33 033
  - C26 - Manufacture of computer, electronic and optical products - EUR 28 086
  - C27 - Manufacture of electrical equipment - EUR 31 237
  - C28 - Manufacture of machinery and equipment - EUR 19 797

Presently there are few enterprises in the above industries, i.e., 32 in March 2020<sup>84</sup> with comparatively little employment at 1 652.

ICT is growing fast and provides considerable value added, at EUR 16 373 the highest among the rural regions. This could partly compensate for the jobs decrease in agriculture, in particular for young people.

10. **Latgale inhabitants are entrepreneurial and business activity has increased.** There is considerable self-employment as in other rural regions of Latvia. Yet the number of commercial companies per 1,000 inhabitants is the lowest in the country and 95% of companies in Latgale have 0-9 employees.
11. **Enterprises in Latgale have increased their fixed assets,** even though bank loans have decreased. Investments in fixed assets increased mostly in (A) Agriculture and forestry - 124%, but in (C) Manufacturing 'only' 58%. Despite this, investments in tangible fixed assets per capita in Latgale are still the lowest in Latvia. In 2017 the national average was four times higher, and the Rīga region even seven times higher.
12. **Access to finance is a major shortcoming faced by businesses in Latgale.** Their assets are too often valued as insufficient and cannot satisfy collateral requirements. In 2018, only 2.6% of bank business loans in Latvia were in Latgale. Limited financial literacy of regional businesses has been also mentioned as an obstacle for bank loans.
13. **With only 4% of fixed assets in the country, Latgale entrepreneurs manage to produce 7% of national added value as well as 7% of national GDP.** This presumably shows certain strengths and potential of manufacturing in Latgale.
14. **The EU external border has a strong closing effect and is seen as a disadvantage rather than an opportunity for business development.** Businesses in the area have higher business costs that make them less competitive in the national as well as EU markets. For example, every extra mile is an additional business cost that reduces investment in the territory.

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<sup>84</sup> Data from the Register of Companies via Lursoft, Ltd. On 3 844 active enterprises (commercial companies and individual merchants) operational in Latgale in NACE sectors B to M and S.95

15. **There is a distinct urban-rural divide in terms of business activity for sectors as well as the size of enterprises.** In most rural municipalities, agriculture and forestry with some basic wood processing activities dominate. Innovative and ICT companies grow in and around the biggest functional urban areas in Līvāni, Daugavpils and Rēzekne. There is some urban-rural cohesion including through economic value added in agriculture. Nevertheless, as formulated by one of the interviewees, most business activity in rural Latgale can be considered as social entrepreneurship – a lot of micro and small businesses operate with a sense that without them the place would be completely left behind with no activity at all. Also, Daugavpils and Rēzekne seem to be developing at different speeds with the latter growing faster, but this could change soon due to the Latgale special economic zone (SEZ) as well as business support measures described in Chapter 2.3.
16. **Governance and civic engagement in the region is modest with a lack of critical mass.** The present situation can be described as follows:
- 16.1. **Regional governance institutions lack full legitimacy, fiscal autonomy and authority.** This prevents them from developing and implementing regional projects or representing regional needs in national development planning processes. The administrative territorial reform of 2020 was a good move towards resource concentration and capacity building at LAU level. Momentum should be used to strengthen the regional level.
- 16.2. **Partnerships and networking among regional businesses is not widespread or strong.** Partly this is due to a lack of trust among key players and business representatives in particular. As a result, regional business interests rarely get heard at national level. No distinct clusters have been identified in the region, though certain industries concentrate in specific territories that could develop into clusters.
- 16.3. **Civil society in the region is comparatively weak and immature.**

The findings of **the targeted analysis approve one of the main hypotheses of this study:** “The external border location negatively affects the overall regional development potential and business opportunities in the stakeholder territories.” Due to, inter alia, also the external border situation, **the region of Latgale faces particular development obstacles.** The specific border produces closing effects on the economic space and the overall economy. Entrepreneurship is lower in Latgale than in other parts of Latvia that are closer to Riga or to transport routes for export markets. Access and distance to the main transport junctions imply extra costs for businesses in Latgale that reduces their competitiveness.

## **2 Business support and territorial effects**

### **2.1 Existing business support system**

#### **2.1.1 Finance**

Several local financial initiatives in the region to support new or small enterprises and encourage youth to engage in business are funded from municipal budgets. The support is mainly as annual **grants** offered on a competitive basis and depends on the size of the municipality and its financial capacities. The annual funding ranges from EUR 1 500 in Baltinava to EUR 60 000 in Daugavpils city with grants varying from EUR 500 to EUR 10 000 per business project.

Representatives of local authorities acknowledge these financial incentives are important to raise the entrepreneurial spirit of their inhabitants. Such grants are very much appreciated by micro and small enterprises. The funds are mainly invested in assets to start companies or to expand their economic activity.

Several municipalities offer a **real estate tax rebate** to industrial companies, notably Preiļi and Krāslava municipalities. The latter offers real estate tax rebates to manufacturing companies creating jobs as well as investing in public infrastructure.

Two considerably bigger financial incentives are available in Rēzekne SEZ and Latgale SEZ. These target more mature businesses or potential investors with experience, business plans and financial capacity. A separate sub-chapter is devoted to analysis of this support measure (see 2.3.2) and a factsheet is annexed to this report.

During the 2014-2020 period ESIF grant schemes and financial instruments are also available for businesses in Latgale. They are described in more detail in the following sub-chapters and respective factsheets.

Many business survey respondents mentioned the lack of finance as a major impediment to development. Of the 20 respondents who confirmed they applied for ESIF support but were rejected, at least five reported that a lack of co-funding was the main reason for rejection.

### **2.1.2 Infrastructure**

Local authorities make efforts to invest in **public infrastructure** to improve the business environment. All of them, but rural municipalities in particular, emphasise the importance of **road quality** in their development. So, they use every possibility to upgrade them.

Many municipalities offer entrepreneurs an opportunity to use **local premises for free or at discounted rates**. For example, Preiļi offers assistance to establish open office space. Daugavpils city offers potential investors a wide range of **industrial zones** and facilities with **access to energy resources, roads and other utilities**. Also, Līvāni municipality, which is an industrial centre of the region, has already invested considerably in its industrial zones.

Most municipalities have benefited from ESIF funds in the 2014-2020 period that allowed for complementary public investments aimed at business development. Integrated territorial investments (ITI) in several local authorities allow business facility upgrades, providing access roads and public utilities. ERDF funded projects alone have invested more than EUR 70 million in business-related public infrastructure.

### **2.1.3 Consultation**

A wide range of **business advisory services** are available in the region. In 2013 **Latgale Business Centre** (LUC) was established to provide information and consultation to businesses. LUC cooperates with state institutions and public organisations, such as the Latvian Investment and Development Agency (LIAA), LCCI, ALTUM, regional business incubators and a few others in bringing business support services to the region.

The majority of Latgale municipalities have established either their own **business support and advisory centres** or have **designated units or persons** within the local authority. The Ziemellatgale Business and Tourism Centre in Balvi municipality and Līvāni Business Support Centre can be mentioned as examples. Daugavpils city has a Business Development Division within its Development Department. It advises existing and aspiring entrepreneurs and serves as a contact point for answers to a range of related questions. It develops an annual catalogue of companies and investment opportunities in Daugavpils city.

In the rural municipalities, there are **rural consultants** from the Latvian Rural Consultation and Education Centre. Consultations are mainly aimed at agricultural entrepreneurs. In Kārsava municipality, for example, various seminars and events support local entrepreneurs.

In Krāslava and Vārkava municipalities consultations are offered by both business support and agricultural development specialists. Municipalities also cooperate with LUC, State Revenue Service and ALTUM to organise seminars for existing and potential entrepreneurs.

In general, the consultations cover:

- starting a business;
- attracting financing;
- project development;
- searching for cooperation partners;
- employment opportunities.

Furthermore, young adults across Latvia aged 15 to 29 can receive support through the project "Proti un dari"<sup>85</sup>, under a youth employment initiative supported by EU funds. The project activates and gives learning opportunities to young people who are currently not studying, employed or mastering a profession and are not registered with the State Employment Agency. Within the project initiatives, young people can gain valuable skills and even learn several professions in order to join the labour market or start their own business.

At national level a project "Regional Business Incubators and Creative Industries Incubator" under the ESIF OP "Growth and Employment" is being implemented from 2016 to 2023. Under the project **two business incubators** have been established in the region, namely Daugavpils, and Rēzekne. They aim at supporting business ideas by providing advice, training, mentors, premises and grant co-financing for operating costs. These are analysed in sub-chapter 2.3.3 and described in a separate factsheet.

#### **2.1.4 Events**

**Annual business award** ceremonies are held in many municipalities separately and in the Latgale region as a whole to recognise local entrepreneurs. Additionally, these events promote business development in the region and highlight examples of good business practice.

Municipalities also provide support by organising events. For example, Daugavpils city municipality organises **business forums and conferences**. In Dagda and Aglona

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<sup>85</sup> <https://jaunatne.daugavpils.lv/lv/jaunumi/2401-projekts-proti-un-dari>

municipalities there are **meetings and seminars** on topics relevant to local entrepreneurs. Viļāni municipality entrepreneurs can participate in **investment and business forums** which are part of the municipal delegation. Additionally, Vārkava and Rugāji municipalities organise **experience exchange trips** for local entrepreneurs.

Moreover, since 2018 a **business idea competition** for students, AS VARU! in Kārsava<sup>86</sup> motivates young people to start their own businesses, creating innovative products and services. It also encourages their participation in support and training offered by the business education association Junior Achievement Latvia.

### 2.1.5 Marketing

Several municipalities support entrepreneurs and small businesses by organising and financially supporting their participation in **exhibitions, fairs and international business forums**. The aim is to promote producers, service providers and the region in general, as well as raise awareness of business development opportunities in the territory and to aid the search for new business partners.

Entrepreneurs from Daugavpils municipality can promote themselves as part of the municipality booth at **international exhibitions in Rīga and abroad**. In several municipalities, tourism entrepreneurs have opportunities at international tourism exhibitions, events, and tourism booklets and maps. Additionally, many municipality websites are available for entrepreneurs to promote themselves and get more public exposure.

There is also a regional marketing website <http://invest.latgale.lv/lv> .

### 2.1.6 Cross-border cooperation

There is no permanent cross-border business support in the region. Temporary activities are mainly implemented within the two ENI cross-border co-operation programmes in CBC Latvia-Russia and CBC Latvia-Lithuania-Belarus. In the programming period 2014-2020 only CBC Latvia-Russia had business and SME development as a priority. The programme is being implemented by a secretariat in Rīga. The programme is worth EUR 15.8 million and by the end of 2019, the programme had reached 100% commitments and less than 30% spending.

The Business and SME development thematic objective had a total of EUR 8 million of funding allocated including EU co-financing of EUR 4.8 million, funding by the Russian Federation of EUR 2.5 million and co-financing by Latvian partners of EUR 0.5 million and Russian partners EUR 0.3 million.

The support was provided in a single call for project ideas. Approved project ideas later had to be developed into fully-fledged applications. 26 project ideas were submitted to the call for ideas; ten were supported and eventually approved as projects. Presently four projects are being implemented under the business and SME development priority with partners from Latgale. Their thematic coverage encompasses enhancing crafts, tourism and cultural heritage.

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<sup>86</sup> <http://karsava.lv/piesakies-jaunajam-biznesa-ideju-konkursam-as-varu/>



Latgale-led projects have attracted EUR 4.8 million or 68.5% of the funding. A Factsheet # 1 'CBC' describes the CBC programmes in more detail.

The Latvian-Lithuanian-Belarus cross-border programme 2014-2020 does not include business support though the border reality analysis in 1.1.4 and analysis of business activity in the region, especially Daugavpils suggest there is a moderate opening effect in economic co-operation with Belarus rather than Russia. This should be taken into account when programming the Latvian-Lithuanian-Belarus programme of the next period.

The CBC programmes are indirect business support as they create and enhance the business environment. Their main beneficiaries are local authorities and non-governmental institutions. Business representatives are involved in the projects and appreciate networking and learning opportunities.

## 2.2 Main business policies

Business support measures implemented in the territory in the last five years derive from a comprehensive cascade of **EU, national, regional, local as well as sectoral development strategies**. These documents define and streamline policy responses addressing various development challenges of the country and its territories, including Latgale.

Not all the strategies, however, have respective measures and funding. The relation between policies and the measures is not always clear cut which sometimes challenges the intervention logic behind them. Nevertheless, this chapter tries to link the rationale behind existing strategies and business policies and the business support measures that reached the region of Latgale and its businesses.

### 2.2.1 EU business policies

The most pertinent strategic documents creating a framework for business support and development in European regions are:

- Strategy Europe 2020
- Pan-regional strategies
- Small Business Act<sup>87</sup>
- Common agricultural policy (CAP)

**Strategy Europe 2020**<sup>88</sup> has three interrelated objectives for growth:

- Smart: education, science, and innovation;
- Sustainable: efficient use of resources, environmentally friendly economy;
- Inclusive: high employment, economic, social and territorial cohesion

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<sup>87</sup> [https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act\\_en](https://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act_en)

<sup>88</sup> <https://ec.europa.eu/eu2020/pdf/>

A concept of territorial cohesion<sup>89</sup> introduced in the 4<sup>th</sup> Cohesion Report<sup>90</sup> in 2007 together with the EU Territorial Agenda<sup>91</sup> promote an understanding of territorial assets and challenges as a subject of EU Cohesion Policy. This provides an additional impetus to finding ways for developing lagging territories and especially those on EU external borders.

In the 2014-2020 programming period, the ESIF supports 11 investment priorities, also known as thematic objectives (TO). Of these five translate into business support measures effective in the territory:

- TO 1. Strengthening research, technological development and innovation
- TO 3. Enhancing the competitiveness of small and medium-sized enterprises (SMEs)
- TO 4. Supporting the shift towards a low-carbon economy in all sectors
- TO 5. Promoting climate change adaptation, risk prevention and management
- TO 8. Promoting sustainable and quality employment and supporting labour mobility

**The Small Business Act** is a framework for EU policy on small and medium-sized enterprises. It aims to improve the approach to entrepreneurship in Europe, simplify the regulatory and policy environment for SMEs, and remove barriers to their development. A case study on Latgale in March 2019 verified there is relatively little awareness in the region about the Act itself or the support measures it offers (Alessandrini et al., 2019).

**The EU Strategy for the Baltic Sea Region**<sup>92</sup> focuses on three key challenges:

- saving the sea: dealing with environmental aspects of development around the region,
- connecting the region: improving connectivity and opportunities for cooperation,
- increasing prosperity: looking for innovative ways for fostering sustainable business and economic development.

The **Common Agriculture Policy** supports a modern, market-oriented farming sector as well as investment in the broader rural economy. Long-term rural development objectives for the 2014-2020 period include:

- fostering the competitiveness of agriculture;
- ensuring sustainable management of natural resources, and climate action;
- achieving a balanced territorial development of rural economies and communities including the creation and maintenance of employment.

Each EU Member State participates in **cross-border cooperation programmes** (CBC). These are a key element of EU policy towards its neighbours. They support sustainable development along the EU's external borders, reduce differences in living standards and address common challenges across these borders. Business development and support are often priorities for specific programmes.

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<sup>89</sup> [https://ec.europa.eu/regional\\_policy/en/policy/what/territorial-cohesion/](https://ec.europa.eu/regional_policy/en/policy/what/territorial-cohesion/)

<sup>90</sup> [https://ec.europa.eu/regional\\_policy/sources/docoffic/official/reports/cohesion4/index\\_en.htm](https://ec.europa.eu/regional_policy/sources/docoffic/official/reports/cohesion4/index_en.htm)

<sup>91</sup> [https://ec.europa.eu/regional\\_policy/sources/policy/what/territorial-cohesion/territorial\\_agenda\\_leipzig2007.pdf](https://ec.europa.eu/regional_policy/sources/policy/what/territorial-cohesion/territorial_agenda_leipzig2007.pdf)

<sup>92</sup> <https://www.balticsea-region-strategy.eu/>

## 2.2.2 Business development policies at the national level

This targeted analysis covers policies effective in the current programming period, i.e. 2014-2020. It is important to note that for the next programming period 2021-2027 most strategic documents containing business development policies are being reviewed and reissued. The most relevant national development planning documents for this programming period are:

- Latvia Sustainable Development Strategy to 2030<sup>93</sup> (LV2030);
- Latvia National Development Plan for 2014-2020<sup>94</sup> (LNDP 2020);
- Regional Policy Guidelines 2014-2019<sup>95</sup>;
- Partnership Agreement on ESIF<sup>96</sup>.

**LV2030** is the main national policy planning document approved in 2010. It sets out long-term directions for sustainable socio-economic development in Latvia with seven key strategies:

1. Investments in human capital: appreciation of human capital as the main resource Latvia has and needs to develop;
2. Change of paradigm in education: labour-market orientation across all stages of the education system and active participation of employers in defining curricula;
3. Innovative and environmentally effective economy: promotion of sustainable growth based on innovations as opposed to extensive use of resources;
4. Nature as future capital: importance of nature as a cross-generational resource and mandate for preservation of nature prevailing over economic growth;
5. Spatial planning perspective: importance of spatial planning in developmental planning resulting in mandates for all municipalities to elaborate spatial plans;
6. Innovative governance and civil society participation: promotion of transparent governance and collaboration with civil society;
7. Development of culture space: providing support to diverse and new cultural developments at the same time preserving heritage and culture.

**LNDP2020** has been a cornerstone of mid-term planning in Latvia with the ambition to set a strategic framework for all policy planning and public investments. It has a motto 'Economic breakthrough for prosperity of the state and each resident'. It includes priorities for economic growth, resilience of residents and territories conducive to growth.

The draft **NDP2027** has been approved by the government on 25 February 2020 and spent an unusually long time undergoing political consultations between the government and the parliament. Among the NDP's six priorities is an emphasis on competitiveness of businesses and material prosperity. The debate included many issues, but regional development, its goals and ambitions were key topics. The parliament argued for greater allocation of resources and greater autonomy to regions and local authorities and including business development support as an integral part of regional development. NDP2027 was approved on 2 July 2020 with an enclosed memorandum enlisting tasks for the government, inter alia, also in the area of economic development.

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<sup>93</sup> <https://www.pkc.gov.lv/lv/valsts-attistibas-planosana/latvijas-ilgtspejigas-attistibas-strategija>

<sup>94</sup> <https://www.pkc.gov.lv/lv/attistibas-planosana-latvija/nacionalais-attistibas-plans/nap2020>

<sup>95</sup> <http://varam.gov.lv/lat/pol/ppd/?doc=20773>

<sup>96</sup> <https://www.esfondi.lv/upload/Planosana/partnership-agreement.pdf>

The most relevant policy for this analysis is the **Regional Policy Guidelines 2013-2019** that provide for:

1. Promotion of entrepreneurship and job creation across all territories of Latvia to ensure accessibility and quality of workplaces and public services;
2. Strengthening administrative capacity of the regions and municipalities to take an active role in development of territories.

This second strategy paved the way for design and implementation of integrated territorial initiatives of local governments that include planning public investments, improved business environment, development of public infrastructure and new business infrastructure in the regions. ERDF support was available to nine development centres.

The **Regional Policy Guidelines 2021-2027**<sup>97</sup> adopted in 2019 continue this approach by refining and reinforcing the two directions:

1. Improve business environment;
2. Promote efficiency of public services.

**Smart Specialisation Strategy**<sup>98</sup> (**RIS3**) and **Guidelines on National Industrial Policy (NIP) of Latvia**<sup>99</sup> **2014-2020** are two integral parts of the economic development plan for structural changes in the economy to increase the share of higher value added products and services.

**NIP 2014-2020** aim at promoting structural changes in the national economy in favour of higher value added by increasing the role of manufacturing, industrial modernisation and diversification to exported goods and services.

Result indicators to be achieved are:

- Share of manufacturing in 2020 GDP reaches 20%
- Productivity of manufacturing in 2020 increases by 40% versus 2011
- Volume of manufacturing in 2020 increases by 60% versus 2011
- Investments in R&D are 1.5% of GDP

**NIP** identifies two sectoral clusters in Latvia – (1) forestry and wood-processing and (2) agriculture and food industry.

**RIS3** provides for new innovation capacities and a system to ensure that future challenges are addressed and opportunities identified in the entrepreneurial discovery process are fully utilised. **RIS3** priority areas are: (1) bioeconomy, (2) biomedicine, (3) ICT, (4) smart materials and (5) smart energy.

Presently the only genuine place-based national business support policy in Latvia is the **SEZ** arrangements in certain territories, including Latgale. Since 2001 a special law on Tax Application in Free Ports and Special Economic Zones<sup>100</sup> regulates the specific tax regime applicable to enterprises in these territories as well as what type of companies are eligible.

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<sup>97</sup> <https://likumi.lv/ta/id/310954-par-regionalas-politikas-pamatnostadnem-2021-2027-gadam>

<sup>98</sup> [https://www.izm.gov.lv/images/zinatne/IZM\\_Viedas\\_Specializ\\_strategija\\_2013.pdf](https://www.izm.gov.lv/images/zinatne/IZM_Viedas_Specializ_strategija_2013.pdf)

<sup>99</sup> [https://www.em.gov.lv/files/uznemejdarbiba/finl\\_en.pdf](https://www.em.gov.lv/files/uznemejdarbiba/finl_en.pdf)

<sup>100</sup> <https://www.vid.gov.lv/en/special-economic-zones-and-free-ports>

A successor of a free port or free town concept dating back to early Middle Ages, the idea of SEZ lies in stimulating business in certain areas by waving some taxes and duties. Today there are five SEZ in Latvia, including two in the territory:

1. Rēzekne SEZ (Latgale)
2. Latgale SEZ (Latgale)
3. Liepāja SEZ (Kurzeme)
4. Ventspils Free Port (Kurzeme)
5. Rīga Free Port

Since 2002 another business support mechanism in Latvia has aimed at regional development – **the Law on Savings and Loan Associations**<sup>101</sup>. It was adopted to promote the availability of financial resources, as well as regional development, facilitating the co-participation of individuals in the national economy. Loan associations can be a good source of funding, especially in rural areas that have difficulties to access bank loans. Presently there are 35 Savings and Loan Associations in Latvia, but only one in Latgale. Their development and fully-fledged operations, however, are limited due to flaws in their legal regulation.

CAP policy in Latvia are the **Rural Development Plan 2014-2020 (RDP)**, direct payments and the Action Plan for Development of Fisheries 2014-2020. RDP contains policy mechanisms for a balanced territorial development of rural economies and related measures to support non-agricultural activities.

### 2.2.3 Business development policies at the regional level

The key regional development documents<sup>102</sup> are:

- Latgale Strategy 2030
- Latgale Development Program 2010-2019

Under the vision of “Smart Latgale” the **Latgale Strategy 2030** proposes four strategic directions:

- Skills: life-long learning for every resident of Latgale will increase the value of human resources to support key economic sectors and improve cooperation between entrepreneurs and education institutions;
- Connectivity: with highways, high-speed railway, Daugavpils airport, internet and business and public networks Latgale will become technically and socially connected to the main economic centres of the country and internationally, producing preconditions for access to public services, safe and swift commercial activity;
- Smart governance: growing competence and capacity of municipalities and collaboration with civil society, will enable Latgale entrepreneurs and activists to implement economic growth;
- Effective businesses: targeted and coordinated business support will enable enterprises to become more effective and increase turnover, export potential, productivity and knowledge base.

The three objectives / indicators of the Strategy are:

- Steady income growth reaching 60% of the EU average in 2030;
- 30,000 new jobs in the private sector from efficiency gains, productivity improvements and technological excellence;

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<sup>101</sup> <https://likumi.lv/ta/en/en/id/7115>

<sup>102</sup> <https://lpr.gov.lv/lv/padome-12f3/planosana>

- Residents increase to 300,000 people.

There are two mid-term general development planning documents for Latgale covering recent years within the current programming period: **Latgale Development Programme 2010-2019** (its time-frame extended to 2021 by the Decision of Latgale Council on 13 December 2019) and **Action Plan for Economic Development of Latgale Region 2018-2021**<sup>103</sup> approved by the Latvian Government.

The **Latgale Development Plan 2010-2021** puts forward three ambitious objectives to be achieved through ten development programmes including economic, environmental, social and educational investments:

- To curtail negative demographic and migration tendencies to keep Latgale inhabitants at 320,000;
- To increase share of the private sector to 76% of total value added;
- To grow incomes of Latgale residents to 40% of EU average gross remuneration.

The **Action Plan for Economic Development of Latgale Region 2018-2021** stipulates that:

- ERDF will allocate EUR 29.5 million for integrated territorial investments in Latgale;
- Tax rebates within Latgale SEZ also cover staff costs;
- Latgale Entrepreneurship Centre will receive capacity building support;
- The city of Daugavpils will implement a pilot business support mechanism.

This is already the third consecutive medium-term action plan outlining immediate hands-on interventions targeted at the territory. The first two covered 2012-2013 and 2015-2017. Since their launch the plan has provided more than EUR 100 million to support integrated development programmes of Latgale municipalities mostly through ESIF funding.

### 2.3 Effects of selected business mechanisms

The following analysis of selected business support measures provides an assessment of the relevance and effectiveness of development policies targeted at business development in the stakeholder territory. The initial presumptions to be questioned by the analyses are expressed by the following three hypotheses:

- **Hypothesis 1 (H1)** – Due to low level of entrepreneurial capacity in the stakeholder territories business support funding uptake is lower in the stakeholder territories than in other parts of the same country.
- **Hypothesis 2 (H2)** – A lack of flexibility to address the needs of businesses in the stakeholder territories also contributes to a low uptake of business support funding. This limits the relevance of available business support for business units in the stakeholder territories.
- **Hypothesis 3 (H3)** – Business support funding (as a proxy for all business support measures) has a positive effect on the business performance, viability and productivity

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<sup>103</sup> <https://likumi.lv/ta/id/301764-par-ricibas-planu-latgales-regiona-ekonomiskajai-izaugsmei-2018-2021-gadam>

in the stakeholder territories but to less extent compared to the results achieved in other parts of the same country.

The three hypotheses have been tested by determining the extent that outcomes and results of the business support mechanisms have justified their intervention logic in Latgale, i.e. how far they have overcome the following business impediments as described in Chapter 1:

- Peripheral location
- Structural unemployment
- Low entrepreneurship
- Low investment
- Low productivity
- Low co-operation

The analysis combined quantitative and qualitative methods. The business support measures have been selected and grouped by their intervention logic:

- Measures aimed at mitigating the outlying location of the region
- Measures aimed at business creation
- Measures aimed at business development
- Measures aimed at business productivity

Two types of the support mechanisms can be distinguished: (1) investments in business related public infrastructure and (2) businesses as direct beneficiaries. Direct support for business has mainly been as grants for fixed assets. Most of the measures are ESIF funded, in addition the SEZs have been analysed as important enablers of regional development.

Performance of the business support measures indicate their relevance to business needs whereas their results judge their effectiveness.

*Table 2.1: The assessment model*

| Key problems addressed                         | Group of measures  | Outputs   | Effects  |
|--|--|---|--|
| Peripheral location<br>Structural unemployment | Measures aimed at mitigating the outlying location of the region | <ul style="list-style-type: none"> <li>• Investments leveraged</li> <li>• Jobs created</li> <li>• Number of benefiting enterprises</li> </ul>                       | <ul style="list-style-type: none"> <li>• Increase in GDP and GVA</li> <li>• Increase in employment</li> <li>• Increase in investments</li> <li>• Increase in turnover</li> </ul> |
| Low entrepreneurship                           | Measures aimed at business creation                              | <ul style="list-style-type: none"> <li>• Number of new enterprises supported</li> </ul>   | <ul style="list-style-type: none"> <li>• Increase in the number of enterprises per 1000 inhabitants</li> </ul>   |
| Low investment                                 | Measures aimed at business development                           | <ul style="list-style-type: none"> <li>• Number of supported enterprises</li> <li>• Private investments leveraged</li> </ul>  | <ul style="list-style-type: none"> <li>• Increase in investments</li> <li>• Increase in total value added</li> <li>• Increased employment</li> </ul>                             |
| Low productivity<br>Low cooperation            | Measures aimed at business productivity                          | <ul style="list-style-type: none"> <li>• Number of supported enterprises</li> <li>• Private investments leveraged</li> <li>• Number of cooperation cases</li> </ul> | <ul style="list-style-type: none"> <li>• Increase in total value added per employed</li> <li>• Private investments leveraged</li> <li>• Enhanced cooperation</li> </ul>          |

Source: Consortium

### 2.3.1 Overview of the business uptake of ESIF

According to MEPRD<sup>104</sup> data for the programming period 2014-2020 the stakeholder territory has so far received EUR 221.3 million<sup>105</sup> which is the most EU funding for Latvian regions except Rīga. Latgale has the second highest EU funding per capita after Kurzeme - EUR 865.

Business support measures analysed within this analysis total nearly EUR 100 million investments into the stakeholder territory. Their selection is based on the focus and intervention logic, i.e., they aim at business development in the region. The selected measures cover all the major business support available in Latgale in the current programming period except for rural policy measures aimed at the primary sector.

The measures have been funded by the following two ESIF programmes:

- EUR 84.5 million from OP "Growth and Employment 2014-2020", mainly ERDF
- EUR 15 million from RDP 2014-2020, EAFRD

The largest funding, EUR 73.5 million, are investments in public infrastructure as per OP "Growth and Employment 2014-2020". These include two ERDF measures: (1) 3.3.1. "Increasing private investments" and (2) 5.6.2. "Revitalisation of degraded territories". The latter is a part of the consecutive national programme "Action Plans for Economic Development of Latgale Region". For both measures, municipalities are direct recipients working closely with the business community benefiting from the projects. These measures aim at countering the comparatively low absorption capacities of regional enterprises and stimulate job creation in the stakeholder territory.

Another 11 business support measures assessed in this study directly target businesses as beneficiaries. This funding totals EUR 25.4 million, of which 60% is EAFRD and 40% is ERDF funding supporting non-agricultural activities.

As seen from Table 2.2 there are more EAFRD funded non-agricultural activities not only by value and number of supported enterprises, but also in relative terms. As confirmed by the interviews the EAFRD measures are more business friendly than those of ERDF. The Rural Support Service (RRS) as a Management Authority of RDP has been acknowledged as a client-oriented one-stop agency efficiently servicing rural businesses. OP "Growth and Employment 2014-2020" measures have been recognised as comparatively complicated and difficult to acquire

*Table 2.2 Funding of the selected business support measures with enterprises as direct beneficiaries in Latgale under ERDF and EAFRD*

|              | <b>TOTAL €</b>    | <b>% of national allocation</b> | <b>Number of supported enterprises</b> |
|--------------|-------------------|---------------------------------|--|
| <b>EAFRD</b> | 15 065 180        | 14                              | 286                                    |
| <b>ERDF</b>  | 10 260 094        | 5                               | 154                                    |
| <b>TOTAL</b> | <b>25 325 274</b> | <b>9.5</b>                      | <b>439</b>                             |

<sup>104</sup> Analytic report on EU 2014-2020 investments and monitoring indicators in the administrative territories of Latvia, MEPRD, 2020

<sup>105</sup> Excluding EAFRD



Source: Monitoring data of ERDF (11.02.2020) and EAFRD (01.01.2020) MAs summarised and calculated by Consortium

Absorption of the selected EAFRD funding in Latgale is 13.7% of its total EUR 110 million. For reference the region's share of national added value in (A) Agriculture was 13,8% in 2017. The per capita uptake of EAFRD non-agricultural activities equals the national average of EUR 58, the same as Kurzeme region (EUR 61), but almost half Vidzeme (EUR 106) and Zemgale (EUR 101). Rīga and Pierīga region<sup>106</sup> were EUR 37.

The direct uptake of ERDF by businesses is considerably lower in all aspects. In 1/3 of the 21 Latgale municipalities no enterprises were supported at all. The per capita invested is EUR 38.5 which is the lowest in the country.

Together with the two intervention measures in public infrastructure mentioned above in total 470 or 2.6 % of the total economically active market sector enterprises in 2018 or 12% of the businesses operational<sup>107</sup> in Latgale in NACE sectors B to M and S.95 (excluding the primary sector and traditional public sector activities) benefited from the measures. For reference the region's share in the national economy in 2017 was 7% of GDP and 7% of GVA.

An overview of business support measures within the region is provided in Table 2.3 below. Since the capacity of business uptake is best reflected by measures where the enterprises are direct beneficiaries a distinction is made between direct and indirect support. As seen from the table direct business support funding in Latgale has been considerably lower than the national average whereas indirect support uptake, on the contrary, was significantly higher. The dedicated place-based ITI investments, and particularly those for revitalising territories through regeneration, counter the low uptake of ERDF direct support measures, in particular.

Table 2.3 ERDF and EAFRD business support spending in Latgale local authorities, EUR per capita grouped by enterprises being direct or indirect beneficiaries and the total

| Local authority | Direct | Indirect | TOTAL  | Local authority   | Direct        | Indirect      | TOTAL         |
|-----------------|--------|----------|--------|-------------------|---------------|---------------|---------------|
| Līvānu novads   | 336,45 | 564,85   | 901,30 | Daugavpils novads | 76,29         | 125,31        | 201,59        |
| Kārsavas novads | 321,35 | 302,49   | 623,84 | Balvu novads      | 72,85         | 598,02        | 670,88        |
| Rēzeknes novads | 230,02 | 195,44   | 425,46 | Baltinavas novads | 66,60         | 350,09        | 416,69        |
| Vīļakas novads  | 176,26 | 365,75   | 542,01 | Riebiņu novads    | 61,88         | 188,44        | 250,31        |
| Aglonas novads  | 166,09 | 307,54   | 473,63 | Krāslavas novads  | 58,12         | 97,25         | 155,37        |
| Preiļu novads   | 139,28 | 533,01   | 672,29 | Rugāju novads     | 48,72         | 437,53        | 486,25        |
| Vīļānu novads   | 117,41 | 309,63   | 427,04 | Dagdas novads     | 38,80         | 141,39        | 180,20        |
| Vārkavas novads | 99,30  | 0,00     | 99,30  | Ciblas novads     | 37,74         | 136,92        | 174,67        |
| Ludzas novads   | 89,40  | 298,44   | 387,84 | Zilupes novads    | 34,08         | 0,00          | 34,08         |
| Ilūkstes novads | 86,13  | 402,51   | 488,64 | Daugavpils        | 31,85         | 205,76        | 237,61        |
| Rēzekne         | 78,89  | 504,44   | 583,33 | <b>LATGALE</b>    | <b>96,42</b>  | <b>283,02</b> | <b>379,44</b> |
|                 |        |          |        | <b>LATVIA</b>     | <b>160,32</b> | <b>111,20</b> | <b>271,52</b> |

Source: Consortium, 2020

The findings prove **Hypothesis 1** –direct business support funding uptake is considerably lower in the territory than on average in the country. This is due to low entrepreneurial capacity in

<sup>106</sup> RRS distinguishes between Rīga and Pierīga regions

<sup>107</sup> Have submitted annual report for 2018.

Latgale as described in chapter 1.3.4. However, the uptake is not uniform across measures. Uptake for some low-scale and EAFRD measures is even above average.

The following sub-chapters provide a more detail description of the effects of the business support mechanisms. Analysis is based on monitoring data from the Management Authorities. Only projects approved and commenced before January 1, 2020 have been taken into account.

### **2.3.2 Measures aimed at mitigating the outlying location of the region**

The two measures analysed here are place-based incentives: (1) SEZ and (2) Integrated Territorial Investments (ITI), i.e., ERDF measures 3.3.1. “Increasing private investments” and 5.6.2. “Revitalisation of degraded territories”. The SEZs are part of NIP. Nevertheless, sub-measures together with ITI 5.6.2. “Revitalisation of degraded territories” and related interventions constitute the Action Plan for Economic Development of Latgale Region 2018-2021. It aims at creating 648 new jobs in the region (164 in the SEZ and 484 through 5.6.2).

Rēzekne SEZ and Latgale SEZ have been in place for some time, but present programming period ITI projects are being finalised. This means there is more evidence on the relevance and effects of SEZs than ITI, although the ITI funding is much easier to estimate as described in the sub-chapter above. Thus, results further in the analysis focus more on SEZ than ITI.

#### **Special Economic Zone**

This is a specific legal framework allowing tax rebates for private companies against capital investments in a designated area. Applicable investments up to mid-2020 were in long-term tangible assets (buildings, machinery, and equipment) and intangible assets (patents and technologies). As of 15 May 2020, salaries of new jobs also qualify. For more details on SEZs in Latgale, please refer to Factsheet #2 “Special Economic Zones” annexed to this report. Below is a brief analysis of their relevance and effects in the region.

Rēzekne SEZ already has considerable experience. It was established in 1997, while Latgale SEZ was established in 2017. Though both SEZs are place-based incentives the main distinction lies in their geographic coverage. The Rēzekne SEZ consists of a few designated industrial territories in the town and neighbouring rural municipality, while Latgale SEZ conditions apply anywhere within the stakeholder territory. It is the only regional SEZ in the country aimed at enabling development of the whole NUTS3 territory. The ex-ante assessment of the draft Law on Latgale SEZ justifies it because regional GDP is significantly lower than the national average<sup>108</sup>.

In 2020, 36 companies have SEZ status in Latgale. A commitment to make capital investment in the region qualifies them to benefit from the SEZ incentives. A separate contract is concluded for each investment round. The businesses with SEZ status have a certain maturity in their business life cycle that allows up-scaling and expansion. Access to finance is an important prerequisite that is often too difficult to obtain for most Latgale business.

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<sup>108</sup> Ex-ante assessment of the draft Law on the Latgale Special Economic Zone, 2015

A total of EUR 122.7 million in private capital investment has been made under the SEZ legal framework in the last ten years, of which around EUR 100 million was in Rēzekne and EUR 22.7 million in Latgale. Investments at least double the total tax rebate, not speaking of new jobs and other spill-over effects. In 2018 the SEZs provided almost 2 000 jobs, at least 1/3 were newly created as a result of SEZ induced investments. The number of jobs at both SEZs' in 2018 splits almost equally between Rēzekne with 975 and Latgale with 971 accounting for 1.8 % of the regional employment.

Very recent amendments to the SEZ legislation enable salaries of newly created jobs to qualify as eligible investments, which should encourage more ICT and other service sector businesses which are less capital intensive.

Outcomes of both SEZs benefit national industrial development. Between 2011 to 2017 the incentive has helped manufacturing in the region to contribute to the following NIP goals:

- manufacturing in Latgale retains its share of value added at 15%, in Latvia it has dropped to 12%;
- productivity or value added by employed in manufacturing has increased by 31% in Latgale, but in Rīga, for example, by 38%
- value added increased by 8%, but overall, in Latvia by 18%.

Though positive overall, the above figures indicate that the economic structure of the region has not changed much for the share of manufacturing in total value added, while development in the rest of the country has shifted to the third sector of economy – services and ICT in particular. The only worrisome figure is the value added that increased considerably less in the region. The whole country, especially the capital region, is shifting to the tertiary or even quaternary sector, however Latgale region has not yet gained a sufficient manufacturing presence.

Five years after the ex-ante assessment for the Latgale SEZ, socio-economic development measured by GDP per capita is still one third of Rīga and half the average in Latvia. Without SEZs and the business support measures described later the situation would probably have deteriorated much more. It is presumed that the SEZs have increased capital investments in Latgale, and Rēzekne in particular. Over the last five years Rēzekne has had exceptional growth in comparison to Daugavpils (please see 1.3.6). Companies in the Rēzekne SEZ have an annual turnover growth of 12% on average (2014-2018) which adds to GDP growth. A representative of Rēzekne SEZ admits that: “more than EUR 100 million investments into SEZ enterprises over the last decade certainly have played a role in the overall development of the town and its surroundings. The companies of Rēzekne SEZ provide business for many other companies in the region.”

The Latgale SEZ is an internal regional cohesion mechanism to balance development in the territory. Most of its investments have been in Daugavpils, with considerable investments in the municipalities of Līvāni and Krāslava. Significant FDI has been attracted to both SEZs from EU Member states as well as Russia and Belarus. More high-technology companies have been established and developed in the region as a result of the SEZs. A case study of SMD, Ltd. is described in Factsheet #2 “Special Economic Zones”. SMD, Ltd. is a high-technology company

with know-how and investments from Belarus which enjoys the stability of the EU Single Market and advantages of 'made in EU' branding.

### Integrated Territorial Investments

Priority Axis 3 of OP "Growth and Employment 2014-2020" aims at SME competitiveness providing two types of business support: direct support for economic activity to enterprises and indirect support to development of infrastructure promoting economic activity. Priority Axis 5 includes measures targeting environmental investments including indirect support to business development in degraded territories through municipal integrated development programmes.

The direct target group and beneficiaries of both measures are municipalities - development centres of national, regional or local significance as per Regional Development Guidelines 2014-2020. Enterprises benefiting indirectly from the support have to commit to non-financial investments and creating new jobs.

The need for support was identified in the previous programming period 2007-2013 where municipalities used their allocation under urban development priority to prepare brownfields for investments and to develop abandoned industrial spaces for new investors. Also, before 2007 some urban municipalities in Latvia proved the approach when public investments were made in developing industrial sites to attract investors.

Both measures - 3.3.1. "Increasing private investments" and 5.6.2. "Revitalisation of degraded territories" – have almost identical eligible costs allowing construction or refurbishment of buildings, as well as connections to public utilities and access roads. Measure 5.6.2 also allows site rehabilitation costs. The share of ERDF co-financing depends on 1) a cost-benefit analysis of the project, 2) type of costs and 3) participation of partners in the project. The maximum of 95% was available, but most projects received less, even as low as 55%. There were no limits on project size, but EUR 25 million was a practical limit of eligible expenditure to avoid a complicated approval procedure.

For a more detailed description of the measures including their intervention logic and outcomes in the stakeholder territory, please see Factsheet #3 "ITI". Apart from the otherwise factual information the factsheet also contains calculations of ITI funding per capita and per enterprise in the 21 local authorities of the region and a case study of the Daugavpils municipality. Below is a brief summary of the overall findings.

Table 2.4 Implementation data of OP "Growth and Employment" measures 3.3.1. and 5.6.3. as of February 11, 2020, EUR million, %

|       | TOTAL: Latvia           |                |               |                                       | TOTAL: Latgale |               |                                       |                               |
|-------|-------------------------|----------------|---------------|---------------------------------------|----------------|---------------|---------------------------------------|-------------------------------|
|       | ERDF allocation planned | ERDF requested | ERDF approved | Number of approved / applied projects | ERDF requested | ERDF approved | Number of approved / applied projects | M€ as % of the total approved |
| 3.3.1 | 60.6 M€                 | 58.9 M€        | 50.8 M€       | 81 / 96=84%                           | 9.3 M€         | 7.4 M€        | 12 / 14=86%                           | 14.6%                         |
| 5.6.2 | 233.5 M€                | 224.6 M€       | 162.7 M€      | 76/102=75%                            | 87.3 M€        | 66.3 M€       | 19 / 27=70%                           | 41%                           |

Source: Government Regulations and Cohesion Policy Management Information System

Altogether 31 ITI projects have been approved in Latgale with a comparatively high success rate. Only two of the 21 municipalities have not had any ITI project – Vārkava and Zilupe. 10 projects have been completed so far and at least 61 enterprise should be supported.

Funding of the two ITI measures in Latgale is 34% of the total available in the country. It is considerable, especially when compared against the region's share of national GDP and GVA, both 7% and can be deemed as satisfactory for the least-developed region of the country.

At the moment of writing this report the projects in Latgale have succeeded in creating 123 new jobs of 1 585 committed at the application phase, rehabilitated 25 ha of 183 ha committed as well as leveraged almost EUR 7 million of private funding of almost EUR 78 million committed.

Present output is positive because: (1) some projects were only launched in 2018 and are mid-implementation and (2) the programme runs until the end of 2023 leaving another three years to finalise the projects and achieve the targets.

For the territorial effects of ITI, only the distribution of funding can be reviewed. Please, see Table 2.3. Since the capacity of business uptake is best reflected by measures where the enterprises are direct beneficiaries a distinction is made between direct and indirect support. As seen from the table direct business support funding in Latgale has been considerably lower than the national average whereas indirect support uptake, on the contrary, was significantly higher. The dedicated place-based ITI investments, and particularly those for revitalising territories through regeneration, counter the low uptake of ERDF direct support measures, in particular. Table 2.3 ERDF and EAFRD business support spending in Latgale local authorities, EUR per capita grouped by enterprises being direct or indirect beneficiaries and the totalAs for funding per capita Balvi (EUR 598), Līvāni (EUR 565) and Preiļi (EUR 533) stand out, and for local business units – Daugavpils (EUR 14 152) and Rēzekne towns (EUR 7 974) as well as Balvi (EUR 7 043) municipality are notable. Such a concentration of support coincides with five functional urban areas in the region as described in 1.1.3 - Daugavpils, Rēzekne, Līvāni, Preiļi and Balvi. It is also good that businesses in Daugavpils have had a double kicker compared to Rēzekne. This could help the town to speed up development. A case study of Daugavpils 'Čerepova industrial zone' is described in Factsheet #3 "ITI". Ten enterprises indirectly benefit from an ITI project there.

Representatives of Latgale local municipalities acknowledged this support to be very important for the region and its businesses. It addresses one of the main impediments to regional business development – accessibility and the state of the roads.

Both measures analysed in this sub-section are relevant and effectively support business development in the region. They contribute significantly to creating and safeguarding many jobs and allow businesses, of which most are manufacturing companies, to grow.

The ex-ante assessment for the Latgale SEZ captured socio-economic development measured by GDP per capita in 2016. In the last five years the level has not changed much, it is still 1/3 of Rīga and half the average in Latvia, without SEZ and ITI the situation would most likely have deteriorated much more.

Due increased efficiency and concentration in the agricultural industry a loss of approximately 80% of jobs is estimated over the next ten years. At the same time the per household income in rural areas is on average 22.7% lower than urban areas.

### 2.3.3 Measures aimed at business creation

Four of 11 business support measures aim at business creation – two ERDF and two EAFRD.

Table 2.5 ESIF 2014-2020 support measures aimed at business creation

| Fund  | Number   | Measure                            | Type of support       | TOTAL: LATVIA       |                          | TOTAL: LATGALE            |                     |                                  |
|-------|----------|------------------------------------|-----------------------|---------------------|--------------------------|---------------------------|---------------------|----------------------------------|
|       |          |                                    |                       | Total investment M€ | No. of approved projects | No. of approved projects* | Total investment M€ | % of the total national approved |
| ERDF  | 3.1.1.4. | Micro credits and start-up loans   | micro credits / loans | 5.4                 | 472                      | 55                        | 0.68                | 13                               |
| ERDF  | 3.1.1.6. | Business incubators                | grants                | 1.7                 | 259                      | 81                        | 0.28                | 17                               |
| EAFRD | 6.4.     | Development of non-agri activities | grants / fixed assets | 21.1                | 346                      | 69                        | 3                   | 14                               |
| EAFRD | 19.2     | CLLD/LEADER                        | grants / fixed assets | 27.2                | 1.253                    | 226                       | 5.7                 | 21                               |

Source: Calculations based on data from ALTUM (June 2020), Rēzekne and Daugavpils business incubators (June 2020) and the Rural Support Service (January 2020); \*Approved projects slightly higher than supported enterprises as some enterprises implemented more than one project.

These measures encourage inhabitants establish to businesses. These ESIF measures complement the support from local municipalities described in 2.1.1. The measures are aimed at mitigating a major reason behind low entrepreneurship and investment in the region, access to finance for SMEs. The measures provide start-up capital as a grant or loan at a favourable interest rate as well as advice in business incubators. The interventions have enabled investments of total almost EUR 10 million in Latgale.

Non-repayable grants in measure 3.1.1.6. “Business incubators” range from up to EUR 5 000 for capital investments to EUR 10 000 for services 50% co-financed by the beneficiary. EAFRD measure 6.4. “Support to investments into development of non-agricultural business activity” offers a maximum of EUR 700 000 grant per applicant and requires co-funding of 40-50% depending on the type of investment as well as the applicant. Within measure 19.2. “Support to activities in line with the CLLD” EUR 50 000 to EUR 100 000 is available as support for up to 70% of private projects and 90% for public benefit projects. Start-up loans in measure 3.1.1.4. “Loan guarantees and micro credits and start-up loans” are between EUR 2 000 and EUR 150 000 for 10 to 15-years. A more detailed description of the ERDF measures is in Factsheet #4 “ERDF and CF measures for business support” and Factsheet #5 “EARDF measures for non-agriculture business support”. Apart from the otherwise factual information the factsheets also contain calculations of the business support funding in each of the 21 local authorities of the region in total, per capita and per enterprise, as appropriate and feasible.

As can be seen in Table 2.5 uptake of these support measures is remarkable in terms of their share of national investments – from 13 to 21% especially compared to the region's share of national GDP and GVA at 7%. For some measures the uptake has been the lowest in the country, i.e., in EAFRD 6.4., nevertheless, measures such as ERDF Business incubators and EAFRD CLLD/LEADER, in particular showcase the high entrepreneurial spirit of Latgale inhabitants, especially in rural areas.

EAFRD funding available for starting business in rural areas is almost seven times higher than the ERDF funding which has resulted in ten times more support from EAFRD measures than ERDF ones in Latgale. A little less than EUR 1 million for starting a business with much higher potential, i.e., urban development centres, is definitely insufficient and creates an irrational balance between urban and rural areas.

Altogether 390 start-ups have been supported: 194 by the EAFRD CLLD/LEADER measure, 81 by Business incubators, 65 by the EAFRD “Development of non-agricultural activities” and another 50 enterprises from the loans.

The two EAFRD measures are very much appreciated in Latgale rural areas, however, as evidenced from the interviews too often they seem to have more of a social than business support character. Presumably only a few businesses succeed in surviving beyond the project timeline.

At the same time managers of the Rēzekne and Daugavpils business incubators were optimistic about their ‘clients’. They acknowledged the measure to be very good support for start-ups and much appreciated by entrepreneurs in the region. Enterprises in the Latgale incubators cover industries from food processing to computer games.

The analysed support measures aimed at business creation cannot fully validate Hypotheses 1 and 2, which refer to low uptake of business support as a result of a low level of entrepreneurial capacity and a lack of flexibility to address business needs. The uptake is satisfactory, however, this refers to entrepreneurial spirit and courage rather than capacity. For capacity a better indicator is the ability for new companies to survive and upscale outside the business incubators. It is yet too early to judge the entrepreneurial capacities of these supported companies.

Each year on average approximately 700 enterprises are established in Latgale, but not all manage to survive and grow. Due to depopulation, there are fewer people in the region wishing and being able to set up their business. Only 369 active commercial companies and individual merchants registered in Latgale between 2013 and 2018 suggesting that the death rate of companies is only a little lower than their birth rate. A survival of 10% of supported companies, i.e., around 40, would be a good result.

The present speed of business creation and survival in Latgale is insufficient for an economic leap. It points at shortcomings in the business ecosystem for companies in their survival and growth stages, of which the most significant is access to finance. Business survival and growth needs a healthy external financing system.

The ERDF measures are designed to cover the whole region, while the EAFRD ones target only business creation in rural areas. Thus, the most impact from EUR 8.7 million of EAFRD investments is expected in the rural municipalities of Rēzekne (not to be mixed with the town), Daugavpils (not to be mixed with the town), Kārsava and Aglona. Businesses in these municipalities have attracted the highest funding per capita of EUR 100 to EUR 200 per person.

The two business incubators in the towns of Daugavpils and Rēzekne where the majority of the incubated enterprises are registered and active should produce the most effect. Businesses in the municipalities of Rēzekne, Daugavpils, Balvi, Kārsava, Preiļi, Krāslava and Līvāni should also benefit. The majority of start-up loans are concentrated in and around Daugavpils and Rēzekne, but there are significant activities in Līvāni, Ilūkste, Ludza especially and other local authorities.

Overall, this type of support responds well to the needs of regional businesses in their start-up / existence phases. However, only time will show if sufficient preconditions exist in the business ecosystem for start-ups to continue into the next growth stages.

### 2.3.4 Measures aimed at business development

Four support measures aim at business development. They are designed to mitigate major shortcomings for business development in the country, but Latgale in particular, i.e. access to finance for SMEs. Loan guarantees and non-repayable grants support capital investments or cover interest payments. The relevant ERDF and CF measures are described in more detail in Factsheet #3 “ERDF and CF measures for business support”, and EAFRD ones in Factsheet #4 “EAFRD measures for non-agri business support”.

As can be seen Table 2.6. the uptake of ERDF funded business support measures in Latgale is low, while for CF and EAFRD funded ones it was appropriate and satisfactory. Nevertheless, the number of enterprises supported in Latgale is low, only 26 or 0.14% of total enterprises. The support has been comparatively low also in financial terms, EUR 3.8 million. At least two companies with approved projects have ceased to exist. Below is a brief description of the outcomes of the measure with a quick assessment.

Table 2.6 ESIF 2014-2020 support measures aimed at business development

| Fund  | Number   | Measure                                | Type of support       | TOTAL: LATVIA       |                          | TOTAL: LATGALE            |                     |                                  |
|-------|----------|--|-----------------------|---------------------|--------------------------|---------------------------|---------------------|----------------------------------|
|       |          |  |                       | Total investment M€ | No. of approved projects | No. of approved projects* | Total investment M€ | % of the total national approved |
| ERDF  | 3.1.1.1. | Loan guarantees                        | guarantees            | 86.5                | 472                      | 17                        | 1.41                | 2                                |
| ERDF  | 3.1.1.5. | Investments into production facilities | grants / fixed assets | 37.2                | 53                       | 3                         | 0.83                | 2                                |
| CF    | 4.1.1.   | Efficient use of energy resources      | grants / fixed assets | 12                  | 45                       | 5                         | 1.17                | 10                               |
| EAFRD | S0INV.03 | Partial coverage of credit interest    | grants                | 1.3                 | 84                       | 16                        | 0.42                | 32                               |

Source: Calculations based on data from ALTUM (June 2020), Cohesion Policy Management Information System and the Rural Support Service (January 2020); \*Approved projects slightly higher than supported enterprises as some enterprises implemented more than one project.

Guarantees within ERDF measure 3.1.1.1. ‘Loan guarantees’ secure loans for investments, working capital, financial leasing, factoring or private bank guarantees. The maximum guaranteed loan is EUR 5 million for a 10-year period. The target group and beneficiaries are commercial companies including agriculture service co-operatives. Only SMEs are eligible and 11 have benefited from the support in Latgale. Most are wood processing and trade companies. Only a small share of loan guarantees is funded in Latgale, 2% of the national total. In all 12 of 21 municipalities should benefit, but mostly in Kārsava and Daugavpils city.

The measures providing non-repayable grants are:



- ERDF measure 3.1.1.5. “Support to investments into production facilities” provides grants to manufacturing companies. The maximum per project is EUR 1 166 000 for up to 35% of project costs for big companies and 45% for SMEs. Funding is available for investments in fixed assets, including a new production site, reconstructing and extending present production premises or transforming and developing the present business.
- CF measure 4.1.1. “Facilitating efficient use of energy resources, reducing energy consumption and transit to renewable energy resources in the processing industry” offers grants to increase competitiveness for manufacturing SMEs. The maximum per project is EUR 600 000 for up to 30% of the eligible project costs. Grants are provided for investments aimed at increased energy efficiency, such as energy certification of buildings, construction, installation of efficient thermal energy, electricity production and water boiler production equipment using RES and similar.
- EAFRD measure S0INV.03 “Partial coverage of credit interest for manufacturers processing agricultural products” provides grants to food processing enterprises to partly cover the interest costs of long-term loans or leasing.

The initial regulations for ERDF measure 3.1.1.5. “Support to investments into production facilities” provided that the funding has to be equally allocated between the five planning regions of Latvia earmarking EUR 4.7 million per region. That was unique in this programming period when regional ‘quotas’ for ERDF business support interventions were made available. Altogether 12 Latgale companies came up with a request for EUR 3.6 million, of which only 4 projects were approved for EUR 1.4 million. As result the territory did not fully utilise its ‘quota’ and its financial share is very low at 2%.

The four approved projects in Latgale are for wood processing. Three out of the four are comparatively recent – December 2019 and January 2020. The only project in Latgale approved in 2016 after the first call has been suspended. All three on-going projects are implemented by well-known companies, one of them also has SEZ status. It is too early to judge any impacts but territorial effects could be expected in Līvāni, Kārsava and Balvi.

The overall low allocation of funding in Latgale is probably due to various risks, but mostly the risk that projects might not fully match the investment priority especially the conditionality that ‘the business is primarily carried out in RIS3 areas’. It was also indicated by interviewees that Latgale enterprises are far from capable of taking up the rare ‘window of opportunity’ for one-off business support ‘quotas’. Most likely the enterprises do not have relevant businesses development plans when the opportunity opens up and would need significantly more time to prepare them.

In relative terms Latgale businesses look considerably better for CF measure 4.1.1. “Facilitating efficient use of energy resources, reducing energy consumption and transit to renewable energy resources in the processing industry”. The five projects approved in Latgale account for almost 10% which is a good result for the region. Eight projects were submitted, and the success rate was comparatively high, 2/3. The allocation of funding to Latgale is relevant and appropriate.

All five supported companies are well-known and relatively big in the region. Three are in wood-processing, while one is a manufacturer of cordage and rope, and another is manufactures machinery and equipment. In the last five years the companies have had annual growth of 2 to

13%. An opportunity to increase energy efficiency is presumed to help them continue their steady growth.

Territorially the investments are in five municipalities: Daugavpils town, Daugavpils municipality, Līvāni, Rēzekne town and Rēzekne municipality. Project experience of the beneficiary from Daugavpils – the heavy machinery manufacturer 'Zieglera Mašīnbūve, Ltd.' is described in a case study in Factsheet #3 "ERDF and CF measures for business support".

Under EAFRD measure S0INV.03 "Partial coverage of credit interest for manufacturers processing agricultural products" so far seven Latgale enterprises have been supported. Three are related entities owned by the same person, so the number of supported businesses is actually four. Three related dairy enterprises account for 42% of the funding via nine projects, while another processing meat accounts for 43% via two projects. The remaining 15% is shared between one big farm, one small farm (total EUR 211,36) and a fish processing company that ceased to exist in September 2020. The businesses are registered in Rēzekne and Daugavpils towns, rural municipalities of Daugavpils, Preiļi, Viļaka and Krāslava.

These support measures total EUR 3.8 million and have most likely provided a significant increase in capital investments of manufacturing companies in the territory during this programming period. From 2014 to 2019 the increase was EUR 10.6 million or 6%<sup>109</sup>, the total value added by manufacturing increased by 10.5% with the number of employed staying more or less the same at 16 500 in 2019. The support is not sufficient for the accelerated economic development the region needs as has been mediocre when compared to national investments under the above measures.

Another aspect raising concerns of potential reinforcing effects from the interventions is that support has mainly reached traditional low-tech industries such as wood and food processing with comparatively low value added. Outcomes of the measures represent the industrial landscape of the region, however they also suggest that not only private banks are reluctant to undertake risks associated with more technologically advanced business sectors, but business interventions also seem to bypass them. An exception is a few well-established medium- and high-tech companies as described in the next sub-chapter. It leaves a wide financial market gap open, for support to companies in medium-low, medium- and high-tech technology industries that could help the region to grow.

Both hypotheses 1 and 2 – referring to a low uptake of business support and a lack of flexibility to address business needs in the territories can be fully validated. The uptake is far from satisfactory especially in terms of size and industries. The specific situation and needs of regional businesses have not always been taken into account when designing and implementing the measures. The regional 'quota' has not been utilised which shows that the measures are often not sufficiently flexible in respecting and addressing specific regional

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<sup>109</sup> Data from the Register of Companies via Lursoft, Ltd. on 3 844 active enterprises (commercial companies and individual merchants) operational in Latgale in NACE sectors B to M and S.95

needs, e.g., low entrepreneurial capacity. This limits the relevance of business support in the territories.

### 2.3.5 Measures aimed at business productivity

Productivity in Latvian industries has been identified as a challenge for sectoral policies in both primary and secondary sectors. Considerably below the EU average, it affects the international competitiveness of businesses in Latgale. High technology risks, lack of professional skills and insufficient resources limit development of innovative and technology-intensive enterprises with potential for rapid growth. The intervention logic foresees an additional stimulus to businesses to trigger their own investments in R&D boosting their technological capacity. Non-repayable grants to businesses are for investments to develop new products or introduce new technology processes that should lead to added value in production output.

Three support measures aimed at increased business productivity have been selected for assessment. They are described in more detail in Factsheet #4 “ERDF and CF measures for business support” and the Factsheet #5 “EARDF measures for non-agriculture business support”. Below is a brief summary of their outcomes in Latgale.

The share of funding allocated to Latgale businesses shows that the performance of the region within these measures is good. Only 23 enterprises have benefitted which again is not a lot, but they received EUR 12 million. Below is an overview of the measures and their outcomes.

Table 2.7 ESIF 2014-2020 support measures aimed at business productivity

| Fund  | Number   | Measure                               | Type of support       | TOTAL: LATVIA       |                          | TOTAL: LATGALE            |                     |                                  |
|-------|----------|---------------------------------------|-----------------------|---------------------|--------------------------|---------------------------|---------------------|----------------------------------|
|       |          |                                       |                       | Total investment M€ | No. of approved projects | No. of approved projects* | Total investment M€ | % of the total national approved |
| ERDF  | 1.2.1.4. | Introducing new products              | grants / fixed assets | 53.6                | 43                       | 4                         | 6.00                | 11                               |
| EAFRD | 4.2.     | Processing/marketing of agri products | grants / fixed assets | 56.8                | 247                      | 37                        | 5.80                | 10                               |
| EAFRD | 16.2.    | New products, technologies pilots     | grants / fixed assets | 2.7                 | 35                       | 2                         | 0.17                | 6                                |

Source: Calculations based on Cohesion Policy Management Information System and the data from Rural Support Service (January 2020); \*Approved projects are slightly higher than the number of supported enterprises as some enterprises implemented more than one project

ERDF measure 1.2.1.4. “Support to introducing new products” could be considered a successful and effective business support intervention in the stakeholder territory. Eligible activities under the measure are developing or purchasing experimental technology. The measure was available for commercial companies and agriculture or forestry co-operatives. Public non-repayable co-funding depended on the size of the company, i.e., 55% for micro and small companies, 45% for medium-size companies and 35% for big companies. The minimum was EUR 500 000 with a maximum of EUR 16 million. Three Latgale based companies have been supported with the ERDF funding ranging from EUR 1 million to EUR 4 million per company. Taking up 11% of the national funding or EUR 6 million is a good result for the region. Private investments of EUR 10.5 million in Latgale were leveraged by this additional stimulus.

Only three companies from the region qualified for the measure, proving the limited capacities of businesses in Latgale for technological advancement. Two food-industry companies also

applied but were not supported. The low number of applications suggests that the measure has not been relevant for local businesses most likely due to the very high minimum project size.

The three benefiting companies are big and strong with long-standing traditions. They manufacture electrical equipment (optic fibre), fabricate metal products and wood products. All of them have also enjoyed SEZ status for some time. Evidently, they have resources for private investment, a prerequisite of applying for support. Though it is too early to judge the effect of the measure on the future development of the companies, all three have already showed considerable growth in the last few years.

Rēzekne town and the neighbouring rural local authority as well as Līvāni benefit from the measure. Project experience of the beneficiary from Līvāni – the optic fibre manufacturer ‘Light Guide Optics International, Ltd.’ is described in a case study of Factsheet #4 “ERDF and CF measures for business support”. ‘Light Guide Optics International, Ltd.’ has two projects funded by the measure and deems the support beneficial.

The two other business support measures assessed here are funded by EAFRD. The RDP also recognises the need for increased efficiency in industries processing agriculture produce. It emphasises a need for employment to be created in non-agricultural businesses in rural areas.

EAFRD measure 4.2. “Support to processing of agricultural products” aims to increase added value in the food industry by introducing modern and efficient business management systems, technologies and equipment ensuring climate friendly and sustainable resource management. Targeting existing as well as newly founded enterprises it provides support as non-repayable grants for investments in new equipment, technologies (including software) and construction or renovation of production premises. EAFRD support intensity varies between 30 and 50% depending on the type of investments as well as the applicant. There are different maximum EAFRD funding volumes per applicant ranging from EUR 200 000 for a newly established processing company to EUR 5 million for cooperatives.

The share of public funding in Latgale is 10.2% or EUR 5.8 million. It is a bit lower than for Latgale food-processing enterprises in the 2017 national gross value added by industry, 12% in (C10) Manufacture of food products, but reflects the landscape. Altogether 18 companies have been supported, which is 32 % of the 56 food industry enterprises in the region. Territory wise investments have been made in 10 municipalities.

Only two Latgale companies have been supported under the other EAFRD measure 16.2. ‘Support to development of new products, methods, processed and technologies’ and the share of funding in Latgale is 6%. Though it reflects the Latgale share in national GDP and GVA of 7%, it can be considered an underperformance in relation to the Latgale share in national GVA for (A) Agriculture and forestry which was 12% in 2017.

Both supported companies are based in the same municipality – Kārsava which is one of seven local authorities bordering the Russian Federation. One of the companies ‘Latgales dāržeņu loģistika’, Ltd. is an agricultural enterprise growing tomatoes. The company is interested in research on lighting solutions for greenhouses as well as biogas production. Satisfied with the

results of its research the company is considering producing LED lights based on the project results. More detailed information on the beneficiary's project experience is in a case study of Factsheet #5 "ERDF measures for non-agri business support".

As with an ERDF measure analysed in this sub-chapter with only two beneficiaries the relevance of the measure to businesses in the territory is in doubt.

To assess any effect of the above measures on increased productivity in the supported industries is the overview Table 2.8 below. There is an increase in productivity in all the industries but at different speeds. Agriculture has almost doubled its efficiency which is no surprise given the huge investments in the primary sector. If the secondary sector enjoyed similar support, the results would most likely be similar. A quick assessment suggests that the business support measures are effective in raising productivity, especially in low technology industries such as agriculture, wood and food industry which goes hand-in-hand with redundancy of the labour force.

Table 2.8 Development of industries supported by measures supporting business productivity in Latgale between 2014 and 2018

| NACE category                                    | Number of enterprises<br>April 2020 | Value added per employed €   |        | Change % | Number of employed |       | Change % |
|--|-------------------------------------|------------------------------|--------|----------|--------------------|-------|----------|
|  |                                     | 2014                         | 2018*  |          | 2014               | 2018* |          |
|  |                                     | (A) Agriculture and forestry | 6669** |          | 5428               | 10372 |          |
| C 10 Manufacture of food products                | 56                                  | 10939                        | 14850  | 36       | 3135               | 2880  | -8       |
| C 13 Manufacture of textiles                     | 26                                  | 7498                         | 10196  | 36       | 424                | 438   | 3        |
| C 16 Manufacture of wood and of products of wood | 152                                 | 11156                        | 18332  | 64       | 3489               | 2823  | -19      |
| C 25 Manufacture of fabricated metal products    | 67                                  | 10278                        | 12260  | 19       | 1052               | 922   | -12      |
| C 27 Manufacture of electrical equipment         | 6                                   | 23223                        | 28961  | 25       | 730                | 1041  | 43       |
| C 28 Manufacture of machinery and equipment      | 14                                  | 10420                        | 15511  | 49       | 745                | 662   | -11      |

Source: Consortium calculations based on CSB data; \*data for (A) Agriculture and forestry of 2017; \*\*2018

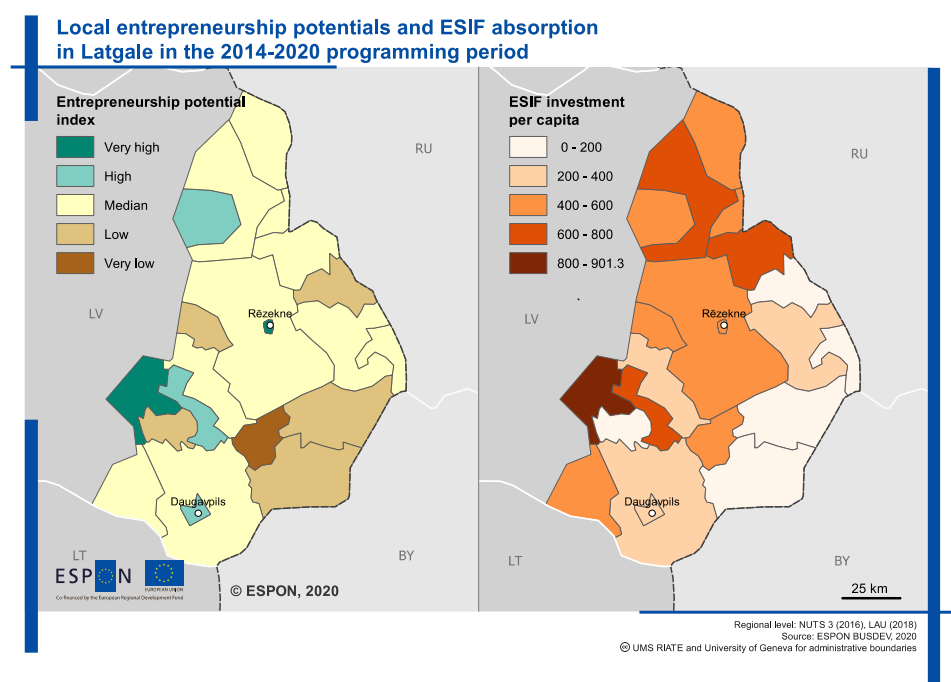
Hypotheses 1 and 2 of low uptake of business support funding cannot be fully validated by the above measure. However, flexibility to address the needs of local businesses can be questioned. The funding uptake is satisfactory compared to the share of regional GDP and GVA. That few companies use the opportunity for technological upgrade offered by the measures is a concern. The bars are too high to allow most local businesses to apply for the measures that are very much needed.

To conclude, **Hypothesis 3 (H3)** – Business support funding (as a proxy for all business support measures) has a positive effect on business performance, viability and productivity in the territories but less compared to other parts of the country.

Compared to the whole country, entrepreneurship is not sufficiently developed in large parts of the territories, at least beyond the primary sector. Absorption of business support funding in Latgale is often also well below the national average. This suggests that the relationship between entrepreneurship and absorption of business support can be confirmed. This is both when comparing the region to the national average as well as within the region itself. The most eastern LAUs on the border with Russia and Belarus have the least entrepreneurial potential as well as ESIF investment, confirming also that proximity to the main markets matters.

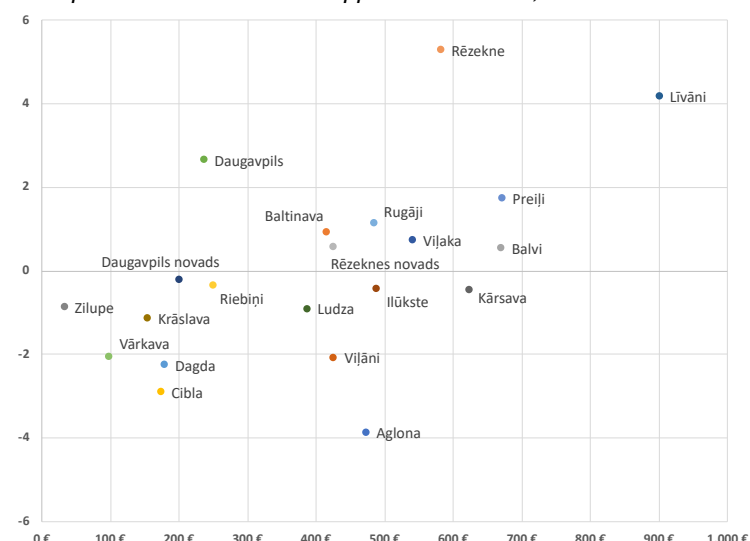
Cross-referencing entrepreneurship capacity with ESIF investment per capita highlights the spatial spread of regional potential, see Map 2.1 and Figure 2.1. LAUs in the upper right corner are regional leaders developing synergies between their strengths and ESIF investments. Four of the five functional areas are there - Rēzekne, Līvāni, Preiļi and Balvi. A slight surprise are municipalities of Rugāji and Viļaka which have more entrepreneurial inhabitants, while the CDFI is operational in Viļaka. LAUs in the upper left corner also demonstrate strengths though they have been less successful in attracting ESIF. All territories above the zero line will most likely profit from the cumulative benefits of combining their own capacities and additional support.

Map 2.1 Entrepreneurship potential captured by six proxies for 2014-2018 and ESIF business support investments in Latgale in the 2014-2020 programming period



Source: Consortium calculations based on data by CSB and RAIM for tax revenues, 2020

Figure 2.1 Municipalities of Latgale by cumulative development potential per six business proxies and absorption of ESIF business support investments, 2014-2020



Source: Consortium calculations based on data by CSB and RAIM for tax revenues, 2020

## 2.4 Conclusions

1. **Business support mechanisms in the stakeholder territory have not provided any measurable development in the region.** Approximately 500 enterprises have been supported. The 2017 GDP per capita in Latgale is still one third of Rīga and half the national average, as it was ten years ago.
2. **Regional development policy measures address Latgale as do industrial and rural policies.** The three consecutive national “Action Plans for Economic Development of Latgale Region” are important interventions for the region. The results and impacts of most related business support measures are yet to be seen. It is however already evident that only part of the business support interventions has been relevant and could affect further development of the region. Business support mechanisms designed at the national level as a part of the national sectoral policies have limited capabilities and flexibility in responding to regional need as they overlook the territorial dimension.
3. **Business support mechanisms have maintained the status-quo in the region.** In combination with policies in fields such as transport, education and health care the business stimuli have contributed to maintaining existing development of the region, i.e., without them the situation would most likely have deteriorated much more.
4. **Access to finance remains the main obstacle for business development especially outside the primary sector.** Risks for doing business on the external border are estimated as too high and few private sector players are ready to undertake them. Existing business support mechanisms are not enough to bridge the gap even half-way. Mainly business growth cycle stages<sup>110</sup> that involve fewer financial risks are supported. Genuine risk taking in the periphery is an issue.
5. **SEZ provides a favourable setting for business and is an absolute ‘must’ for a region like Latgale to mitigate its outlying location.** Though the two SEZs in Latgale are relevant and effective incentives, they only partly mitigate the peripheral location of the region. SEZ advantages are feasible only for mature businesses that can pool financial resources for investments. So far, the emphasis is on low to medium technology manufacturing industries in Latgale’s SEZs. This is slowly starting to change towards high-tech and ICT industries.
6. **Uptake of business support in Latgale is not sufficient to ensure a regional catch-up.** Uptake of ESIF direct business support in the territory during the programming period 2014-2020 is lower than in other parts of the country. Its average share is 8% reflecting the Latgale share of national GDP and GVA of 7%. Direct business support in Latgale per capita is EUR 96, while the national average is EUR 160. It is particularly low among businesses in survival and kick-off stages of the business growth cycle when risk sharing

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<sup>110</sup> <https://hbr.org/1983/05/the-five-stages-of-small-business-growth>

is crucial. Latgale businesses often cannot compete for business support funding with counterparts from other regions of Latvia, especially Rīga and Pierīga.

7. **There is appropriate support for starting a business**, i.e., Stage I of the business life cycle (often referred to as launch, start-up or existence phase). There are enough opportunities to start a business and get support in the form of advice, small grants from municipalities, business incubators and rural development policy measures. The region is an excellent 'playground' for trial and error in entrepreneurship. It is not clear though what happens to businesses after they leave the incubator. Moreover, there is ten times more funding for starting a business in rural areas than urban ones creating an irrational territorial imbalance.
8. **Businesses at Stages III and V** which have attained economic health and resource maturity are also well served, primarily by SEZ, but also by productivity measures analysed above. The findings show that SEZs contain strong and healthy enterprises and productivity measures are enjoyed by a few comparatively big and strong enterprises that can also undertake risks themselves. Certainly, business support enables them to go for bigger and riskier projects which is good for the region, however there are too few projects to make a particular impact on the region's development.
9. **Enterprises in between the business incubator and SEZ stages miss business support in Latgale.** Survival and often also take-off (Stages II and IV) difficulties miss business policy attention. These are usually the riskiest stages in the growth cycle, but at the same time only these can provide the kick-off for an economic development leap. There was almost EUR 9.7 million in interventions for business creation where the chance for companies to survive is 10%. EUR 8.7 millions of this is in rural areas with comparatively less potential and might be a slight overstretch especially compared to EUR 3.8 million for business development support in the critical phase of business growth.
10. **The two ERDF businesses support measures to improve the business environment in local authorities only partly compensate for the low uptake and lack of finance.** Integrated territorial investments are deemed to be important and relevant to counterbalance comparatively low funding absorption by private enterprises as they undertake risks that no other businesses want to bear. Nevertheless, these public measures sometimes lack the flexibility required by the private sector.
11. **Effectiveness of ITI is limited by complicated, time-consuming and inflexible implementation.** Complementing investments in public business infrastructure with measures aimed at supporting, for example, capital investment or new product development would bring more visible and viable results thanks to potential synergies.
12. **Contribution of sectoral policies is too formal and not sufficiently coordinated with national regional development policy.** So, for example, for national industrial and rural development policies mitigating regional disparities is more of a horizontal priority that is



not addressed effectively. RDP investments in agriculture can be partly responsible for depopulation of the region while there has been no adequate policy response to mitigate it.

13. **During this programming period direct business support has been by 1/3 higher for EAFRD than ERDF.** This is because EAFRD measures are more 'business friendly'. This leads to more funding in rural areas where the business potential is known to be lower than in urban areas, however, it should provide a modest boost to the region's development.
14. The most visible territorial effects of the business support measures are:
  - Rēzekne town outperforms Daugavpils partly due to the long-term SEZ.
  - Latgale SEZ mostly has businesses in Daugavpils and manufacturing industries with potentially higher added value, including high-tech industries.
  - Daugavpils, Rēzekne, Līvāni, Preiļi and Balvi have a higher uptake of ERDF business support. There is also a considerable activity in Krāslava.
  - For EAFRD non-agriculture support rural municipalities in direct vicinity to Daugavpils, Rēzekne, Līvāni, Preiļi stand out.
  - Rugāji, Viļaka, Baltinava and Rēzekne rural municipalities developing synergies between their own entrepreneurial potential and ESIF investments.
15. **43% or 65 of the 152 business survey respondents confirmed receipt of support in the previous decade.** 31 named a grant or subsidy, while another 13 a loan or its guarantee. 14 entrepreneurs benefited from business consultancy, 7 from assistance in marketing and four respondents acknowledge renting premises at an affordable price. Another 26 respondents had other types of support. Most often ESIF support was mentioned without specifying its format. Of those 42 said they have not even tried to apply for support, the main reasons include a lack of information and application was perceived as cumbersome. In many cases the support was not deemed relevant.

### 3 Territorial capital matrix

The Territorial capital matrix was prepared based on extensive research under tasks 1 and 2. The matrix provides an overview of the main perspectives or dimensions, as they are called in the matrix: (1) territorial and (2) business.

The territorial dimension elaborates on **five main territorial development keys**: (1) accessibility, (2) services of general interest, (3) territorial capacities/assets, (4) city networks and (5) functional areas. Territorial keys serve as a vehicle to identify the key elements of territorial convergence related to its territorial capital dimension. They allow positioning the region on various levels, such as the regional, national, cross-border and the European level by grouping together the linking issues into policy-oriented aggregates. Each territorial development key is broken down into three sub-topics to reveal the regional territorial potential. Each sub-topic has 'three key words' and links are made to the four territorial levels.

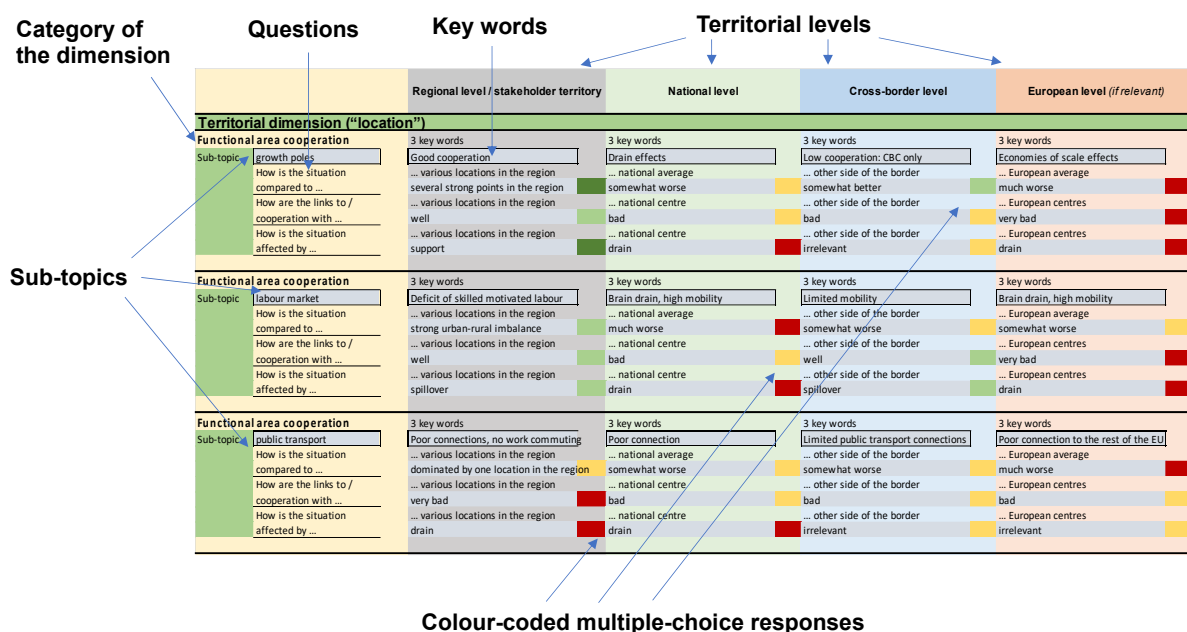
The business dimension concludes on the business environment in the stakeholder territories and how its various components play out in a spatial dimension. They reveal findings of the regional potential analysis with a focus on **five business determinants**: (1) clusters and networks, (2) professional support, (3) legal and financial framework, (4) education and innovation and (5) the business support system. The business dimension capital matrix for follows the same logic as for the territorial, linking them to territorial levels.

The Territorial capital matrix encompasses analysis findings per territorial development key and business determinant. Transposing the main elements discloses the regional potential while also relating them to the national, cross-border and territorial contexts. The matrix highlights the strengths and weaknesses of the region in focus and puts them in a larger territorial context.

The process entailed answering three questions on five categories under both territorial development keys and business determinants. These were divided into three sub-topics on average which have three key words at the four territorial levels. The process is standardised where possible for the matrices be comparable and aligned between the three territories in this analysis.

The introduction to the three reference questions is similar, while its final part depends on the territorial level. Each question has four similar color-coded multiple-choice responses. These vary only by territorial level, with the regional level having its own set and the other three levels have the same set of responses. The responses have been standardised allowing for comparison and alignment between the sub-topics.

Figure 3.1 Sample of the extended Territorial Capital Matrix including the reference questions and colour-coded multiple-choice responses



Source: Consortium

Table 3.1 As set of reference questions and multiple-choice responses by the territorial levels

| Reference questions  | Multiple-choice responses at the regional level | Multiple-choice responses at the national, cross-border and European level |
|--|---|--|
| <b>1. How is the situation compared to ...</b>                     |   |  |
| 1.1. various locations in the region for the regional level?       | dominated by one location in the region         | much better  |
| 1.2. the national average for the national level?                  | several strong points in the region             | somewhat better  |
| 1.3. other side or a cross-border area for the cross-border level? | strong urban-rural imbalance                    | somewhat worse   |
| 1.4. the European average for the European level?                  | no strong points in the region                  | much worse   |
| <b>2. How are the links to / cooperation with ...</b>              |   |  |
| 2.1. various locations in the region for the regional level?       | dominated by one location in the region         | much better  |
| 2.2. the national average for the national level?                  | several strong points in the region             | somewhat better  |
| 2.3. other side or a cross-border area for the cross-border level? | strong urban-rural imbalance                    | somewhat worse   |
| 2.4. the European average for the European level?                  | no strong points in the region                  | much worse   |
| <b>3. How is the situation affected by ...</b>                     |   |  |
| 3.1. various locations in the region for the regional level?       | dominated by one location in the region         | much better  |
| 3.2. the national average for the national level?                  | several strong points in the region             | somewhat better  |
| 3.3. other side or a cross-border area for the cross-border level? | strong urban-rural imbalance                    | somewhat worse   |
| 3.4. the European average for the European level?                  | no strong points in the region                  | much worse   |

Source: Consortium

### 3.1 Territorial dimension

Table 3.2 Territorial dimension of the Territorial capital matrix Latgale

|   | Regional level / stakeholder territory       | National level                              | Cross-border level                      | European level (if relevant)                 |
|---|--|---|---|--|
| <b>Territorial dimension ("location")</b>   |  |   |   |  |
| <b>Functional area cooperation</b>          |  |   |   |  |
| Growth poles                                | Good cooperation                             | Drain effects                               | Low cooperation: CBC only               | Economies of scale effects                   |
| Benchmarking                                |  |   |   |  |
| Links/cooperation                           |  |   |   |  |
| Impact from development in other locations  |  |   |   |  |
| <b>Labour market</b>                        |  |   |   |  |
| Benchmarking                                | Deficit of skilled motivated labour          | Brain drain, high mobility                  | Limited mobility                        | Brain drain, high mobility                   |
| Links/cooperation                           |  |   |   |  |
| Impact from development in other locations  |  |   |   |  |
| <b>Public transport</b>                     |  |   |   |  |
| Benchmarking                                | Poor connections, no work commuting          | Poor connection                             | Limited public transport connections    | Poor connection to the rest of the EU        |
| Links/cooperation                           |  |   |   |  |
| Impact from development in other locations  |  |   |   |  |
| <b>Accessibility</b>                        |  |   |   |  |
| <b>Roads</b>                                |  |   |   |  |
| Benchmarking                                | Only main roads are in good condition        | Main roads mostly                           | Road connections to RU & BY             | Roads compared to the EU                     |
| Links/cooperation                           |  |   |   |  |
| Impact from development in other locations  |  |   |   |  |
| <b>Internet / broadband</b>                 |  |   |   |  |
| Benchmarking                                | Good ICT infrastructure                      | LV has one of the best ICT in EU            | RU & BY have weaker & censored ICT      | LV's strong ICT produces opportunities       |
| Links/cooperation                           |  |   |   |  |
| Impact from development in other locations  |  |   |   |  |
| <b>Railway, airport, port or all</b>        |  |   |   |  |
| Benchmarking                                | Airport is a must                            | Insufficiently connected                    | Weak connection: airport is opportunity | Weak connections, remote location            |
| Links/cooperation                           |  |   |   |  |
| Impact from development in other locations  |  |   |   |  |
| <b>Services of general interest</b>         |  |   |   |  |
| <b>Education</b>                            |  |   |   |  |
| Benchmarking                                | Good quality of public education             | Most students don't return to the region    |   |  |
| Links/cooperation                           |  |   | n.a.                                    | n.a.   |
| Impact from development in other locations  |  |   | n.a.                                    | n.a.   |
| <b>State and municipal services</b>         |  |   |   |  |
| Benchmarking                                | Good coverage, ICT-heavy                     | Heavily rely on ICT solutions               |   |  |
| Links/cooperation                           |  |   | n.a.                                    | n.a.   |
| Impact from development in other locations  |  |   | n.a.                                    | n.a.   |
| <b>Health care</b>                          |  |   |   |  |
| Benchmarking                                | Good quality of basic services               | Complex services in the capital only        | RU&BY enjoy medical tourism from LV     | Hi-quality but expensive services in EU      |
| Links/cooperation                           |  |   |   |  |
| Impact from development in other locations  |  |   |   |  |
| <b>Territorial capital</b>                  |  |   |   |  |
| <b>Labour force</b>                         |  |   |   |  |
| Benchmarking                                | Low motivation, negative demography          | Brain drain / hand-drain                    | Some labour immigration to LV           | Brain drain / hand-drain?                    |
| Links/cooperation                           |  |   |   |  |
| Impact from development in other locations  |  |   |   |  |
| <b>Entrepreneurial activity</b>             |  |   |   |  |
| Benchmarking                                | High activity, mostly micro-firms            | Brain drain                                 | Economy dominated by large firms        | Brain drain to EU centres                    |
| Links/cooperation                           |  |   |   |  |
| Impact from development in other locations  |  |   |   |  |
| <b>Dominance of sectors</b>                 |  |   |   |  |
| Benchmarking                                | Dominated by low value added                 | LV is diversified economy                   | Agri & forest dominated economy         | LV is comparatively low in value chain       |
| Links/cooperation                           |  |   |   |  |
| Impact from development in other locations  |  |   |   |  |
| <b>Networking between local authorities</b> |  |   |   |  |
| <b>Local authorities</b>                    |  |   |   |  |
| Benchmarking                                | Good cooperation                             | LG municipalities have a strong voice in LV | Limited / politicised cooperation       | Very limited cooperation                     |
| Links/cooperation                           |  |   |   |  |
| Impact from development in other locations  |  |   |   |  |
| <b>Cooperatives / associations</b>          |  |   |   |  |
| Benchmarking                                | Low cooperation, in agri only                | LV has strong cooperatives, not LG          | No cooperation across external border   | Close business ties, but limited cooperation |
| Links/cooperation                           |  |   |   |  |
| Impact from development in other locations  |  |   |   |  |
| <b>Civil society</b>                        |  |   |   |  |
| How is the situation compared to ...        | Active CSO, but small and little cooperation | Strong NGO sector, good examples available  | Almost no contacts: politicised         | Limited connections to EU-level CSOs         |
| How are the links to / cooperation with ... |  |   |   |  |
| How is the situation affected by ...        |  |   |   |  |

Source: Consortium

## 3.2 Business dimension

Table 3.3 Business dimension of the Territorial capital matrix Latgale

|   | Regional level / stakeholder territory      | National level                             | Cross-border level                       | European level (if relevant)              |
|---|---|--|--|---|
| <b>Business dimension ("beyond the location")</b> |   |  |  |   |
| <b>Clusters and networks</b>                      |   |  |  |   |
| <b>Business / sector associations</b>             | Very low cooperation, some order sharing    | Capital ORGs dominate LV & ignore Latgale  | No cooperation: politicised              | Only policy level cooperation             |
| Benchmarking                                      |   |  |  |   |
| Links/cooperation                                 |   |  |  |   |
| Impact from development in                        |   |  |  |   |
| <b>Industrial clusters</b>                        | Very low cooperation levels                 | The capital dominates                      | Command econ. of BY promotes internal c  | Weak links to international networks      |
| Benchmarking                                      |   |  |  |   |
| Links/cooperation                                 |   |  |  |   |
| Impact from development in                        |   |  |  |   |
| <b>Cooperatives</b>                               | Some cooperation in agriculture             | Some very strong points elsewhere in LV    | Command economy and large farms          | EU cooperatives provide efficiency gains  |
| Benchmarking                                      |   |  |  |   |
| Links/cooperation                                 |   |  |  |   |
| Impact from development in                        |   |  |  |   |
| <b>Professional support</b>                       |   |  |  |   |
| <b>Local consultants / experts</b>                | Region admin + Rural consultations          | Very competitive consultancy community     | No market                                | Capacity mis-match                        |
| Benchmarking                                      |   |  |  |   |
| Links/cooperation                                 |   |  |  |   |
| Impact from development in                        |   |  |  |   |
| <b>Scientists / innovation advisors</b>           | Limited science-business cooperation        | Developed market                           | Some scientific cooperation              | Brain drain                               |
| Benchmarking                                      |   |  |  |   |
| Links/cooperation                                 |   |  |  |   |
| Impact from development in                        |   |  |  |   |
| <b>Business incubators</b>                        | Strong beginnings, mostly socially-oriented | Well-developed instrument                  | Very strong support to IT & STEM sector  |   |
| Benchmarking                                      |   |  |  | n.a.                                      |
| Links/cooperation                                 |   |  |  | n.a.                                      |
| Impact from development in                        |   |  |  | n.a.                                      |
| <b>Legal and financial framework</b>              |   |  |  |   |
| <b>Taxation (e.g. SEZ)</b>                        | SEZ provide some preferences                | Unstable taxation system                   | Start-ups enjoy way lower taxes in RU&BY | Hard to compare, but more stable          |
| Benchmarking                                      |   |  |  |   |
| Links/cooperation                                 |   |  |  |   |
| Impact from development in                        |   |  |  |   |
| <b>Access to finance market</b>                   | Poor access to finance                      | Good access in capital and growth poles    |  |   |
| Benchmarking                                      |   |  | n.a.                                     | n.a.                                      |
| Links/cooperation                                 |   |  | n.a.                                     | n.a.                                      |
| Impact from development in                        |   |  | n.a.                                     | n.a.                                      |
| <b>Education and innovation</b>                   |   |  |  |   |
| <b>Highly-skilled labour force</b>                | Low motivation levels                       | Brain drain                                | Some expert / founder immigration        | Brain drain                               |
| Benchmarking                                      |   |  |  |   |
| Links/cooperation                                 |   |  |  |   |
| Impact from development in                        |   |  |  |   |
| <b>Training / life-long learning</b>              | Over-abundance of LLL                       | Over-abundance of LLL                      | Undeveloped LLL concept: IT only         | Up-skilling widely available              |
| Benchmarking                                      |   |  |  |   |
| Links/cooperation                                 |   |  |  |   |
| Impact from development in                        |   |  |  |   |
| <b>Innovation potential</b>                       | Limited capacity and cooperation            | Developed Riga market drains LG            | Some scientific cooperation              | Some scientific cooperation / brain drain |
| Benchmarking                                      |   |  |  |   |
| Links/cooperation                                 |   |  |  |   |
| Impact from development in                        |   |  |  |   |
| <b>Business support system</b>                    |   |  |  |   |
| <b>Business support centres</b>                   | Active system with limited efficiency       | Active system, high numbers, greater effie | Limited support system                   | Well-developed support system             |
| Benchmarking                                      |   |  |  |   |
| Links/cooperation                                 |   |  |  |   |
| Impact from development in                        |   |  |  |   |
| <b>Grant and subsidies</b>                        | Very good coverage with preference          | Good coverage                              | Underdeveloped business support in RU&BY | Very diverse picture across EU            |
| Benchmarking                                      |   |  |  | n.a.                                      |
| Links/cooperation                                 |   |  |  |   |
| Impact from development in                        |   |  |  |   |
| <b>Financial instruments</b>                      | Latgale -ALTUM's best client                | Well-developed financial system            | Underdeveloped financial instruments     | Very diverse picture across EU            |
| Benchmarking                                      |   |  |  | n.a.                                      |
| Links/cooperation                                 |   |  |  |   |
| Impact from development in                        |   |  |  |   |

Source: Consortium

## 4 Recommendations

### 4.1 Strengthen capacity and authority of regional governance

**Rationale:** During the times when a certain vacuum exists in the local development planning in Latvia as well as in the light of the overall quest for more concentrated and regional policy approaches to address the shortcomings of the lagging behind territories such as Latgale, the participatory process within this targeted analysis concluded that the regional authorities need to have broader authority and capacities to react to the dynamic changes in the business environment of the region. Please, see conclusion 16.1 of sub-chapter 1.4. For more information on the participatory process, please, see Scientific report of this analysis.

Also, the contribution of the Special Economic Zones and ITI in Latgale (see sub-chapter 2.3.2 and conclusion 5 of sub-chapter 2.4) evidence that only strong regional co-operation is able to untap regional potential. A truly functional regional authority having a clear vision of the regional development and able to be an equal partner within the national development framework, i.e., from the programme and project development to its implementation would ensure that the intervention logic is applied in the most efficient way and maintained throughout the process. This requires an increased capacity, legitimacy and financial autonomy of the regional governance, but its executive body, in particular. This way the regional authority would earn greater trust and mandate also from the key regional business players ensuring projects with the most regional impact. As recognised also from one of the best practice case studies from Poland 'Koszalin- Kołobrzeg-Białogard ITI' design and implementation of territorial tools require sufficient administrative capacity that can be built by joining forces of municipalities.

#### **Recommended actions:**

1. A present momentum of the Administrative territorial reform 2020 in Latvia should be used to reconsider business development support functions in local authorities as well as underutilised opportunities. A greater role, functions and funding should be delegated to the regional authority to better address regional business development issues.
2. A way of strengthening capacity and authority of regional governance is to re-establish a fully-fledged and authorised executive body for regional development accountable to LAUs. This executive body could take a shape of a Regional Development Agency that is the most common form of such an institution in the other regions of the EU.
3. Regional governance representatives should be engaged in elaborating sectoral policies for regional businesses, e.g., industrial, educational, rural, etc.

The above proposals for institutional development require political decisions both at the local as well as national levels. The Law on Regional Development<sup>111</sup> being the main national regulatory framework for the regional development in Latvia has to be, inter alia, supplemented to include and define regional executive bodies. The main target audience of the proposals are

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<sup>111</sup> <https://likumi.lv/ta/en/en/id/61002>

the new local authorities to be elected in June 2021. The ultimate aim would be a legitimate and independent regional authority capable to implement regional development projects.

## **4.2 Know your businesses and stand by them**

**Rationale:** effective business assistance should be developed on the actual needs and potential of regional entrepreneurs. Often businesspeople are too cautious or too busy to explore new and risky development paths in disadvantaged areas such as Latgale. Additional capacity and stimulus may provide the necessary kick-off. This is where more proactive business support can be provided by the regional authority. This proposal is based on the findings from the interviews of municipal and business representatives as well as the business survey and quantitative data that the Latgale Business Support Centre was able to provide for this study. For business survey, please, see also the Scientific report.

### **Recommended actions:**

1. The business community has to be consulted regularly to understand challenges they face early on. A regional business development council or advisory board could ensure regular dialogue with entrepreneurs. Differentiation by industry could be considered e.g., ICT could have different issues to woodworking. Finding and establishing proper communication means is of utmost importance.
2. The Latgale Business Support Centre together with the SEZ management authority should keep an overview on business development in Latgale creating a monitoring system. Regular business monitoring can be based on annual reports available in the public database. The health of businesses, especially in the survival or take-off stages needs to be monitored to promptly address shortcomings in the ecosystem that prevent their further growth in the region.
3. Mature and successful long-term business representatives in the region or regional 'champions' are a good source of inspiration for development project ideas, e.g., new business potential, innovation centres, clusters, etc. These 'champions' are a driving force of the region's development and their well-being should be a concern. Reciprocal partnerships should be established, and regional projects possibly built on ideas from these entrepreneurs.
4. All enterprises should be supported in their digitisation efforts to fully benefit from the 4<sup>th</sup> technological revolution, also called Industry 4.0. Opportunities of the European Digital Innovation Hub<sup>112</sup> should be communicated to regional businesses. Relevant business support measures could be included in the Action Plan for Economic Development of Latgale as a pilot project.

These proposals are also of an institutional development nature but require also political decisions mainly at the local level. The main target audience are the regional businesses. As a result, a regional business monitoring system is introduced, and capacities are increased to

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<sup>112</sup> <https://www.itbaltic.com/dih-latvija>

address the identified needs in the most efficient way. Inter alia, the financing of Resilience and Recovery Facility (RRF) should be sought to cover, for example, the digital transformation needs of the businesses.

### 4.3 Bridging the financial market gap

**Rationale:** too often insufficient funding is mentioned as hindering regional businesses. This is also evidenced by the statistics. Please, see sub-chapter 1.2.5 for more information on access to finance in Latgale as well as conclusion 11 of sub-chapter 1.4 and conclusion 4 of sub-chapter 2.4. Without closing the gap in access to funding beyond the primary sector, regional business potential will remain untapped. There is a need for greater risk sharing from the community / public sector.

The following solutions for increased access to finance should be considered:

1. Significantly greater risk-taking by the community, including through a CDFI is needed in Latgale. A two-fold approach should be considered: (1) separate support programme or financial instruments for Latgale at ALTUM and (2) a regional CDFI, which could use an existing Law on Savings and Loan Associations<sup>113</sup>. Adjustments to this legislation would allow its proper application.
2. Business support measures such as grants and/or financial instruments, especially those funded by ESIF need to consider the low absorption capacity of businesses in Latgale. Regional quota could be provided and/or support be better coordinated with public investments in business-related infrastructure.
3. Businesses at their survival and take-off stages, e.g., exiting business incubators, but without the investment capacity for SEZ status, need particular attention.
4. A comparatively big number of self-employed inhabitants of Latgale need to be addressed to find out what prevents them from establishing their own business. The self-employed should get a special attention as this is a group of people where a lot of business development potential lies.
5. Increased access to finance must go hand in hand with adult education to reduce financial illiteracy in the business community.

Though these proposals are largely of a socio-economic nature they need political decisions at the national as well as local levels. Opportunities provided by the new Invest EU programme should be explored and fully exploited. The aim of the proposals is to shift the general current focus of lending in Latgale (also at ALTUM) from the primary to the secondary sector and other sectors. The target audience of the proposals are regional businesspeople as well as self-employed people. Inter alia, a revision of the above-mentioned Law on Savings and Loan Associations is proposed to ensure its efficient application.

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<sup>113</sup> <https://likumi.lv/ta/en/en/id/7115>



#### **4.4 CO-action (coordinated, concentrated and complementing) Plan for Economic Development of Latgale**

**Rationale:** the Action Plans for Economic Development of Latgale (2012-2013, 2015-2017, 2018-2021) have been recognised as efficient intervention measures aimed at reducing the regional disparities. Integrated territorial investments in the business environment and public infrastructure have provided significant stimuli for regional economic activity. It was presumed that businesses would respond to these stimuli with increased private investment, however, due to financial market constraints described in sub-chapter 1.2 and the shortcomings of support measures targeted at businesses described in 2.3.4 they only partly lived up to these expectations. For public investments to be more effective there should be greater synergies with private investments.

1. Use of the 'territorial tools' formerly known as ITI need to be continued in Latgale complementing them with intervention measures aimed at closing the financial market gap. For synergies and greater impact, future public investments need to be synchronised with direct business support.
2. In addition to the proposed new centrally-managed EU level programme for economic development at the EU Eastern external border regions, economic development and investment attraction to the EU Eastern border regions should also be complemented by a dedicated ESIF financial envelope for the same regions at the EU external border. It has to provide the local actors with flexible territorial tools for strategic and targeted place-based interventions meticulously utilising any business opportunity within the regions.
3. Entrepreneurship survival and increased added value should be in the spotlight. Indirect and direct types of support need to be coordinated and adjusted ensuring flexibility in addressing the needs of businesses. Coordination is required between the national authorities responsible for regional development and industrial policies at the stage when the measures are being designed. Here the important role of a strong regional governance institution is seen.
4. A twofold concentration of investments is recommended in:
  - 1) industries showing strength and potential for increased value-added. These could be further broken down by technological intensity<sup>114</sup> such as:
    - a) low and medium-low technology industries, e.g., wood;
    - b) medium and high-tech industries, e.g., electrical equipment.
    - c) ICT.
  - 2) territories where development potential for the industries is evident. This mostly includes urban areas, 2<sup>nd</sup> and 3<sup>rd</sup> tier towns in particular.

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<sup>114</sup> <https://www.csb.gov.lv/en/statistics/statistics-by-theme/enterprises/structural-business-statistics/tables/metadata-key-structural-business>

5. To address regional business needs and coordinate investments efficiently the business development support function at the regional authority should be strengthened, possibly building on the Business Support Centre. The centre would continue its current support expanding its monitoring and analysis capacities, communicate more frequently with businesses, identify shortcomings early, mentor and assist project development and related activities.

The proposals are partly of a political character and partly require institutional action at the regional level. They are related to socio-economic development of the region and are targeted at the regional businesses. The concerned regulatory framework includes Action Plan for Economic Development of Latgale Region 2018-2021, law on Tax Application in Free Ports and Special Economic Zones, law on Regional Development and related documents. Part of them can be funded by the ESIF 2021-2027. Opportunities of RRF to be utilised for public investments into business infrastructure while Invest EU programme for private part. As a result, a flexible business support system should be introduced that is able to respond to the needs of business ready to invest in Latgale.

#### **4.5 Tailor business support to the needs and capacities of regional enterprises**

**Rationale:** previous business support programmes highlighted low entrepreneurship capacity to absorb funds in Latgale, especially for business at the critical survival and take-off stages. It prevents businesses from competing at national level. Please, see sub-chapters 2.3.4 and the annexed factsheets, but Factsheet 4, in particular.

1. The criteria of business support programmes targeted at companies should take account of the actual situation in the lagging regions such as Latgale. A regional quota for most of the programming period could be one solution. Different co-funding rates should also be provided. Consultations related to project development should be included as eligible costs.
2. It is strongly recommended to have at least one separate direct business support programme to flexibly complement public investments in business-related infrastructure in Latgale. It could provide either grants or affordable financial instruments or a mix of both to enable private co-investment. A timely combination with investments in business-related infrastructure would offer synergies resulting in a greater effect on the region. This would require better alignment between regional and industrial policies.
3. Business support has to induce the following developments:
  - a) enable businesses established by the support measures to sustain their activities through the next business phase – survival;
  - b) experienced and mature businesses can increase added value and ascend in the value-chain.
4. Support of business incubators and SEZs should be continued and where possible expanded based on updated business needs. As concluded in one of the best practices from Poland Suwałki SEZ operating mainly in Podlaskie and Warmińsko-Mazurskie

voivodships located at the EU eastern external border, neighbouring Russia and Belarus: 'They are however not sufficient, and their development and success is also determined by various framework conditions'.

The proposals require political decisions, institutional and cross-sectoral coordination. Major part of the proposed business support can be funded by the ESIF 2021-2027 while opportunities of Invest EU programme should also be exploited. The main target audience are the regional businesses. The result to be achieved would be a direct business support uptake in Latgale that at least equals to the ratio of active regional business entities (10%) or the share of regional GDP (7%), i.e., from the present 5%. The regulatory framework mainly includes the guidelines setting out eligibility criteria of the grants and financial instruments that are presumably being presently under development by the Ministry of Economy.

#### **4.6 Support areas with higher potential for increased added value**

**Rationale:** entrepreneurship survival and increased added value should be in the spotlight of regional business development. Businesses exiting business incubators, but not yet having the investment capacity for SEZ status need particular attention. As evidenced in sub-chapter 2.3.4 such enterprises are having difficulties also to uptake the ESIF funding.

The guiding principle however for any business support in Latgale should be the potential to move up the value-chain.

1. Support for companies developing and introducing Industry 4.0 solutions for increased productivity, such as artificial intelligence and smart technology solutions including logistics chains, etc. Such assistance could be, inter alia, via innovation vouchers. Please, see a respective case study from Germany in the Final report of this study. Step-by-step support is deemed to encourage companies to develop. This could potentially fill the gap where regional business is not prepared to absorb large-scale support programmes aimed at increased development and productivity.
2. Professional mentoring and training should assist enterprises in making strategic business decisions including preparing a business plan and applying for funding, if necessary.
3. For business expansion and to attract new investors, high standard office building/-s should be considered, especially in Daugavpils. The town already has a considerable ICT community whose further development might be facilitated by co-working spaces. There is also a need for modern A class office space.
4. Development and interactions of the ICT sector could also be supported by highlighting it as a potentially rewarding future employment opportunity for young people. Gender balance in the industry should be promoted by encouraging females to consider ICT related career options.
5. In rural areas a greater emphasis on organic farming and environmentally clean agricultural activities is recommended. EAFRD support should be aligned with the European Green Deal. Investments in organic farming together with adoption of carbon-neutral technologies

and further digitalisation of agriculture should improve productivity in rural areas. It should also spur economic growth ensuring increased income for all rural inhabitants. The regional authority could assist in coordinating cooperation efforts of organic farmers.

The proposals entail political decisions at the local as well as national levels based on evidence showcasing the economic development trends in the region. RRF, Invest EU and ESIF 2021-2027 funding opportunities should be fully utilised to arrive to the point where every enterprise of the region wishing and able to increase the productivity and “climb up the value chain” has the necessary support such be it advice, infrastructure, finance and similar.

#### **4.7 Continue pursuit of regional excellence**

**Rationale:** the region should no longer position itself as a low labour cost region. The outflow of its human capital has proven that there is no future in such strategy. See also sub-chapter on Human capital 1.1.1 and conclusions 7 and 8 of sub-chapter 1.4.

Industries that excel in Latgale highlight the potential directions towards the regional excellence. All medium and high-technology and ICT industries in the region such as the manufacture of electrical equipment should have special attention. Also, medium-low and low technology industries that show potential for increased added value, e.g., wood manufacture should be targeted. Their needs and impediments to further growth should be regularly detected and shortcomings addressed by support mechanisms. The above-mentioned organic farming environmentally clean agricultural activities should not also be overlooked.

1. Excellence has to be sought by enhancing more direct co-operation between businesses, universities and research centres. The regional authority has to extend its coordinating role beyond facilitating the local authorities but also encompassing the economic sectors and industries in focus.
2. Creating knowledge transfer centres and developing clusters is a complementary policy approach. The regional governance institution’s role lies in coordinating the processes, ensuring synergies.

For the proposals to be introduced and function efficiently an institutional upgrade of the regional executive authority is required. This entails political decisions at the local level as well as coordination and cooperation with the players in the national educational sector. ESIF 2021-2027 will be the main funding for the related measures. The initial aim should be for certain industries of the secondary sector and ICT to surpass the value added at factor cost per employed person of the peat extraction (primary sector: B - Mining and quarrying - EUR 33 033, see also page 9).

#### **4.8 More regionally committed educational establishments**

**Rationale:** the two universities and the vocational educational establishments in the region have to be integrated into regional strategy development and its implementation to enhance a greater sense of ownership. Their regional commitment has to become integral to national education policy. This is where a strong regional governance institution could play a significant

role in the national development process and educational policy, in particular. Presently the educational institutions are still more into servicing the national agenda, they should become genuine partners in regional development projects to improve the business environment. Please, see the sub-chapter 1.1.1 on Human capital and conclusion 6 of sub-chapter 1.4.

1. Demand for educational services has to be based on regional labour market needs that should be formulated and revised regularly together with businesses.
2. The regional universities have to get more involved in realising regional potential. Ideally businesses need to see them as a first point for assistance in their development aspirations. The innovation voucher system recommended above is one way to allow them to engage on a more regular basis.
3. Another form of engagement is participation in large-scale regional development projects such as industrial and science parks, innovation centres and similar.

As the national education system presently is being reformed it is important that interests of the stakeholder territory are advocated via a political dialogue based on multi-governance and partnership principles. The ultimate goal would be the regional educational establishments able to flexibly respond to the labour market, research, innovation and knowledge transfer needs of the regional businesses. ESIF 2021-2027 is seen as the main funding source of required measures.

#### **4.9 Join efforts to improve the business environment**

**Rationale:** though local authorities already co-operate well for common regional development goals as evidenced by the results of the work of LPR (see sub-chapters 1.2.4 and 2.3.2), there is always room for improvement especially when addressing the dynamic business environment. There is a wide range of potential activities and projects that could be carried out jointly to enable endogenous business development potential including the ones listed below.

1. Investments in infrastructure to enhance the business environment and reduce businesses costs such as wind and sun energy parks or industrial parks.
2. Greater integration and coordination of SEZ activities especially for coordinated business support and marketing. Synergies of the SEZs should be sought and operations streamlined.
3. The regional authority together with the new LAUs should continue to work hand in hand to change the perception of local society and embrace entrepreneurship in a positive way.

These proposals have a clear socio-economic perspective and require a multi-level government approach. A fully-fledged regional development institution would be able to undertake implementation and ownership of the development projects having a strong regional dimension. Meanwhile, presently opportunities of RRF should be investigated for investments into the energy efficiency of businesses as well as the wide range of support measures to be elaborated under ESIF 2021-2027.

#### **4.10 Explore and capitalise advantages of the EU external border**

**Rationale:** though presently the EU external border has mainly closing effects on business development (see sub-chapter 1.1.4), Latgale should always keep an eye on future opportunities. First and foremost, maintaining good relationship with the neighbouring Lithuanian, Russian and Belarus regions and investing in trust-building is a key determinant to ensure any possible future border openings can be fully utilised.

1. ETC programmes are a good opportunity to know your neighbours better and these can also be used for business growth. The moderate economic effect of opening the border with Belarus justifies integrating a business priority into the cross-border program with Belarus and Lithuania. After the August 2020 contested Presidential elections in Belarus there could be an influx of people and capital from Belarus to the region and Daugavpils, in particular.
2. The EU internal border potential with Lithuania seems to be also not fully exploited. For some parts of Latgale, for example Daugavpils, the Lithuanian capital Vilnius is closer than Rīga. The Lithuanian territory of this analysis – Utena+2 region has good industrial traditions offering opportunities and synergies of a cross-border market. Latgale should consider more active cooperation and knowledge exchange with Lithuania outside the traditional 'CBC sectors' such as tourism and crafts. For example, the region could benefit from the experiences of Lithuanian counterparts in developing RES as well as CDFI, that are much more widespread and stronger in Lithuania.

These proposals have both – a political and a socio-economic dimensions. A more direct targeting of businesses in the present ENI CBC programmes is recommended. Businesses should also be the main beneficiaries of any separate future programmes targeted at the EU external border areas. The ultimate goal would be increased benefits from the opportunities of the Single market on the inner border of Latvia and Lithuania as well as increased inward flows of Belarus investments and labour force into the Latgale region.

#### **4.11 Specific attention to quality of life in the sparsely populated and strategically important territories**

**Rationale:** for balanced regional development and greater national security, regions at the EU external border need people and healthy communities including business communities. People there have expectations about the quality of their lives. Limited access to finance impedes not only business growth, but also possibilities for Latgale inhabitants, especially outside urban areas to improve their living conditions. The following measures could increase the quality of life in the border area to encourage people to return to the region, especially people who wish to enjoy a work-life balance in pure nature. The below proposals are based on the findings of sub-chapter 1.1.1 on Human capital as well as interviews with the regional municipal and business representatives.

1. Remigration efforts should be continued and reinforced. Not only from abroad, but also from the capital city that has enticed too many bright minds from the region. The COVID-

19 pandemic has shown that many jobs can be performed from a distance. It has also encouraged people to reassess their values. Many people want to be closer to nature and its rhythms rather than pursue material gains. The ebb tide should be utilised by supporting more flexible ways of working.

2. State support to address housing issues is needed, in particular in rural areas of Latgale. When economically active inhabitants of Latgale cannot obtain mortgages, this undermines all other regional development efforts. The state has to intervene and provide guarantees or suitable housing options in cooperation with local authorities.
3. Apart from appealing to inhabitants that left it at some point, the region should also consider ways of attracting the experts that its industries require. It has to be ready to accommodate the needs of both nationals as well as ex-pats for their living conditions, including housing, education, healthcare, etc.
4. Last, but not least are accessibility and mobility between the region and the capital / rest of the Europe as well as within the region. Mitigating the present limitations is important including connecting Daugavpils and Rēzekne with speedy public transport to ensuring the region is well connected with Rīga and the rest of Europe by air.

The responsibility of addressing the issues of sparsely populated, but strategically important regions should be shared by both the EU and the national levels. The above proposals concern the national level, while the recommendations for the EU level are included in the Main report of the study. The proposals are of clearly political nature and regard equal opportunities and national security as their ultimate goal. Overall Latvia needs a national strategy to deal with the demography decline. For example, Republic of Bulgaria has a 'National Demographic Strategy 2012-2030' to 'slow down the rate of decrease of population and achieve its stabilization in the long run; to ensure high quality of human capital, including people with regard to their health condition, education attainment level, abilities and skills.' Presently the regulatory framework entails the laws on Regional Development, law on Diaspora<sup>115</sup> and law on National Security<sup>116</sup>, however, they only partly cover the issue of depopulation of areas, but the EU external border in particular. RRF and ESIF 2021-2027 funding opportunities should be explored to ensure conditions for maintaining healthy communities in the stakeholder territory.

#### **4.12 Socially responsible position is feasible and pays-off**

**Rationale:** undertaking the responsibility to deal with social and environmental challenges makes communities stronger and ultimately enhances governance at all levels of public authority. Improved governance ensures better environments for people as well as businesses. It is a reciprocal process.

1. Social entrepreneurship initiatives can mitigate unemployment especially in rural areas. Social business could be a more sustainable alternative to businesses that aim at societal

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<sup>115</sup> <https://likumi.lv/ta/id/302998-diasporas-likums>

<sup>116</sup> <https://likumi.lv/ta/id/14011-nacionalas-drosibas-likums>

goals but which cannot survive unsupported. Societal goals could ensure that rural areas are not completely abandoned, for example.

2. Being a comparatively small and lagging region, it could experiment with climate neutral development ideas that cannot be introduced in bigger and more developed areas such as smaller farms. This, of course, could only happen within the CAP, but also needs a strong regional voice in the national position. It could also help to bring people back to the region and prevent further depopulation.
3. An idea of BioEnergy Villages <http://biovill.eu/about/> as seen in another case from Germany is to combine social responsibility towards the environment, with living quality and territorial identity and community. Such villages offer opportunities for local and regional business as energy expenses mainly stay in the region. It could also address housing issues. A proposal is to pilot a bio energy village in a development centre like Līvāni facing housing problems for highly skilled employees and their families that they wish to attract. Such a village in Latgale would need localisation and adaptation, but the idea remains to exploit modern technology and local energy resources, including RES.
4. There is a demand for national and EU policies to mitigate the problems that sparsely populated territories face especially at the external borders. These strategically important territories are increasingly vulnerable to external threats, so their environments should be strengthened to the point that people feel secure and have no need to emigrate. Demography Coaching (another DE case) is an approach in which administrations, politicians, decision-makers, enterprises and civil society work together to develop a common understanding and shape the transformation process in the local/regional area. By acknowledging and considering the psychological dimension, public debate about demographic change and its consequences is not restricted to a technocratic process to reduce services of general interest (SGI). It is a process that can be influenced and asks for new solutions in regions affected by demographic change.

The proposals are of clearly political nature and would require bold decisions both at the national as well as regional and local levels. They concern the regulatory framework related to social entrepreneurship, agriculture and rural development including the law on Social Enterprise<sup>117</sup> and law on Agriculture and Rural Development <sup>118</sup>. They entail the necessity for a more strategic national vision on the issue of depopulating rural areas and its relation to the development of industrial agriculture.

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<sup>117</sup> <https://likumi.lv/ta/en/en/id/294484>

<sup>118</sup> <https://likumi.lv/ta/en/en/id/87480>



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**Annex 1: Market sector enterprises by NACE classification in Latgale (B to M + S.95) April 2020**

| NACE category   | Number | Concentration  |
|---|--------|--|
| B - Mining and quarrying  | 14     | Ludza - 2  |
| C.10 - Manufacture of food products                                 | 56     | Daugavpils – 6, Rēzekne – 3, Preiļi - 3  |
| C.11 - Manufacture of beverages                                     | 10     | Daugavpils - 2   |
| C.12 - Manufacture of tobacco products                              | 1      | Rēzekne town   |
| C.13 - Manufacture of textiles                                      | 26     | Daugavpils - 5   |
| C.14 - Manufacture of wearing apparel                               | 33     | Daugavpils - 13  |
| C.15 - Manufacture of leather and related products                  | 1      | Rēzekne county   |
| C.16 - Manufacture of wood and of products of wood                  | 152    | Rēzekne town and county – 18, Daugavpils city and county – 15, Viļāni county – 10, Preiļi county – 8, Balvi – 6, Ludza – 6 |
| C.17 - Manufacture of paper and paper products                      | 7      | Daugavpils city and county – 5   |
| C.18 - Printing and reproduction of recorded media                  | 12     | Daugavpils city and county – 6   |
| C.19 - Manufacture of coke and refined petroleum products           | 2      | Rēzekne town and county  |
| C.20 - Manufacture of chemicals and chemical products               | 9      | Daugavpils city and county – 5   |
| C.22 - Manufacture of rubber and plastic products                   | 14     | Daugavpils county – 7  |
| C.23 - Manufacture of other non-metallic mineral products           | 31     | Daugavpils city - 18   |
| C.25 - Manufacture of fabricated metal products                     | 67     | Daugavpils city – 39, Rēzekne town and county – 18   |
| C.26 - Manufacture of computer, electronic and optical products     | 12     | Only in Daugavpils city – 8, Rēzekne town – 3 and Daugavpils county – 1  |
| C.27 - Manufacture of electrical equipment                          | 6      | Only in Daugavpils city – 2, Rēzekne town and county – 3 and Līvāni <sup>119</sup> county – 1                              |
| C.28 - Manufacture of machinery and equipment                       | 14     | Daugavpils city and county – 5   |
| C.30 - Manufacture of other transport equipment                     | 2      | Daugavpils city  |
| C.31 - Manufacture of furniture                                     | 44     | Daugavpils city and county – 23, Rēzekne town and county – 10, Kārsava, Krāslava, Līvāni counties - 2 each                 |
| C.32 - Other manufacturing  | 12     | Daugavpils city and county – 7   |
| C.32.3 - Manufacture of sports goods                                | 2      | Daugavpils, Rēzekne  |
| C.32.4 - Manufacture of games and toys                              | 4      | Daugavpils, Rēzekne, Balvi, Viļaka   |
| C.32.5 - Manufacture of medical and dental instruments and supplies | 3      | Daugavpils, Rēzekne, Ludza   |
| C.33 - Repair and installation of machinery and equipment           | 47     | Daugavpils city and county – 33, Rēzekne town and county – 17, Ludza – 2   |
| D.35 - Electricity, gas, steam and air conditioning supply          | 37     | Daugavpils city and county – 13, Rēzekne town and county – 5, Aglona – 5, Preiļi – 4, Līvāni – 3, Viļāni - 3               |
| E.36 - Water collection, treatment and supply                       | 9      |  |
| E.38 - Waste collection, treatment and disposal activities          | 15     |  |
| E.39 – Remediation activities and other waste management services   | 3      |  |

<sup>119</sup> The 2<sup>nd</sup> manufacturer of optic fibre having production in Līvāni Ceram Optec is registered in Riga

|   |     |  |
|---|-----|--|
| F.41 - Construction of buildings  | 123 | Daugavpils city and county – 50, Rēzekne town and county – 36, <b>Balvi</b> – 10, <b>Līvāni</b> - 5                  |
| F.42 - Civil engineering  | 62  | Rēzekne town and county – 25, Daugavpils city and county – 21, <b>Balvi</b> – 4, <b>Līvāni</b> - 4                   |
| G.45 - Wholesale and retail trade and repair of motor vehicles and motorcycles                                    | 261 |  |
| G.46 - Wholesale trade, except of motor vehicles and motorcycles  | 289 |  |
| G.47 - Retail trade, except of motor vehicles and motorcycles   | 796 |  |
| H.49 - Land transport and transport via pipelines   | 329 | Daugavpils city and county – 140, Rēzekne town and county – 93   |
| H.50 - Water transport  | 1   | Līvāni   |
| H.52 - Warehousing and support activities for transportation  | 92  | Daugavpils city and county – 52, Rēzekne town and county – 24, <b>Ludza</b> - 4                                      |
| I.55 - Accommodation  | 60  | Daugavpils city - 9, <b>Krāslava</b> county – 9, Daugavpils county – 8, Rēzekne town and county – 8                  |
| I.56 - Food and beverage service activities   | 131 | Daugavpils city and county – 66, Rēzekne town and county – 29, <b>Balvi</b> – 10, <b>Ludza</b> - 9                   |
| J.58 - Publishing activities  | 15  | Daugavpils city – 7, Rēzekne town - 3  |
| J.59 - Motion picture, video and television programme production, sound recording and music publishing activities | 2   | Daugavpils city and Līvāni   |
| J.60 - Programming and broadcasting activities  | 7   | Daugavpils city, Rēzekne town and Līvāni   |
| J.61 - Telecommunications   | 20  | Daugavpils city, Rēzekne town, <b>Krāslava</b> , <b>Balvi</b> and <b>Līvāni</b>                                      |
| J.62 - Computer programming, consultancy and related activities   | 84  | Daugavpils city and county – 44, Rēzekne town and county – 17, <b>Līvāni</b> – 6, <b>Krāslava</b> – 3                |
| J.63 - Information service activities   | 33  | Daugavpils city and county – 22, Rēzekne town and county – 7,  |
| K.64 - Financial service activities, except insurance and pension funding   | 9   | Daugavpils, Rēzekne, <b>Ilūkste</b>  |
| K.66 - Activities auxiliary to financial services and insurance activities  | 17  | Daugavpils, Rēzekne  |
| L.68 - Real estate activities   | 276 | Daugavpils city and county – 137, Rēzekne town and county – 84   |
| M.69 - Legal and accounting activities  | 133 | Daugavpils city and county – 83, Rēzekne town and county – 31  |
| M.70 - Activities of head offices; management consultancy activities  | 25  | Daugavpils city and county – 17, Rēzekne town and county – 5   |
| M.71 - Architectural and engineering activities   | 21  | Daugavpils city and county – 26, Rēzekne town and county – 17, <b>Līvāni</b> – 5, <b>Balvi</b> - 3                   |
| M.72 - Scientific research and development  | 4   | <b>Balvi</b> , <b>Daugavpils</b> , <b>Rugāji</b> , <b>Viļāni</b>   |
| M.73 - Advertising and market research  | 52  | Daugavpils city and county – 32, Rēzekne town and county – 17, <b>Līvāni</b> – 3, <b>Balvi</b> – 3                   |
| M.74 - Other professional, scientific and technical activities  | 62  | Daugavpils city and county – 34, Rēzekne town and county – 14, <b>Ludza</b> – 3. <b>Līvāni</b> – 3, <b>Cibla</b> – 2 |
| M.75 - Veterinary activities  | 7   |  |
| S.95 - Repair of computers and personal and household goods   | 10  | Daugavpils city and county – 6, Rēzekne town – 2, <b>Krāslava</b> and <b>Ludza</b> – 1 each                          |

## **Annex 2: Market sector enterprises by technologies in Latgale March 2020**

### **High-technologies**<sup>120</sup> (21, 26, 30.3 of NACE Rev. 2).

There are 12 high-technology companies registered in Latgale, nine of them in Daugavpils and county, another three in Rēzekne town. There could be a few more from those registered in Rīga, but operational in the region. All of them are in NACE sector 26 - Manufacture of computer, electronic and optical products.

At least two of the companies have been established with the Belarus capital and are being partly managed by Belorussian citizens - Regula Baltija (<https://regulaforensics.com>) and SMD Baltic (<http://www.smd-baltic.lv>).

### **Medium-technologies** (20, 25.4, 27, 28, 29, 30 (except 30.1\* and 30.3), 32.5\*\*).

As for medium-technologies there are 31 companies registered in Latgale, with a few more registered outside of the region, but having their production facilities. Among the medium-technology companies the following could be mentioned:

- nine companies are registered and operational in C.20 - Manufacture of chemicals and chemical products. Among them Nexis Fibers (<http://www.nexisfibers.com>) in Daugavpils and
- seven companies are operational in NACE sector 27 - Manufacture of electrical equipment, among them two optic fibre manufacturing companies located in Līvāni - Light Guide Optics International (<http://www.z-light.lv/en/>) and Ceram Optec registered in Rīga, but operational in Latgale (<https://www.ceramoptec.com>). AXON cable – part of the AXON cable group (<http://www.axon-cable.com>) in Daugavpils should also be mentioned.
- 14 companies are registered in 28 - Manufacture of machinery and equipment with one of the biggest enterprises being a Joint-Stock Company DITTON Driving Chain Factory (<http://www.dpr.lv>) and Zieglera mašīnbūve – part of the Ziegler group (<https://www.ziegler-harvesting.com>). Both in Daugavpils.
- In C.30 - Manufacture of other transport equipment there is the biggest enterprise in Daugavpils - a Joint-Stock Company Daugavpils Locomotive Repair Plant (<http://www.dlrr.eu>).
- In 32.5 - Manufacture of medical and dental instruments and supplies – there are three companies altogether, of which Latcosmetics (<http://www.latcosmetics.com>) can be mentioned as a business adding the highest possible value to one of the natural resources available in Latgale – the sapropel and ensuring its medical application.

### **Medium-low technologies** (18.2\*, 19, 22, 23, 24, 25 (except 25.4), 30.1\*\*, 33\*\*\*).

Altogether 161 company has been registered in the above industries.

- 12 in 18 - Printing and reproduction of recorded media
- 2 in 19 - Manufacture of coke and refined petroleum products
- 14 enterprises in 22 - Manufacture of rubber and plastic products such as "FEDAK-PLAST" (<http://www.fedak-plast.com>)
- 31 in 23 - Manufacture of other non-metallic mineral products
- 67 in 25 - Manufacture of fabricated metal products among them - a company LEAX – a daughter company of a Swedish LEAX Group (<https://www.leax.com>) should be mentioned.

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<sup>120</sup> <https://www.csb.gov.lv/en/statistics/statistics-by-theme/enterprises/structural-business-statistics/tables/metadata-key-structural-business>

**Low-technologies** (10, 11, 12, 13, 14, 15, 16, 17, 18 (except 18.2\*), 31, 32 (except 32.5)).

At least 354 enterprises are registered in these low-technology industries, of them:

- 66 in food and beverage
- 59 in textiles and wearing apparel
- 152 in 16 Manufacture of wood and of products with a high concentration in Rēzekne town where there is also companies such as VEREMS – a daughter company of the Latvijas Finieris (<https://www.finieris.com/en/home>) and NEW FUELS (<https://newfuels.eu>).

### Annex 3: Lists of interviewees

#### Interviews with the representatives of Latgale local authorities, April 2020

| #   | Date      | Institution       | Representative   |
|-----|-----------|-------------------|--|
| 1.  | 01.04.20. | Riebiņi county    | Pēteris Rožinskis, Mayor of the County, and Inese Jakovele, Head of Development Department   |
| 2.  | 02.04.20. | Vīļāni county     | Jekaterina Ivanova, Mayor of the County, and Iveta Piziča, Head of Development Department  |
| 3.  | 02.04.20. | Aglona county     | Juris Butēvics, Mayor of the County, and Alla Kalniņa, Head of Development Department  |
| 4.  | 03.04.20. | Vārkava county    | Anita Brakovska, Chairwoman of the Municipality Council  |
| 5.  | 03.04.20. | Preiļi county     | Maruta Plīvda, Chairwoman of the Municipality Council, and Sanita Miko, Head of Development Department   |
| 6.  | 06.04.20. | Rēzekne county    | Monvīds Švarcs, Chairman of the Municipality Council, and Anna Jaudzema, Head of Development Department  |
| 7.  | 08.04.20. | Rēzekne town      | Aleksandrs Bartaševičs, Chairman of the Municipality Council, and Georgijs Orlovs, Head of Development Department  |
| 8.  | 08.04.20. | Baltinava county  | Sarmīte Tabore, Chairwoman of the Municipality Council   |
| 9.  | 08.04.20. | Vīļaka county     | Sergejs Maksimovs, Chairman of the Municipality Council, and Santa Komane, Project Manager   |
| 10. | 09.04.20. | Balvi county      | Aigars Pušpurs, Chairman of the Municipality Council, and Olga Siņica, Head of Finance and Development Department  |
| 11. | 09.04.20. | Rugāji county     | Sandra Kapteine, Chairwoman of the Municipality Council, and Mārīte Orniņa, Head of Tourism Development Center   |
| 12. | 09.04.20. | Līvāni county     | Andris Vaivods, Chairman of the Municipality Council, Baiba Vucenlīdzāne, Head of Development Department, and Inese Stahovska, Head of Business Support Center |
| 13. | 15.04.20. | Ilūkste county    | Stefans Rāzna, Chairman of the Municipality Council  |
| 14. | 16.04.20. | Daugavpils city   | Jānis Lāčplēsis, Deputy Chairman of the City Council, and Daina Kriviņa, Head of Development Department  |
| 15. | 17.04.20. | Daugavpils county | Arvīds Kucins, Chairman of the Municipality Council, and Vita Rūtiņa, Head of Development Department   |
| 16. | 22.04.20. | Ludza county      | Aivars Meikšāns, Deputy Chairman of the Municipality Council   |
| 17. | 22.04.20. | Kārsava county    | Ināra Silicka, Chairwoman of the Municipality Council, and Inese Nagļa, Head of Development Department   |
| 18. | 22.04.20. | Cibla county      | Juris Dombrovskis, Chairman of the Municipality Council  |
| 19. | 23.04.20. | Dagda county      | Aivars Trūlis, Chairman of the Municipality Council  |
| 20. | 23.04.20. | Zīlupe county     | Aina Borsuka, Executive Director of the County Council   |
| 21. | 24.04.20. | Krāslava county   | Gunārs Upenieks, Chairman of the Municipality Council, and Ināra Dzalbe, Head of Development Department  |

#### Interviews with the Latgale business support representatives, April, May 2020

| #  | Date      | Institution                        | Representative  |
|----|-----------|------------------------------------|---|
| 1. | 29.04.20. | Latgale Business Support Centre    | Andris Kucins, Manager  |
| 2. | 29.04.20. | Daugavpils Business Incubator      | Andrejs Zelčs, Manager  |
| 3. | 29.04.20. | Rēzekne Business Incubator         | Skaidrīte Baltace, Manager  |
| 4. | 08.05.20. | Latgale SEZ                        | Iveta Maļina-Tabūne, Manager<br>Vladislavs Stankevičs, Deputy Manager<br>Marina Ševernoviča, Lawyer |
| 5. | 20.05.20. | Chamber of Commerce Latgale branch | Marina Terza  |

| #  | Date      | Institution  | Representative              |
|----|-----------|--|-----------------------------|
| 6. | 28.05.20. | Association of the Social Entrepreneurship Latgale | Regita Zeiļa, Iveta Balčūne |

#### Interviews with MA and financial institutions representatives in Latvia, May-June 2020

| #  | Date      | Institution   | Representative  |
|----|-----------|---|---|
| 1. | 28.05.20. | State-owned development finance institution ALTUM           | Ieva Vērzemiece, Head of Energy Efficiency Programme Department, former Business Customer Service Manager at Swedbank |
| 2. | 29.04.20. | State-owned development finance institution ALTUM           | Vita Pučka, Latgales Region Manager   |
| 3. | 04.06.20. | Ministry of Economy   | Gatis Silovs, Sectoral Policy Department, Deputy Director   |
| 4. | 08.06.20. | Ministry of Environment Protection and Regional Development | Raivis Bremšmits, Regional Policy Department, Director  |
| 5. | 10.06.20. | Rural Support Service                                       | Indulis Āboliņš, Deputy Director  |
| 6. | 15.06.20. | Daugavpils University                                       | Arvīds Barševskis, Rector   |
| 7. | 15.06.20. | Rēzekne Technology Academy                                  | Iveta Mietule, Rector   |

#### Interviews with enterprises benefiting from the business support measures in Latgale July 2020

| #  | Date      | Institution                    | Representative   |
|----|-----------|--------------------------------|--|
| 1. | 02.07.20. | SIA Latgales dārzeņu loģistika | Edgars Romanovskis, Board Member, Solvita Boldāne, Project Manager |
| 2. | 09.07.20. | SIA Light Guide Optics         | Daumants Pfafrods, CEO, Gunta Ivdre, CFO                           |
| 3. | 09.07.20. | SIA Daugulis & partneri        | Dzintars Daugulis, CEO   |
| 4. | 10.07.20. | SIA SMD Baltija                | Dmitrijs Radkevičs, Managing Director                              |
| 5. | 10.07.20. | SIA Zieglers Mašīnbūve         | Olga Krušinska, Board Member                                       |
| 6. | 13.07.20. | SIA Nemo                       | Inga Zemdega-Grape, CEO  |



# FACTSHEET #1

## Cross-border cooperation programmes

### 1 Policy context

The **Regional Development Guidelines 2014-2020**<sup>121</sup> suggest two directions for regional policy effort [1] Promotion of entrepreneurship and job creation across all territories of Latvia to ensure accessibility and quality of workplaces and public services; and [2] Strengthening administrative capacity of the regions and municipalities to take active role in development of territories. The new issue of **Regional Development Guidelines 2021-2027** approved in 2019<sup>122</sup> continue this approach by refining and doubling down in these two directions: [1] Improvement of business environment in the regions; [2] Promotion of efficiency of public services in the regions. The two measures providing support to ITI are in line with the first direction of both old and the new regional policy framework.

The **NDP 2020**<sup>123</sup> has a three-priority structure, one of which is directly linked to the regional development Priority "Growth-conducive Territories". It foresees three directions the first of which is "Promotion of economic activity in the regions – utilisations of territorial potential" directly underpins region-targeted business promotion actions.

**Cross-border cooperation programmes** can be a useful instrument to support start-up relying on cross-border trade and networking. Cross-Border Cooperation, as a key priority of the European Neighbourhood, seeks to reinforce cooperation between EU Member States and Partner Countries along the external EU borders. The management of these CBC programmes has been entrusted to Member States in a system where Neighbouring Partner Countries and Member States participate on an equal footing. They take joint decisions on how to spend the money within the identified priorities and on the specific projects to be financed. The role of the European Commission is to monitor the programme implementation. CBC is a true partnership programme with full ownership by the participating countries. The main beneficiaries of the CBC projects are local and regional administrations, NGOs and civil society organisations – from women's groups to chambers of commerce – from both EU Member States and Neighbouring Partner Countries. They develop and submit their project proposals in a bottom up approach.

There are two CBC programmes relevant for Latgale region, but only one thematic objective addressing business development: Latvia–Russia CBC and Latvia–Lithuania–Belarus CBC<sup>124</sup>. Latvia–Russia CBC covers three thematic objectives: [1] „**Business and SME Development**” focusing on promotion of and support to entrepreneurship and

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<sup>121</sup> <https://likumi.lv/ta/id/261409-par-regionalas-politikas-pamatnostadnem-2013-2019-gadam>

<sup>122</sup> <https://likumi.lv/ta/id/310954-par-regionalas-politikas-pamatnostadnem-2021-2027-gadam>

<sup>123</sup> <https://likumi.lv/ta/id/253919-par-latvijas-nacionalo-attistibas-planu-2014--2020-gadam>

<sup>124</sup> [http://www.varam.gov.lv/lat/fondi/ets\\_1420/?doc=16884](http://www.varam.gov.lv/lat/fondi/ets_1420/?doc=16884)

development and promotion of new products and services based on local resources; [2] „Environmental protection, climate change mitigation and adaptation” dealing with efficient management of nature objects, joint actions in environmental management and support to sustainable waste and waste water management systems; [3] “Promotion of border management and border security, mobility and migration management” targeting improvements of border crossing efficiency and security between the countries.

Latvia–Lithuania–Belarus CBC is operating on four priorities: [1] Promotion of Social Inclusion and Fight against Poverty; [2] Support to Local and Regional Good Governance; [3] Promotion of Local Culture and Preservation of Historical Heritage; and [4] Promotion of Border Management and Border Security. None of these priorities explicitly targets business development.

## 2 Latvia–Russia CBC: Business and SME Development

The Programme area includes northern and eastern parts of Latvia (50 966 km<sup>2</sup>) and western part of Russia (142 648 km<sup>2</sup>). The area is divided by the 276 km long border between Latvia and Russia. The Latvia-Russia CBC programme covers the following territories:

- Core areas in Latvia are: Latgale Region and Vidzeme Region;
- Core areas in Russia is Pskovskaya oblast;
- Adjoining areas in Latvia are: Riga Region and Zemgale Region;
- Adjoining areas in Russia are: Leningradskaya oblast and the city of St. Petersburg.

### 2.1 Overview – the policy in numbers

The total funding available to this thematic objective was EUR 8 million comprised of EU co-financing of EUR 4.8 million, funding by the Russian Federation of EUR 2.5 million and co-financing by Latvian partners [EUR 0.5 million] and Russian partners [EUR 0.3 million]. This resulted in 90% co-financing rate available to the projects, which is relatively high compared to most other business-related measures.

The support within the thematic objective „Business and SME development” was provided in a single call for project ideas. The approved project ideas were later submitted as fully-developed project applications and all approved.

Table 2.1 Financial allocation for the Thematic Objective Business and SME Development and its actual take-up

| TOTAL: the whole programme area |                    |  |                             | TOTAL: Latgale led projects                  |                               |
|---------------------------------|--------------------|--|-----------------------------|--|-------------------------------|
| CBC allocation planned          | Volume applied for | Actual CBC co-financing to approved projects | Approved / applied projects | Actual CBC co-financing to approved projects | M€ as % of the total approved |
| 7.3 M€                          | 19.8 M€            | 7.15 M€                                      | 10 / 26 = 39%               | 5 M€   | 68.5%                         |

Source: <https://www.interreg.lv/lv/>

26 project ideas were submitted to the call for ideas; ten were supported and eventually approved as projects. Out of 10 projects supported under the thematic objective nine are headed by Latvian lead-partners, and of those four are led by Latgale-based beneficiaries<sup>125</sup>. All other projects also have at least one partner from Latgale among their 3-14 partners. Of the ten projects approved within the open call, six projects were supported under the Priority 1.1., and four projects were supported under the priority 1.2.

Also, in terms of financial allocation Latgale-led projects took majority of funding [68.5%], making the LV-RU CBC programme heavily Latgale-leaning in line with the policy directions described above.

## 2.2 Intervention logic

There are **two priorities** under the thematic objective „Business and SME development”: P1.1 „Promotion of and support to entrepreneurship” and P.1.2 „Development and promotion of new products and services based on local resources”. Both these explicitly target business development but approach this from different angles.

P1.1 „Promotion of and support to entrepreneurship” identifies the **need for fostering entrepreneurial spirit** in local communities, and **lack of access to resources** for starting and developing entrepreneurship. By addressing these issues and supporting and joint cross-border initiatives for promotion of business the programme hopes to increase number of SMEs per 1 000 inhabitants in programme area.

The P.1.2 „Development and promotion of new products and services based on local resources” is thematically focusing on tourism: by **supporting development of joint tourism products and services** the programme seeks to contribute to increase of number of tourists using tourism products and services based on local resources.

The **beneficiaries** are somewhat different as well. Both priorities provided support to national, regional and local authorities, which are traditional beneficiaries of CBC programmes. The P.1.1 also targeted educational institutions and business development organisations as beneficiaries and partners. The P.1.2 expected institutions involved with promotion of local cultural and historic heritage to apply with projects.

Table 2.2 Targets for Output and Results of the Business and SME Development, Thematic Objective 1

| Priorities  | Targets for output indicators in 2023                                       | Targets for result indicators in 2023   |
|---|---|---|
| P1.1 „Promotion of and support to entrepreneurship” | Business development organisations receiving support: 7                     | Increase in number of operating small businesses by 5% (from 40 894 in 2012 to 42939) |
|   | Enterprises substantially and actively involved in projects: 100            |   |
| P.1.2 „Development and promotion of new             | Improved cultural and historical sites as a direct consequence of programme | New cross-border products and services  |

<sup>125</sup> <https://www.interreg.lv/lv/projekti-un-rezultati/projekti-ar-latvijas-partneriem>

|  |   |                                    |
|--|---|------------------------------------|
| <b>products and services based on local resources”</b> | support for the purpose of development of local entrepreneurship: 6                 | <b>based on local resources: 5</b> |
|  | Institutions using programme support for promoting local culture and preserving: 15 |                                    |

Source: Programme

The P.1.2 „Development and promotion of new products and services based on local resources” had a project which received a direct award described in the programme already: EUR 3.5 million worth (programme co-financing is EUR 3.1 million) project **“Preservation and promotion of cultural and historical heritage in Latvia and Russia”** lead by Daugavpils City Council and partnered by Cesvaine Municipality Council and State Joint Stock Company “State Real Estate” on the Latvian side and State Committee of the Pskov region for protection of objects of cultural heritage and State Committee of the Pskov region on culture on the Russian side.

The **90% co-financing** was available to the following **actions**:

- a. development of business and tourism infrastructure,
- b. capacity building of business actors,
- c. awareness and motivation for entrepreneurship,
- d. development of products and promotion of business opportunities,
- e. development of craftsmanship,
- f. joint marketing effort.

### **2.3 Results achieved in Latgale**

Since projects only launched in the spring of 2019 and neither of those has finished yet, there is no monitoring information and data on outputs and results achieved as of the time of writing this report (July 2020).

## FACTSHEET #2

### Special Economic Zones

#### 1 Policy context

**Guidelines on National Industrial Policy of Latvia**<sup>126</sup> **2014-2020** (NIP) aim at promoting structural changes in the national economy in favour of higher value added by increasing the role of manufacturing, industrial modernisation and diversification of exported goods and services.

The main result indicators to be achieved are:

- Share of manufacturing in the overall GDP in 2020 reaches 20%
- Productivity of manufacturing in 2020 versus 2011 is increased by 40%
- Volumes of manufacturing in 2020 versus 2011 are increased by 60%
- Investments in R&D are 1.5% of GDP

**Special Economic Zones (SEZ)** and Free Ports are among the few NIP related tax incentives aimed at stimulating investments in designated territories, especially, in the regions outside of the capital city of Rīga, i.e. the regions of Kurzeme and Latgale. Another tax incentive since 2018 waives corporate income tax on the reinvested profits has to some extent made the whole Latvia an SEZ.

#### 2 Tax incentives - Special Economic Zones

Since 2001 a special Law on Tax Application in Free Ports and Special Economic Zones<sup>127</sup> lays down regulations of the specific tax regime applicable to the enterprises operational in these territories as well as what type of companies are eligible. Main benefits for companies operating in Free Ports and SEZ are discounts on certain direct taxes.

In order to enjoy the tax rebate **a company has to undertake contractual obligations** imposing certain conditionalities such as having a concrete business plan with the total foreseen investments to be disclosed. **Investments into production facilities and equipment** shall stay within the territory of SEZ for at least 3-5 years depending on the size of the company. On May 15, 2020 amendments to the legislation were adopted that provide that also **salaries of the new jobs created would qualify as eligible investments**<sup>128</sup>.

Two separate laws regulate the above-mentioned Law on Tax Application in Free Ports and Special Economic Zones in Latgale more specifically. These are:

1. the Law on the Rēzekne SEZ first adopted in 1997;
2. the Law on the Latgale SEZ first adopted in 2016.

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<sup>126</sup> [https://www.em.gov.lv/files/uznemejdarbiba/finl\\_en.pdf](https://www.em.gov.lv/files/uznemejdarbiba/finl_en.pdf)

<sup>127</sup> <https://www.vid.gov.lv/en/special-economic-zones-and-free-ports>

<sup>128</sup> <https://likumi.lv/ta/en/en/id/282586-law-on-the-latgale-special-economic-zone>

## 2.1 Overview – the policy in numbers

**Rēzekne SEZ** in Latgale was one of the first SEZ territories in Latvia established in 1997. It consists of a few specially designated industrial territories in Rēzekne town and the neighbouring Rēzekne rural municipality. Rēzekne SEZ got its major development kick after Latvia joined the EU in 2004 and Latgale became an EU external border. The territory got specific attention from both the EU and Russian businesses wishing to conquer each other's markets.

Recognising SEZ as a useful tool for regional development but acknowledging it being limited only to the Rēzekne town and municipality does not provide sufficient stimuli for the whole stakeholder territory in 2017 **the Latgale SEZ** was established. As opposed to Rēzekne SEZ, the Latgale SEZ is more flexible territory wise, i.e. it is not bound to specifically designated territory/-ies, but “follows” the company. Depending on where the company is already operational or intends to operate any territory within the region can become a SEZ territory. The only territorial limitation is that the total area of Latgale SEZ must not exceed 5% of the total territory of the region, i.e. not more than 727,45 km<sup>2</sup>.

Table 4 Main indicators of the two Latgale SEZ

|                                       | Latgale SEZ        | Rēzekne SEZ |
|---------------------------------------|--------------------|-------------|
| Years of operation                    | 4                  | 23          |
| Total territory, ha                   | 77                 | 1 115       |
| Number of companies having SEZ status | 16                 | 20          |
| Total volume of investments, M€       | 22.7               | 143.9       |
| Total volume of tax exempt, M€        | 10.5*              | 1.4**       |
| Total jobs by SEZ companies in 2018   | 971                | 975         |
| New jobs created since joining SEZ    | 135; in 2019 - 115 | 509         |
| Total FDI                             | 1.2                | 3.2         |

Source: SEZ data; \* maximum size of eligible tax rebate; \*\* real estate tax rebate since 2001;

Main industries in the Rēzekne SEZ are C.16 - Manufacture of wood and of products, C.25 - Manufacture of fabricated metal products, C.28 - Manufacture of machinery and equipment as well as H – Transport and warehousing.

Main industries in the the Latgale SEZ are C.25 - Manufacture of fabricated metal products, C.16 - Manufacture of wood and of products, C.27 - Manufacture of electrical equipment, C.26 - Manufacture of computer, electronic and optical products. Also C.10 - Manufacture of food products.

## 2.2 Intervention logic

“The GDP data show that overall the region of Latgale has a significantly lower level of socio-economic development compared for the national average. GDP per capita in Latgale is three times less than in Rīga and twice as less as an average in Latvia. At the same time the business

data prove that Latgale has potential for economic development, they indicated at potential for economic leap, which the SEZ could facilitate.”<sup>129</sup>

**Rēzekne SEZ** was established in 1997 on a former industrial site where there were still a number of enterprises from the Soviet times struggling to adjust to the open market situation. Initially there were five considerably big enterprises in the SEZ. The aim was to provide an impetus to their reorganisation and more efficient use of the assets.

Establishment of the **Latgale SEZ** was provided by **the Action Plan for Economic Development of Latgale Region 2015-2017**. It was an extension of the special tax regime from Rēzekne town and municipality to the whole region. Aim of the Latgale SEZ is promoting development of the region by attracting investments into manufacturing and infrastructure and creating new jobs.

Presently the legal SEZ status is valid by end 2035.

SEZ provides a number of legal measures, namely, tax waive reducing the financial burden on the businesses. The SEZ companies are **exempt of up to 80% of corporate tax** alongside with **100% real estate tax discount** and **investment expenditure tax relief up to 55%**.<sup>130</sup>

- **80% rebate on real estate tax** (1.5% in Latvia)\*
- **80% rebate on corporate income tax** (CIT)\*

\* *The maximum accumulated amount compensated to the company by these conditions collectively is 35% (45% for medium and 55% for small enterprises) of the company's total ongoing investment of up to 50 million Euros.*

\*\* *Applies in case of withdrawal of dividends. Otherwise CIT in Latvia is 0%.*

Though there are no specific measurable objectives set out for the both SEZs in Latgale, the municipalities acknowledge that for them the main benefit is the jobs retained as well as created and the data evidence that there is a considerable employment increase at both the SEZ.

**SEZ status can be applied to any business entity** after an application process and implementation of a number of formalities. The enterprise has to have a clear business plan for the next 3-5 years and undertake contractual obligations ensuring certain volume of planned investments, turnover, number of jobs and the average salary.

An **expected impact** of the measure is increased investments into the fixed capital of the companies of the region and foreign direct investment attracted.

### **2.3 Results achieved in region**

Though the GDP per capita ratio is still in favour of Rīga, i.e. 1 : 2 : 3 - Latgale : Latvia : Rīga, the SEZ has supposedly had an impetus to an increase in capital investments in Latgale, but Rēzekne, in particular, since SEZ there is operation there for already more than 20 years. The

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<sup>129</sup> Ex-ante assessment of the draft Law on the Latgale Special Economic Zone, 2015

<sup>130</sup> <https://www.vid.gov.lv/en/special-economic-zones-and-free-ports>

Rēzekne SEZ Development Plan 2014-2020 aimed at having 20 companies by 2020 and this goal has been achieved.

A representative of the Rēzekne SEZ admits that: “more than M€ 100 investments into the SEZ enterprises that are made over the last 10 years certainly have played a role in the overall development of the Rēzekne town and its surroundings. Companies at the Rēzekne SEZ have a steady annual growth of 12% on average (2014-2018) and this adds to the overall GDP produced in the town. In addition, the companies of the Rēzekne SEZ ensure business for many other companies of the region thus benefiting a much broader area around Rēzekne and overall also the region of Latgale.”

Though it is a bit too early to conclude on the overall results and impact of the Latgale SEZ as they will most likely play out in five to ten years from its establishment. It can be already said that over the last five years (which means before and after joining SEZ) most of the Latgale SEZ companies are also growing steadily with an average annual turnover growth between 2015-2019 being 17%.

The Action Plan for Economic Development of Latgale Region 2015-2017 made a commitment towards an unspecified number of jobs to be created. The number of the jobs at the both the SEZs' companies reaching almost 1 000 in each can be considered a good result. At the Rēzekne SEZ the number of jobs has doubled since its establishment. 135 or 45 new jobs annually have been created at the Latgale SEZ.

Speaking of the NIP goals, based on the available data it can be seen that from 2011 to 2017:

- the share of (C) Manufacturing in the total GVA in Latgale has remained 15%, while overall in Latvia it has dropped from 13% to 12% and thus the goal of 20%. The statistics show that the, e.g. total;
- productivity or value added by employed in (C) Manufacturing in Rīga has increased by 38% which almost reaches the set target of 40%. Meanwhile in Latgale it has increased by 31%, which is deemed as a good result and might lead to achieving the set goal of 2020.
- the total value added in (C) Manufacturing in Latgale has increased by 8%, while in Latvia by 18%. Thus, it is rather dubious, if the planned 60% overall will be reached by 2020. The statistics show that the total GVA in Kurzeme in the same period has dropped by 9.87%. This presumably is how the development of the country at various speeds manifests.

### 3 Case study

**SMD Baltic, Ltd.** is a high-tech equipment producer working on small- and medium-size series orders from Latvian and international B2B customers. It recently started B2C-type operations by shipping some of its production to actual users of equipment on behalf of a Latvian synthesiser (Erica Synths, Ltd. is engineering, marketing and selling the equipment, which is fully produced and assembled and now shipped-out by **SMD Baltic, Ltd.**), still **SMD Baltic, Ltd.**



is not truly customer-facing as the packaging carries branding of Erica Synths, Ltd., not **SMD Baltic, Ltd.**

The enterprise also is providing to its customers assistance in engineering of equipment in the form of constructive discussions before the placed order is put to production if a customer is interested, as well as providing feedback on efficiency of assembly, avoidance of interference and prevention of fails in use of equipment. Many customers appreciate this additional service and choosing to place orders primarily with **SMD Baltic, Ltd.**, especially first batches of new lines of products.

Its operations are located in central Daugavpils, the largest city in Latgale, majority of its workforce and all of its management are Daugavpils natives.

The firm is co-owned by Belarus investors and a Latvian (Daugavpils-local) managing director who is a minority co-owner of the enterprise. The managing director has experience of working in a few other high technology equipment manufacturing enterprises in Latgale before attracting Belarus investors for this joint-venture.

A significant factor for location in Latvia was the marketing gain from having a “made in EU” branding for its production serving as an indicator of quality for all markets: within the EU and outside.

The company was established in 2017.

The five projects / investments in 2019 were implemented under the regime of the Latgale Special Economic Zone and are all located in Daugavpils. The arrangements of the SEZ foresee that eligible expenditures (previously agreed with administration of the SEZ) underpin deduction of enterprise income tax over the next financial years.

The expenditures in 2019 were procurement of inventory-management equipment: inventory boxes, inventory shelving solutions and smart-rolls for inventory delivered in rolls of film as well as automatic cutting and soldiering equipment.

Total approved expenditure is 280 459 EUR incurred throughout 2019.

### **3.1 Motivation**

The company is young and co-owners undertook to continue investments in the form of re-investing entirety of profits in order to ensure catching up to the potential demand and gaining market share.

Objective of the project was continued automation of inventory management across production lines and addition of automation to the existing production lines.

Specific feature of the high-tech assembly business is that products consist of very high number of small components, many of which are specific to the individual product and are not interchangeable. Logistics chains on the other hand are long and often international, so running out of inventory poses a high degree of risk of stoppage and failing the delivery deadlines. Overstocking is costly and can create a lot of deadweight loss in case individual components

will not be required for future production. These considerations result in a critical significance of inventory systems – which must be computerised and better be automated as numbers and types of components are in hundreds and thousands.

### **3.2 Application**

The application process was clear as guided by the LSEZ Administration: needed documents and reasons for requiring the documentary proof were explained clearly and in a timely manner.

The application procedure does not enforce a strict template and allows an enterprise to explain its plans in the most convincing manner. Additional discussions and clarifications with the LSEZ Administration are allowed as opposed to many other business support measures, especially those co-financed by the EU Funds.

Since the enterprise has gained experience with applications for LSEZ, the process is even less cumbersome.

### **3.3 Implementation and results**

The enterprise has grown its turnover since 2018 (before start of the first LSEZ project) from 2.7 mEUR to 8.8 mEUR in 2019 i.e. almost tripled the production. And it continues growth in 2020 in spite of disturbances in production and logistics introduced by the COVID-19 pandemic. Majority of production is exported: 87.9% in 2018 and 88.6% in 2019.

As a shareholder policy, the enterprise is not making a profit throughout its years of operation to facilitate investments in new projects under development and implementation. The first investment into the enterprise was only 300 000 EUR in early 2017.

The average number of full-time employees grew from 50 in 2018 to 82 in 2019, and was increased to 90 persons by July 2020. **SMD Baltic, Ltd.** is also the first enterprise to apply to the Latgale SEZ for support under the amended regime (adopted on 28.05.2020, in force since 11.06.2020) where employment remuneration has become an eligible cost for enterprise profit tax deduction – the application is under consideration on 20th of September 2020 by the Latgale SEZ administration.

After trying out the LSEZ support in 2019 the firm continued with additional 13 investments under the LSEZ regime in 2020. The total sum of follow-on investments is estimated (not everything is procured and reported yet) at 788 814 EUR. These investments comprise a new production line and additions to automated inventory management system.

### **3.4 Assessment**

Altogether more than 1 EURm (1 069 273 EUR) was invested under the LSEZ regime during 2019 and 2020 including 450 000 EUR still under implementation and reporting.

The investments provided for inventory system automation and a new production line.

The enterprise management assesses outcomes of the project as highly positive: new equipment allowed to widen offered services, and to increase capacity for production very

significantly; inventory management allows minimising errors in inventory management preventing stops to production due to lack of components and improving logistics management.

The firm continues to participate in LSEZ with its eligible investments and applied to participate in tax deduction based on employment costs since it became available in the summer of 2020. The beneficiary is very positive about collaboration with the LSEZ administration and continues its collaboration with LSEZ and plans for new projects / applications.

**SMD Baltic, Ltd.** also participated in an EU-level open-call for business support to continue its inventory management automation, but was beaten by a competitor, Schneider Electric. In the opinion of the enterprise, the calls must be closer-targeted to avoid such uneven competition between a regional SME and an international large firm.

### **3.5 Sources**

Interview with Mr Dmitry Radkevich, Managing Director of SMD Baltic, Ltd.

Interview with Ms Olga Filimonova, Accountant at SMD Baltic, Ltd.

Financial data on SMD Baltic, Ltd.

## FACTSHEET #3

### Integrated Territorial Initiatives

#### 1 Policy context

The **Regional Development Guidelines 2014-2020**<sup>131</sup> suggest two directions for regional policy effort:

1. Promotion of entrepreneurship and job creation across all territories of Latvia to ensure accessibility and quality of workplaces and public services; and
2. Strengthening administrative capacity of the regions and municipalities to take active role in development of territories.

The new issue of **Guidelines 2021-2027** approved in 2019<sup>132</sup> continue this approach by refining and doubling down in these two directions:

1. Improvement of business environment in the regions;
2. Promotion of efficiency of public services in the regions.

The two measures providing support to ITI are in line with the first direction of both old and the new regional policy framework.

The **NDP 2020**<sup>133</sup> has a three-priority structure, one of which is directly linked to the regional development Priority "Growth-conducive Territories". It foresees three directions the first of which is "Promotion of economic activity in the regions – utilisations of territorial potential" directly underpins region-targeted business promotion actions.

The main goal of the **Guidelines of National Industrial Policy (NIP) of Latvia**<sup>134</sup> 2014-2020 is facilitating structural change in economy towards production of goods and services with increased added value. This also includes augmenting the role of manufacturing, modernising the manufactured goods and development of more sophisticated export, i.e. more technologically advanced products for exports.

The **Smart Specialisation Strategy**<sup>135</sup> (RIS3) provides for creation of innovation capacities and a system to ensure that the future challenges are addressed and opportunities as identified via the entrepreneurial discovery process are fully utilised.

Additional strategic basis for Measure 5.6.2, especially targeting its third call for projects in Latgale, is the **Latgale Development Programme 2010.-2017**<sup>136</sup> (its timeframe was

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<sup>131</sup> <https://likumi.lv/ta/id/261409-par-regionalas-politikas-pamatnostadnem-2013-2019-gadam>

<sup>132</sup> <https://likumi.lv/ta/id/310954-par-regionalas-politikas-pamatnostadnem-2021-2027-gadam>

<sup>133</sup> <https://likumi.lv/ta/id/253919-par-latvijas-nacionalo-attistibas-planu-2014--2020-gadam>

<sup>134</sup> [https://www.em.gov.lv/files/uznemejdarbiba/finl\\_en.pdf](https://www.em.gov.lv/files/uznemejdarbiba/finl_en.pdf)

<sup>135</sup> [https://www.izm.gov.lv/images/zinatne/IZM\\_Viedas\\_Specializ\\_strategija\\_2013.pdf](https://www.izm.gov.lv/images/zinatne/IZM_Viedas_Specializ_strategija_2013.pdf)

<sup>136</sup> <https://lpr.gov.lv/lv/padome-l2f3/planosana>

extended to 2021) and **Action Plan for Economic Development of Latgale Region 2018-2021**<sup>137</sup> approved by the Government.

This is taken up by the **Operational Programme “Growth and Employment” 2014-2020**<sup>138</sup> in its priority axe 3: Competitiveness of small and medium-sized enterprises and priority axe 5: Protection of Environment and Effective Use of Resources.

The investment priority 3.3: supporting the creation and the extension of advanced capacities for product and service development has one measure only, **3.3.1: increasing private investments into the regions by investing into the business development according to the municipal development programs and the needs of the local entrepreneurs.**

The investment priority 5.6: “take action to improve the urban environment, to revitalise cities, regenerate and decontaminate brownfield sites (including conversion areas), reduce air pollution and promote noise-reduction measures” has two Specific Objectives: (1) SO 5.6.1: promotion of revitalisation of urban areas in Riga, ensuring efficient socioeconomic use of the area, and (2) **SO 5.6.2: revitalisation of territories through regeneration of degraded territories according to municipal integrated development programmes.** These measures in essence are very similar and are separated by policy underpinnings: investments into the capital [Riga] are justified by international excellence, while the 5.6.2 support is based on regional development needs and special needs of Latgale.

## **2 ERDF Measures 3.3.1 and 5.6.2**

### **2.1 Overview – the policy in numbers**

The support under Measure 3.3.1 was provided in three calls for projects based on financing quotas. The first call for projects targeting nine national development centres had a total funding of EUR 16 114 183. The second quoted funding to 21 regional development centres totalled at EUR 16 032 453 (including over-commitments from the national budget amounting to EUR 5 202 550). The third call addressed 52 projects of other municipalities providing EUR 32 072 656. The total amount of ERDF funding available under the Measure 3.3.1 was EUR 64 219 292.

The support of the Measure 5.6.2 was provided in three calls for projects based on financing quotas in three calls for projects. The first call for projects targeting the nine national development centres had a total funding of EUR 92 138 673. The second quoted funding to 21 regional development centres totalled at EUR 92 138 673. The third call addressed Latgale municipalities specifically providing EUR 52 247 026. The total amount of ERDF funding available under the Measure 5.6.2 was EUR 236 524 372.

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<sup>137</sup> <https://likumi.lv/ta/id/301764-par-ricibas-planu-latgales-regiona-ekonomiskajai-izaugsmei-2018-2021-gadam>

<sup>138</sup> [https://www.esfondi.lv/upload/14-20\\_gads/DP/OP\\_Growth\\_and\\_Employment\\_eng\\_FINAL\\_04.03.14.pdf](https://www.esfondi.lv/upload/14-20_gads/DP/OP_Growth_and_Employment_eng_FINAL_04.03.14.pdf)

Table 2.1 Implementation data of the OP "Growth and Employment" measures 3.3.1. and 5.6.3. as of February 11, 2020

|       | TOTAL: Latvia           |                |               |                                       | TOTAL: Latgale |               |                                       |                               |
|-------|-------------------------|----------------|---------------|---------------------------------------|----------------|---------------|---------------------------------------|-------------------------------|
|       | ERDF allocation planned | ERDF requested | ERDF approved | Number of approved / applied projects | ERDF requested | ERDF approved | Number of approved / applied projects | M€ as % of the total approved |
| 3.3.1 | 64.2 M€                 | 58.9 M€        | 50.8 M€       | 81/96=84%                             | 9.3 M€         | 7.4 M€        | 12 / 14=86%                           | 14.6%                         |
| 5.6.2 | 236.5 M€                | 224.6 M€       | 162.7 M€      | 76/102=75%                            | 87.3 M€        | 66.3 M€       | 19 / 27=70%                           | 41%                           |

Source: Government Regulations and Cohesion Policy Management Information System

12 projects have been approved in Latgale under the measure 3.3.1, while another 17 were up and running by January 1, 2020 under the measure 5.6.2. Within the measure 3.3.1 Latgale has 14.6% of financing under implementation, while within 5.6.2. it has 41%. The share of funding provided for the stakeholder territory is considered to be satisfactory and appropriate for a reinforced support to the least-developed region of the country. It is well justified by clearly articulated policy objectives favouring Latgale development.

Latgale has 41% of financing under measure 5.6.2. Comparing against the region's share of national GDP of about 7%, the financial allocation is extremely high. But taking into account that the measure 5.6.2 has specific regional development objective and a special call for projects in Latgale, this financial overshooting in favour of the least-developed region is very well justified by clearly articulated policy objectives favouring Latgale development.

## 2.2 Intervention logic

The Priority Axe 3: Competitiveness of small and medium-sized enterprises provides both types of support: direct support for economic activity (ERDF funding) and indirect support by contributing to the development of infrastructure promoting economic activity (ERDF funding), as well as arrangement of economic activity environment (ESF funding).

Specific Objective 3.3.1: "to increase the amount of private investment in the regions, by making investment for entrepreneurship development according to the economic specialization of territories set in the municipal development programs, as well as based on the local entrepreneurs' needs" is implemented under the 3.3: investment priority: supporting the creation and the extension of advanced capacities for product and service development. The OP states that "to promote investments in manufacturing and innovative enterprises integrated support is needed, including establishment of complementary, small-sized, specific business support infrastructure and the necessary industrial connections, including by investing in engineering communications (electricity, gas supply, water supply and sewerage, heat supply)".

By giving support in the form of business infrastructure a benefitting enterprise must undertake to make non-financial investments equal to the size of the ERDF co-financing

and establish new job at a rate approximately equal to the proportion of 41 000 EUR of ERDF co-financing per workplace.

Table 2.2 Regulations #593 provides for targets on outputs and results<sup>139</sup> of the Measure 3.3.1:

| Output indicators by December 31 2023 | Result indicators by December 31 2023   |
|---------------------------------------|---|
| 202 business entities supported       | 446 300 total number of employees in the private sector business entities in the country, except Riga |
| 1053 jobs created                     | 2 125 683 000 € private non-financial investments   |
| €64 M private funding leveraged       |   |

Source: Regulations #593 of the Cabinet of Minister of the Republic of Latvia

The Priority Axe 5: Protection of Environment and Effective Use of Resources includes a variety of measures targeting **environment investments**. And providing indirect support to business development under SO 5.6.2 is partly justified by addressing regeneration of degraded territories through municipal integrated development programmes.

The OP states that “the SO will result in environmental sustainability promoting territorial growth and creation of new jobs through revitalisation of urban environment and regeneration of degraded territories”. It **linked degraded territories to historic pollution** and saw establishment of new manufacturing sites as a win-win in terms of pollution prevention and job creation.

By giving support in the form of business infrastructure a benefitting enterprise must undertake to make **non-financial investments** equal to the size of the ERDF co-financing and establish **new work places** at a rate approximately equal to the proportion of 41 000 EUR of ERDF co-financing per workplace.

The **environmental focus** of the Priority 5 resulted in additional targeting. In addition to targets of non-financial investments and employment the OP under Measure 5.6.2 planned to “rehabilitate 556 ha of these 5 826 ha of degraded areas or average of 9.54 % of degraded territories”.

Another policy feature of the Measure 5.6.2 is directive to **cooperation between neighbouring municipalities**: “according to Regional policy guidelines for 2013–2019, the plan is to grant support for the improvement of quality of urban environment to the priority investment projects defined in integrated development programmes of municipalities which are implemented by municipalities of development centres of national and regional importance, creating partnerships with surrounding municipalities, economic operators, partnership and foundations, if required.” While non-municipal actors did not materialise, six projects in Latgale were implemented in partnership between at least two municipalities.

<sup>139</sup> <https://likumi.lv/ta/id/277959-darbibas-programmas-izaugsmes-un-nodarbinatiba-3-3-1-specifiska-atbalsta-merka-palielinat-privato-investiciju-apjomu-regionos-ve...>

Table 2.3 Regulations #645 provide for targets on outputs and results<sup>140</sup>:

| Output indicators by December 31 2023                | Result indicators by December 31 2023   |
|--|---|
| 556 ha rehabilitated previously degraded territories |   |
| 3 880 jobs created                                   | 446 300 total number of employees in the private sector business entities in the country, except Rīga |
| € 236 524 372 M private funding leveraged            |   |

Source: Regulations #645 of the Cabinet of Minister of the Republic of Latvia

The **target group and beneficiaries** of the measure are municipalities deemed development centres: national, regional and local development centres according to the Regional Development Guidelines 2014-2020.

The **need for such support** was identified in the previous programming period 2007-2013 where a number of municipalities used their allocation under urban development priority to prepare brownfields for investments and develop abandoned industrial spaces for new investors. Also a city of Ventspils in Kurzeme region proved the approach to be successful before 2007 by investing its own financial resources into development of industrial sites to attract investors – its offer of industrial site was accompanied with the status of special economic zone in the Freeport of Ventspils and good access to the sea-port as an export artery.

Both measures support almost identical list of **eligible costs**: new and improved buildings excluding dwellings, new and improved utilities' connections (water, wastewater, power supply, and central heating), improvement of surrounding territory, publicity and awareness, and project management costs. The Measure 5.6.2 uses a language allowing a wider treatment of the project site, meaning for rehabilitation costs.

The **share of ERDF co-financing** depends on [a] results of costs-benefit analysis of the project, [b] type of costs, [c] participation of partners in the project. The maximum of 95% was available, but most projects received lower intensity of ERDF support due [i] potential financial benefits in terms of growing municipal tax revenues (it decreased ERDF co-financing to the project proportionately), [ii] participation of the SMEs as pre-determined tenants of the future industrial infrastructure (it decreased ERDF co-financing to the project very significantly with maximum dropping from 95% to 55%), and [iii] participation of utility enterprises in the project (it decreased ERDF co-financing for the specific costs to maximum of 75% and below).

There are limits on **minimum size of a project** set in the Government regulations (3.3.1: EUR 50 000; 5.6.2: EUR 100 000). But the effective financial limits were put instead by assigning maximum ERDF financing quota to municipalities by the Government regulations, and municipal councils could decide on using their quota to implement one

<sup>140</sup> <https://likumi.lv/ta/id/278254-darbibas-programmas-izaugsmes-un-nodarbinatiba-562-specifiska-atbalsta-merka-teritoriju-revitalizacija-regenerojot-degradetas-teritorijas-atbilstosi-pasvaldibu-integretajam-attistibas-programmam-istenosanas-noteikumi>



or more projects. There is a practical limit of EUR 25 million of eligible expenditure to avoid a more complicated procedure of approval of major projects.

In order to **prove actual needs** for such business infrastructure in the market, a municipality had to attach at least three letters from potential users of the infrastructure: enterprises operating near roads, streets, potential users of the water and sewage systems, potential renters of the industrial buildings.

By signing the contract agreement a **municipality undertook to ensure delivery of the targets** by means of promoting investments and employment in benefitting enterprises – in the view of Ministry of Environmental Protection and Regional Development, authors of the two Measures, this stimulated **cooperation between local authorities and private businesses**.

### 2.3 Results achieved in Latgale

Not all projects submitted were supported within the Measure 3.3.1 and ERDF financing approved was lower than planned yet projected results according to the 12 approved project applications acceded planning in investments and employment but did not achieve the target in number of supported enterprises. Similarly, since not all submitted projects were supported by the Measure 5.6.2 and the ERDF financing approved was lower than planned, the actual results according to the approved project applications lower across all three types of results.

Table 2.4 Output indicators as per the Regulations of the Cabinet of Minister of the Republic of Latvia (Guidelines) and committed in Latgale during the project application phase

| Measure | As per the Regulations (Guidelines) |          |                             |                        | COMMITTED at the project application phase |          |                             |                        |
|---------|-------------------------------------|----------|-----------------------------|------------------------|--|----------|-----------------------------|------------------------|
|         | Private funding leveraged, €        | New jobs | Business entities supported | Rehabilitated area, ha | Private funding leveraged, €               | New jobs | Business entities supported | Rehabilitated area, ha |
| 3.3.1   | 7 791 764                           | 219      | 65                          | -                      | 7.967.465                                  | 261      | 61                          | -                      |
| 5.6.2   | 100 032 069                         | 1.512    | -                           | 209                    | 69 351 583                                 | 1 324    | -                           | 183                    |

Source: Regulations and Cohesion Policy Management Information System

Of total 12 approved projects in Latgale within the Measure 3.3.1, six are fully implemented, one was interrupted, and five are under implementation currently with full intention to achieve the expected results.

Of total 19 projects in Latgale supported under the Measure 5.6.2, four are fully implemented and 15 are under implementation currently with full intention to achieve the expected results.

None of the projects under the two Measures reported on fully delivering all expected results yet.

Table 2.5 Output indicators in Latgale – committed during the project application phase versus attained by the finalised projects.

| Measure | COMMITTED at the project application phase |          |                             |                        | ATTAINED so far by the finalised projects |          |                             |                        |
|---------|--|----------|-----------------------------|------------------------|---|----------|-----------------------------|------------------------|
|         | Private funding leveraged, €               | New jobs | Business entities supported | Rehabilitated area, ha | Private funding leveraged, €              | New jobs | Business entities supported | Rehabilitated area, ha |
| 3.3.1   | 7.967.465                                  | 261      | 61                          | -                      | 400.000                                   | 10       | 12                          | -                      |
| 5.6.2   | 69 351 583                                 | 1 324    | -                           | 183                    | 6.462.266                                 | 113      | -                           | 24.87                  |

Source: Cohesion Policy Management Information System and Stakeholder

Present levels of output achieved can be assessed positively due to the following considerations mostly related to the timing:

1. some projects were only launched in 2018 and are mid-way implementation;
2. implementation period is limited by the provisional programme closure in the end of 2023, where all outputs must be demonstrably achieved, meaning there are three more years to finalise the projects and achieve the targets.

As for the territorial distribution of the approved projects the following is expected after the projects are complete.

Table 2.6 ITI funding in the stakeholder territory in the programming period 2014-2020 per capita (population on 2019) and per enterprise (active business units in 2018)

| Municipality      | ITI funding per capita € | ITI funding per enterprise € |
|-------------------|--------------------------|------------------------------|
| Aglonas novads    | 307,54                   | 5276,19                      |
| Baltinavas novads | 350,09                   | 3405,39                      |
| Balvu novads      | <b>598,02</b>            | <b>7042,80</b>               |
| Cīblas novads     | 136,92                   | 1511,77                      |
| Dagdas novads     | 141,39                   | 1663,60                      |
| Daugavpils        | 205,76                   | <b>14151,80</b>              |
| Daugavpils novads | 125,31                   | 533,45                       |
| Ilūkstes novads   | 402,51                   | 5120,45                      |
| Kārsavas novads   | 302,49                   | 4052,14                      |
| Krāslavas novads  | 97,25                    | 1453,57                      |
| Līvānu novads     | <b>564,85</b>            | 6249,71                      |
| Ludzas novads     | 298,44                   | 4538,35                      |
| Preiļu novads     | <b>533,01</b>            | 5648,96                      |
| Rēzekne           | 504,44                   | <b>7973,54</b>               |
| Rēzeknes novads   | 195,44                   | 2588,42                      |
| Riebiņu novads    | 188,44                   | 1472,17                      |
| Rugāju novads     | 437,53                   | 3533,76                      |
| Vārkavas novads   | 0,00                     | 0,00                         |
| Vīlakas novads    | 365,75                   | 4458,84                      |
| Vīļānu novads     | 309,63                   | 5359,74                      |
| Zilupes novads    | 0,00                     | 0,00                         |

Source: Cohesion Policy Management Information System and Stakeholder

### **3 Case Study: ITI Project in Daugavpils City**

Daugavpils is the second largest city in Latvia and has a status of national development centre. Daugavpils is an economic engine for the surrounding territories beyond the city and Daugavpils municipality borders. People are known to travel up to 50 km to work in the city.

Daugavpils received one of the largest funding allocations within the ITI measures (3.3.1. and 5.6.2) of the ERDF - EUR 26.6M. It implemented ten ITI projects: 3 with neighbouring municipalities and 7 individually. 2 projects were co-financed by the measure 3.3.1 and 8 – by 5.6.2.

ITI projects in Daugavpils encompassed rehabilitation of degraded territories by building production facilities and warehouses, constructing parkings and loading docks, as well as reconstructing streets and access roads to the new industrial sites.

While most projects are still under implementation, this case study will focus on the project co-financed by the measure 5.6.2 “Regeneration of degraded industrial territories in Daugavpils City and Ilūkste municipality, II stage”. The project was implemented on the border between the two municipalities and addresses the “Čerepova industrial zone” located on the border of Daugavpils town municipality and rural municipalities of Daugavpils and Ilūkste. The first stage of the Čerepova industrial zone regeneration covered locations in Daugavpils town and rural municipalities and is still being implemented.

#### **3.1 Motivation**

Overall objectives of ITI measures are development of production facilities and regeneration of industrial territories. The measure 5.6.2 also adds environmental objective to address historically degraded territories. Since the economic transition of 1990s and 2000s resulted in a large number of bankruptcies of large industrial enterprises of command economy, and shrinkage in scale of surviving enterprises, the Daugavpils town has a lot of potential regeneration projects. These projects are implemented based on expressed interest of existing enterprises or new investors.

ITI projects are always implemented based on the projection of goals to be achieved as a result of new enterprises entering the market or expansion of existing production facilities. The targets are expressed in the form of hectares of regenerated industrial territories, non-financial private investments into production buildings or equipment, and new jobs. All three types of targets are beneficial to economic development of the region and the country, but also provide direct benefit to municipalities: regenerated areas no longer pose environmental risks, enterprises anchor themselves in the territory with investments that are not easily relocated, new jobs provide direct revenue to municipality as part of the personal income tax is paid to municipal budget (5% in 2020).

## 3.2 Application

The ITI implementation arrangements asked for strategic underpinning of any new projects, so all implemented projects were earmarked in the Daugavpils City Development Plan 2014-2020.

Another feature of the ITI implementation was that the project applications were not assessed by the CFCA in Riga, but rather by a project selection committee formed by Daugavpils town and including representatives of Daugavpils town and neighbouring municipalities, Latgale region, MEPRD and CFCA. This provided for an iterative and collegial process of formulation of the project idea and project application.

Daugavpils town was aware of the conditions of ERDF support: those were discussed thoroughly during elaboration of the Government Regulation on the measure 5.6.2.

The project is worth EUR 8.3M, eligible cost is EUR 8.2M, ERDF co-finances EUR 6.1M, the state budget dotation is EUR 0.3M and the remaining EUR 0.7 M are Daugavpils town municipality co-financing.

## 3.3 Implementation and Results

Implementation of the project ran smoothly and did not encounter unexpected obstacles preventing progress or overrunning the costs of the budget. The project will deliver all of its results by the end of 2021, but already now the two of the three indicators are fulfilled:

- the overall territory to be regenerated was estimated at 27.1 ha, which is fully achieved in the end of all reconstruction works in May 2020;
- the target for new jobs was set at 161, based on the financial allocation of ERDF, it stood overachieved at 173 in January 2020 with expectation if growth once all investments into equipment are made by all enterprises;
- the target for non-financial investments was EUR 2.8M and is not yet fully achieved at EUR 1.6M in September 2020.

Actual activities of the project were as follows:

- reconstruction of Mendeļejeva street running by the industrial zone (from Višķu street to the lot 0500 007 1614 on the corner of the industrial zone) – benefitting all enterprises in the industrial zone;
- reconstruction of the surface of Mendeļejeva street to the border of the industrial zone – beneficiary is SIA "Centennial Industries";
- reconstruction of Spaļu street from Smilškalna street to the border of the industrial zone including new surface, sidewalks, and water and wastewater pipes – beneficiary is SIA "Dauter";
- reconstruction of the Spaļu street from Slāvu street to Smilškalna street and construction of parkings on both sides of the street – beneficiaries are SIA "Zieglera Mašīnbūve" and SIA "Industryprof";
- construction of new access road from Spaļu street into the industrial zone (instead old gravel road) – beneficiary SIA "Ventum";
- construction of new production facility and adjacent infrastructure (access road and parking) in the industrial zone (lot 05000071213) – beneficiary SIA "Axxon Cables".

There are ten enterprises working in the territory: Axxon Cables SIA (cables), CCT SIA (energy resource trader), Dauter SIA (real estate agent), Latgales ceļdaris SIA (road construction), Derex SIA (construction), ADLV SIA (forestry), Centennial Industries SIA (plastics), Industriprof SIA (equipment engineer), Zieglera mašīnbūve SIA (machinery), Ventum SIA (retail of construction materials). All of those contribute to achievement of the indicator target values, with Axxon being the largest and expecting to fill at least 60 new jobs by the end of the reporting period, 2021.

### **3.4 Assessment**

The project is considered successful by both the Daugavpils town municipality and Latgale region because the indicators were met or exceeded, and enterprises continue their development in the Čerepova industrial zone.

### **3.5 Sources**

Interview with Ms Daina Krivina, Director of Development Department of Daugavpils City  
Interview with Ms Iveta Malina-Tabune, Head of Administration of Latgale Planning Region

Data provided by specialists of Daugavpils City, Ms Daina Krivina and Mr Sergejs Gorniks

## FACTSHEET #4

### EARDF and CF measures for business support

#### 1 Policy context

The main goal of the **Guidelines of National Industrial Policy (NIP) of Latvia**<sup>141</sup> **2014-2020** is facilitating structural change in economy towards production of goods and services with increased added value. This also includes augmenting the role of manufacturing, modernising the manufactured goods and development of more sophisticated export, i.e. more technologically advanced products for exports.

The **Smart Specialisation Strategy**<sup>142</sup> (**RIS3**) provides for creation of innovation capacities and a system to ensure that the future challenges are addressed and opportunities as identified via the entrepreneurial discovery process are fully utilised.

Both NIP and RIS3 together with NDP 2020 and the National Reform Plan constitute an integral system of planning documents aimed at achieving national-wide development goals. Approaches included in the strategic plans are taken up by the **Operational Programme “Growth and Employment” 2014-2020**. They are manifested through the following four OP investment priorities:

- **1.2. investment priority** “aims at promoting business investments in R&D and creating links and synergies between businesses, R&D centres and the higher education sector, in particular by promoting investments in goods and service development, technology transfer, social innovation, eco-innovation, public service applications, demand stimulation, networking, cluster creation and open innovation with the help of smart specialization and supporting technological and applied research, pilot projects, approval of production in the early design phase, increasing the production capacity and the first production, especially in relation to key enabling technologies and diffusion of general purpose technologies.”
- **3.1. investment priority** “aims at promoting entrepreneurship, in particular by facilitating the economic exploitation of new ideas and fostering the creation of new firms, including through business incubators.” It provides for a targeted support to entrepreneurship as a reinforced economic growth is seen by facilitation and further development of SME’s, in particular, in manufacturing and RIS3 priority industries.
- **4.1. investment priority** aims “to promote effective use of energy resources, reduction of energy consumption and transfer to RES in manufacturing industry”. Implementation of SO will allow to improve the competitiveness of manufacturing industry – industry and construction is the third largest final energy consumer in Latvia.
- **5.6. investment priority** that “takes action to improve the urban environment, to revitalise cities, regenerate and decontaminate brownfield sites (including conversion areas), reduce air pollution and promote noise-reduction measures”. Within the framework of the SO such urban areas will be revitalised, economic and social activities will be promoted, their further degradation will be prevented through

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<sup>141</sup> [https://www.em.gov.lv/files/uznemejdarbiba/finl\\_en.pdf](https://www.em.gov.lv/files/uznemejdarbiba/finl_en.pdf)

<sup>142</sup> [https://www.izm.gov.lv/images/zinatne/IZM\\_Viedas\\_Specializ\\_strategija\\_2013.pdf](https://www.izm.gov.lv/images/zinatne/IZM_Viedas_Specializ_strategija_2013.pdf)

reconstruction and creation small scale objects (such as integrated cultural, business tourism and sports sites) which will serve a catalyst for the development of the area concerned, adding and promoting attraction of other, especially private investments, as well as will promote commercial activities, employment and improvement of the social and economic status of the territory concerned.

## 2 Loan guarantees & Micro credits and start-up loans

### 2.1 Overview of the policy in numbers

**SO No. 3.1.1.** Indicative financial instruments: “Necessary types of state intervention and the volumes of instruments will be determined based on the regularly updated SME access to Finance Market Gap analysis, and the offered instruments will be adjusted to the market situation.”

Implementation of the financial instruments has been entrusted to the State-owned Development Finance Institution ALTUM. Two measures analysed in this factsheet are the following financial instruments:

#### 1. 3.1.1.1. Loan guarantees

The guidelines of the measure have been set out by the Regulations #997 of the Cabinet of Minister of the Republic of Latvia dated October 26, 2010<sup>143</sup>. The planned ERDF funding was EUR 44.8 M.

#### 2. 3.1.1.4. Micro credits and start-up loans

The guidelines of the measure have been set out by the Regulations #997 of the Cabinet of Minister of the Republic of Latvia dated May 31, 2016<sup>144</sup>. The planned ERDF funding was EUR 4 million to be combined with the ALTUM funding of EUR 23 M.

Table 2.1 Implementation data of the OP “Growth and Employment” measure 1.2.1.4. “Support to introducing new products” as of February 11, 2020

|          | TOTAL: Latvia            |                |               |                             | TOTAL: Latgale              |                          |                               |                           |
|----------|--------------------------|----------------|---------------|-----------------------------|-----------------------------|--------------------------|-------------------------------|---------------------------|
|          | ERDF allocation planned* | ERDF requested | ERDF approved | Number of approved projects | Number of approved projects | ERDF approved in Latgale | M€ as % of the total approved | ERDF requested in Latgale |
| 3.1.1.1. | 44.8 M€                  | n/a            | 86.5 M€       | 472                         | 17                          | 1.41 M€                  | 2 %                           | n/a                       |
| 3.1.1.4. | 4 M€                     | n/a            | 12.2 M€       | 569                         | 55                          | 0.68 M€                  | 13%                           | n/a                       |

Source: data of the State Financial Institution ALTUM, \* Regulations – NB! double increase of the initial allocation

By June 30, 2019 a substantial amount of the allocated funding has been already distributed. The immediate results of the region show that in 3.1.1.1. there has been a comparatively small share of loan guarantees issued in Latgale – 2% of the total. Though

<sup>143</sup> <https://likumi.lv/doc.php?id=220826>

<sup>144</sup> <https://likumi.lv/doc.php?id=282520>

the number of approved loan guarantees is 17, the number of unique enterprises is 11. Average size of the guaranteed loan is slightly above EUR 80 000.

For micro credits and start-up loans the uptake has been considerably bigger and almost twice exceeds the regional share in the national GDP and GVA. 55 projects of 50 enterprises have benefited from the loans. Average size of the loan is EUR 12 227.

## 2.2 Intervention logic

The measure addresses the **need** for access to finance: “Provision of loans and export guarantees presents important support for the promotion of competitiveness of enterprises as well.”

The two support measures are developed and adjusted according to the deficiencies of the market in the area of access to finance. They aim:

- “To facilitate implementation of viable business plans a sustainable mechanism must be created to provide loans. Amount of loans issued by commercial banks to enterprises has been continuously decreasing since 2008. Banks have set high security requirements for issuing of new loans and they issue loans for a short period of time, thus reflecting decreased risk tolerance and restricting the access of enterprises to long-term capital investments.”
- “To facilitate formation of new enterprises and develop new entrepreneurial activities support is necessary to start entrepreneurship. Lack of specialized institutions of microlending and start-up enterprises. Commercial banks avoid issuing microloans to new economic activities and start-up enterprises, moreover, the costs of evaluation and administration for such loans are comparatively high in relation to the volume of a loan. Microloans are considered to be loans with a higher risk due to the lack of security and information (about the start-up enterprise, which starts to run economic activity for the first time; previous activity and credit history).”
- “To facilitate development of enterprises and promote exporting activities a wider range of financial instruments must be offered. This would ensure access to funding and protect export-oriented enterprises against international trade risks.”

Implementation of these programmes is envisaged to ensure a significant positive impact on economic development.

The **target group** and **beneficiaries** of the measure are commercial companies as well as agriculture service co-operatives. Only SMEs are eligible.

The **guarantees are issued for** loans aimed at investments or working capital, financial leasing, factoring or private bank guarantees.

The **maximum size of the guaranteed loan** is set at EUR 5 million and a 10-year period. The **maximum size of the start-up loan** is between EUR 2 000 and EUR 150 000 for a maximum of 10-year period, while for investments into assets up to 15 years.



The companies are required to prepare a **project application** and a **business plan** presenting the financial information and cash flow.

The expected output to be reached nationally by 2020 will be measured by the following **output indicators**:

- Number of enterprises, receiving financial support, other than grants - 790
- Number of new enterprises supported – 308

There are no specific regional output or result indicators.

### **2.3 Results achieved in the Latgale region**

11 enterprises in Latgale have used the guarantees, from loans. The two economic activities that have been supported most are wood processing (C16) and trade (G46).

Another 50 enterprises have been benefited from start-up loans and microcredits. There is a wide range of various economic activities represented, however, it must be said that two sectors dominate, i.e. construction (F) and trade (G). The other sectors include the following: forestry and logging (A2), from manufacture there a few manufacturers of wood and of products of wood (C16), non-metallic mineral products (C23), machinery and equipment (C28), furniture (C31). There are a few representatives also of accommodation (J) and logistics (H).

Though it can be assumed that the projects will be benefiting the region's economy and thus to certain extent also to the regional development goals, their contribution to the NIP, RIS3 and overall OP goals will be limited.

### **2.4 Case study**

**Nemo Ltd.** is a tailoring enterprise established 1994 as a result of privatisation and subsequent reorganisations of a state-owned tailoring enterprise. The current owner acquired **Nemo Ltd.** in 2014 without having any previous experience in tailoring. The enterprise is based in the town of Krāslava in South-Eastern part of Latgale.

**Nemo Ltd.** produces female outerwear, business suits and dresses. Most of the production is based on the designs by a brand-owner and is mainly exported to Scandinavia. In the summer of 2020 **Nemo Ltd.** also took a pivot to produce personal protection equipment due to COVID-19 pandemic.

**Nemo Ltd.** benefits from a loan from ALTUM development financial institution. The project includes acquiring a new computerised cutting machine (to match the patterns on the model across the cuts of fabric) and a gluing machine to ensure keeping the layers of fabric together without stiffness resulting from lamination.

Overall size of the loan is EUR 250 000 disbursed in tranches of EUR 125 000. The loan was approved in October 2019 and disbursed by June 2020. The current repayment schedule lasts till December 2027.

### 2.4.1 Motivation

**Nemo Ltd.** is a contract tailor producing garments based on designs of the brand-owner. In some cases, the enterprise could not accept orders due to inefficient use of fabric (failure to comply with the fabric efficiency requirements), excessive labour required to match the patterns, or inability to produce lighter designs.

Acquiring the two machines solved the identified issues and allowed **Nemo Ltd.** to become more efficient and widened its market reach.

Objective of the project was acquiring the two machines identified as necessary for improved efficiency and productivity.

### 2.4.2 Application

The application process is deemed cumbersome by the beneficiary. The beneficiary has a talented and experienced financial manager who managed to solve all requirements of ALTUM. Other comparable enterprises could not comply with all ALTUM's requirements in beneficiary's opinion.

Not only many bureaucratic requirements are deemed unnecessary and excessive compared to commercial banks, during filling out the application a technical error was allegedly identified in XLS-based templates published by ALTUM. ALTUM did not acknowledge this incident.

### 2.4.3 Implementation and results

Current results of the enterprise are clouded by COVID-19 and related restrictions on production, logistics, and sales. Results of the project will only be fully visible in the data for 2020 (not available yet) as both machines were only put to work in early and mid-2020; or even in data for 2021 (when pandemic is over, hopefully).

The enterprise has shunned 58 employees in its Ludza factory between 2018 when average number of employees was 228 and 2019 with employment of 170 persons. Turnover also dropped from EUR 2.27 million in 2018 to EUR 21.87 million in 2019, as did exports from EUR 1.92 million in 2018 to EUR 1.53 million in 2019.

During the COVID-19 **Nemo Ltd.** switched to producing personal protective equipment: masks, shirts, overalls, and head-covers for medical personnel. This decision was based on identified spike in demand, and also as a reaction to complications and delays in logistics of fabrics for previously produced garments (longer logistics chains for outerwear are stuck, while mostly nationally and regionally sourced components for PPE proved to move faster and more reliably). This pivot underpins expectations of growth of turnover in 2020 as compared to both 2019 and 2018.

### 2.4.4 Assessment

The project is assessed positively by the beneficiary, even if the data doesn't show the results yet. Labour productivity is assessed to grow by 6% after full implementation of the new machinery.

Support is seen as laden with unnecessary bureaucracy apparently preventing greater take-up of the offered support. Conditions also are unnecessarily strict: acquiring used machinery must be allowed in the future as some machinery is in efficient use many years after its supposed amortisation – at the time of the interview a competitor in Estonia was undergoing liquidation and selling off some of its equipment, which could be put to good use in **Nemo Ltd.** (prevented by eligibility rules).

The greatest challenge for **Nemo Ltd.** and arguably most of the tailoring sector is a deficit of labour. Youth prefer to go to vocational programmes teaching design and garment-engineering as opposed to actual tailoring, cutting and sewing, while the labour market needs way fewer designers and way more tailors. Vocational schools do not perform the function of orienteering youth to more demanded vocations. LLL programmes (6-months trainings) are an alternative source of labour, but those produce lower-skilled employees that are cumbersome to train on the job once they are employed.

On the other hand, short-term trainings implemented by Association of Light Industry targeting management and designers of Association's members are very useful to upgrade the skills of leading personnel and exchange experience among competitors.

#### **2.4.5 Sources**

Interview with Ms Inga Zemdega-Grape, CEO at **Nemo Ltd.**

Financial data on **Nemo Ltd.**

### **3 Business incubators**

#### **3.1 Overview – the policy in numbers**

Within the framework of **specific objective (SO) No. 3.1.1.** “Provision of support in the form of advisory support is important for the start of economic activity, promoting higher efficiency of support measures of financial instruments and viability of the supported business plans.”

The whole measure 3.1.1.6. is considered as one project by the Latvian Investment and Development Agency (LIDA), whereas there are in total 15 business incubators all over the country, two of them in Latgale - Rēzekne and Daugavpils<sup>145</sup>.

The guidelines of the measure have been set out by the Regulations #279 of the Cabinet of Minister of the Republic of Latvia dated May 3, 2016<sup>146</sup>. They provide the main information with regards to the overall set-up of the measure as well as how it has to be implemented, i.e. eligibility criteria for potential applicants. The Regulations inter alia indicate that the total planned volume of the available ERDF funding for regional business incubators within this measure is EUR 20 404 471.

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<sup>145</sup> <http://www.liaa.gov.lv/lv/fondi/2014-2020/biznesa-inkubatori/par-projektu>

<sup>146</sup> <https://likumi.lv/doc.php?id=282045>

The business incubators of Rēzekne and Daugavpils of this support measure were set up in late 2016 but started accepting enterprises as of January 2017. Thus, presently they can look back at three full years of operation, while not all the enterprises have been there since 2017.

### 3.2 Intervention logic

Various enterprises as well persons wishing to do business s may have different experience and capacity in the start-up phase, therefore it is important to ensure the possibility of adjusting the services supplementing the availability of funding (training and consultations) and the conditions of receipt of funding to the needs of potential beneficiaries.

“Based on the experience in the EU 2007.-2013 planning period with 2.3.2.1.activity “Business incubators”, within EU 2014.-2020 planning period payments will be made to incubator operators according to the results achieved by successfully incubated enterprises (paid taxes, attracted external funding etc). Upon acceptance in incubator an incubation plan for each enterprise will be elaborated – necessary financing, achievable results, time frame. Incubator will constantly monitor these milestones to ensure that enterprises continue to grow and remain within incubator only until support is necessary. Separate team would monitor business incubator service quality.”

The **measure is targeted at** any new businesses of persons wishing to star their business including young people, persons at pre-retirement age, unemployed persons, persons living in regions and other social groups, ensuring that “the funding is available for the implementation of viable and justified business plans regardless of the social status of the start-up enterprise”.

**The eligible applicants** are SMEs and natural persons wishing to start the business.

The **eligible costs** are related to advisory services, lease of facilities, workstations and equipment.

The expected output to be reached nationally by December 31, 2023 will be measured by the following **output indicators**:

- Number of enterprises receiving grants - 200
- Number of new enterprises supported – 400
- New jobs at the supported enterprises – 200
- Number of enterprises receiving non-financial support in pre-incubation – 180
- Number of enterprises receiving non-financial support - 400

There are no specific regional output or result indicators.

### 3.3 Results achieved in the Latgale region

Table 3.1 Results of the enterprises at the business incubators in the stakeholder territory, 2019

|  | <b>Rēzeknes<br/>business<br/>incubator<sup>147</sup></b> | <b>Daugavpils<br/>business<br/>incubator<sup>148</sup></b> | <b>TOTAL<br/>in<br/>Latgale</b> |
|--|--|--|---------------------------------|
| <b>Total turnover of all enterprises, €</b>          | 2 463 864  | 7 672 937  | 10 136 801                      |
| <b>Total exports of all enterprises, €</b>           | 233 229  | 6 018 086  | 6 251 315                       |
| <b>Taxes paid, €</b>                                 | 442 307  | 543 526  | 985 833                         |
| <b>Full-time jobs</b>                                | 334,59   | 553,61   | 888,2                           |
| <b>Total amount of grants paid, €</b>                | 143 634  | 138 081  | 281 715                         |
| <b>Total number of contracts / on-going</b>          | 50 / 35  | 54 / 29  | 81 / 64                         |
| <b>Competition to enter the incubator per 1 slot</b> | 1,55   | 1,70   | n.a.                            |

Source: Rēzekne and Daugavpils business incubators, June 2020

This analysis specifically looked at the number of projects that applied for grants and were supported. Thus, in total 81 enterprises incubated at the two business incubators of Latgale have had received grants totalling at EUR 281 715, which is 16.7% of the total grants issued to the incubated enterprises in all the business incubators of this measure. This can be considered a good result for Latgale region taken that technically on average each incubator could have received around EUR 113 000, but both incubators have succeeded to attract considerably more than that.

The enterprises represented in the incubators of Latgale cover a wide range of industries from food processing to computer games. While some of them have entered the incubator at a certain stage of maturity and show a steady business increase after joining the incubator, most of the businesses are recently established and it is yet hard to judge about their possible development from their very first annual reports.

The total turnover of the companies, exports and taxes paid are significant, even though that in some instances there is large share of just a few successful enterprises. Nevertheless, it shows businesses in their start-up phase are taken a good care of and enjoy the available support. The interviewed managers of the business incubators acknowledged the measure to be a very good support instruments for start-ups appreciated by entrepreneurial people of the region. A profile of an average entrepreneur is a person around 30 years of age who have gained certain expertise in the field s/he wishes to develop own business and is ready to take the associated risks.

<sup>147</sup> <https://inkubatori.magneticlatvia.lv/en/katalogs/rezekne-en/>

<sup>148</sup> <https://inkubatori.magneticlatvia.lv/en/katalogs/daugavpils-en/>

## 4 Support to investments into production facilities

### 4.1 Overview – the policy in numbers

Within the framework of **specific objective (SO) No. 3.1.1.:** “formation of new enterprises, growth of existing enterprises and increase of manufacturing proportion in economy will be facilitated. It is expected to have a positive influence on job creation, productivity and demand for innovation services.”

One of the numerous business support measures under this SO – 3.1.1.5. - provides grants for investments into production facilities funded by ERDF. Support measure is targeted at the SME’s representing manufacturing industry. It is available under the following two main conditions: business is primarily carried out in RIS3 areas and the project beneficiaries create new jobs with salary levels higher than the industry’s average. It is expected that by the means of the business support provided via this SO, there will be a greater SMEs survival rate, increased competitiveness and overall growth.

Initially the support measure 3.1.1.5. provided also regional quotas. Since after the first call for proposals in 2016 concerns arose that there might not be sufficient number of appropriate projects from the regions, but Latgale, in particular, and being under certain pressure to disburse the funding, the MA refused from the quota approach and redistributed the regional quotas.

The guidelines of the measure have been set out by the Regulations #227 of the Cabinet of Minister of the Republic of Latvia dated April 12, 2016<sup>149</sup>. They provide the main information with regards to the overall set-up of the measure as well as how it has to be implemented, i.e. eligibility criteria for potential applicants. The Regulations inter alia indicate that the total planned volume of the available ERDF funding within this measure is EUR 24 130 687, while the available funding with a provided reserve is EUR 23 597 835. The beneficiaries of the measure have to provide private funding of EUR 21 750 000. The overall funding allocated has been increased to EUR 49.5 M.

**The guidelines state that the funding has be allocated equally between the five planning regions, i.e. EUR 4 719 567 per region.**

To ensure equal allocation of funding between the regions, the guidelines inter alia provide that project assessment is done only between the project applications of the same region. If the regional quota is not fully utilised the funding can be transferred to a project in another region.

With 75% of the funding already allocated by the mid-February 2020, the three projects being implemented in Latgale account a total financial share of 2% which is comparatively deemed as low. Another 8 projects were rejected while a business of one approved

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<sup>149</sup> <https://likumi.lv/ta/id/281590-darbibas-programmas-izaugsme-un-nodarbinatiba-3-1-1-specifiska-atbalsta-merka-sekmet-mvk-izveidi-un-attistibu-ipasi>

project has ceased to exist. An overall success rate for the enterprises of Latgale was 1 successful project versus 2 rejected.

Table 4.1 Implementation data of the OP “Growth and Employment” measure 3.1.1.5. “Support to investments into production facilities” as of February 11, 2020

| TOTAL: Latvia                          |                |               |                             | TOTAL: Latgale              |                          |                               |                           |
|--|----------------|---------------|-----------------------------|-----------------------------|--------------------------|-------------------------------|---------------------------|
| ERDF allocation planned <sup>150</sup> | ERDF requested | ERDF approved | Number of approved projects | Number of approved projects | ERDF approved in Latgale | M€ as % of the total approved | ERDF requested in Latgale |
| 49.5 M€*                               | 93.4 M€        | 37.2 M€       | 53                          | 4**                         | 0.83 M€                  | 2%                            | 3.6 M€                    |

Source: Cohesion Policy Management Information System, \*NB! double increase of the initial allocation, \*\* Business of one approved project has been ceased

Overall, the equal allocation principle incorporated into the guidelines has not been met even for the initially earmarked EUR 4.7 million, not to say that the equal split should have been doubled following the double increase in the total funding. The overall allocation of the funding to Latgale can be assessed as not appropriate and not in line with the guidelines. It strongly underrepresents the place of Latgale’s economy on the national scene, i.e., only 2% of funding allocated to the enterprises that produce 7% GDP and GVA respectively.

## 4.2 Intervention logic

Support programmes under the SO 3.1. is a response to the market deficiencies in the area of access to finance: “Amount of loans issued by commercial banks to enterprises has been continuously decreasing since 2008. Banks have set high security requirements for issuing of new loans and they issue loans for a short period of time, thus reflecting decreased risk tolerance and restricting the access of enterprises to long-term capital investments. Lack of investments can be explained due to the long payback period and high investment risk and SME’s lack of own capital to cover or attract external capital to finance all expansion costs. Considering that there is limited availability of industrial premises, additional investments in construction and re-construction of industrial premises are necessary.”

It has been acknowledged that a successful entrepreneurship eco-system requires a good combination of financial support, advisory services and appropriate infrastructure including premises: “in order to facilitate growth of enterprises and increase manufacturing industry’s output up to EUR 3.6 billion and to increase productivity from EUR 23.8 thousand to EUR 30 thousand, support for the development of industrial premises and territories is necessary”.

Based on the **acknowledged need** the support measures provides non-repayable ERDF grants to businesses in (C) Manufacturing industry aimed at facilitating their growth by supporting creation of industrial premises in the regions. Funding is available for **investments into fixed assets**, i.e. constructing a new production site, reconstructing

<sup>150</sup> <https://www.esfondi.lv/finansu-un-raditaju-plani-to-izpilde>, 2020, IV

and extending present production premises or essentially transforming and developing the present business.

**Target group of the measure** are businesses in (C) Manufacturing. The project applicant can be either a company or foundation or port authority registered in the Republic of Latvia. In case of the foundation or port authority their project activity has to be related to the development of real estate for production needs and further lease of the premises.

The **maximum size the ERDF funding** per project is EUR 1 166 000. Maximum **eligible support intensity** as a share of the total eligible project costs is 35% for big companies and 45% for SMEs.

The expected **output** to be reached **nationally** by December 31, 2023:

- 20 enterprises supported
- 21,8 EUR private investments leveraged
- 467 jobs created by December

It will be measured by the **output indicators – number of supported enterprises, private investments leveraged, and jobs created.**

The ERDF specific **result indicators** for SO 3.1.1. are “SME density per 1000 inhabitants” - target value in 2023 = 49, baseline value in 2013 = 36,9 and “SME productivity per employee, EUR” (in comparable prices of 2010) – target value in 2023 = EUR 16 757, baseline value in 2013 = EUR 12 196.

There are no specific regional output or result indicators.

### 4.3 Results achieved in the Latgale region

Table 4.2 Enterprises from the stakeholder territory supported under the 3.1.1.5. “Support to investments into production facilities”

|  | Name and registration # of supported company | NAC E | Jobs (last AR)* | Total project costs € | Total ERDF €   | Private investments € | Project start date | Project end date | Territory        |
|--|--|-------|-----------------|-----------------------|----------------|-----------------------|--------------------|------------------|------------------|
| 1.   | <b>IT International</b><br>#40103563278      | 16.10 | 1               | 1 513 356             | 681 000        | 832 346               | 18.01.2017         | 17.05.2020       | Krāslavas novads |
| <i>Something happened to the SIA "IT International" which was supposed to have its project finished by the time of this analysis. In January 2020 its business activities have been suspended by the State Revenue Service and the project was cancelled. Unfortunately, it was not possible to obtain more information.</i> |  |       |                 |                       |                |                       |                    |                  |                  |
| 2.   | <b>Kalna nami</b><br>#43403001316            | 16.23 | 9               | 161 348               | 60 006         | 101 343               | 16.01.2020         | 15.12.2021       | Balvu novads     |
| 3.   | <b>Lūsēni</b><br>#56801005341                | 16.10 | 87              | 925 137               | 376 433        | 548 823               | 11.12.2019         | 10.06.2021       | Kārsavas novads  |
| 4.   | <b>Eko nams</b><br>#40003480567              | 16.23 | 25              | 1 148 955             | 395 433        | 753 522               | 23.12.2019         | 30.06.2022       | Līvānu novads    |
|  | <b>TOTAL</b>                                 |       | <b>121</b>      | <b>2 235 440</b>      | <b>831 752</b> | <b>1 403 688</b>      |                    |                  |                  |

Source: Cohesion Policy Management Information System

\*Last Annual Report, i.e. 2018 or 2019 respectively



All four **supported companies** have their project businesses in C.16 - Manufacture of wood and of products of wood and cork, except furniture that is considered as a low-tech industry.

Three out of the four projects have been contracted comparatively recently – December 2019 and January 2020. For them it would be too early to judge about any impacts yet. All three are well-known companies in the region. **Eko nams** is a Latgale SEZ enterprise since 2018 with a turnover of EUR 1 in 2019. **Lūsēni** and **Kalna nami** are both steadily growing companies. In 2019 Lūsēni reached a turnover of EUR 7.3 million, while Kalna nami – EUR 247 592.

It can be presumed that the low allocation of funding is due to the various risks detected, but mostly the risk that the projects might not be fully in line with the investment priority especially with regards to the conditionality that “the business is primarily carried out in RIS3 areas”.

Out of the eight **proposed but rejected projects** only one was proposed in a medium-low technology industry - C.22 - Manufacture of rubber and plastic products, while the rest represented other low-tech industries or construction/real estate area.

Brief analyses of the projects approved in the other regions apart from Riga also show a slight share of C.16 enterprises, however, there is also a considerable number of real estate projects. Among the other industries supported in Kurzeme and Vidzeme regions there are inter alia food, textile and rubber industries. EUR 12.2 million of ERDF funding has been allocated to Kurzeme enterprises, while EUR 5.7 million in Vidzeme.

If the remaining three projects are successfully implemented, Latgale will contribute to the expected overall national output indicator by covering 2.86%, i.e. three out of envisaged 20 enterprises to be supported by December 31, 2023. The EUR 1.4 million private investments leveraged in Latgale matches 6.4% of the national goal of EUR 21.8 million private investments leveraged by December 31, 2023.

It can be presumed that for the businesses in the regions the RIS3 priority area (even though it is not explicitly disclosed in the guidelines), bar is a bit too high.

## **5 Facilitating efficient use of energy resources, reducing energy consumption and transit to renewable energy resources in the processing industry**

### **5.1 Overview – the policy in numbers**

**SO No.4.1.1.:** “to promote effective use of energy resources, reduction of energy consumption and transfer to RES in manufacturing industry”.

The business support measure 4.1.1. funded by the Cohesion Fund (CF) provides grants for investments in energy-efficiency providing significant contribution to reduce energy consumption in the creation of gross domestic product.

The guidelines of the measure have been set out by the Regulations #590 of the Cabinet of Minister of the Republic of Latvia dated September 6, 2016<sup>151</sup>. They provide the main information with regards to the overall set-up of the measure as well as how it has to be implemented, i.e. eligibility criteria for potential applicants. The Regulations inter alia indicate that the total planned volume of the available CF funding within this measure is EUR 5 885 308 while the private funding is EUR 13 732 386.

*Table 5.1 Implementation data of the OP “Growth and Employment” measure 4.1.1. “Facilitating efficient use of energy resources, reducing energy consumption and transit to renewable energy resources in the processing industry” as of February 11, 2020*

| TOTAL: Latvia           |                               |               |                             | TOTAL: Latgale              |                          |                               |                           |
|-------------------------|-------------------------------|---------------|-----------------------------|-----------------------------|--------------------------|-------------------------------|---------------------------|
| ERDF allocation planned | ERDF requested <sup>152</sup> | ERDF approved | Number of approved projects | Number of approved projects | ERDF approved in Latgale | M€ as % of the total approved | ERDF requested in Latgale |
| 23.7 M€                 | 23.7 M€                       | 12,5 M€       | 45                          | 5                           | 1.17 M€                  | 9.7%                          | 2.5 M€                    |

Source: <https://www.esfondi.lv/finansu-un-raditaju-plani-to-izpilde>, 2020 IV for Latvia and Cohesion Policy Management Information System for Latgale

With half of the funding already allocated by the mid-February 2020, the five projects approved in Latgale account for 11% of all projects, but their total financial share is almost 10% which is a good result of the region. Projects of another three companies were rejected meaning that the success rate for the enterprises of Latgale was comparatively high – 2/3. The overall allocation of the funding to Latgale can be assessed as relevant and appropriate to its overall share in the national GDP and GVA.

## 5.2 Intervention logic

“In the NIP Guidelines, the increase of energy costs is determined as a critical obstacle for the competitiveness of Latvia in the medium term, since it is necessary to identify the risk for the maintenance of the price advantage, provided that the increase of costs of different resources is expected. Provided that the base of raw materials is one and the same for the businesses operating in this region, wherewith the growth of costs is equal to all businesses, it will be important to assess the influence of the growth of costs of energy resources on the preservation of price advantage.”

“By implementing SO, energy efficiency in manufacturing industry will be improved, ensuring sustainable use of energy resources as well as supported transfer to RES. Investments in energy-efficiency will provide significant contribution to reduce energy consumption in the creation of gross domestic product.”

“Implementation of SO will allow to improve the competitiveness of manufacturing industry – industry and construction is the third largest final energy consumer in Latvia. Despite that the final energy consumption in industry and construction has dropped since

<sup>151</sup> <https://likumi.lv/ta/id/284596-darbibas-programmas-izaugsme-un-nodarbinatiba-4-1-1-specifiska-atbalsta-merka-veicinat-efektivu-energoresursu-izmantosanu>

<sup>152</sup> Ibid.

the restoration of independence, further increase of prices of energy resources can influence several critical sectors of economy. Wood, metal and food industries uses the biggest part of the total energy consumption in manufacturing industry. Costs of raw materials have equal influence on both Latvian and foreign competitors, while energy costs can influence manufacturer's regional competitiveness. It must be noted that energy efficiency is substantially different between enterprises within same industry. Thus, **necessity** for support must be determined at enterprise level."

"In addition, the expected growth of manufacturing industry to reach turnover of EUR 3,6 billion overall demand for energy will increase and it will have a significant impact on Latvia's energy policy."

**Activities to be supported:** measures for the improvement of energy efficiency of buildings of manufacturing industry enterprises, energy certification of buildings and construction works for the increase of energy efficiency (heat insulation of delimiting structures, reconstruction of engineering systems of buildings, installation of recuperation, energy control and management equipment) and for the acquisition and installation of new and efficient thermal energy, electricity producing and water boiler production equipment using RES.

**Target group and beneficiaries:** manufacturing SMEs.

The **maximum size the CF funding** available one per project is EUR 600 000. Maximum **eligible support intensity** as a share of the total eligible project costs is 30%.

The expected **output** to be reached **nationally** by December 31, 2023:

- Energy intensity in manufacturing industry - kg of oil equivalent per EUR 1 000 (2010 relative prices). Baseline value in 2012 289.8 kg, target value 263,9<sup>153</sup>
- RES proportion in energy consumption of manufacturing industry – Baseline value in 2012 – 38%, target value 51%<sup>154</sup>

The **expected results** to be reached as per the Guidelines by December 31, 2023:

- 23 enterprises supported
- Annual energy savings of the supported enterprises – 79 400 MWh
- Additional RES production capacity – 8.9 MW
- Estimated annual decrease of GHG – tons of 6 122 CO2 equivalent

There are no specific regional output or result indicators.

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<sup>153</sup> Guidelines

<sup>154</sup> OP

### 5.3 Results achieved in the Latgale region

Table 5.2 Enterprises from the stakeholder territory supported under 4.1.1. "Facilitating efficient use of energy resources, reducing energy consumption and transit to renewable energy resources in the processing industry"

|    | Name and registration # of supported company | NACE  | Jobs (last AR)* | Total project costs € | Total CF €       | Project start date | Project end date | Territory         |
|----|--|-------|-----------------|-----------------------|------------------|--------------------|------------------|-------------------|
| 1. | <b>ZIEGLERA MAŠINBŪVE</b><br># 40003369111   | 28.30 | 332             | 1 097 178             | 327 667          | 06.12.2017         | 05.12.2018       | Daugavpils        |
| 2. | <b>Eko nams</b><br># 40003480567             | 16.23 | 25              | 2 131 614             | 628 695          | 09.01.2019         | 31.12.2020       | Līvānu novads     |
| 3. | <b>BALTIKS EAST</b><br># 42402000437         | 13.94 | 89              | 348 478               | 104 544          | 11.02.2019         | 31.12.2020       | Rēzekne           |
| 4. | <b>VEREMS</b><br># 40003279335               | 16.21 | 343             | 202 540               | 60 944           | 22.03.2019         | 21.12.2019       | Rēzeknes novads   |
| 5. | <b>BELWOOD</b><br># 44103017603              | 16.24 | 48              | 179 340               | 44 465           | 12.12.2018         | 11.10.2019       | Daugavpils novads |
|    | <b>TOTAL</b>                                 |       | <b>837</b>      | <b>3 959 151</b>      | <b>1 166 132</b> |                    |                  |                   |

Source: Cohesion Policy Management Information System

\*Last Annual Report, i.e. 2018 or 2019 respectively

All five **supported companies** are well-known companies in the region. Three of them represent the wood-processing industry, **Baltiks East** is manufacturer of cordage, rope, twine and netting products, but **Zieglera Mašīnbūve** is a manufacturer of machinery and equipment.

**Eko nams** is also a Latgale SEZ enterprise since 2018 with a turnover of EUR 1 million in 2019, while **VEREMS** - a daughter company of the world's leading developer, producer and supplier of birch plywood products - Latvijas Finieris (<https://www.finieris.com/en/home>) is one of the main and eldest Rēzekne SEZ enterprises with a turnover of EUR 33 million in 2019. **Zieglera Mašīnbūve** is one of the biggest employers in Daugavpils – turnover in 2019 - EUR 22 million, while **BELWOOD** is a fast-growing enterprise in Daugavpils municipality with turnover in 2019 - EUR 15 million.

In the last five years all five companies, except, **Eko nams** have experienced an annual growth rate between 2 to 13%.

Brief analyses of the projects approved in the other regions apart from Riga also show a considerable share of C.16 enterprises. Among the other industries supported in Kurzeme and Vidzeme regions there are inter alia food, textile and rubber industries. EUR 2 million of CF funding has been allocated to Kurzeme enterprises, while EUR 3 million in Vidzeme.

Latgale will contribute to the expected overall national output indicator by covering 1/5 of it, i.e. five out of envisaged 23 enterprises to be supported by December 31, 2023.

## 5.4 Case study

**Zieglera Mašīnbūve, Ltd.** is a producer of automotive parts and agricultural machinery. It was established as a branch of a German family-owned business when a board member of the Ziegler GmbH visited investor conference in Daugavpils in 1997 with a delegation of the German Business Chamber. Within three months the former long-established machine factory was privatised and established as a semi-autonomous subsidiary. Most of the production is exported: 97.7% in 2017 and 98.8% in 2019.

**Zieglera Mašīnbūve, Ltd.** was implemented a project under the ERDF measure 4.1.1 "Facilitating efficient use of energy resources, reducing energy consumption and transit to renewable energy resources in the processing industry". The project foresaw heat insulation of a façade of one of the production and office buildings of the factory, as well as substitution of an old energy-inefficient metal-cutting lasers with a modern energy-efficient one.

The project size was EUR 1.1 million with ERDF grant of EUR 327 000. The project's duration was less than one year. It finished in December 2018.

### 5.4.1 Motivation

**Zieglera Mašīnbūve, Ltd.** has a strategy of always applying for assistance whenever it is eligible. They find most of the business support usually relevant to their development needs. The board member estimated that altogether at least 20 EU co-funded projects have been implemented since the EU accession in 2004. Instead of trying to develop an in-house project administration capacity able to monitor the various opportunities and "read" their requirements, the company benefits of a long-term relationship with a Riga-based business consultancy which drafts the project applications to obtain support as well as assists in implementing the projects.

The energy efficiency project covered energy efficiency investments in the form of heat insulation of a façade for a building housing production rooms and offices. However, the most interesting part of the project was less-traditional energy efficiency investment: substitution of old laser cutter with a new one. Often such investments are supported under traditional equipment modernisation business schemes, but those are becoming less available across EU as the policy directs support to innovation and climate-change objectives. In essence an enterprise saw an opportunity to use climate-related support in order to achieve the global climate objective and their internal objective of modernisation of production.

### 5.4.2 Application

As most of the application effort was outsourced to an experienced consultant, the firm did not consider bureaucracy problematic. It was noted that the requirements for improvements in energy efficiency are rather high and may not be achievable by partial heat insulation investments, which are most often the approach taken by enterprises (due to insufficiently high limits on maximum eligible costs of a single project). The enterprise

has plans to continue energy efficiency projects if those will be available in the future. It also has modernisation plans, which may or may not be eligible under the future programmes.

### **5.4.3 Implementation and results**

The project started in January 2018 based on the already prepared construction plans and permits (construction planning was required as a part of project application documentation) and the insulation works were finalised within the construction season, by end-September 2018.

The new laser-cutter was procured and delivered during the summer 2018 and introduced into production in October 2018. Delivery contract included instructing the personnel on using the new machinery. It was a requirement of the ERDF support that the old laser-cutter was taken out of production. It was retired and sold elsewhere.

Energy savings in the first year after completing the project (2019) were significant and above the project commitment: 300 MWh were saved monthly as a result of the insulation and 51 MWh are saved thanks to the new laser-cutter. This provides for a positive assessment of the effectiveness of the support.

Turnover of **Zieglera Mašīnbūve, Ltd.** remains stable before and after the project, i.e. EUR 22.5M in 2017 and EUR 22.3M in 2019.

Employment has decreased from 2017 to 2019 from 349 p to 332. This decrease in employment was not a result of the energy efficiency project. It must be noted that the measure supporting the project did not require any new jobs to be established in addition to energy savings. During the COVID-19 pandemic up to 270 employees were furloughed – but all of those returned to work at the time of the interview (10 July 2020).

### **5.4.4 Assessment**

The beneficiary is very positive about the effects of the project both on climate and the business performance and has plans to continue utilising energy efficiency and business support.

The company will seek support to somewhat less fashionable project of building a large-scale warehouse or at least a parking lot for its production storage before shipping it out, because the pandemic clearly indicated that just-in-time approach to logistics is unsustainable.

The enterprise also feels a deficit of highly qualified workforce. It collaborates with University of Daugavpils and SIA BUTS (nation-wide vocational training provider) in developing programmes and motivating potential employees to improve their skills. People, who received vocational training within ESF co-financed projects, lack qualification due to low quality of teaching staff – quality control needs to be improved.

## 5.4.5 Sources

Interview with Ms Olga Krushinskaya, General Manager and Member of the Board of SIA Zieglera Mašīnbūve, Ltd.

Financial data on SIA Zieglera Mašīnbūve, Ltd.

# 6 Support to introducing new products

## 6.1 Overview of the policy in numbers

The goal of the **specific objective (SO) No. 1.2.1.** is “to increase investments of private sector in R&D.” Following the priorities of RIS3 within the framework of this SO “investments of private sector in R&D will be increased, management of intellectual property in research institutions will be improved, commercialization of research results, as well as the transfer of creativity and development of non-technological innovation, protection of intellectual property and development and production of new products and technology will be facilitated.”

One out of four measures under SO 1.2.1 foresees support to companies that would wish to invest in the upgrade of their products and/or technological production process by providing non-repayable grants. The **measure 1.2.1.4. “Support to introducing new products”** funded by ERDF has promotes leverage of private investments in R&D.

The guidelines of the measure have been set out by the Regulations #293 of the Cabinet of Minister of the Republic of Latvia dated May 10, 2016<sup>155</sup>. They provide the main information with regards to the overall set-up of the measure as well as how it has to be implemented, i.e. eligibility criteria for potential applicants. The Regulations inter alia indicate that the total volume of the available funding for the whole country has been planned at EUR 70.5 of which 60 EUR ERDF funding.

By the mid-February 2020 about 90% of multi-funds programme money allocated to this SO has been contracted. Projects approved in Latgale account for less than 10% of all projects but their financial share is slightly higher indicating an above average project size in Latgale. The region accounts for about 7% of national GDP and GVA respectively. Thus, the allocation to Latgale can be assessed as satisfactory. This assessment also takes into account the comparatively low regional share of technologically advanced companies capable to qualify both for the measure as well as the minimum size of the project eligible expenses, i.e., EUR 500 000, being a comparatively high threshold for the regional companies.

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<sup>155</sup> <https://likumi.lv/doc.php?id=282302>

Table 6.1 Implementation data of the OP “Growth and Employment” measure 1.2.1.4. “Support to introducing new products” as of February 11, 2020

| TOTAL: Latvia            |                |               |                             | TOTAL: Latgale              |                          |                               |                           |
|--------------------------|----------------|---------------|-----------------------------|-----------------------------|--------------------------|-------------------------------|---------------------------|
| ERDF allocation planned* | ERDF requested | ERDF approved | Number of approved projects | Number of approved projects | ERDF approved in Latgale | M€ as % of the total approved | ERDF requested in Latgale |
| 60 M€                    | 53.6 M€        | 53.6 M€       | 43                          | 4                           | 6 M€                     | 11.2 %                        | 8.1 M€                    |

Source: Cohesion Policy Management Information System, \*Guidelines

## 6.2 Intervention logic

Based on the OP and the guidelines the intervention logic foresees an additional stimulus to the entrepreneurs in Latvia aimed at triggering their own investments into R&D and thus boosting their technologic capacities. Non-repayable ERDF grants to businesses are meant to be turned into productive investments aimed at development of new products or introduction of new technologic processes that should lead to an added value in the production outputs.

While the productivity level of Latvian industries is considerably below the EU average level, it affects their international competitiveness. This has been identified as one of the challenges of the NIP caused inter alia by high technological risks, lack of professional skills, insufficient own resources, limited ability to attract financial resources, lack of security, unsteady (or negative) cash flow and high risk limits the development of innovative and technology-intensive enterprises with potential for rapid growth.

The measure addresses the **need** for increased productivity and seeks to eliminate part of the obstacles, namely, it allows reducing/sharing the risks and provides additional resources both in terms of finance and skilled expertise. It **aims** at increased productivity and competitiveness of businesses by developing and introducing new products and technologies.

The **target group** and **beneficiaries** of the measure are commercial companies and relevant agriculture or forestry co-operatives.

The **eligible activities** under the measure are elaboration or purchase of experimental technology. The technology has to be installed and tested in an actual manufacturing environment. The experimental technology is either a stand-alone equipment or a number of separate production lines ensuring the while production cycle.

The **share of public non-repayable co-funding** depends on the size of the company:

- for micro and small companies – 55%
- for medium-size companies – 45%
- for big companies – 35%

The **minimum size of the project** is set at EUR 500 000 with the **maximum size** is EUR 16.

The companies are required to prepare a **project application** and a **business plan** defining specification of the experimental technology.



The expected **output** to be reached **nationally** is enabling private investment leverage. It will be measured by the **output (iznākuma) indicators – number of supported enterprises and private investments leveraged**. The following target values have been set:

- 11 enterprises supported by December 31, 2018
- 30 enterprises supported by December 31, 2023
- EUR 10,5 million private investments leveraged by December 31, 2023

The ERDF specific **result indicator** for SO 1.2.1. – “Private investment in R&D” - target value in 2023 = EUR 265.68 million with a baseline value in 2012 = EUR 32.86 million.

There are no specific regional output or result indicators.

### 6.3 Results achieved in the Latgale region

Altogether six projects have been submitted from the companies of the stakeholder territory of which **four projects have been supported**. Two of the approved projects are proposed by the same company - **Light Guide Optics International**.

All three supported companies are operating under SEZ regime: **Light Guide Optics International** in the Latgale SEZ since 2018 while **NewFuels** and **LEAX Rēzekne** in the Rēzekne SEZ. Though it is too early to judge the effect of the measure to the future development of the companies, it can be said that all three companies have already showed a considerable growth in the last four to five years (2015-2019). Thus, for example, **Light Guide Optics International** has doubled its turnover in the reference period while **LEAX Rēzekne** and **NewFuels** have had their average annual turnover growth of 16% and 10% respectively.

The two **rejected companies** where the food industry representatives - "Latvijas maiznieks" from Daugavpils and "ADUGS Production" from Līvāni.

Table 6.2 Enterprises from the stakeholder territory supported under the 1.2.1.4. “Support to introducing new products”

|    | Name and registration # of supported company            | NACE  | Jobs (last AR)* | Total project costs € | Total ERDF €     | Private investments € | Project start date | Project end date | Territory       |
|----|---|-------|-----------------|-----------------------|------------------|-----------------------|--------------------|------------------|-----------------|
| 1. | <b>Light Guide Optics International</b><br>#41503034724 | 27.31 | 162             | 1 200 000             | 420 000          | 780 000               | 16.01.2017         | 15.01.2020       | Līvānu novads   |
| 2. | <b>NewFuels</b><br>#40103340377                         | 16.29 | 70              | 2 073 826             | 933 222          | 1 140 604             | 23.11.2018         | 20.08.2019       | Rēzekne         |
| 3. | <b>LEAX Rēzekne</b><br>#42403026575                     | 25.11 | 224             | 11 718 938            | 4 000 000        | 7 718 938             | 20.11.2018         | 05.07.2020       | Rēzeknes novads |
| 4. | <b>Light Guide Optics International</b><br>#41503034724 | 27.31 | 162             | 1 513 356             | 606 150          | 907 206               | 06.12.2018         | 19.12.2020       | Līvānu novads   |
|    | <b>TOTAL</b>  |       | <b>618</b>      | <b>16 506 356</b>     | <b>5 959 372</b> | <b>10 546 817</b>     |                    |                  |                 |

Source: Cohesion Policy Management Information System

*\*Last Annual Report, i.e. 2018 or 2019 respectively*

Latgale will contribute to the expected output indicator covering 1/10 of it, i.e. three out of envisaged 30 enterprises to be supported by December 31, 2023. The EUR 10.5 million private investments leveraged in Latgale matches the national goal of EUR 10.5 million private investments leveraged by December 31, 2023

On the overall result side, it can be concluded that the measure has served well the needs of the specific companies of the region, i.e. companies capable of technologic advancement and projects of a comparatively large scale. It can be presumed that the support provided will be a significant complementary impetus for the increase in productivity and value added of the supported companies and the stakeholder territory a whole.

## **6.4 Case study**

**Light Guide Optics International, Ltd.** is a medium technology enterprise in the city of Līvāni in Latgale region producing optical fibre guides mainly for medical use. The company was established in 2004 based on the legacy of a privatised Soviet-era high-tech glass production. The company has a well-established collaboration with scientific community of Latvia as well as across the world for the research insight and marketing needs.

One of the two projects implemented by the company under the measure 1.2.1.4 “Support to introducing new products”. The project’s title is “Development of Experimental Technologies in Production of Optic Fibre and Components”. With the total eligible expenditure of EUR 1.2 million and the ERDF co-financing of EUR 420 000 the company developed a new solution for production of optic fibres and creating bundles of optic fibres for more complicated operations where a single fibre is not sufficient.

The project was implemented between 16.01.2017 and 15.01.2020 in co-operation with the Riga Technical University (RTU). Nevertheless, majority of applied research was carried out in-house as it was a privately owned, highly specialised, and challenging know-how to be patented. Also, equipment was not available to procure off the shelf, but was acquired in parts and compiled to work as a targeted solution for the technology to be developed.

### **6.4.1 Motivation**

**Light Guide Optics International, Ltd.** is always in scientific pursuit because the optic fibre market is very dynamic. Oftentimes enterprises are the ones driving the research and new demand in the market: striving to identify new opportunities to differentiate their products. The enterprise has a second project in the same measure still under implementation.

The rationale to apply for the project was obtaining new research capacity from RTU and using this capacity to arrive to new technology (finalise its formulation and fine-tune production technology). Participation of RTU also provides additional reputational gains.

In some other projects, also foreign (German and American) scientists are involved – not only for scientific excellence, but for improved marketing outlook.

#### **6.4.2 Application**

Preparing the application for business support was not challenging to an experienced CFO of the **Light Guide Optics International, Ltd.** At the same time some of the requirements were considered inadequate. Degree of innovation (globally-innovative meaning nothing similar exists in the world, regionally-innovative, nationally-innovative, enterprise-level innovation): the CEO argues that in applied innovations and especially in support to implementation of innovations expectations of globally-innovative products are inadequate – those can be applicable to scientific research projects and early level innovation projects. This motivates enterprises to argue higher degree of innovation than is actually achievable, i.e., inflating innovation-claims.

Although most business support measures require creation of new jobs, this can be considered inadequate requirement for innovation projects since many of those are targeting new technologies that are not immediately introduced into the production process or those that are introduced, in fact, substitute rather than require additional workforce.

#### **6.4.3 Implementation and results**

Implementation of the project went on smoothly and was delivered in accordance with the expectations. The production resulting from the innovation is already being realised.

The enterprise has grown its turnover since 2017 (before start of the project) from EUR 18.5 million to EUR 12.9 million in the first half of 2020, i.e., by an estimated 40% growth. Majority of the turnover is exported: more than 99% in both 2017 and the half-2020. The average number of full-time employees grew from 127 to 192 over the same period. The enterprise did not make a profit in either year due to high investment costs of new projects and additional sales costs.

#### **6.4.4 Assessment**

The project is considered successful because the expectations of the new technology were justified and the technology was introduced into production, thus enhancing the company's offer and promoting sales. The enterprise continues investing into innovations at various levels: research, applied innovation, introduction to production.

It also has acquired a near-by lot of land and is in the process of building a new production facility. The needs are also identified in the less-advanced investment areas: water supply needs to be complemented by connection to waste-water mains; the firm is forecast to outgrow its existing power-supply so a new connection will be needed once the second building is online; also natural gas network was demanded, but since the solution was hard to organise the firm shifted its heating plans to electricity-based technologies.

#### **6.4.5 Sources**

Interview with Mr Daumants Pfafrods, CEO at SIA Light Guide Optics, Ltd.

Interview with Gunta Ivdre, CFO at SIA Light Guide Optics, Ltd.

Financial data on SIA Light Guide Optics, Ltd.

## 7 Overall results in the stakeholder territory

Table 7.1 ERDF and CF direct support to businesses in the stakeholder territory in the programming period 2014-2020 per enterprise (active business units in 2018)

| Municipality      | Total funding, € | Funding per enterprise, € |
|-------------------|------------------|---------------------------|
| Aglonas novads    | -                | -                         |
| Baltinavas novads | -                | -                         |
| Balvu novads      | 97.448           | 95,82                     |
| Ciblas novads     | -                | -                         |
| Dagdas novads     | -                | -                         |
| Daugavpils        | <b>1.039.859</b> | <b>865,83</b>             |
| Daugavpils novads | 82.635           | 17,46                     |
| Ilūkstes novads   | 56.629           | 108,90                    |
| Kārsavas novads   | 943.786          | <b>2395,39</b>            |
| Krāslavas novads  | 23.970           | 25,31                     |
| Līvānu novads     | <b>2.298.650</b> | <b>2347,96</b>            |
| Ludzas novads     | 49.900           | 62,22                     |
| Preiļu novads     | -                | -                         |
| Rēzekne           | <b>1.254.915</b> | 713,02                    |
| Rēzeknes novads   | <b>4.138.562</b> | <b>2220,26</b>            |
| Riebiņu novads    | 22.500           | 38,01                     |
| Rugāju novads     | -                | -                         |
| Vārkavas novads   | -                | -                         |
| Viļakas novads    | -                | -                         |
| Viļānu novads     | 16.500           | 51,72                     |
| Zilupes novads    | -                | -                         |

Source: Consortium calculation based on the data from the Cohesion Policy Management Information System as of February 11, 2020

## FACTSHEET #5

### EARDF measures for non-agriculture business support

#### 1 Policy context

The **Rural Development Programme (RDP)**<sup>156</sup> of Latvia 2014-2020 is strategically aligned to the medium-term development document - Latvian National Development Plan 2014-2020. RDP contributes to all three priorities of NDP by investing the in the following:

- competitive manufacturing and service sector with increased productivity and exports
- excellent entrepreneurship environment
- cooperation and civic engagement as a basis of increased sense of belonging to the country
- promotion of economic activity in the regions untapping territorial potential
- access to services that allow for more equal employment opportunities and living conditions
- sustainable management of nature and culture.

Altogether RDP has six priorities, of which five are related to measures that support non-agricultural activities described in this factsheet:

1. Priority 1 - Fostering knowledge transfer and innovation in agriculture, forestry and rural areas
2. Priority 2 - Enhancing farm viability and competitiveness of all types of agriculture in all regions and promoting innovative farm technologies and the sustainable management of forests. The overall result of Priority 2 is the number of supported enterprises – 4 125 in the country overall.
3. Priority 3 - Promoting food chain organisation, including processing and marketing of agricultural products, animal welfare and risk management in agriculture
4. Priority 5 - Promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in agriculture, food and forestry sectors
5. Priority 6 - Promoting social inclusion, poverty reduction and economic development in rural areas

The RDP measures and respective sub-measures described in this factsheet are as follow:

3. M04 - Investments in physical assets - 4.2 – support for investments in processing/marketing and/or development of agricultural products
4. M06 - Farm and business development – 6.4. – Support for investments in creation and development of non-agricultural activities
5. M16 - Co-operation – 16.2 – Support for pilot projects, and for the development of new products, practices, processes and technologies
6. M19 - Support for LEADER local development (CLLD – community-led local development) – 19.2 – Support for implementation of operations under the CLLD strategy
7. S0INV.03 – Assistance for partial repayment of credit interest to the processing companies of agricultural products

All of the analysed support measures are non-repayable public, i.e. EAFRD and state funding grants.

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<sup>156</sup> <https://www.zm.gov.lv/lauku-attistiba/statiskas-lapas/latvijas-lauku-attistibas-programma-2014-2020-gadam?id=20131#jump>

## 2 Support to investments into development of non-agricultural business activity

### 2.1 Overview – the policy in numbers

The guidelines of the measure have been set out by the Regulations #320 of the Cabinet of Ministers of the Republic of Latvia dated May 24, 2016<sup>157</sup>. They provide the main information with regards to the overall set-up of the entire measure – M6.4 as well as how it has to be implemented, i.e. eligibility criteria for potential applicants.

The total public funding as provided by RDP for the measure is M€ 59. Up to December 2019, four rounds of project application calls have been implemented leading to a total number of 221 approved projects with the total public funding M€ 21 or 69% of the total provided by the initial RDP.

To ensure the intervention reaches mainly the rural areas in need for assistance it was foreseen to preference projects coming from a territory with a lower territory development index. Due to the low overall request for funding, there was no need to apply the criteria.

Table 2.1 Implementation data of the RDP measure 6.4. “Support to investments into development of non-agricultural business activity” as of January 1, 2020

| TOTAL: Latvia             |                 |                |                             | TOTAL: Latgale              |                           |                               |                            |
|---------------------------|-----------------|----------------|-----------------------------|-----------------------------|---------------------------|-------------------------------|----------------------------|
| EAFRD allocation planned* | EAFRD requested | EAFRD approved | Number of approved projects | Number of approved projects | EAFRD approved in Latgale | M€ as % of the total approved | EAFRD requested in Latgale |
| 59 M€                     | n.a.            | 21.1 M€        | 346                         | 69                          | 3 M€                      | 14.2%                         | n.a.                       |

Source: Calculations based on Rural Support Service (RSS) data, \*RDP

With all the funding already distributed, the projects approved in Latgale account for 20% of all projects, but their total financial share -14.2% indicates at a comparatively smaller average size of the projects, i.e. € 43 478. Taken that only the rural municipalities qualified for the measure this indicates most likely at lower capacities in the stakeholder territory. It is yet even more likely knowing that 29% of the funding went to the rural municipalities around the capital city Rīga, i.e. Pierīga statistical region. Here the average size of the total of 93 approved projects was € 65 287, i.e. 50% bigger.

Altogether **65 companies have been supported** within this support measure.

The stakeholder territory has the lowest share of attracted public funding among the regions with Rīga and Pierīga having the highest one – 29%. In terms of public funding per capita though Vidzeme leads with € 25, while Latgale is the second from the bottom with € 11.57 and Rīga and Pierīga just € 6.

<sup>157</sup> <https://likumi.lv/ta/id/282513-valsts-un-eiropas-savienibas-atbalsta-pieskirsanas-kartiba-pasakuma-atbalsts-ieguldijumiem-ar-lauksaimniecibu-nesaistitu>

## 2.2 Intervention logic

The RDP recognises that due to further increase in efficiency and concentration of the agricultural industry within the next ten years a loss of approximately 80% of jobs is estimated, while the income of inhabitants in the rural areas per one household is already on average by 22.7% lower than in urban areas.

This defines a **need** to create employment in the rural areas by developing non-agricultural businesses. The **aim** is to facilitate entrepreneurship thus preserving existing jobs and creating new ones. This way the increase in income could be expected as a result of more local businesses with a higher added value.

The **target group** and end **beneficiaries** can be either self-employed or commercial company – micro or small company. They have to be registered and carry out the project in a rural municipality.

Support in a form of **non-repayable grants** is provided for development of a non-agricultural business activity diversifying an existing business or starting a new one, e.g. developing tourism activities. Investments into new equipment, building and other overheads are eligible.

The **eligible support intensity** varies between 40-50% depending on the type of investments as well as the applicant.

A maximum total size of the **EAFRD funding volumes** per applicant within the planning period must not exceed € 700 000.

The expected **output** to be reached **nationally** is the number of enterprises / farms receiving support to start or develop a non-agricultural business activity – 400 by 2023.

Implementation of the measure is foreseen to contribute to one of the overall goals of Priority 6 – **result indicator** - 140 jobs created by 2023. There are now specific results for the region.

## 2.3 Results achieved in the Latgale region

The available monitoring data suggest that at the beginning of 2020 10 out of 213 promised jobs have been created in Latgale as a result of implementing this business support measure.

### 3 Support to activities in line with the CLLD

#### 3.1 Overview – the policy in numbers

The overall regulations of this measure are provided by the Regulations #59 of the Cabinet of Ministers of the Republic of Latvia dated October 13, 2015<sup>158</sup>. The total public funding as provided by RDP for the measure is M€ 57.8<sup>159</sup>. Up to December 2019, eight rounds of project application calls have been implemented leading to a total number of 1 253 approved projects with the total public funding M€ 27.2.

Table 3.1 Implementation data of the RDP measure 19.2. “Support to activities in line with the CLLD” as of January 1, 2020

| TOTAL: Latvia             |                 |                |                             | TOTAL: Latgale              |                           |                               |                            |
|---------------------------|-----------------|----------------|-----------------------------|-----------------------------|---------------------------|-------------------------------|----------------------------|
| EAFRD allocation planned* | EAFRD requested | EAFRD approved | Number of approved projects | Number of approved projects | EAFRD approved in Latgale | M€ as % of the total approved | EAFRD requested in Latgale |
| 57.8 M€                   | n.a.            | 27.2 M €       | 1 253                       | 226                         | 5.7 €                     | 21 %                          | n.a.                       |

Source: Calculations based on Rural Support Service (RSS) data, \*RDP

With the 18% of the total number of projects, Latgale has achieved to attract 21% of the funding that can be considered as a satisfactory result. Only the region of Vidzeme has received more public funding, i.e. 24%. Latgale has also performed also well in terms of the public funding per capita – € 21.8 being the next best result after Vidzeme region.

194 enterprises or self-employed persons have been supported in the region.

#### 3.2 Intervention logic

Income of inhabitants in the rural areas per one household is on average by 22.7% lower than urban area. This imposes high poverty risks that **need** to be addressed.

The measure **aims** at enhancing public involvement into the initiatives that strengthen local economy via inter alia developing new models of entrepreneurship, increasing business competitiveness and local territorial development.

The **beneficiaries** of the support are self-employed persons or commercial companies facilitating implementation of CLLD in the respective territory.

Support is provided in a form of **non-repayable grants** for investments into fixed assets, including construction works, staff, training, PR and financial costs.

The total **support intensity** is between 70% of the total project costs for private benefit projects up to 90% for public benefit projects. The **maximum size of eligible costs** is € 50 000. For investments into business infrastructure the **maximum size of eligible costs** is € 100 000.

The expected **output** to be reached **nationally** by 2023:

<sup>158</sup> <https://likumi.lv/ta/id/277447-valsts-un-eiropas-savienibas-atbalsta-pieskirasanas-kartiba-lauku-attistibai-apakspasakuma-darbibu-istenosana-saskana>

<sup>159</sup> [https://www.zm.gov.lv/public/files/CMS\\_Static\\_Page\\_Doc/00/00/01/56/30/7.pielikums\\_LAP\\_ZINOJUMS\\_2018.pdf](https://www.zm.gov.lv/public/files/CMS_Static_Page_Doc/00/00/01/56/30/7.pielikums_LAP_ZINOJUMS_2018.pdf)



- 32 Local action groups (LAG) identified
- 964 909 inhabitants covered by LAG

Implementation of the measure is foreseen to contribute to one of the overall goals of Priority 6 of RDP **result indicator** - 200 jobs created by 2023. There is yet no information on results in the region available during this analysis.

### 3.3 Results achieved in the Latgale region

Seven partnerships have been created in the region and 23 new jobs created. The programme overall is much appreciated in the rural areas of Latgale, however, it seems to have more a social than business support character.

The most active territories within the region are Aglona with € 100 per inhabitant attracted, followed by Baltinava, Viļaka, Ludza and Riebiņi – approx. € 50 per inhabitant

## 4 Support to partial payment of interest rate

### 4.1 Overview – the policy in numbers

The guidelines of the measure have been set out by the Regulations #590 of the Cabinet of Ministers of the Republic of Latvia dated February 3, 2015<sup>160</sup>. The total public funding as provided by RDP for the measure is € 13.1<sup>161</sup>.

Table 4.1 Implementation data of the RDP measure S0INV.03 “Partial coverage of credit interest for manufacturers processing agricultural products” as of January 1, 2020

| TOTAL: Latvia             |                 |                |                             | TOTAL: Latgale              |                           |                               |                            |
|---------------------------|-----------------|----------------|-----------------------------|-----------------------------|---------------------------|-------------------------------|----------------------------|
| EAFRD allocation planned* | EAFRD requested | EAFRD approved | Number of approved projects | Number of approved projects | EAFRD approved in Latgale | M€ as % of the total approved | EAFRD requested in Latgale |
| 2.4 M€                    | n.a.            | 1.3 M €        | 84                          | 16                          | 0.42 €                    | 32 %                          | n.a.                       |

Source: Calculations based on Rural Support Service (RSS) data,

With the 19% of the total number of projects, Latgale has achieved to attract 32% of the funding that is overall an outstanding result for the region making Latgale a top funding receiver. Altogether seven food processing companies have benefited.

### 4.2 Intervention logic

As with the support measure 4.2. “Support to processing of agricultural products” described in sub-chapter 0 the aim of the measure is to increase efficiency of the processing of agricultural products and their added value. Introducing modern and efficient business management systems, technologies and equipment, it is also necessary to ensure climate friendly and sustainable resource management.

<sup>160</sup> <https://likumi.lv/ta/id/272094-valsts-un-eiropas-savienibas-atbalsta-pieskirsanas-kartiba-investiciju-veicinasanai-lauksaimnieciba>

<sup>161</sup> Ibid.

The target group and end beneficiaries of the support are food processing enterprises that process or intend to commence primary processing of agricultural products.

The support is provided to partly cover the annual interest rate of long-term loans or financial leasing provided that the annual interest rate does not exceed 4%.

### 4.3 Results achieved in the Latgale region

The seven enterprises of Latgale that have been so far supported in Latgale, of them three are related dairy companies owned by the same person, thus, in fact the number of actually supported businesses is four. The three related dairy enterprises account for 42% of the total funding via nine projects, while another meat processing accounts for 43% via two projects. The rest 15% of the funding is share between one big farm, one small farm (total support € 211,36) and a fish processing company that has ceased to exist in September 2020.

The businesses are registered in the following territories: Rēzekne and Daugavpils towns, rural municipalities of Daugavpils, Preiļi, Viļaka and Krāslava.

## 5 Support to processing of agricultural products

### 5.1 Overview – the policy in numbers

The guidelines of the measure have been set out by the Regulations #600 of the Cabinet of Ministers of the Republic of Latvia dated September 30, 2014<sup>162</sup>. They provide the main information with regards to the overall set-up of the entire measure – M4 as well as how it has to be implemented, i.e. eligibility criteria for potential applicants. A representative of the Rural Support Service (RSS) informed that the total public funding provided by RDP for the measure is € 136.37M. So far eight rounds of project application calls have been implemented, but the data below cover the first seven rounds.

Table 5.1 Implementation data of the RDP measure 4.2. “Support to processing of agricultural products” as of January 1, 2020

| TOTAL: Latvia            |                 |                |                             | TOTAL: Latgale              |                           |                               |                            |
|--------------------------|-----------------|----------------|-----------------------------|-----------------------------|---------------------------|-------------------------------|----------------------------|
| EAFRD allocation planned | EAFRD requested | EAFRD approved | Number of approved projects | Number of approved projects | EAFRD approved in Latgale | M€ as % of the total approved | EAFRD requested in Latgale |
| 136.37 M€                | n.a.            | 57 M€          | 247                         | 37                          | 5.8 M€                    | 10.2%                         | n.a.                       |

Source: Calculations based on RSS monitoring data

With € 57M allocated by the beginning of 2020, the number of projects approved in Latgale account for 15% of all projects. The total financial share of the public funding contracted in Latgale - 10.2%; however, is comparatively low compared to the share of Latgale enterprises in the total value of the respective industry C.10 - Manufacture of food products of in 2017 – being 12%.

<sup>162</sup> <https://likumi.lv/ta/id/269868-kartiba-kada-pieskir-valsts-un-eiropas-savienibas-atbalstu-atklatu-projektu-konkursu-veida-pasakumam-ieguldijumi-materialajos>

Due to the fact that some companies have up to five projects, like, for example, Latvijas maiznieks, altogether **18 companies have been supported** within this support measure, which is 32 % of the 56 enterprises operational in the food industry of the region.

The share of the public funding that the Latgale enterprises have managed to attract from the overall public funding contracted is the 2<sup>nd</sup> lowest, with Kurzeme having the least – 9%, but Rīga and Pierīga the most – 42%. The picture; however, is a bit different when referenced to the overall number of inhabitants with Zemgale leading with € 63 per capita public funding, while Latgale and Kurzeme being at the bottom of the list with € 22.

## 5.2 Intervention logic

“Competitiveness of the food industry of Latvia on the EU Single market as well as in the markets of the third countries is considerably lower compared to the EU average. Its gross value added per employed in 2009 was only 32% of the EU27 average. Although agriculture and food industry has significantly raised its production output and exports, processed agricultural produce is still only 65.8% of the total agricultural and food exports. A comparatively low competitiveness of the food industry is caused by high production costs of labour and energy, low level of innovation as well as low share of energy efficient new technologies. Moreover, due to the low demand of the internal national market, the food industry has to aim for exporting innovative and high added value product.

Thus, there is a **need** for a greater specialisation and restructuring of the enterprises, development of innovative products and technologic upgrade including introduction of environment friendly and energy efficient technologies as well as support to small enterprises – home production.”<sup>163</sup>

The **aim** of the business support measure is to increase efficiency of the processing of agricultural products and their added value. Introducing modern and efficient business management systems, technologies and equipment, it is also necessary to ensure climate friendly and sustainable resource management.

The **target group** and end **beneficiaries** of the support are either existing or newly founded production enterprises that process or intend to commence primary processing of agricultural products.

Support in a form of **non-repayable grants** is provided for investments into new equipment, technologies (including software) and construction or renovation of production premises.

The **eligible support intensity** varies between 30-50% depending on the type of investments as well as the applicant.

There are **different maximum total size of EAFRD funding volumes** per applicant and the programming period ranging from M€ 5 for the cooperatives to € 200 000 to a newly established processing company.

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<sup>163</sup> RDP, p. 148.

The expected **output** to be reached **nationally** by the whole measure (including also 4.1.) and by 2023 is 605 supported investments

Implementation of the measure is foreseen to contribute to one of the overall goals of Priority 3 – **result indicator** – 0,14% of the farms supported in relation to their participation into quality schemes, local markets, short supply chains and producers' groups and organisations by 2023. There are now specific results for the region.

### 5.3 Results achieved in the Latgale region

Though there are no specific results set for the Latgale region, the statistics<sup>164</sup> evidence that the total value added of the relevant C.10 - Manufacture of food products sector in Latgale has had a very modest growth between 2012 and 2017 of 2.5 % turnover. At the same time the value added has declined by 6.6%, gross investments by 57% and number of persons employed by 11%, while the total value added per employed has increased by 5%, which suggests that the aim incorporated in the intervention logic of the measure – productivity - has been achieved.

## 6 Support to development of new products, methods, processed and technologies

### 6.1 Overview – the policy in numbers

The guidelines of the measure have been set out by the Regulations #222 of the Cabinet of Ministers of the Republic of Latvia dated April 25, 2017<sup>165</sup>. They provide the main information with regards to the overall set-up of the measures – M16.1. and M16.2. The total public funding as provided by RDP for the measure is € 15 M<sup>166</sup>. Up to December 2019, four rounds of project application calls have been implemented leading to a total number of 35 approved projects with the total public funding M€ 2.7 or 69% of the total provided by the initial RDP.

Table 6.1 Implementation data of the RDP measure 16.2. "Support to development of new products, methods, processed and technologies" as of January 1, 2020

| TOTAL: Latvia             |                 |                |                             | TOTAL: Latgale              |                           |                               |                            |
|---------------------------|-----------------|----------------|-----------------------------|-----------------------------|---------------------------|-------------------------------|----------------------------|
| EAFRD allocation planned* | EAFRD requested | EAFRD approved | Number of approved projects | Number of approved projects | EAFRD approved in Latgale | M€ as % of the total approved | EAFRD requested in Latgale |
| 15 M€                     | n.a.            | 2.7 M €        | 35                          | 2                           | 174 880 €                 | 6,39 %                        | n.a.                       |

Source: Calculations based on Rural Support Service (RSS) data, \*RDP

Only two companies have been supported in Latgale under this measure and the share of funding attracted in Latgale is 6,39%. Though it reflects the overall Latgale share in the national

<sup>164</sup> [https://data.csb.gov.lv/pxweb/en/uzn/uzn\\_\\_uzndarb/SBG050.px](https://data.csb.gov.lv/pxweb/en/uzn/uzn__uzndarb/SBG050.px)

<sup>165</sup> RSS

<sup>166</sup> [https://www.zm.gov.lv/public/files/CMS\\_Static\\_Page\\_Doc/00/00/01/56/30/7.pielikums\\_LAP\\_ZINOJUMS\\_2018.pdf](https://www.zm.gov.lv/public/files/CMS_Static_Page_Doc/00/00/01/56/30/7.pielikums_LAP_ZINOJUMS_2018.pdf)

GDP and GVA (7%), it can be considered as underperformance in relation to the Latgale share in the national GVA of (A) Agriculture and forestry which is 12% in 2017.

In this measure Latgale the lowest share of public funding among the regions with the Vidzeme region doing the best Rīga and Pierīga having the highest share – 30.48%. Also in terms of public funding per capita Zemgale is underperforming with € 0.67 as opposed to Zemgale - € 3.31.

## 6.2 Intervention logic

Due to the EU co-funding of the previous programming periods the farms of Latvia have experienced certain technologic upgrade; their efficiency is yet one of the lowest in the EU. It regards both to the production output as well as the gross value added per employed and per 1 ha of arable land. At the beginning of the programming period 2014-2020 the value added in agriculture per employed in Latvia is still 67% lower than the EU average and return on €1 invested lags behind by 42%.

Cooperation between the businesses in (A) Agriculture and forestry sector with the researchers is also insufficient. Thus, there is a **need** for increased efficiency that can be achieved by a joint research and modernisation of technologies. While introducing modern and efficient business management systems, technologies and equipment, it is also necessary to ensure climate friendly and sustainable resource management.

The **aim** of this support measure is to develop new products, methods, processes and technologies thus providing contribution to increased competitiveness, productivity and economic viability of the rural enterprises. This measure also contributes to the horizontal goal – innovations.

The **beneficiaries** of the support are partnerships between at least two co-operation partners with an agricultural enterprise on the one side and a researcher or sectoral NGO on the other side.

Support in a form of **non-repayable grants** is provided for the partnerships that have agreed to work on developing new product, process, method or technology up to its introduction into operation.

The total **support intensity** is 90% of the total project costs which include purchase of materials, lease or acquisition of the necessary equipment, outsourcing services, testing, depreciation, purchase of licenses as well as the project management costs. The **maximum size of support** is € 100 000.

The measure will contribute to the **result indicator** of Priority 2 – number of supported partnerships – 65. No regional result or output indicators have been defined.

### 6.3 Results achieved in the Latgale region

Table 6.2 Enterprises from the stakeholder territory supported under the 1.2.1.4. "Support to introducing new products"

|    | Name and registration # of supported company | NACE  | Jobs | Total project costs € | Total EAFRD €  | Project start date | Project end date | Territory      |
|----|--|-------|------|-----------------------|----------------|--------------------|------------------|----------------|
| 1. | Latgales dārzenū loģistika<br>#52403021211   | 01.13 | 20   | 99 987                | 89 988         | 01.08.2018         | 30.06.2023       | Kārsava novads |
| 2. | ABerry<br>#42403044547                       | 01.25 | 0    | 97 991                | 84 892         | 06.08.2018         | 30.11.2021       | Kārsava novads |
|    | <b>TOTAL</b>                                 |       |      | <b>197 978</b>        | <b>174 880</b> |                    |                  |                |

Source: Calculations based on RSS data

Both benefiting companies are from the same municipality of Kārsava which is actually one of the seven local authorities located at the immediate border with the Russian Federation. Please, find a case study on the project being implemented by **Latgales dārzenū loģistika, Ltd.** in sub-chapter 6.4.

The concrete impact of the project to the overall business development of the benefiting companies might be a bit too early to assess as the project are yet being implemented. The interviewed representatives of the Latgales dārzenū loģistika, Ltd. were very positive about the overall pace of the project. They are already planning similar project for the next programming period assuming the support measure will continue.

Evidently the two projects from Latgale have contributed to achieving the overall **result indicator** of the measure by two partnerships.

At the same time also the overall total added value in (A) Agriculture and forestry in Latgale has almost doubled between 2013 and 2017, i.e., it has increased by 92%. It has happened with the total employment in the sector declining (from 13 900 in 2013 to 11 400 in 2017). This suggests that in general the investments into agriculture sector have proved to be efficient.

### 6.4 Case study

**Latgales dārzenū loģistika, Ltd.** is an agricultural enterprise operating greenhouses in a rural area of the Kārsava municipality. It produces tomatoes sold across Latvia under the brand name "Meživīdi", a name of the farmhouse where the greenhouses are located.

The company was established in 2007 in the neighbouring Ludza municipality. In 2019 it had 21 employees. Apart from growing tomatoes, the company is also interested in research activities into light solutions (lighting for greenhouses) and renewable energy (production of energy from burning gas produced from solid waste).

The company implements a project under the EAFRD measure 16 "Co-operation" sub-measure 16.2 "Support to development of new products, methods, processed and technologies". The project foresees applied scientific research of the greenhouses lighting that is optimal for

production of tomatoes. It is based on previous practical experience of the enterprise and involves partners for research, practical work, and dissemination of information.

The project is an EAFRD grant. The size of the entire project is € 114 344 EUR, of which, € 99 987 are eligible costs with expected EAFRD co-financing of € 89 988. The total grant approved is close to a maximum level available within the sub-measure.

The project duration is 59 months. It runs from 30.11.2018 to 30.10.2023, which effectively is the scheduled end of implementation for the current programming period.

#### **6.4.1 Motivation**

The rationale for applying for the EAFRD funding was twofold. The company:

1. looked to improve its productivity by identifying optimal lighting conditions for growing tomatoes and
2. identified a market opportunity to venture into a possible LED production and its sales to other greenhouse farms.

According to the project application, the objectives of the project were (selected from the multiple-choice options provided by RSS):

1. improving competitiveness of agricultural production through innovation and
2. effective use of resources by increased energy efficiency in agriculture.

Overall, the project seeks to develop and disseminate methodology for optimum lighting of greenhouses for production of a specific type of tomato - red Encore tomato. In its search for innovation it has established links with the project partners:

- Riga Technical University for scientific excellence;
- Malnava College for practical implementation of the project involving students
- farmstead Klīgēni for control measurements;
- NGO "Latvijas dārznieks" for dissemination of information.

This measure was the only available support mechanism to support innovative actions in agriculture and the company used it.

#### **6.4.2 Application**

The beneficiary did not experience any difficulties neither preparing the project application, nor during the rest of the application / selection / contracting process. The entire process was carried out on-line. Relations with the project partners were established before the actual submission of the project.

The project application template is rather self-explanatory and poses no difficulty even for a first-time user. The company has had a previous experience from applying for the EAFRD support.

#### **6.4.3 Implementation and results**

Every half-year the beneficiary reports on the project implementation detailing costs and scientific findings in two separate reports. The activities undertaken so far include: [1] installation of lights and controllers, [2] measurements of produce growth under the installed lights, [3] measurements of produce growth under control conditions in the partner-farm, [4]

measurements of energy spent on lighting of greenhouses (treatment and control), [5] literature analysis, and [6] dissemination of information. Approximately 60% of the costs have incurred by June 2020.

The turnover of the beneficiary has been increasing steadily from € 643 025 2017 (before start of the project) to 750 778 EUR in the first half of 2020, i.e. more than twofold. The average number of full-time employees grew from 18 to 22. Due to the high investment costs of the new projects being developed and implemented the enterprise did not make a profit in either of the project years. The present business growth is not a direct result of the project in focus as it concerns only to a small part of the beneficiary's greenhouses. It describes the general health of the enterprise and it is believed that the present project will provide an additional long-term boost to it.

#### **6.4.4 Assessment**

The beneficiary assesses outcomes of the project so far as highly positive: new insights into lighting of greenhouses were discovered by identifying frequency of lighting that promotes faster growth of produce (Encore red tomato).

More importantly, the company is so positive about the results of its research that it is considering production of LED lights based on the findings of the project. That would mean opening a very ambitious adjacent market, which can over time become a greater part of the business than growing tomatoes. To do this, the beneficiary considers applying for non-agricultural production measure of the EAFRD also in the next programming period.

If other farmers become interested in using the technology / methodology developed within the project, they would seek to apply for a modernisation measure of EAFRD in the new programming period provided such is available.

The beneficiary would have preferred if the maximum EAFRD financing and maximum duration of the project were greater. The company plans submitting another project application or even more than one project to obtain similar support to include also the other types of tomatoes grown on the farm.

#### **6.4.5 Data sources**

Interview with Mr Edgars Romanovskis, board member at Latgales dāržeņu loģistika, Ltd.

Interview with Ms Solvita Boldāne, project manager at Latgales dāržeņu loģistika, Ltd.

Project application by Latgales dāržeņu loģistika, Ltd.

Latest half-year report from SIA Latgales dāržeņu loģistika to RSS

Financial data of Latgales dāržeņu loģistika, Ltd.

## **7 Overall results in the stakeholder territory**

Though the overall funding uptake of selected EAFRD support measures in the stakeholder territory has been larger than the ERDF and CF both in terms of euros attracted as well as the number of companies which have received support, nevertheless, when compared to the rest



of the regions it can be seen that Latgale has the lowest absorption rate per capita among the four rural regions for EAFRD.

Table 7.1 The total uptake of EAFRD non-agricultural projects by the regions in Latvia, %

| SUB-MEASURE   | % | Latgale | Kurzeme | Vidzeme | Zemgale | Rīga&Pierīga | TOTAL  |
|---|---|---------|---------|---------|---------|--------------|--------|
| 4.2 -processing/marketing/development of agri products    |   | 10,19   | 9,24    | 13,32   | 25,41   | 41,84        | 100,00 |
| 6.4 - TOTAL development of non-agri activities            |   | 14,24   | 19,38   | 22,16   | 14,94   | 29,28        | 100,00 |
| 6.41 - development of non-agri activities                 |   | 14,33   | 17,16   | 24,63   | 15,30   | 28,59        | 100,00 |
| 6.42 - diversification                                    |   | 22,94   | 34,01   | 7,14    | 14,88   | 21,02        | 100,00 |
| 6.43 - development of tourism                             |   | 9,19    | 27,04   | 13,04   | 12,52   | 38,21        | 100,00 |
| 16.2 - pilot projects, new products, technologies         |   | 6,39    | 19,07   | 16,19   | 27,86   | 30,48        | 100,00 |
| 19.2 - CLLD/LEADER  |   | 20,86   | 17,69   | 23,80   | 17,28   | 20,38        | 100,00 |
| S0INV.03 - support to partial repayment of credit interes |   | 31,87   | 2,49    | 14,97   | 20,16   | 30,51        | 100,00 |

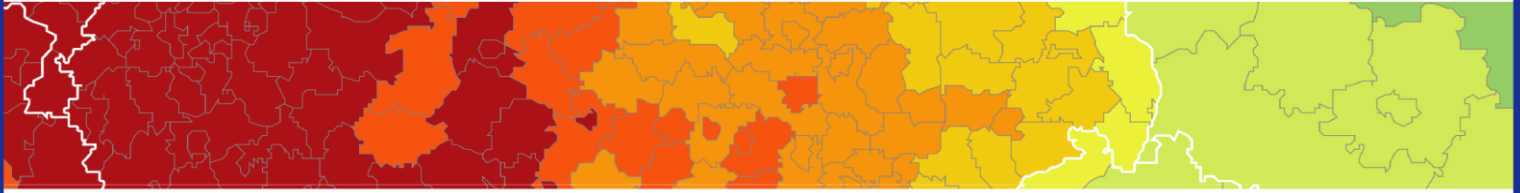
Source: Consortium 2020

The share of the average public funding that the Latgale enterprises have managed to attract per capita was the lowest in the country € 58 among the rural regions. Vidzeme is the leader with € 107. Rīga & Pierīga combined closes the list with € 37 which is mostly due to the fact that these regions have restricted eligibility.

Table 7.2 The uptake of EAFRD non-agricultural projects by the regions in Latvia, € per 1 inhabitant

| SUB-MEASURE  | Latgale      | Kurzeme      | Vidzeme       | Zemgale       | Rīga&Pierīga | LATVIA       |
|--|--------------|--------------|---------------|---------------|--------------|--------------|
| 4.2 -processing/marketing/development of agri products     | 22,25        | 21,88        | 40,68         | 62,71         | 23,71        | 29,61        |
| 6.4 - TOTAL development of non-agri activities             | 11,57        | 17,07        | 25,18         | 13,71         | 6,17         | 11,01        |
| 6.41 - development of non-agri activities                  | 9,53         | 12,36        | 22,89         | 11,49         | 4,93         | 9,01         |
| 6.42 - diversification                                     | 1,15         | 1,84         | 0,50          | 0,84          | 0,27         | 0,68         |
| 6.43 - development of tourism                              | 0,90         | 2,87         | 1,79          | 1,39          | 0,97         | 1,33         |
| 16.2 - pilot projects, new products, technologies          | 0,67         | 2,17         | 2,38          | 3,31          | 0,83         | 1,42         |
| 19.2 - CLLD/LEADER   | 21,80        | 20,03        | 34,78         | 20,40         | 5,52         | 14,16        |
| S0INV.03 - support to partial repayment of credit interest | 1,60         | 0,14         | 1,05          | 1,14          | 0,40         | 0,68         |
| <b>TOTAL</b>   | <b>57,89</b> | <b>61,33</b> | <b>106,09</b> | <b>101,41</b> | <b>36,73</b> | <b>57,46</b> |

Source: Consortium 2020



### **ESPON 2020 – More information**

ESPON EGTC

4 rue Erasme, L-1468 Luxembourg - Grand Duchy of Luxembourg

Phone: +352 20 600 280

Email: [info@espon.eu](mailto:info@espon.eu)

[www.espon.eu](http://www.espon.eu), [Twitter](#), [LinkedIn](#), [YouTube](#)

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