**LV-Innovation**

PROGRAMME CONCEPT NOTE

Programme: LV-Innovation

Programme area: Business Development, Innovation and SMEs

Country: Latvia

|  |
| --- |
| **PROGRAMME CONCEPT NOTE**  Norway Financial Mechanism 2014 – 2021 |
| **Document date:** |
| **Version No:** 7.3  **Updated:** 14/06/2019 |

# Basic information

|  |  |  |
| --- | --- | --- |
| **Programme title:** | Business Development, Innovation and SMEs | |
| **Programme Area:** | Business Development, Innovation and SMEs | |
| **Area(s) of support:** | PA 01   * Innovative technologies, processes and services * Sustainable business development * Greening of existing businesses and processes * Development and implementation of innovative products and services | |
| **Specific concerns in the MoU:** | In managing this programme the Investment and Development Agency of Latvia shall operate with autonomy and independence of the Ministry of Economics. The Ministry of Economics is together with the Investment and Development Agency of Latvia responsible for the preparation of the programme. | |
| **Programme Grant:** | Total | €12 500 000 |
| EEA Grants | € 0 |
| Norway Grants | €12 500 000 |
| **Programme Operator:** | Investment and Development Agency of Latvia (LIAA) | |
| **Donor Programme Partner(s):** | Innovation Norway (IN) | |
| **Other Programme Partner(s):** | The Ministry of Economics[[1]](#footnote-2) | |

**1. Programme description and justification**

The objective of the Business Development, Innovation and SMEs programme (hereinafter – the Programme) is to contribute to value creation and sustainable growth in Latvia’s private business sector.

The Programme is in line with the Latvian and EU policy planning framework (strategies and guidelines)[[2]](#footnote-3). The Programme ensures the implementation of four strategic directions: (1) promoting entrepreneurship, especially for young entrepreneurs and SMEs, as well as support for innovative business development in its early stages ; (2) investments in greener production processes; (3) development of innovative welfare technologies and services; (4) support to new business ideas, solutions, products in the area of information and communication technology (hereinafter – ICT). It is expected that the Programme will have an impact on both - increasing number of innovative companies and boosting private sector investments in research and development (R&D).

The Programme will focus on creating products with a higher added value, technologies and services in three specific areas: green industry innovation (hereinafter - GII), welfare technology and ICT.

**1.1 Policy background and business environment**

Latvia’s economy has grown robustly in recent years. GDP growth reached 4.5% in 2017 due to strong investment recovery and improved external demand. Latvia’s overall economic development assessment is positive, incl. in terms of implemented structural reforms. At the same time, there are some challenges that need to be overcome, e.g. in relation to Latvia’s innovation and R&D performance.

With the increase of economic activities in the largest markets for Latvian goods, exports continue to increase. In 2017 exports increased by 4.8% reaching highest level historically. In 2017 there was some growth in investments, which increased by 16%. Foreign direct investment flows in Latvia have also increased, in 2017 amounted to EUR 640 million or 2.4% of GDP, yet these flows are still volatile, which can mostly be attributed to the instability in the world economy, growing geopolitical risks, and increased political uncertainty. Strong growth is observed in the manufacturing industry, which is supported by both increased competitiveness of businesses and demand dynamics in major export markets. In 2017 manufacturing grew by 8%. The growth was observed in all major manufacturing subsectors. The largest growth was recorded in the manufacture of machinery and electrical and optical equipment. The largest contribution to industrial growth was provided by the growth of the production of metal products and the food industry. Similarly, the rest of the industry developed rapidly. The overall increase in mining, electricity, gas, heating and water supply was 7.2%. There was also a noticeable increase in the information and communication sector, driven by a sharp increase in computer programming and information services.

The productivity dynamics in Latvia in recent years has been faster than the EU average, and as a result, since 2010, the productivity gap with the EU average has decreased by almost 9%. In 2017, productivity of Latvia’s economy as a whole, which is characterized by GDP per employee, reached 46.3% of the EU average. Despite the fact that Latvia has been one of the leaders in the EU Member States regarding productivity growth rates, labour costs have risen faster than productivity, challenging the cost-competitiveness of entrepreneurs in Latvia.

SMEs are a very important part of the national economy as per Eurostat data 99.8% of economically active enterprises fell in the category of SME in Latvia (93% of them are micro-sized companies; 5,8% – small-sized companies and 0.9% are medium-sized companies) and employ an increasing number of people (79% of employed are in SMEs). Companies in Latvia tend to be far smaller than the EU average. Micro-enterprises (0-9 employees) generate 26% of total business turnover, in comparison with just 17% of the EU average. Likewise, Latvian SMEs represent 51% of turnover compared with EU average of 38%. Yet, the most significant difference is with large enterprises (+250 employees), which make up only 22% of turnover (44% in the EU).

SMEs in Latvia experienced a moderate growth in 2012-2016. The value added of SMEs increased by 15.2% while SMEs employment rose by 6.3 %, very similar to the growth levels of large companies. SMEs value added is expected to rise by 13.6% in 2016-2018 and SMEs employment by 4.0%.

According to the Central Statistical Bureau of Latvia (CSB), the share of innovative SMEs in Latvia is among the lowest in EU – 30,3% in 2014-2016 compared to 49,1% on average for EU-28 (2012-2014, Eurostat).

CSB data shows that BERD ratio (the business enterprise expenditure on R&D) is still one of the lowest in the EU – 0.14% of GDP in 2017, compared to EU average of 1.30 % in 2016 (Eurostat). Moreover, a large part of this investment depends on EU funds, making the unsubsidised private R&D investment even smaller. The dominant position of micro and SMEs in the business sector is part of the reason for this. This poses problems in increasing the critical mass in terms of business R&D expenditure and business innovation intensity.

Key challenges for Latvia are as follows:

* the business structure of Latvia is mostly made up of micro enterprises and SMEs with limited capacity to invest in R&D, including lack of knowledge and entrepreneurial skills of companies on the role of innovation in business development and competitiveness;
* Latvian industrial structure is mainly characterised by low-tech companies - the share of both medium-high and high-tech companies is 15% of the total manufacturing sector, while the corresponding EU average is 47%;
* insufficient cooperation and coordination between science, technological development and innovation organisations and manufacturing sector;
* funding gaps in access to finance, especially for SMEs, to develop new products and technologies, that enhance more green, digital and inclusive economy;
* insufficient participation in global value chains for boosting the productivity though knowledge transfer and intensive use of technologically advanced inputs;
* insufficient industrial base for development of new products, weak uptake of technology in SMEs.

**1.2. Funding gaps and complementary funding**

In general, Latvian R&D and innovation expenditure is highly dependent on public funding and on foreign sources, mainly through Operational Programmes under the EU Structural and Investment Funds.

Starting from 2016, more than EUR 193,5 million have been available for the Ministry of Economics in the EU funding period 2014-2020 to support innovation. Also, an additional EUR 257 million have been made available for SME support activities. In addition, more than EUR 377 million are available for improving energy efficiency.

A lot of activities funded by the EU structural funds complements the Programme. For example, innovation and entrepreneurship programmes available for Latvia during the EU funding period 2014-2020 covers support starting from business and innovation motivation activities, trainings for employees to increase business competitiveness and innovation, support for development of new products and technologies, technology transfer and research commercialization, business incubation, experimental production equipment development, clustering and building international competitiveness (access to foreign markets, national stands in exhibitions etc.) as well access to financial instruments, as venture and seed capital, acceleration funds, loans and guarantees, including export guarantees.

Despite the fact, that there are different EU structural support programmes for the development of new products and technologies, the majority of them are focused on less complex solutions (innovation vouchers, business incubation services etc.), leaving the funding gap in the support for more complex and technologically advanced solutions in all product development stages, including cooperation with research institutions, open. Furthermore, existing support mechanisms such as seed and venture capital, innovation vouchers, acceleration etc. are aimed at developing all types of innovation. This reduces the ability to focus specifically on the development and implementation of green, ICT and welfare technologies.

Even though funding for R&D and innovation is available from the early development stages of innovation from idea to production, certain gaps remain when it comes to the availability of funding for innovation. For example, financial institutions are reluctant to finance innovative projects that are at an early stage with a high probability of risk or failure. Therefore, the most suitable form of promotion of R&D and innovation among Latvian private business is by grants support provided by the state.

Latvia is lacking a central technological development and transfer infrastructure for tech-intensive business idea developers and SMEs. Latvia has an “innovation gap” caused by lack of cooperation between the research and business environment. Furthermore, Latvia lack an environment that can foster such collaboration. There is no available funding for an infrastructure that can create and build up an ecosystem of all the parties involved in the innovation process, i.e. entrepreneurs, mentors, universities, and research centres.

**2. Focus areas of the Programme**

Based on challenges and needs of the business sector in Latvia, the Programme will address three main focus areas: (1) GII, (2) ICT and (3) welfare technology.

**Green industry innovation**

Total emissions of greenhouse gases in Latvia are among the lowest in Europe both in total emissions and emissions per capita (total emissions have decreased by 57% since 1990). The main task in this respect is to ensure that emissions of greenhouse gases are contained as the country continues its economic development. Latvia has ratified and participated in all the most important conventions on this issue, both individually and as a member of the EU. For example, Latvia has ratified and is fully committed to the goals of the Paris Agreement. The country has a binding 6% emission reduction target for 2030 compared to 2005 for the sectors not covered by the EU’s emission trading system. Achievement of the targets set in long-term strategies will be closely linked and dependent of the development and implementation of new technologies that promote transition to a greener economy, implementation of circular economy principles or in other way reduce environmental impact.

Companies in Latvia face the challenge to modernize production processes and have limited financial capacity to invest in development of new, innovative green products, technologies and services, as well as industrial technologies and manufacturing equipment that reduces environmental impact (e.g. efficient use of materials, energy or water; reduction of industrial waste and emissions; substituting fossil fuel with renewable energy sources; redesign of manufacturing and production process etc.) or ensures the application of circular economy principles in existing production and business models.

An important role in this respect should be played by companies that will be both product and technology developers and will be those who will have to look for ways how to implement and use in their business models new, innovative technologies and solutions that reduce environmental impact.

The transition to a greener industrial production with less carbon and material intensity is needed, while at the same time preserving jobs or reinvesting in completely new employment opportunities. There is a lack of appropriate funding both at the public and private sector level to support green industry innovation thus leading to improved resource-efficiency, emission reduction and decoupling, which can offer a competitive advantage and a sustainable future.

**ICT**

ICT sector has significantly increased its role in Latvia’s economy during the recent years. According to the data provided by the Central Statistical Bureau of Latvia (CSB), the ICT sector represents approximately 5% of GDP in Latvia (2017) and exports in the ICT industry have tripled since 2006. In 2017, the ICT sector employed approximately 34 000 employees and there were more than 6 500 companies operating in the ICT sector in Latvia. Even though the ICT sector in Latvia is developing fast, there still are challenges that need to be overcome. ICT companies lack access to appropriate funding to support their investment in developing new products and technologies. Furthermore, other sectors lack targeted funding to develop innovative ICT solutions based on their needs. Finally, there is a weak cross-sectoral cooperation to create innovation along the ICT value chain.

In this respect an appropriate funding is important to implement innovative ICT solutions (big data, internet of things, 3D printing, artificial intelligence, visualisations, sensors, cloud computing, geographical information systems, internet applications/future internet, factories of the future, robotics etc), that can be used to develop smart city concepts, eGovernment services, tourism, health care, precision medicine, agriculture and forestry, transport and transportation, the security and defence industry, space and the industrial digitalization industry (Industry 4.0), etc.

**Welfare technologies**

Latvia is facing long-term and complex socio-economic challenges, including an ageing society (per Eurostat data, more than 45% of Latvia’s population is expected to be aged 50 or above by 2030, compared to the current 40%), population decline and depopulation in the regions. These trends will influence and shape current and future development and transformation in the Latvian welfare system and healthcare sector and present a clear need and urgency for innovation, particularly in welfare technology. SMEs can play an important role to offer new solutions for the welfare and social sectors (including smart solutions). Pioneering new welfare technologies can help bring more quality of life for many social groups. Accordingly, there is an untapped potential for Latvian businesses to turn existing Latvian and European level socio-economic challenges into opportunities by developing, testing and introducing into market new welfare, social and health care technology. Besides, welfare technology solutions can provide added value to Norwegian society and market as well.

**3. Programme strategy**

The Programme will support SMEs to achieve the overall objective - increased value creation and sustainable growth. In the area of GII, the Programme will mainly focus on sustainable, green growth and circular economy. Additionally, the Programme will address welfare technology and development of innovative ICT solutions and products.

The modalities for the Programme have been chosen based on the Programme’s specific features. It is proposed to include (1) call for proposals (main call) for development and implementation into production of new products in the areas of GII and ICT, (2) one small grant scheme for development of welfare technology and products, (3) one small grant scheme for development of GII and ICT technologies and products and (4) one pre-defined project establishing and running the Tech Business Centre (hereinafter - TBC). In general, the main call and small-grant schemes will be opened for SMEs, while TBC project will target innovative entrepreneurs, start-ups, SMEs as well as technology intensive large enterprises as industry experts, NGOs performing economic activities, research organisations etc.

**3.1. Call for proposals**

The call for proposals (main call) with the focus on GII and ICT will enable SMEs to develop products, conduct R&D activities and implement into production innovative green and ICT technologies and products. Supported activities could include green production processes and ICT solutions that will implement new business models or solutions, improving efficiency of production processes thus enhancing competitiveness of enterprises. This main call also provides great opportunity for bilateral cooperation, typically involving the donor country partners in R&D activities. This part of the Programme will help private enterprises to develop and implement new products and technologies.

Eligible project promoters under the open calls for proposals are SMEs established as legal persons in Latvia. Applicants will be selected in open project selection procedure. The grant amount for one project promoter is 200 000 – 600 000 EUR with grant rate 45% - 55%[[3]](#footnote-4) depending on positions of eligible costs.

**Green industry innovation**

The grants will enable SMEs to develop products, conduct R&D activities and implement into production innovative green and ICT technologies and products. They will also be allocated for greenifying existing production processes, for example, reducing amount of waste water, air pollution, improving air recirculation, developing circular economy by using leftovers from production processes, etc. Thus, the main call will address challenges identified in Latvia’s business sector such as lack of lack of funding to implement environmentally friendly products and green production processes. It is expected that the programme will support a complete range of new products and services, based on high longevity, low embodied water, as well as low-energy and material content. This transition will not happen overnight, and it will require substantial investment. A major challenge will be the transition to industrial production, to become less carbon and material intensive. This is particularly relevant for developing and emerging economies that currently invest heavily in conventional production infrastructure. Both at the country and industry sector level, improved resource-efficiency offers the opportunity of competitive advantage and a sustainable future.

**ICT**

ICT area has been assessed as an area with high business and innovation potential and a possibly green effect. This part of the Programme will encourage the development and use of innovative solutions for business development with ICT. The main call will provide the opportunity for SMEs in Latvia to develop innovative ICT products, technologies and services, as well as purchase necessary equipment for production and implementation in such way addressing before mentioned challenge - lack of funding to develop innovative ICT solutions for production sites, based on specific needs of enterprises. Within the main call, technologies that enable smart connected machines to work on an increasingly higher level, build solutions that require a low level of control and a minimum amount of sensors as well as develop The Internet of Things, could be developed and implemented. This part of the Programme will also be interesting for innovative ICT enterprises, which develop different types of encryption technologies, that provide secure data management, storage and transaction.

**3.2. Small grant scheme for Green industry innovation and ICT**

The small grant scheme will aim to ensure development of early stage technologies to spur creation of new green and ICT products and services. This can, for instance, be done by cooperating with research organisations. In Latvia many new, small enterprises does not have the capacity to absorb a high amount of financing not to provide the necessary cofounding. Therefore, the use of small grant support is more appropriate that the standard minimal grant rate of 200 000 EUR, as set in Regulation[[4]](#footnote-5), Article 6.4, Paragraph 8. In addition, as this Programme focuses on innovative SMEs, it must be taken into account that many of them will have a high risk of not surviving the entire project implementation process. This element is reflected in the programme’ s results framework.

Eligible project promoters under the small grant scheme are SMEs established as legal persons in Latvia. Applicants will be selected in open project selection procedure. The grant amount for one project promoter is 10 000 – 130 000 EUR with grant rate not less than 70%[[5]](#footnote-6) depending on positions of eligible costs.

**Green industry innovation**

The small grant scheme with focus on GII will be dedicated to providing support for enterprises to develop new green products and technologies, that directly or indirectly improve the environment. It will target projects that develop products, technologies or processes contributing to i.e.:

1) Production of renewable energy;

2) Production of green (energy efficient) products and materials for buildings;

3) Clean transportation;

4) Water management;

5) Waste management; or

6) Any other improvements in products, technologies or processes in other fields contributing to energy efficiency, lower emissions or lesser consumption of resources.

**ICT**

The other part of the small grant scheme with focus on ICT will provide support to SMEs for development of ICT solutions in different sectors. These solutions could be relevant for public sector such as smart cities, transport systems, buildings as well as for the business sector in developing needed software and tools. This small grant scheme will improve digitalization of enterprises and boost a number of new ICT solutions. The small grant scheme is expected to support the innovation capacity of Latvia through the development of new products or smart manufacturing solutions based on breakthrough innovations (e.g. internet of things, big data, 3D and 4D printing, artificial intelligence and machine learning, etc.).

**3.3. Small grant scheme for welfare technology**

SMEs’ projects will be supported through open calls for projects in the small grant scheme. Programme support will be provided to micro or small-sized companies operating in the welfare technology sector. Projects in the welfare technology sector will focus on developing different types of technological and non-technological innovations that could support and reinforce e.g. safety, security, daily activities, social contact, physical activity, and mobility. In general, welfare technologies are expected to help in making services more efficient and increase the autonomy and the quality of life for the society.

Thematic or priority areas within the focus area of welfare technologies could be:

* technologies supporting home care, monitoring, e-health care services;
* technologies creating and maintaining connections between services and actors in the welfare system, boosting involvement of the community, families, and friends in social services;
* technologies ensuring easier access to healthcare by bringing patients and services/technologies together, for example in sparsely populated regions;
* technologies for early warning, health change detection and distance monitoring systems.

This small grant scheme will support improvements in business models and technologies, including different services for developing and testing prototypes with a potential target audience and receiving expert consultations. As the focus area puts a strong emphasis on technological innovations, it is important to consider that technologies might be innovative as such but often need to be paired with a well-designed service that is accessible to the target audience and responsive to their needs.

Projects implemented within the focus area of welfare technologies would result in commercialization of products or development of prototypes combining technological and non-technological aspects with a special emphasis on simplification of processes, practical tasks and needs of the society.

Eligible project promoters under the small grant scheme are SMEs established as legal persons in Latvia. Applicants will be selected in open project selection procedure. The grant amount for one project promoter is 10000 – 130000 EUR with grant rate not less than 70%[[6]](#footnote-7) depending on positions of eligible costs.

**3.4. Pre-defined project**

It is proposed to include a pre-defined project establishing a Tech Business Centre (TBC), which will serve as a bridge between innovative enterprises and research institutions. The centre aims to enable experts to develop and scale up high value-added products and to help SMEs achieve sustainable growth by promoting innovation, knowledge and technology transfer. The Tech Business Centre will search for tech-intensive ideas, that could be developed and tested through its facilities/services. Technology scouts will look for technical innovations at academic institutions and other tech-intensive environments, that can be developed further at the centre. Entrepreneurs will receive the necessary consultations and trainings for development of new products and technologies to the level, when these ideas are ready for acceleration or entry into the market.

It is proposed to establish the TBC as a modern venue (approx. 2000 m2 in total) by setting up a space for coworking, events, expositions of new products, conferences, trainings and innovation and smart lab facilities and by hiring a management team of at least 4 experts. The establishment and running of the TBC have a direct impact to the overall objective of the Programme to contribute value creation and sustainable growth in Latvia’s private business sector. TBC will support tech-intensive enterprises by facilitating their growth and competitiveness through space, knowledge, programs and methods. Please see detailed information in the Annex I.

**4. Impact of the Programme**

* 1. **Expected impact(s) and the sustainability of the Programme.**

The expected long-term impact of the Programme: Increased value creation and sustainable growth. This objective will be reached by the modalities of the Programme, that ensures availability of the Norway grants to a wide range of SMEs. Start-ups and micro[[7]](#footnote-8) enterprises will mainly be able to participate in the Tech Business Centre (TBC) and small grant schemes to develop innovative products and technologies. Medium[[8]](#footnote-9) enterprises can apply in the call for proposals (main call) to conduct research activities and start production of new products.

The programme aims to increase the competitiveness of enterprises in Latvia and is expected to lead to the development of 39 products and technologies. This will contribute to a higher value creation and will facilitate sustainable growth.

Taking into account, that one of the objectives of the Programme is enhanced collaboration between the beneficiary and donor state entities involved in the programme by implementing projects in partnerships, it is expected that cooperation between these partners will also continue after the Programme.

Sustainability of projects will be ensured through selection process as enterprises will have to provide evidence of how they plan to continue activities after the completion of the project. The sustainability of projects in open calls will be evaluated by experts and a Selection Committee by assessing the submitted business plan and project application form.

The establishment of the TBC will succeed that the development of innovative products and services is sustainable and lasts beyond the period of the programme. The TBC will be operated by the Investment and Development Agency of Latvia, that has the necessary capacity (staff, finance, experience) and knowledge to develop such centre as a long-term project. The TBC will be established in a building, already housing research organisations and having enough space to establish the centre as well as providing working space for innovative enterprises. Furthermore, LIAA will be a project promoter that is a government authority and will provide its services after 2024. Preconditions mentioned above ensure the sustainability of this centre.

* 1. **How the programme will contribute to the common values as referred to in paragraph 1 of Article 1.3 of the Regulation.**

The modalities of the Programme are developed for achieving sustainable development, long-term economic growth and environmental protection. They were developed respecting the principles of democracy and good governance by identifying challenges and needs of the Programme. The project applicants will be eligible to receive points if, within the project, there people corresponding to the definition of a worker with disabilities, or a disadvantaged worker, will be employed and these employees will form at least 15% of the total amount of the employees involved in the project. „Worker with disabilities” and „ disadvantaged worker” means any person that complies with the definitions stated in the Article 2, Points 3 and 4 of Regulation 651/2014[[9]](#footnote-10). Additional points will be given in selection process to enterprises that have foreseen actions related to gender equality in their project application. In addition, stimulation of entrepreneurship will tackle issues related to poverty and social exclusion as there will be more possibilities for people to get a job. Stimulation of entrepreneurship also directly relates to another principle of sustainable development from the social perspective - access to employment. To ensure good governance and transparency all projects will be selected based on published selection criteria that will be made available to everyone. Conflict of interest will be eliminated in decision making process. Voting members of the Selection Committee will have to inform other members of the Selection Committee if they are in conflict of interest.

Finally, every project applicant will be informed about how many points their project has received and depending from that whether the project is approved or rejected. All processes will be done according to the Programme operator’s internal procedures that will be agreed with MoE.

The Programme operator will develop a description of the management and control system, including risk management approach, for implementing the Programme, ensuring that the financial contribution is used transparently and effectively, exclusively for the purpose of the Programme and its projects.

* 1. **Target group.**

The main target group of the Programme is SMEs[[10]](#footnote-11), established as legal persons in Latvia. Primary target group of small grant schemes includes existing and newly created enterprises with high potential of innovation. For them this Programme will give access to the necessary finance and be a chance to develop new products and introduce them to the market.

The target group of the main call will be enterprises with already existing industrial base that want to develop the range of their products and implement new ones into production or companies, that want to greenify the existing production’s processes in order to became more competitive and environmentally friendly. Furthermore, the services of TBC will serve a broad group of beneficiaries, such as SMEs (main targeted group), start-ups that want to develop their ideas, and innovative, science-based large enterprises. This will among others be done by promoting cooperation with research organisations, NGOs, clusters, mentors, acceleration funds, industry experts and professionals with experience in business development.

* 1. **Applicable State Aid rules**

State aid regulations are applicable for the Programme financed by Norway Grants. The legal basis is art. 8.16 of the Regulation on Norway Grants. This means that the EU legislation on state aid, as transformed into the national legislation in Latvia, have to be observed during the implementation of Programme. The issue of state aid is of particular importance for this Programme since funds will be awarded to private enterprises. The obligation to apply the relevant legislation will have its legal basis in the Programme Agreement to be signed between the Norwegian Ministry of Foreign Affairs and the National Focal Point. The grant rate and amount that could be awarded to applicants will be in line with the provisions of the state aid regulations relevant for the Programme (mainly, COMMISSION REGULATION (EU) No 651/2014 of 17 June 2014 and COMMISSION REGULATION (EU) No 1407/2013 of 18 December 2013).

* 1. **The process leading to the Programme concept note**

Two important elements were part of the Concept Note preparation process-analysis of the macroeconomic and policy background and assessment of the needs and challenges of the business sector in Latvia, that were discussed during consultations with relevant stakeholders.

The Programme development process started in January 2018 by organizing two meetings – a separate meeting with the National Focal Point and government stakeholders and a kick-off meeting with FMO and donor programme partner Innovation Norway. During these meetings participants were informed about the relevant documents of the Programme and areas of support. Experts shared with experience and proposed ideas, what could be the best way to set up the Programme and cover the needs of Latvia’s business sector.

In the Stakeholder consultation on 19th February 2018, a broad group of Latvian entities were represented, including business organisations, research organisations, NGOs and government organisations. Through group work a broad range of issues were discussed based on the areas of support set up in the Regulations and the Blue Book. It was advised that the Programme should focus on (1) GII, (2) ICT and (3) welfare technology. These three areas have been chosen by the Programme stakeholders as areas with high business and innovation potential as well as the most appropriate for covering particular challenges of the business sector in Latvia. Selection was based on market needs, development potential and environmental effect. While energy and blue growth have not been chosen as focus areas of the Programme, these areas are considered to fit better as components within solutions that will be developed in the focus areas of GII and ICT.

After defining the focus areas, challenges and needs of Latvian business sector, Programme operator have, in close cooperation with the engaged partners : the Ministry of Economics, FMO and Innovation Norway, as well as adviser - the Ministry of Culture, developed this concept note proposing the best modalies of the Programme in order to reach its objective.

**5. Bilateral ambitions**

**5.1 Bilateral cooperation at the Programme level**

One of the overall objectives of the Norwegian Financial Mechanism is strengthening bilateral relations between Norway and Latvia. To facilitate bilateral relations, the Programme is implemented in partnership with Innovation Norway as the Donor programme partner. Taking into account the target to implement 35% of projects in donor partnership, Innovation Norway will fully engage in recruiting donor partners for potential project promoters through bilateral activities. Donor programme partner will participate in the project Selection Committee during open calls and will have an important role in validation of project promoters. Both the Programme operator and the Donor programme partner will maintain a close dialogue with the Programme stakeholders (business organisations, relevant ministries, NGOs, etc.) in Latvia and in Norway.

The bilateral fund granted to this Programme will in the beginning focus mainly on partner search to establish donor partnerships. Main target groups are innovative SMEs and research organisations that would like to participate in the development of new products. Business-to-business, business-to-research and business-to-investor activities will be organized. It is essential to arrange matchmaking events that include the search of partners and investors, exchange of best practice and contacts, meeting of prospective customers and identification of business channels in order to bring newly developed products and technologies to the market. It has been assessed that activities mentioned above will meaningfully contribute to the outcomes of the Programme and strengthen bilateral relations between Latvia and Norway.

**5.2 Bilateral cooperation at project level**

Bilateral projects and shared results will have an important contribution for fostering innovation and achieving sustainable growth. Therefore, the Programme seeks to finance partnerships with a strong potential to continue after the projects will be completed. Donor partnership projects will be highly encouraged and will be based on signed partnership agreements. Projects with donor partners will receive additional points during the projects’ selection process, in line with the assessment criterion for bilateral cooperation. The main issue in the evaluation will be the quality of the partnership and the contribution of the Norwegian partner for the achievements of the project outcome and output.

Under the small grant schemes and the main call, donor project partners may be any public or private entity, commercial or non-commercial and non-governmental organisations established as a legal person in Norway or in Latvia.. Suggested eligible activities might be targeted towards reaching the objectives of strengthened bilateral relations, such as (but not limited to): business matchmaking, best practice and experience exchange, partner search, feasibility studies, business to business meetings, conferences etc.

In the frame of the pre-defined project (the TBC) potential project cooperation is foreseen with several organisations in Norway in the following areas:

1. know-how from Norway regarding to establishment of such a centre (Oslo Science Park, SIVA, Epicentre);
2. guidance for tech intensive business ideas (The Factory, Total Innovation Incubator);
3. collaboration of Nordic-Baltic ecosystems.

Moreover, the TBC will contribute to bilateral cooperation between Latvia and Norway by organizing such activities as network setting, assessment of the potential of digital technologies (audits), innovation scouting, access to specialist expertise, as a venue for matchmaking, thereby bringing together enterprises and organizations from both countries.

**6. Cooperation with international organisations**

Not applicable.

**7. Modalities**

The Programme operator will ensure the requirement of Regulation’s Annex 1 «Eligible Priority Sectors and Programme Areas EEA Financial Mechanism 2014-2021», that programme shall allocate at least 50% of funding to green industry innovation. The programme will be implemented by way of:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Number of call(s)/**  **SGS(s)/ PDP(s)/FI(s)** | **Planned Amount (**€)  (Per call, SGS, PDP, FI)\*\*\* | **Project grant rate[[11]](#footnote-12) (%)** | **Eligible applicants** | **Eligible partners** |
| **Call for proposals**  **(main call):** | 1 call with focus area GII | € 5 902 673,50 | 55% (small sized enterprises)  45% (medium sized enterprises) | All areas: SMEs established as legal persons in Latvia. | Any public or private entity, commercial or non-commercial and non-governmental organisations established as a legal person in Norway or in Latvia. |
| 1 call with focus area ICT | €  2 702 673,50 |
| **Small Grant Scheme:** | 1 call with focus area:  welfare technology | € 1 200 000 | 70% | All areas: SMEs established as legal persons in Latvia | Any public or private entity, commercial or non-commercial and non-governmental organisations established as a legal person in Norway or in Latvia. |
| **Small Grant Scheme:** | 1 call with focus area  GII | € 850 000 | 70% | All areas: SMEs established as legal persons in Latvia | Any public or private entity, commercial or non-commercial and non-governmental organisations established as a legal person in Norway or in Latvia |
| 1 call with focus area ICT | € 850 000 |
| **Pre-defined project\*:** | Pre-defined project on Tech Business Centre | €  2 000 000 | 100% | Investment and Development Agency of Latvia | Not applicable |

\* If relevant, brief information on pre-defined projects shall be provided in Annex I to the programme concept note.

\*\* If relevant, a brief description of the financial instruments shall be provided in Annex II to the programme concept note

\*\*\* Including co-financing.

**Programme objectives and indicators**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Description** | | **Indicators[[12]](#footnote-13)** | | **Baseline[[13]](#footnote-14)** | **Target** |
| **OBJECTIVE** *(long term impact)* | **Increased value[[14]](#footnote-15) creation and sustainable[[15]](#footnote-16) growth** | | | | | |
| **Outcome 1 –** *(short-mid-term effect)*  **Increased competitiveness[[16]](#footnote-17) for Latvian enterprises within the focus areas green industry innovation, ICT and welfare technologies.** | | | Number of jobs created [[17]](#footnote-18) | | **0** | **80** |
| Estimated annual growth in turnover | | **0** | **10%** |
| Estimated annual growth in net operational profit[[18]](#footnote-19) | | **0** | **5%** |
| Estimated annual CO2 emissions reductions (tons) | | **0** | **2 000** |
| Estimated annual decrease of energy consumption (MWh) | | **0** | **22 500** |
| Number of new green/ICT/welfare products/technologies developed | | **0** | **24** |
| Number of new green/ICT products/technologies applied[[19]](#footnote-20) (new-to-the-enterprise) | | **0** | **15** |
| Number of new green/ICT/welfare products/technologies commercialized[[20]](#footnote-21) (new-to-the-market) | | **0** | **6** |
| Level of user satisfaction with business services provided by the Centre | | **N/A** | **High level of satisfation** |
| Output 1.1 | Enterprises supported to develop innovative green products or technologies. | | Number of SMEs[[21]](#footnote-22) supported to develop green products/technologies | | 0 | 7 |
| Number of SMEs supported to apply green products/ technologies | | 0 | 10 |
| Number of SMEs supported to commercialise green products/technologies | | 0 | 2 |
| Number of enterprises using external research expertise/research institution to develop innovative green products/technologies | | 0 | 7 |
| Output 1.2 | Enterprises supported to develop innovative ICT products or technologies. | | Number of SMEs supported to develop ICT products/technologies | | 0 | 7 |
| Number of SMEs supported to apply ICT products/ technologies | | 0 | 5 |
| Number of SMEs supported to commercialise ICT products/technologies | | 0 | 2 |
| Number of enterprises using external research expertise/research institution to develop innovative ICT products/technologies | | 0 | 7 |
| Output 1.3 | Enterprises supported to develop innovative welfare products or technologies. | | Number of SMEs supported to develop welfare products/technologies | | 0 | 10 |
| Number of SMEs supported to commercialise welfare products/technologies | | 0 | 2 |
| Number of enterprises using external research expertise/research institution to develop innovative welfare products/technologies | | 0 | 5 |
| Output 1.4 | | Tech Business Centre established | | Number of technology-intensive start-ups and SMEs supported within the Centre | 0 | 24 |
| Number of technology-intensive large enterprises (with less that 25% public ownership) supported within the Centre | 0 | 4 |
| Number of staff hired to provide services of TBC | 0 | 4 |
| Working space set up and adopted for TBC | 0 | 2000 m2 |
| **Bilateral Outcome**  **Enhanced collaboration between beneficiary and donor state entities involved in the Programme** | | | | Share of donor business partnerships which continue after project implementation period (**Percentage)** | N/A | 20% |
| Share of cooperating organisations that apply the knowledge acquired from bilateral partnership (**Percentage)** | N/A | ≥50% |
| Level of satisfaction with the partnership (scale 1-7) | TBD | At least 4.5 and an increase on the baseline value |
| Level of trust between cooperating entities in Beneficiary States and Donor States (scale 1-7) | TBD | At least 4.5 and an increase on the baseline value |
| Output 2.1 | Donor partnerships projects | | | Share of donor partnership projects out of the financed projects | 0 | 35% |
| Output 2.2 | Knowledge and technology transfer between donor states entities and Latvian entities promoted | | | Increased mutual knowledge about bilateral business opportunities among participating entities supported **(Scale 1-5)** | 0 | 4 |

## Grant rate and budget

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme eligible expenditure** | | | | € 14 705 882 |  |  |
| **Programme grant rate** | | | | 85.00% |  |  |
| **Total programme grant** | | | | €12 500 000 |  |  |
| **Programme grant – Norway Grants (€)** | | | | €12 500 000 |  |  |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  | **Budget heading** | **EEA Grants** | **Norway Grants** | **Total grant** | **Programme grant rate** | **Programme eligible expenditure** |
| PM | Programme management | €0 | € 1 020 455 | € 1 020 455 | 85.00% | €  1 200 535 |
| PA1 | Outcome 1 | €0 | €  11 479 545 | €  11 479 545 | 85.00% | €  13 505 347 |
|  | Total | €0 | € 12 500 000 | €12 500 000 | 85.00% | € 14 705 882 |

Only blue cells to be filled in; others cells will include formulas for calculation

**Annex I**

**Pre-defined project**

|  |  |
| --- | --- |
| **Project title:** | *Tech Business Centre* |
| **Project Promoter:** | *Investment and Development Agency of Latvia* |
| **Total maximum eligible project cost:** | *2 000 000 €* |
| **Project grant rate:** | *100%[[22]](#footnote-23)* |
| **Project grant amount\*:** | *2 000 000 €* |
| **Estimated duration:** | *January 2021 - April 2024 (40 months)* |

Latvia has an “innovation gap”. The reason for this gap has been identified as a lack of cooperation between research and business and a lack of environment that can foster such collaboration. Important challenges in innovation and R&D remain. The needs and challenges that the innovation system is facing are as follows:

1. Low level of private capital investments in R&D;
2. SMEs are concentrated in sectors with low and medium-low R&D intensity;
3. Low collaboration rate among companies and research organisations, mismatch in interests and directions;
4. Lack of technology transfer and commercialization capacity;
5. Business strategies are not innovation oriented and companies have a low understanding about the role of innovation and cooperation with research institutions and academia in business development and competitiveness.

These challenges can be effectively addressed by supporting the private enterprises at a physical meeting place that hosts technology intensive companies, research organisations and individuals as well as promotes collaborative activities. Accordingly, a predefined project that establishes a **Tech Business Centre** (hereinafter – TBC) and supports its activities towards private enterprises, is proposed. The centre will serve as a bridge between research and business. It is expected to intensify innovative activities by providing advisory services and bringing together entrepreneurs and researchers.

The project will support a set of activities for development of tech-intensive business ideas, as i.e. pre-incubation, incubation and post-incubation services as well as innovation audit services. The TBC will provide services for technology-intensive business ideas leading them to the level where these ideas are ready for acceleration, private and public capital funding or entry into the market.

Activities will include:

1. Scouting for innovative, tech-intensive teams and businesses. Clients can be individuals or teams with product ideas as well as established SMEs;
2. Pre-incubation, incubation and post-incubation services as:
   1. Coaching, mentoring and consultancy;
   2. Training courses (i.e. topics IPR management, innovation development, marketing);
3. Innovation audit and consultations (including on fundraising);
4. Facilitation of access to equipment available at research organisations;
5. Guidance through the process of commercialisation and product development;
6. Networking, learning and social events.
7. Innovation and smart lab services.

Based on their application, first, the private enterprises (see paragraph 4.3 Target group) will be verified in order to identify capacity of business idea and conformity to the TBC’ criteria. Secondly, selected enterprises will be advised by the TBC staff and will receiv services on what kind of support they need. The private businesses will be able to choose particular support activities or guidance through a selection of modules. The entreprise can be advised to follow a flow of modules step by step, or only selected modules. The efficiency of the business solutions and the progress of their development will be subject to a monthly assessment by the staff of TBC. The TBC will build up a coach team of 3-4 experts, who will be able to guide entrepreneurs through all business idea development process up to turning an idea into scalable business. Overall process of TBC running incl. providing services to the users, will be regulated under procedures and formalities developed by TBC.

Parts of the activities as listed above (1, 3, 4, 5) will be performed by in-house experts at LIAA while coaching, mentoring, training courses (2) and events (6) will be carried out both by in-house teams and external experts. It is planned to use experience and knowledge from Norway and other countries, when it comes training programmes for business idea developers. This can be an opportunity to exchange good practice examples and is expected to have positive impact on the bilateral cooperation between Latvia and Norway.

Additionally, the TBC will also provide innovation and smart lab services (7) to further promote various fields of technology and their possible interaction. The TBC will set up an innovation spot with digital toolkit, including equipment such as audio tools, automatic video camera (also providing live stream events), video wall, projectors, modular furniture, big movable LED screen wall, sound systems, tools for making podcasts etc. Consequentely, the TBC will be a comfortable and modern area with all the latest event equipment. TBC will run hands on innovation labs, helping fast growing companies accelerate their growth through space, knowledge, programs and methods.

Main activities covered by the PDP:

1. TBC infrastructure . 65% of the budget will be allocated to builing up infrastructure, such as setting up a space for coworking, events, expositions of new products, conferences, trainings and innovation and smart lab facilities;
2. TBC management team and external experts, to which 35% of the budget will be allocated.

To ensure a central point of activities TBC will be implemented in Riga, where many research institutions, technology companies and start-up development infrastructures are located.

LIAA is proposed as the suitable implementer of this PDP in order to provide the most reasonable project results and sustainability. LIAA has access to necessary resources for successful PDP implementation and can also continue to fund the centre after the grant period, ensuring its sustainability. Furthermore, LIAA has experience in a project management, a qualified team, extensive access to network and experience in cooperation among various partners (SMEs, research organisations, universities, investors, international experts etc.) and capacity to deal with challenges both at national and regional level.

By establishing the TBC, the grants will provide Latvia with an opportunity to develop a long-term cooperation platform for the development and maturation of technologically-intensive business ideas. It will also enable and prepare Latvian private businesses to attract additional development funding, such as acceleration and venture capital and financing from commercial banks or business angels. TBC will also serve as a place for meeting and networking among innovation actors, as i.e. business idea developers, researchers, existing innovative SMEs, incl. large companies and start-ups, investors, business coaches, innovation evangelists, etc.

The establishment and running of the TBC have a direct impact to the overall objective of the Programme to contribute value creation and sustainable growth in Latvia’s private business sector. The TBC project brings added value to development of tech-intensive innovation, including increased number of innovative companies in Latvia, increased entrepreneurs’ awareness about the role of innovation in their business model change and competitiveness, increased number of co-operation projects between enterprises and scientific institutions, increased number of market entries after business incubation with the potential for scaling up business ideas in foreign markets. In general the activities of the TBC will increase the competitiveness for Latvian tech-intensive enterprisese.

1. The Ministry of Economics shares responsibility with the Investment and Development Agency of Latvia in preparation of the Concept note and Programme rules. [↑](#footnote-ref-2)
2. Europe 2020: A strategy for smart, sustainable and inclusive growth

   <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52010DC2020&from=EN>

   Sustainable Development Strategy of Latvia until 2030

   <http://www.pkc.gov.lv/sites/default/files/inline-files/LIAS_2030_en_1.pdf>

   National Reform Programme of Latvia for the Implementation of Europe 2020 Strategy

   <https://rio.jrc.ec.europa.eu/en/library/national-reform-programme-latvia-implementation-europe-2020-strategy>

   National Development Plan of Latvia for 2014-2020

   <http://www.pkc.gov.lv/sites/default/files/inline-files/NDP2020%20English%20Final__.pdf>

   The Guidelines on National Industrial Policy for 2014-2020

   <https://em.gov.lv/files/uznemejdarbiba/finl_en.pdf> (EN; unofficial, abbreviated document)

   <http://polsis.mk.gov.lv/documents/4391> (LV; official document)

   The Guidelines for Science, Technologies and Innovations Development 2014-2020 (incl. the Smart Specialization Strategy of Latvia)

   <http://cfla.gov.lv/userfiles/files/1111_Science%20TDevelopment%20and%20Innovation%20Framework%202014-2020_ENG.doc>

   (EN; unofficial document)

   <http://polsis.mk.gov.lv/documents/4608> (LV; official document)

   Information Society Development Guidelines for 2014-2020 (EN)

   <http://www.varam.gov.lv/eng/darbibas_veidi/e_gov/?doc=13317> [↑](#footnote-ref-3)
3. Grant rate will depend on regulation of particual state aid and eligible activities. [↑](#footnote-ref-4)
4. Regulation on the implementation of the Norwegian Financial Mechanism 2014-2021 adopted by the Norwegian Ministry of Foreign Affairs pursuant to Article 10.5 of the Agreement between the Kingdom of Norway and the European Union on a Norwegian Financial Mechanism for the period 2014-2021 on 23 September 2016 (hereinafter – Regulation). [↑](#footnote-ref-5)
5. Grant rate will depend on regulation of particual state aid and eligible activities. [↑](#footnote-ref-6)
6. Grant rate will depend on regulation of particual state aid and eligible activities. [↑](#footnote-ref-7)
7. Number of employees less than 10. [↑](#footnote-ref-8)
8. Number of employees 50 – 250. [↑](#footnote-ref-9)
9. COMMISSION REGULATION (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty. [↑](#footnote-ref-10)
10. The category of micro, small and medium-sized enterprises (‘SMEs’) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million. The enterprise cannot be considered an SME if 25 % or more of the capital or voting rights are directly or indirectly controlled, jointly or individually, by one or more public bodies. [↑](#footnote-ref-11)
11. Grant rate will depend on regulation of particual state aid and eligible activities. [↑](#footnote-ref-12)
12. Measuring results in enterprises supported by the Programme. [↑](#footnote-ref-13)
13. Baseline will be set when the Programme’s project portfolio have been selected. [↑](#footnote-ref-14)
14. Definition of “**value creation**”: initiatives to bring value to enterprise’s shareholders and customers. [↑](#footnote-ref-15)
15. Definition of “**sustainable growth**”: Building a better society based on the three dimensions of sustainability; economic sustainability, environmental sustainability and social sustainability. [↑](#footnote-ref-16)
16. Definition of “**competitiveness**”: Enterprises’ ability to offer products and services that meets the quality standards on the local and world markets at prices that are competitive and provide adequate returns on resources employed or consumed in producing them. [↑](#footnote-ref-17)
17. Definition of “**job”**: Please see the Core Indicators guidance document, for the definition of jobs created: Additional jobs (positions) created in an organisation targeted by the Programme. A job should be

    permanent, full-time equivalent and paid. To be treated as permanent, a job should have a life expectancy of at least one year. [↑](#footnote-ref-18)
18. Difference between operating income and operating expenses. [↑](#footnote-ref-19)
19. Definition of **“applied”:** An enterprise is using a solutions/technology/product already developed/available in the market and adjust it to the enterprises’ own need. These types of projects can include a R&D component related to adjustment of material, process etc. applicant/enterprise’s needs. [↑](#footnote-ref-20)
20. Def. “**commercialization**” is the process by which a new product or service is introduced into the general market. It takes into account the production and sales required to achieve commercial success. [↑](#footnote-ref-21)
21. Def “SMEs”: SMEs are enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million. [↑](#footnote-ref-22)
22. If eligible activities claisifies as state aid, then grant rate can vary depending on regulation of particual state aid. [↑](#footnote-ref-23)