

Project applicant potential demand for financial support in the entrepreneurship and innovation activities in 2007 – 2013.

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SUMMARY

The general objective of the research “The potential project applicants’ demand for financial support under the EU Structural Funds entrepreneurship and innovation activities for the programming period 2007 – 2013” is to determine the potential demand for financial support under EU Structural Funds for programming period 2007-2013. In order to meet the objective, a research regarding the applicants’ potential interest in demand for financing allocated under EU Structural Funds entrepreneurship and innovation activities has been developed and carried out for the programming period 2007-2013. The research comprises an analysis of the following demand indicators: total quantity of applicants for the available financing allocated for each activity, potential amount in terms of demand for financing under each activity, potential amount of co-financing from the businesses, submission period of applications, as well as breakdown of the potential demand sectors and regions.

In order to meet the objectives under the Lisbon Strategy and in order to reach the EU’s average indicators of welfare, the financial support under the EU Funds for the programming period 2007 – 2013 is planned to be allocated inter alia to the development of science, innovations and entrepreneurship, thus promoting development of research, transfer of technologies, fostering applied studies, supporting establishment of new businesses and promoting easier access to financial resources. In general the activities supported under the EU Funds are in line with the Latvia’s strategic development objectives set forth in the national development documents, namely, the National Development plan 2007-2013, the Latvian National Lisbon Agenda 2005-2008 and the Latvian Strategic Reference Framework.

In comparison with the previous implementation period for the EU Structural Funds (2004-2006), the demand for the EU Funds allocated for the activities supporting entrepreneurship and innovations has increased (especially in the field of innovation), however, more detailed analysis in terms of readiness to implement the projects falling within these activities shows that only a part of the potential applicants meet the activity implementation requirements, therefore, the quantity of eligible applicants that would be able to submit projects for the activities is substantially reduced, besides, most of the activities are likely to fail in terms of absorption of the allocated financing to the full extent.

The relatively low level of demand for projects under the activities for entrepreneurship and innovation could be explained with the unstable economical environment in Latvia leading to a cautious approach towards planning of investments in projects and fostering participation in activities with higher proportion of public co-financing that requires less investments from private sector. In addition, the relatively

low level of readiness to implement projects relating to entrepreneurship and innovation could be explained by the fact that the businesses currently show rather superficial approach to implementation of the projects i.e. they support the direction of entrepreneurship's development adopted by the government, they show interest in innovative entrepreneurship, however, there is a lack of understanding what resources are required in order to implement such projects.

When analysing the activity implementation requirements against the businesses' interest and readiness to implement the projects, one can conclude that in the current situation the requirements are better suited for large businesses having greater amount of available resources to be invested. Besides, it must be noted that most of the Latvian companies are micro and small businesses, even the quantity of medium-sized companies is not large, therefore, it would be advisable to review the implementation requirements for the activities aimed at small and medium-sized businesses in order to promote their participation by means of adjusting the amount and intensity of the potential support.

Probably it would also be advisable to review the distribution of financing allocated to entrepreneurship and innovation activities in order to balance it between the businesses' interest and readiness to implement the projects and the government's priorities and the planned financing, thus ensuring successful absorption of financing from the EU Funds. In other words, in the activities with a low level of businesses' readiness to implement projects, it would be advisable to redistribute the financing to the activities where the level of demand is higher and where the demand is likely to exceed the amount of the allocated financing.

Currently only 19% of the Latvian business are innovative¹. The percentage is very low when compared with other EU Memberstates. When asked about the role of innovation in their operations and what they expect from the public sector in order to develop innovations, the majority of the surveyed entrepreneurs pointed out that there is a lack of explanatory information about innovations, different measures and possibilities. Although the role of innovative entrepreneurship is increasingly emphasized in the public space, the information is not freely accessible to all the target audience and the information lacks explanations. In order to ensure that the information reaches as many entrepreneurs as possible, it would be necessary to promote the availability of explanatory information, especially in the regions, where entrepreneurship is less developed than in Riga and its surrounding area. It must be emphasized that also information about the state-of-the-art technologies, researches and inventions tend to reach regions with certain delay, therefore also the responsiveness and reaction to new trends is at a lower level and subject to certain delays.

When analyzing the potential quantity of applicants where the demand for a certain activity substantially exceeds the quantity of businesses meeting the conditions relating to the amount and intensity of support for the activity's implementation, one can conclude that not all the potential applicants show in-depth understanding of the implementation requirements, especially in the initial stages. Also in this case

measures of explanatory nature would be required, providing information about the possibilities to receive support. Special attention should be paid to explanatory measures and provision of information to the target audience currently showing low level of interest about the available support, and it would be necessary to find ways of attract businesses that currently are reluctant to draft projects aimed at receiving the EU support. It would be necessary to identify the target groups that currently receive little or none information, including information made available in the public space and to find ways of delivering the information in a more efficient manner.

In order to support the implementation of activities, it would be necessary to develop communication strategies for particular activities, thus promoting the activities as such and ensuring more efficient understanding in the target audience about the aims and conditions of the activities. Besides, it would be advisable to provide not only information but also practical support to the entrepreneurs, especially in the project drafting stage, thus contributing to improved quality of the submitted project applications.

Taking into account the fact that entrepreneurship in the regions is not as developed as in the largest cities, it would be necessary to adopt a more proactive approach towards involvement of regions in the absorption of the EU Funds. One of the solutions would be to provide the intensity of support by regions and, probably, also by sectors that are subordinated to regional distribution, i.e. to determine what sectors should be assigned the status of priority in particular regions. In addition, it would be possible to promote development of competence centres or clusters in rural municipalities rather than in large cities, thus fostering the development of entrepreneurship in the respective area and region.

The results of the research show that businesses are not planning on submitting projects later than by 2009-2010. It indicates that the businesses are reluctant to plan their operation from the long-term perspective, which could be explained by the economical situation in Latvia, where the inflation is rapidly increasing and the economy is not stable. Therefore, it would be necessary to implement planned measures aimed at improving the economical environment, thus contributing to businesses' confidence in successful implementation of projects and promoting the role of long-term planning.

In order to ensure that all the aims under entrepreneurship and innovation activities are met, during evaluation of the submitted projects it would be necessary to focus on the role of each project in terms of long-term benefits, ensuring that the results are likely to contribute to the development of national economy, as well as ensuring that the support is not intervening with the principles of free competition.

The low level of interest in entrepreneurship and innovation activities from the non-governmental sector could be explained by the lack of financial, human and time resources. Taking into account the important role of this sector, it would be necessary to implement support measures aimed at promoting the involvement of NGOs in implementation of the activities.

In general, when assessing the potential impact of the entrepreneurship and innovation activities supported by the EU Structural Funds on Latvia's business environment, one can conclude that in case support is provided to the projects that contribute to the successful implementation of the activity objective and contribute to the long-term development of economy, the activities will promote the development of entrepreneurship and introduction of innovations in businesses' daily operations, thus strengthening business environment in Latvia.