

CLUSTERS3 PROJECT'S
LEVERAGING CLUSTER POLICIES FOR SUCCESSFUL
IMPLEMENTATION OF RIS3

ACTION PLAN

MINISTRY OF ECONOMICS OF
THE REPUBLIC OF LATVIA



Ministry of Economics of the Republic of Latvia



TABLE OF CONTENTS

GENERAL INFORMATION	3
POLICY CONTEXT	4
ACTION 1	11
THE BACKGROUND	11
ACTION	13
PLAYERS INVOLVED	15
TIMEFRAME	16
FUNDING SOURCES	16
ACTION 2	17
THE BACKGROUND	17
ACTION	18
PLAYERS INVOLVED	22
TIMEFRAME	22

PART I – GENERAL INFORMATION

PROJECT: CLUSTERS3 - Leveraging Cluster Policies for successful implementation of RIS3

PARTNER ORGANISATION: Ministry of Economics of the Republic of Latvia

OTHER PARTNER ORGANISATIONS INVOLVED: -

COUNTRY: Latvia

NUTS2 REGION: Latvija

CONTACT PERSON: Evita Feldberga

EMAIL ADDRESS: Evita.Feldberga@em.gov.lv

PHONE NUMBER: +371 67013023

PART II – POLICY CONTEXT

THE ACTION PLAN AIMS TO IMPACT:

- Investment for Growth and Jobs programme
- European Territorial Cooperation programme
- Other regional development policy instrument

NAME OF THE POLICY INSTRUMENT ADDRESSED:

Cluster Programme (Operational Programme “Growth and Employment”. Priority Competitiveness of SMEs. 3.2. Investment Priority)

As it was defined in the project’s Application form, the main objective of Cluster Programme is to increase competitiveness, export capacity and coop of SMEs to promote growth of productivity and high value-added products and services. Cooperation between SMEs, education and research institutions and other partners to develop common marketing, internationalisation, research and other projects to develop new products and access new markets – these are the main activities that are supported within the framework of Cluster Programme.

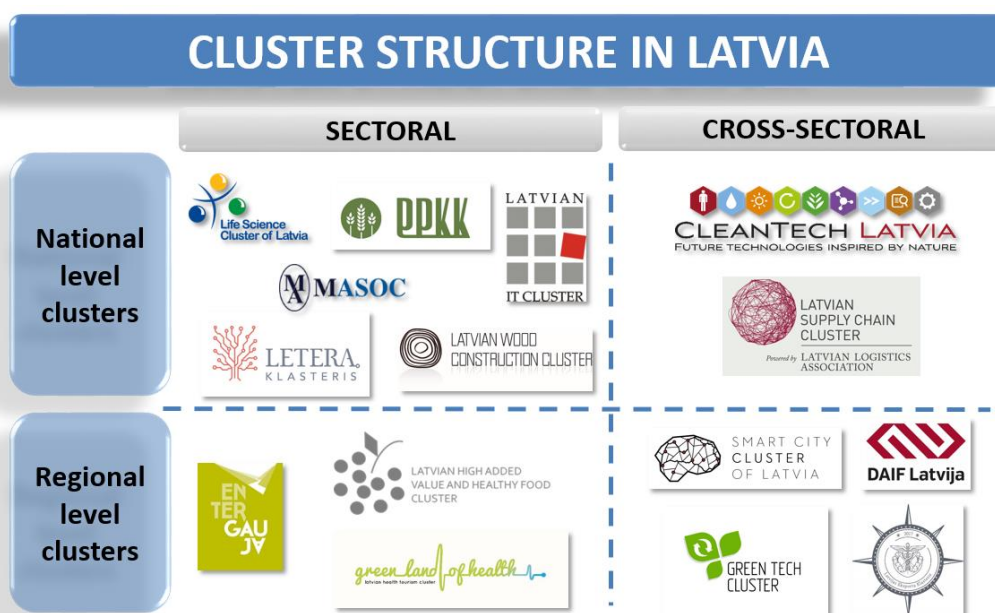
Cluster Programme is financed by European Union ERDF fund, total budget of the program is 6,2 mil EUR. Programme takes form as an open call during which associations or other legal entities submit their cluster project proposals. According to the criteria and priorities stipulated by Ministry of Economics most relevant projects are selected. Priorities are based on "Latvian goods and services export promotion and attraction of foreign investment guidelines 2013-2019" which is one of the main national policy planning document.

Applicant is an association or foundation with the following conditions:

- registered in the Enterprise Register of the Republic of Latvia in the Register of Associations and Foundations;

- represents not less than 20 not interlinked small (micro), small and medium-sized merchants –cluster members – and ensure that in a year after approval 30 merchant will be represented;
- total net turnover on average during the last three years is not less than 10 million per year;
- total export volume of the average of the last three years is not less than 2 million euro per year (exception in tourism sector);
- at least two of the research organisation and the dissemination of knowledge are involved

Call was opened in 2016 accepting 17 projects from which 14 was selected for 4 years' clusters supporting program. Evaluation was done by Ministry of Economics in cooperation with Central Finance and Contracting Agency. Selected projects represent Timber; Mechanical engineering and metalworking; Manufacture of electrical and optical equipment; The chemical industry; Food and beverage production; Paper production and printing; Information and communication technologies industry; Accommodation and catering services (tourism); Health and social care; Cross-sectoral industries (see picture below).



Cluster structure in Latvia are very complex combining within one program young and mature, sectoral and cross-sectoral, regional and national clusters. To serve the all need within cluster program main cluster organisation activities are promotion

of export and innovation, creation of new products, cluster internationalization, integration of RIS3, cluster excellency, etc.

Target indicators for Cluster Programme:

- export volume until year 2023 December 31 is 6 068 440;
- supported SME's until year 2018 December 31 is 180 of which 60 are grant recipients;
- supported SME's until year 2023 December 31 is 360 of which 120 are grant recipients;
- certified expenditure until year 2018 December 31 is 1 201 009 EUR.

Latvian Smart Specialization Strategy (RIS3) provides transformation of Latvian economy providing science and technology-driven growth and progress towards a knowledge-based capacity development. RIS3 goal is economic transformation towards higher added value, productivity and more effective usage of resources. It is a hybrid strategy that sets out 3 directions of economic strategy, 7 growth priorities and 5 specialization areas.

RIS3 of Latvia sets 3 main directions/domains: 1) change of production and export structure in the traditional sectors of the economy, 2) growth in sectors where there is or is likely to create products and services with high added value and 3) branches with significant horizontal impact and contribution to economic transformation. Within the RIS3 of Latvia 7 priorities has been set out: 1) High added value products, 2) Productive Innovation System, 3) Energy Efficiency, 4) Modern ICT, 5) Modern education, 6) The knowledge base and 7) Polycentric development.

Cluster organization interests were represented in the designing process of the RIS3 strategy framework in Latvia. There were various cluster stakeholders (scientific institutions, enterprises and educational institutions) involved in this process (meetings, conferences, working groups etc.). Additionally, Cluster Programme foresees quality criteria which states that project applicant should provide implementation of cluster actions contributing to RIS3 targets. All clusters who have applied for the EU funding in their project proposals intended some activities to fulfil these criteria. Different project CLUSTERS3 activities showed the need to strengthen the comprehension about RIS3 and cluster role in it.

Participation in the CLUSTERS3 project provided a great opportunity for the Ministry of Economics of Latvia (managing authority of Cluster Programme) to learn and exchange experience with other project partners. There was a lot to acquire about cluster and RIS3 policy implementation through specific support instruments and programmes where topic was hosted by Piedmont region, or about different instruments for cross cluster collaboration promotion hosted by Lubelskie region. There was a lot to understand from each region and more about cluster capacity building where topic was hosted by Northern Ireland region in high quality conference, but for Ministry of Economics most valuable theme was about clusters evaluation hosted by Highlands and Islands region. Comparison between the different regions let not just to learn, but also better understand the competitive advantage of the region and disadvantages in implemented policies.

As part of the first phase of learning and experience exchange within the CLUSTERS3 project, peer review for Latvia was conducted. The international peer reviewers two experts from the TCI Network (Gerd Meier zu Köcker, Director General of the Institute for Innovation and Technology in Berlin, Germany; and Emily Wise, Consultant and Research Fellow at Lund University, Sweden) as well as David Fernández, SPRI Basque Business Development Agency (representing a peer region within the Clusters3 project). From Ministry of Economics side this exercise is the most valued one within whole CLUSTERS3 project. Peer review highlighted the main recommendations on how cluster-based efforts should be evolved and adapted for better implementation of RIS3 strategy in Latvia. These recommendations were divided into four parts (depending on the aspect which should be improved):

1. CLUSTER POLICY

- a. Adjust selection criteria and conduct mapping of collaborative environments;
- b. Develop Cluster Programme to have “modular” and performance-based funding packages;
- c. Enlarge support activities for cluster organisations beyond the funding programme;
- d. Further capacity building activities for policy makers.

2. CLUSTER ORGANISATION ECOSYSTEM

- a. New services to be implemented by cluster organisations;
- b. Sharpen the profile of cluster initiatives and cluster organisations;
- c. Implement a dialogue between cluster organisations and cluster policy;
- d. Set up a common platform to present Latvian cluster initiatives.

3. MONITORING AND EVALUATION

- a. Further develop the intervention logic – incorporating indicators on intermediate results of collaborative initiatives;
- b. Initiate efforts to track the development of collaborative dynamics (within clusters) over time.

4. TERRITORIAL RIS3

- a. Make better use of existing cluster landscape when updating RIS3
- b. Make more use of cluster initiatives as a tool to implement RIS3
- c. Better align and coordinate RIS3 with neighbouring regions
- d. Establish a multi-level stakeholder dialogue for implementation and further development of RIS3

Based on peer review conclusions and intensive exchange of experience during the active phase of the Project specific actions has been defined and included into project's Action plan of the Ministry of Economics of Latvia. It is necessary to highlight that some actions have been already done beyond the Action plan.

Firstly, CLUSTERS3 stakeholder meetings has been organised at least once in a quarter which has led to emergence of unofficial “Cluster club” establishment. Cluster managers coming together at least once in a quarter has understood the benefits of experience and knowledge sharing. Acquisition is so important that they are meeting beyond CLUSTERS3 stakeholder group and even some cross-cluster cooperation initiatives has been established. Comparing with other project partner regions as Piemonte or Basque country this is not a novelty but considering poor triple helix model implementation in Latvia this is a noticeable step to more effective cluster development. CLUSTERS3 project did give the impulse of collaboration not just between the cluster managers, but also academics and public sector so it is important to maintain the triple helix development where Ministry of Economics sees opportunity to keep this good practice ongoing. Accordingly, Ministry of Economics

linking other representatives of public sectors have decided to meet with cluster managers at least 4 times per year instead of 1 official Cluster Programme follow up meeting. Also, after the CLUSTERS3 project finalization. Ministry of Economics have expressed their support for official cluster organisations representative body establishment but also Ministry of Economics holds a view that this should be 100% bottom up initiative. To set up a common platform to present Latvian cluster initiatives was one of the suggestion within the Peer Review exercise, but in near future this suggestion will not be carried out. Meanwhile already existing platforms as European Cluster Collaboration Platform (ECCP) is promoted where already 9 Latvian clusters are represented.

Secondly, after the project CLUSTERS3 interregional workshop in Spring 2017 in Lublin which was devoted to cross cluster collaboration topic need for cross cluster cooperation promotion in Latvia was identified. Therefor cross sectoral/cross cluster collaboration within Cluster Programme was defined as priority within clusters action planned for year 2018. The aim is to identify cross sectoral cooperation opportunities for cluster organisations and companies. This year is considered as pilot, so no special requirements or indicators has been set, but experience will be asked to share within yearly evaluation process. More specific objectives and activities will be prioritized in years to come. With this activity, Ministry of Economics would like to enable changes in innovation creation mindset where already now promising changes has been observed.

Thirdly, the Peer Review Exercise reaffirmed the need for tighter collaboration between EU structural funds programs in Latvia, more precise Cluster Programme, Competence centres program and Trainings program. All of them are managed by Ministry of Economics, Sectoral Policy Department and all of them serves the need for innovation ecosystem development. Challenge is the placement of the programs each under the different thematic priority (“competitiveness of SMEs” vs. “support for innovation development”), at the same time Cluster Programme is targeting just SME’s which come at the expense of involving large companies, universities and research institutions, and local/regional government in the core activities of the cluster. This is a fundamental issue which Ministry of Economics have manage to harmonize within framework of EU structural fund implementation rules. Particularly

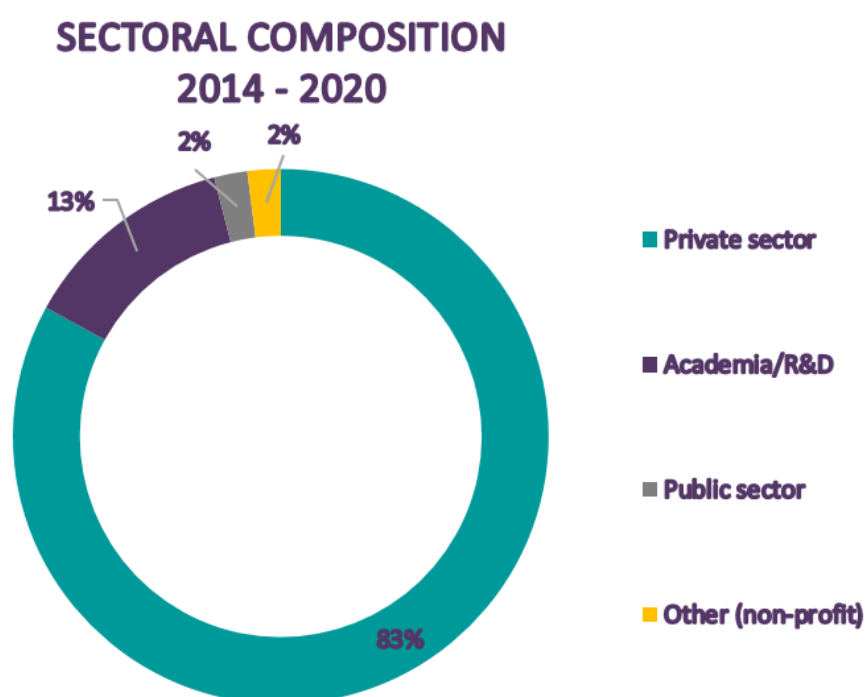
new selection criteria have been embedded for the next Competence centres call (approved in Cabinet of Ministers), where strategic cooperation with cluster organisations are asked as precondition for future development. Also, second call for training program will be extended to involve clusters as exit points for trainings in RIS3 areas (program call proposal is in Cabinet of Ministers for approval).

PART III – DETAILS OF THE ACTIONS ENVISAGED

ACTION 1

1. THE BACKGROUND *(please describe the lessons learnt from the project that constitute the basis for the development of the present Action Plan)*

Already in second Interregional Workshop in Piedmont it was clear that in comparison with other project partner regions in Latvia there are noticeably smaller clusters than in other regions. For example, in Piedmont region cluster as AGRIFOOD Innovation Cluster have 510 members with good balance of ratio. The same time Basque Country Automotive cluster have 160 members with very strong industry and business orientation. These are impressive examples considering that in Latvia cluster organisations in average have 30 members (just SME's) and unbalanced structure as you can see in graph below.



Low critical mass within Latvian cluster organisations was one of the conclusions experts identified within Peer Review exercise. Additional challenge for cluster organisations is limitation set by the placement of the Cluster Programme

under the priority “supports for SME’s” excluding support possibilities for large companies and other stakeholders. In the same time cluster organisations can build their capacity and develop the level of cooperation with existing and potential members.

To develop potentially more efficient service implemented by cluster organisation in Latvia which fits specific needs of local SMEs the Ministry of Economics of Latvia involved external expertise. To design this potentially new service provided by clusters, expert group worked by the following methodology. Research consisted of semi-structured interviews predominantly with businesses that are cluster clients and cluster management to gather in-depth data on how businesses interact with clusters, and a design workshop which was focused on discussing the preliminary findings and suggesting possible solutions to identified problems. To decide whom to conduct interviews with cluster management and businesses were selected by various criteria, such as cluster age, sector, ties to association, regional or national scope and awards assigned (for clusters) and location, size, duration of membership in cluster, cluster type and sector (for businesses). Research participant choice was also affected by their previous participation in Peer review research and simultaneous participation in more than one cluster.

After interview data had been gathered and it was used to form the structure of workshops. It is important to stress that design thinking approach for the workshop was used. Design thinking is methodology of iterative processes which leads to solve problems and find solutions for clients – in particular case for clusters and their members. Based on their expertise workshop participants were split in four groups, each including cluster management representative, Ministry of Economics official, researcher and business representative. By working as one of three hypothetical companies each of the four groups described the possible course of business-cluster interaction, problems and solutions that could arise along the way. Ultimately each group designed a particular cluster service that could be implemented by clusters responding the issues discovered by semi-structured interviews. There were few main challenges tackled as for example new company entering cluster organisation, almost negative attitude by older members, low member activity in general, etc. As a result new services were designed to reinforce cluster organisation and member

collaboration. Within the Action plan these new services will be tested and evaluated free willingly by cluster organisations.

2. ACTION *(please list and describe the actions to be implemented)*

The first action potentially is applicable to new cluster members (*those who use cluster services for less than two years*). After previously described research, group of experts designed the guidelines of approach to new cluster members which should be followed by cluster management. Guidelines includes also a creation of new service - cluster's road map with the information about services new member potentially could be interested in. See section "players involved" to this action and guidelines could be implemented into clusters.

THE GUIDELINES FOR CLUSTER MANAGEMENT

"APPROACH TO NEW CLUSTER MEMBERS"

Such guidelines need to be followed to minimize the confusion of new cluster members and to reduce inefficient use of cluster's resources.

FIRST STEP – cluster coordinates a meeting with the new member.

When new member joins cluster, cluster's management should coordinate a meeting and it is recommended that this meeting take place at the premises of company of new member. During the meeting the representative of cluster should explain how cluster differs from other support instruments; what are the services provided by the cluster that could be effective for concrete cluster member; how the process of receiving services is structured.

SECOND STEP – new member visits the cluster.

Cluster management should also arrange the meeting with new cluster member at their own office, so new member could understand the measurement of cluster and other relevant circumstances related to cluster activities.

THIRD STEP – detailed information about cluster’s specific features.

During the first step cluster representatives provide just overall information about cluster activities but to achieve better integration they should explain how cluster operates in more detailed way. Several things need to be clarified to new cluster member:

- how cluster differs and cooperates with federations, competence centres, associations etc. from the same sector;
- cluster’s operational priorities for this moment or period;
- information about other cluster members who operates in the same specific area;

It is recommended that the whole previously defined information is also available in readable format (as a booklet, section on the website etc.). If cluster management deems that it is necessary than some cluster affiliation attributes can be presented to the new member (pen, cup etc.).

FOURTH STEP – services provided by cluster.

Cluster management should present information about all the services provided by cluster and this presentation should begin with the three most commonly used services by cluster members. During the presentation both sides should clarify which services would be the most relevant for new cluster member.

FIFTH STEP – Road map

On the basis of activities of previous steps cluster representatives presents a road map of collaboration – all the information about activities and aspects which should be considered if new member decides to use one of the services which could be relevant for SME. Information included in this “road map’s package” is standardized and differs depending only on SME’s specific needs.

SIXTH STEP – New member presents itself to other members of the cluster.

This is the last activity within the framework of these guidelines. Cluster should organise the members meeting and during this meeting new member introduce itself to other members - give overall presentation about company's profile and interests. It is crucial for new cluster members to get know more experienced ones at the early stage of using cluster's services for a several reasons. Firstly, it saves the company's resources because the potentially main partners within the cluster are defined and entrepreneur do not need to waste his/her time to find them. Also, it provides the opportunity to collaborate with others already during the first steps in cluster and this aspect result into the most efficient use of cluster services.

3. PLAYERS INVOLVED *(please indicate the organisations in the region who are involved in the development and implementation of the action and explain their role)*

Apart from the Ministry of Economics of Latvia (project's partner) the following players were involved in the development of the action:

- **External experts** from the "Laboratory of analytical and strategic studies" (SIA "Analītisko pētījumu un stratēģiju laboratorija");
- **Representatives of cluster management** (from clusters who have received support within the framework of the Cluster Programme);
- **Cluster members** (SMEs).

The following players will be involved in the implementation of the action:

- **Cluster management** (from clusters who have received support within the framework of the Cluster Programme). Clusters as Latvian wood construction cluster (Bronze label) and Latvian IT cluster (Silver label) has already expressed desire to integrate such approach/service into their practice right after the workshop held during the action's development phase. The results of this activity potentially will be available already during the second phase of the CLUSTERS3 project.
- **Central Finance and Contracting Agency** (as an authority responsible for the administration of the Cluster Programme). Due to the fact that

implementation of this action could affect implementation of cluster strategy within Cluster Programme the Central Finance and Contracting Agency has been involved in new services design process and is aware of possible deviations (so clusters could implement previously described action).

4. TIMEFRAME

01.07.2018 – 31.12.2020.

5. COSTS

-

6. FUNDING SOURCES

Within the Cluster Programme.

ACTION 2

1. THE BACKGROUND *(please describe the lessons learnt from the project that constitute the basis for the development of the present Action Plan)*

CLUSTERS3 Interregional workshop in Inverness which was devoted to cluster evaluation topic clearly showed the lack of sophistication in cluster evaluation and monitoring system in Latvia. Monitoring and evaluating cluster policies are fundamental activities that promote the use and further development of cluster support programs. The implementation of the Cluster Programme includes the need for an annual evaluation of the program, based on the requirements specified in Paragraph 35 of the Cabinet of Ministers Regulation No. 205, that the beneficiary accumulates from the cluster members and once a year submits to the responsible institution at least the following data:

- information on the members of the cluster - name, registration number, merchant status, export volume, amount of investments in research and development (data are updated at least once a year);
- cluster members' assessments of the quality of the services provided by the cluster;
- data on the increase in the export volume of cluster members for two years after the receipt of the aid;
- information on the efficient and effective use of natural resources for the implementation of a cleaner production process, reducing raw material and energy consumption, emissions and waste (if applicable).

The above-mentioned quantitative indicators do not address *softer* aspects and just partially show results of the development of collaboration in particular cluster's ecosystem. There is a potential to develop more structured monitoring measures to control the short and medium-term outcomes of cooperative activities.

CLUSTERS3 project partners from other regions have great examples of cluster evaluation and monitoring systems from which policy makers in Latvia have been inspired. For example, Hungary have multi-level evaluating system where clusters are

evaluated differently by depending on their official form - are they start-up, non-accredited or accredited clusters. Colleagues from the Region of Piedmont (Italy) during one of the project meetings presented how the evaluation is done in Italy. Clusters are evaluated in five different dimensions and afterwards points of these dimensions can be summarised depending on what kind of results policy makers want to analyse (to evaluate their international cooperation, local activities etc.).

These both examples are completely different from each other but both are well designed and fit to the needs. It proves that it is crucial to have adjusted evaluation and monitoring system to local conditions (cluster ecosystem, support system, traditions etc.) to make it efficient as it possible.

2. Action *(please list and describe the actions to be implemented)*

The essence of Action is to implement changes in evaluation system of clusters which would be emphasized on efficiency of clusters. On the basis of academic research, project's Peer review of Latvia and good practices of other project partners attracted external experts from the University of Latvia developed proposals on how clusters should be evaluated. Ministry of Economics already defined the following steps to implement particular action:

1. Together with representatives of cluster ecosystem **analyze proposal of external experts to define which indicators of cluster member's business activities should be accumulated** by beneficiaries of the Cluster Programme;
2. **Implement amendments to the Cabinet Regulation No. 205** to make it obligatory for beneficiaries to collect this data and share with responsible authority (Ministry of Economics);

Proposal of methodology for assessing the efficiency of clusters

As shown in Table 1 for the efficient and objective evaluation of clusters experts suggest to use the following quantitative and qualitative indicators.

	QUANTITATIVE INDICATORS	QUALITATIVE INDICATORS
COMPULSORY CRITERIA	<ul style="list-style-type: none"> • Number of companies in the cluster / dynamics; • Expenditure on research and development (R&D) (cluster / industry); • Export / Export value added (cluster / industry). 	<ul style="list-style-type: none"> • Cluster Members Satisfaction; • Sustainable development
COMPLEMENTARY CRITERIA	<ul style="list-style-type: none"> • Growth of enterprises (turnover) • Employment / its dynamics (cluster / industry) • Salaries (cluster / industry) • Value added / Productivity (cluster / industry) • Patent number (cluster / industry) • New products (cluster / industry) 	<ul style="list-style-type: none"> • Cluster manager meeting frequency / events with, for example, companies, public sector, research institutes, educational institutions, other cluster organizations, etc. • Personnel availability (fill-in time) • Clusters / Resource Objectives • Cluster Strategy / Strategy Achievement Resources • Patent value • Export orientation • Cluster funding structure • Cluster visibility events

Table 1. Quantitative and qualitative indicators.

The information and data needed to measure clusters can be obtained from sources that are already used for it, such as cluster enterprise annual reports and reports, Company Register and State Revenue Service Database. Experts propose to choose the required number of indicators, rationally assessing the amount of work required for the collection of information and data, as well as the possibility to automate the process.

Experts also offered proposal for a more detailed evaluation of efficiency of clusters with emphasis on their quantitative indicators. Designed evaluation system consists of three parts with three different purposes:

1. To evaluate the development of a particular cluster between periods;
2. To evaluate clusters between each other;
3. To evaluate the efficiency of cluster and its members against the efficiency of players of particular sector.

Table 2 (see it on next page) presents the proposal of experts with the summarised list of indicators which should be accumulated by beneficiaries of the Cluster Programme.

INDICATORS	RESULTS WITHIN THE CLUSTER			RESULTS BETWEEN CLUSTERS	RESULTS AGAINST THE PARTICULAR SECTOR	
	<u>Average in cluster</u>	<u>Total in cluster</u>	<u>The dynamics against the previous period</u>	<u>Cluster's average against the average of all clusters in Latvia</u>	<u>Cluster's average against the sector's averages</u>	<u>Cluster's average against the sector's averages in the EU</u>
Number of companies in cluster						
Expenditures on R&D (EUR)						
Export/ export added value (EUR)						
Export added value (EUR)						
Satisfaction of cluster members (survey results)						
Sustainable development (according to internal document)						
Turnover (EUR)						
Dynamics of capital of SMEs						
Number of employees						
Wages (EUR)						
Number of patents						
Number of new products						
Transactions between cluster members (EUR)						
Transactions in the aid chain (EUR)						

Table 2. Evaluation table of clusters efficiency.

3. PLAYERS INVOLVED (please indicate the organisations in the region who are involved in the development and implementation of the action and explain their role)

Apart from the Ministry of Economics of the Republic of Latvia the following players were involved in the development of the action:

- **External experts** from the University of Latvia;
- **Representatives of cluster management** (from clusters who have received support within the framework of the Cluster Programme);

The following players will be involved in the implementation of the action:

- **Cluster management** (from clusters who have received support within the framework of the Cluster Programme). Beneficiaries will have to accumulate new data and send it to authority responsible for the administration of the Cluster Programme.
- **Central Finance and Contracting Agency** (as an authority responsible for the administration of the Cluster Programme). Agency will collect new data.

4. TIMEFRAME

Internally defined deadline for amendments to be made - **01.01.2019**. But external aspects should be considered – such as bureaucratic burden which could lead to the suspension of amendments to a later date.

5. COSTS

-

6. FUNDING SOURCES

-



Ministry of Economics of the Republic of Latvia



European Union
European Regional
Development Fund

DATE: 28 June 2018

NAME: Ēriks Eglītis

POSITION: State Secretary of the Ministry of Economics of Latvia

SIGNATURE:



STAMP OF THE ORGANISATION: