

Digitalisation

LEVERAGING THE OPPORTUNITIES OF DIGITALISATION IN LATVIA

- ▶ Fully reaping the opportunities of digitalisation is essential to sustain productivity growth and improve living standards in Latvia.
- ▶ Strengthening the innovation ecosystem is needed to develop and diffuse digital technologies more widely across the economy.
- ▶ As digitalisation cuts across different policy domains and government levels, seizing its potential benefits increasingly depends on Latvia's capability to reinforcing a whole-of-government policy approach.

What's the issue?

Latvia has the potential to seize greater benefits from digital technologies, but this requires addressing the lags in uptake and adoption among firms and reinforcing the innovation ecosystem to better harness transformative technologies across the private and public sectors. Productivity-enhancing technologies, such as cloud computing, have been adopted by very few Latvian firms (see Figure), and the gap is large between large firms and small- and medium-sized enterprises. Expenditure on R&D is low, as is business investment in complementary knowledge-based capital that enables firms to effectively use new technologies. Tackling these issues would help Latvia seize the opportunities that the digital transformation brings for stronger productivity growth and enhanced access to global markets and value chains, as well as for continued experimentation with innovative

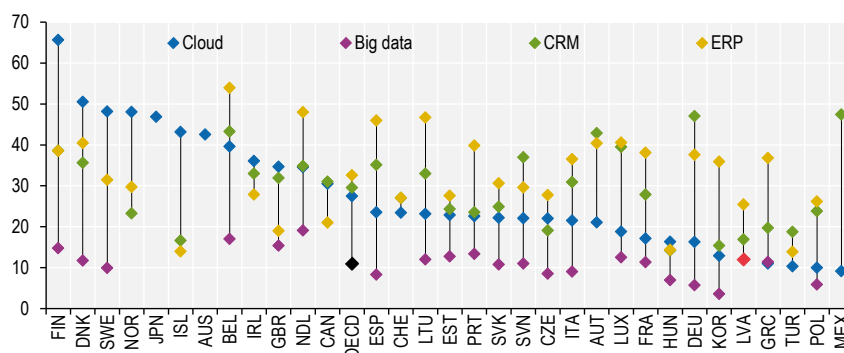
new services at the government level, for example the emerging uses for blockchain technologies in the public sector.

Why is this important for Latvia?

Broad-based improvements in living standards will not be possible without maintaining robust productivity growth, especially as the population ages. But, as in many other countries, productivity growth has weakened. During 2009-15 it averaged 2.5% per year, compared to over 8% between 2001 and 2007. Taking advantage of the digital transformation will be essential to return to the pre-crisis trend and to help Latvia shift its economy towards higher-value innovative activities. As a small

Latvian firms are lagging behind in adopting the latest wave of digital technologies

Enterprises using selected ICT tools and activities, in percent of all enterprises with ten or more persons employed, 2017



Note: ERP stands for electronic resources planning and CRM for customer relationship management. Data on CRM and ERP refer to 2013 for Canada and 2015 for Korea and Switzerland. Big data refer to 2016 except for Korea (2015). Data on cloud refer to 2016 for Australia, Estonia, France, Germany, Ireland, Italy, Japan, Luxembourg, Netherlands, Sweden, Turkey and United Kingdom; 2015 for Korea and Switzerland; 2014 for Iceland; and 2012 for Canada and Mexico. For Japan, data refer to total businesses with 100 and more persons employed. For Switzerland, data refer to total businesses with 5 or more persons employed. Source: OECD (2018), ICT Access and Usage by Businesses (database), <http://oe.cd/bus> (accessed in May 2018).

country, Latvia can especially benefit from the power of digital technologies to facilitate the emergence of “born global” businesses and to enable SMEs to access skills, alternative finance, and knowledge networks. This requires coherent policy action to improve innovation policy and firms’ uptake of the latest technologies, supported by ongoing attention to employment, skills and social policies to smooth the digital transition. A whole-of-government approach is especially important to ensure that the digital transformation is underpinned by robust risk management approaches to digital security and privacy.

Latvia is starting from a relatively good position with respect to its digital infrastructure. It has one of the highest shares of fibre in its fixed networks (over 60%), which offers individuals and businesses access to high-speed, high-quality services that are essential to support data analytics, data-driven innovation and data-powered advances in production processes. Latvia also ranks in the top 10 OECD countries on mobile broadband penetration. But access does not translate automatically into effective use of digital technologies - only 10% of Latvian firms engaged in sales via e-commerce in 2015, compared to an OECD average of 22%, for instance. And while Latvia has a higher than average share of individuals and firms using the Internet to interact with public authorities, reinforcing trust in digital activities remains an essential factor to spur ongoing adoption of new services. Only 17% of Latvian enterprises had a formally defined security policy in 2015, compared with an EU average of 32%.

Investment in public and private research and innovation is needed to drive digital transformation further and develop and diffuse new technologies, products, applications, business models and organisational structures. In turn, the adoption and use of digital technologies, including data analytics, are associated with higher innovation performance across the economy. Latvia invested just 0.6% of GDP in R&D in 2015, while the share of venture capital investment in the ICT sector in 2016 was well below that in other European countries. Latvia also has a very low share of business researchers (14%), who constitute a vital input to R&D performance. Bolstering the innovation ecosystem will support Latvia’s efforts to leverage the opportunities of digitalisation.

To fully harness the opportunities offered by digitalisation, education and training systems must remain up-to-date while equipping all individuals with a strong foundation of cognitive (including ICT) skills needed for success. The mean PISA-scores of Latvian 15-year-olds in science, reading and mathematics are all slightly below the OECD averages and only 8.3% of Latvian students are among the top performers compared with 15.3% in the OECD and neighbouring Estonia (20.4%) and Lithuania (9.5%). Educational attainment in Latvia has also increased in recent years across all levels, but participation in adult education (7%) remains well below the European Union average (nearly 11%). Strengthening foundation skills and encouraging adults, especially those with low skills, to continue

What should policy makers do?

- ▶ Develop a whole-of-the government policy approach to digitalisation, by seizing interconnections and relationships across policy domains, and reaching across traditional policy silos and different levels of government.
- ▶ Foster adoption of cloud services, data analytics and other productivity-enhancing technologies, particularly by SMEs, by raising entrepreneurs’ awareness about emerging opportunities and strengthening digital security and privacy.
- ▶ Review innovation policy settings to boost experimentation, knowledge creation and adoption of digital opportunities across all sectors.

learning once formal education is complete will be important to help Latvian citizens adapt to and benefit from the changes introduced by digitalisation.



Further reading

OECD (2018), *Going Digital in a Multilateral World*, Report for the Meeting of the OECD Council at Ministerial Level, 30-31 May 2018, Paris. <http://www.oecd.org/mcm/documents/C-MIN-2018-6-EN.pdf>