

## KNOWLEDGE-BASED ENTREPRENEURSHIP AND SMART DEVELOPMENT IN SMALL MUNICIPALITIES: THE EXPERIENCE OF LATGALE REGION (LATVIA)

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**ABSTRACT:** Nowadays, one of the main challenges for small municipalities is to be in line with the modern paradigm of regional development – smart development. This part of study conducted within the National Research Programme EKOSOC-LV (Latvia) focus on the experience of Latgale region (Latvia) in terms of development of knowledge-based segment of economy and its contribution to smart development. The main conclusions that come from the experience of Latgale region discover weak linkage between development trends of knowledge-based segment of economy and smart development at the level of small municipalities. However, one can see that rural territories are able to develop entrepreneurship in knowledge-based segment of economy. The main issues for the future were addressed to better understanding of the meaning of knowledge-based segment of economy to modern regional development and improvements in productivity.

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One of the main issues that hinders regional economic development in regions, including Latgale region (Latvia), relates to slow growth of entrepreneurship and low value added produced.

Nowadays, the aims set for regional economic development require smart approach. In context of economic activities, this means to focus on certain sectors of economic activity – manufacturing sectors, which require research activities (high-tech and medium-high-tech sectors) and services, which base on knowledge and require highly-qualified workforce (knowledge-intensive services)

Development of knowledge-based economy with focus on certain sectors of economic activity is at the center of modern smart development strategy (e.g., RIS3). Small municipalities need to transform their economic structure and at the same time to highlight their uniqueness and use their potential. How can one characterize development of knowledge-based segment of economy in Latgale region at the level of small municipalities?

TABLE 1 demonstrates that entrepreneurial activity increased in the region both in economy at all and in knowledge-based segment of economy. However, one can see both positive and negative tendencies.

Positive tendencies are (1) entrepreneurial activity in knowledge-based segment of economy measured by number of enterprises increased faster than in economy at all; (2) knowledge-based segment of economy is more productive, especially in high-tech and me-high-tech sectors.

Negative tendency is that increase of entrepreneurial activity in economy at all in the region is accompanied with relatively low productivity.

On the one hand, despite growing activity and productivity in knowledge-based segment of economy, TABLE 2 demonstrates that less-knowledge-intensive economic activities as agriculture, forestry and fishing continue to increase their share in regional economy seriously and in times faster than knowledge-based segment of economy. On the other hand, knowledge-based segment of economy is among those few sectors, which increased their share in the structure of regional economy.

How this opposite tendencies can contribute to the smart development in small municipalities in Latgale region?

FIGURE 1 presents scatters for Smart Development Index elaborated within the project for measuring the level of smart development in small municipalities and three variables, which indicate on growth of entrepreneurship. One can see that at this moment positive tendency of development of knowledge-based segment of economy still does not contribute to smart development in small municipalities. The reason relates to high diversification on small municipalities within one region in terms of their development rate, development level, as well as kind of entrepreneurial activities and productivity level.

Brighter development of knowledge-based segment of economy occurred in small municipalities with low development level and lowest number of population. It is positively that knowledge-based segment of economy developed in low-populated territories, however, despite this tendency, these small municipalities demonstrate low level of development.

Slower development of knowledge-based segment of economy occurred in small municipalities with higher number of population and faster development rate. It is positively that fast development occurred in highly populated small municipalities, however, despite this tendency, knowledge-based segment of economy was not a foundation for development in these small municipalities.

**TABLE 1: GROWTH OF ENTREPRENEURSHIP IN SMALL MUNICIPALITIES IN LATGALE REGION, 2009-2015, %**

|   | ENTERPRISES | EMPLOYEES | NET TURNOVER |
|---|-------------|-----------|--------------|
| All sectors of economic activity              | 60,81       | 116,67    | 75,89        |
| <i>Knowledge-based segment of economy</i>     |             |           |              |
| High-tech and Me-high-tech sectors (industry) | 116,67      | 90,91     | 115,81       |
| Knowledge-intensive sectors (services)        | 75,89       | 18,28     | 24,39        |

Note: 19 small municipalities

Source: author's calculations using Lursoft data, EKOSOC-LV

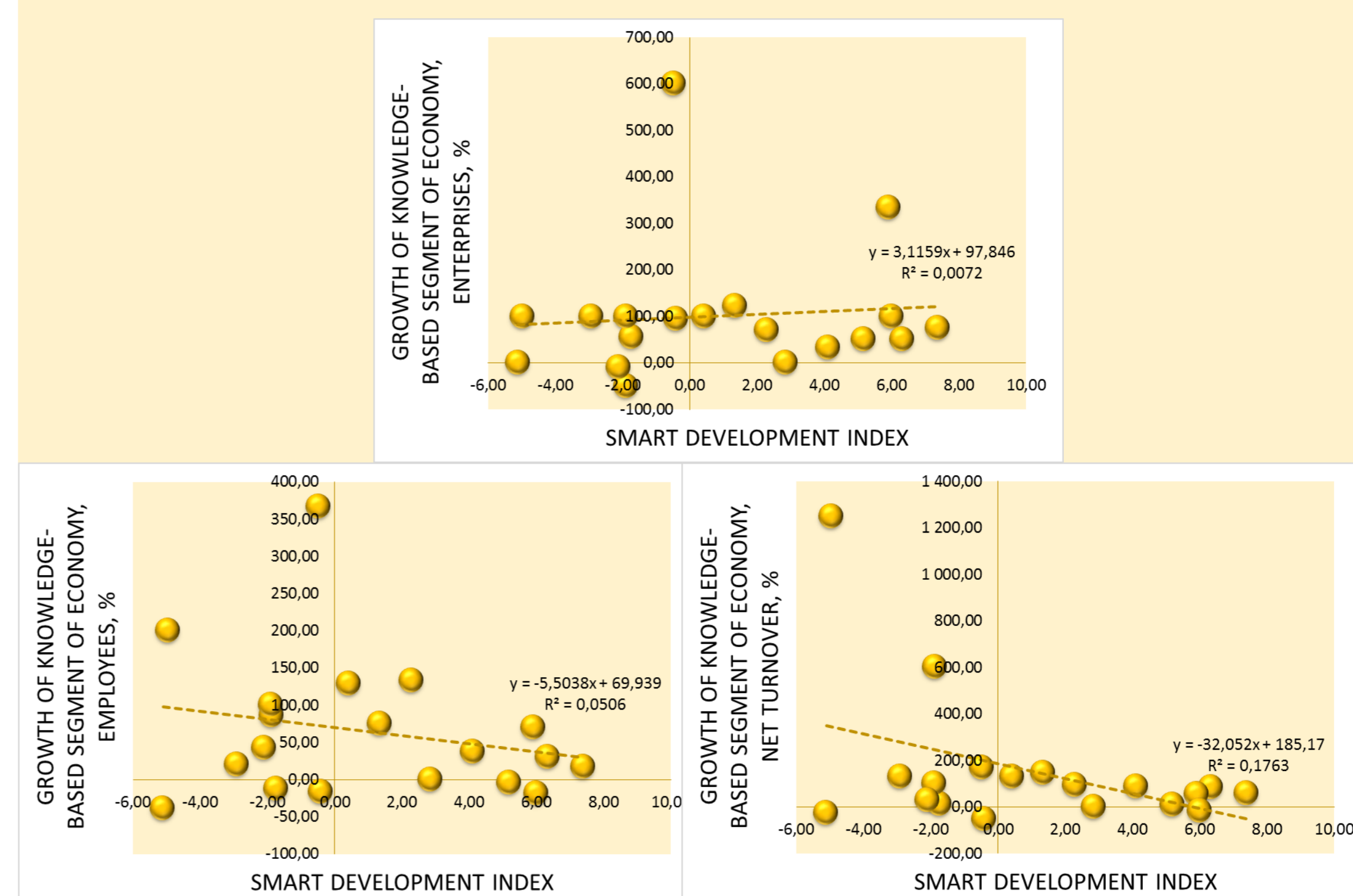
**TABLE 2: CHANGES IN SHARE OF SECTORS OF ECONOMIC ACTIVITY IN SMALL MUNICIPALITIES IN LATGALE REGION, 2009-2015, %**

|                                    | ENTERPRISES | EMPLOYEES | NET TURNOVER |
|------------------------------------|-------------|-----------|--------------|
| Agriculture, forestry and fishing  | +10,75      | +5,53     | +9,31        |
| Manufacturing                      | -1,93       | -0,53     | +6,01        |
| Services                           | -7,70       | -2,65     | -12,57       |
| Other sectors                      | -1,12       | -2,35     | -2,75        |
| Knowledge-based segment of economy | +0,99       | +1,2      | -0,25        |

Note: 19 small municipalities

Source: author's calculations using Lursoft data, EKOSOC-LV

**FIGURE 1: LINKAGE BETWEEN GROWTH OF KNOWLEDGE-BASED SEGMENT OF ECONOMY AND SMART DEVELOPMENT INDEX IN SMALL MUNICIPALITIES IN LATGALE REGION**



Note: 19 small municipalities

Source: elaborated by the author using Lursoft data, EKOSOC-LV

### CONCLUDING REMARKS

Thus, one can see three main issues for the future studies and elaboration of regional smart development policies:

- (1) Understanding of importance of knowledge-based segment of economy for smart development at the level of small municipalities and changes in understanding of key sectors of economic activity for regional economic development.
- (2) Ability of economic subjects to contribute effectively to development of knowledge-based segment of economy in small municipalities.
- (3) Increase of knowledge-intensive activities within traditional sectors of economy.