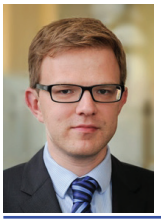

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Does the financing from the EU structural funds improve the competitiveness of Latvian businesses?

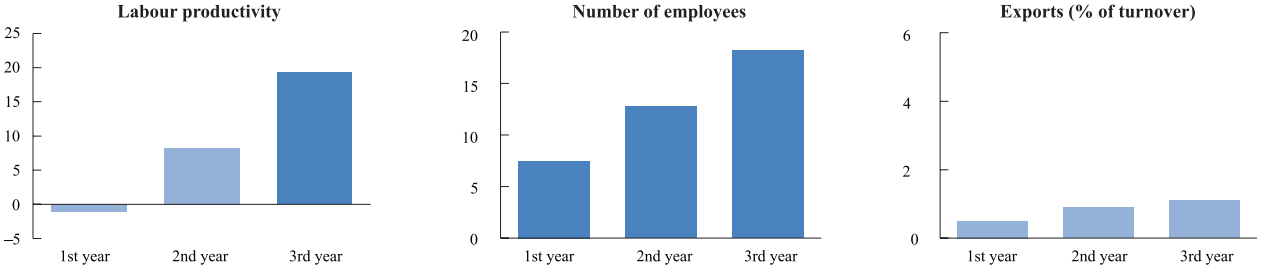
The absorption of the ERDF funds would have a stronger impact on the performance of Latvian businesses if they had sufficient knowledge regarding the use of the newly acquired equipment, the projects were more consistent with the goal and the businesses had more possibilities to expand their sales in the international market.

The European Regional Development Fund (ERDF) is an instrument of EU structural funds. One of its goals is to enhance the competitiveness of private companies in the less developed regions of the Union. So far, we have not had sufficient evidence on the progress towards this goal since there has not been enough firm-level data for conducting such micro-level studies. However, owing to the fact that currently such data is available in Latvia, Latvijas Banka conducted a study. It showed that businesses participating in the activities financed by the ERDF see an increase in the number of employees, capital as well as productivity, albeit productivity growth is evident only in the third year as from the inception of the project (see Chart). Neither the location of a project nor the type of activity affect the increase in the number of its employees, capital intensity or productivity.

Businesses participating in the activities financed by the ERDF see an increase in the number of employees, capital as well as productivity.

The immediate positive impact on the capital without simultaneous productivity growth may, at first, seem surprising. This is only possible in the case where the utilisation of newly installed production equipment has not been optimal in the first two years following the project's inception. However, it could also happen that the productivity gains generated from the project become really apparent only towards the conclusion stage of the project. This is especially true for projects with a long period of implementation. Moreover, the low level of capital utilisation after purchasing the equipment may also suggest a lack of knowledge and experience necessary for the use of the newly acquired technology.

Chart
Mean values of differences in changes in firm performance indicators among businesses participating in ERDF co-financed projects and non-beneficiaries
(%



Note. The light blue colour denotes statistically insignificant mean values; the dark blue colour denotes statistically significant mean values (the minimum level of statistical significance is 10%).

An alternative explanation could be that the businesses may lack access to wider export markets which would allow them to realise their potential to a greater degree. This may be supported by our estimations suggesting that businesses, as they engage in ERDF co-financed projects, do not increase the share of exports in their turnover (see Chart). In view of the direct goal of several ERDF projects, i.e. the penetration into external markets foreseeing participation in international exhibitions and other external marketing activities, this result is quite surprising. From the economic policy point of view, more significant improvements in productivity would result from supporting activities stimulating closer involvement of businesses in international markets.