



Key points

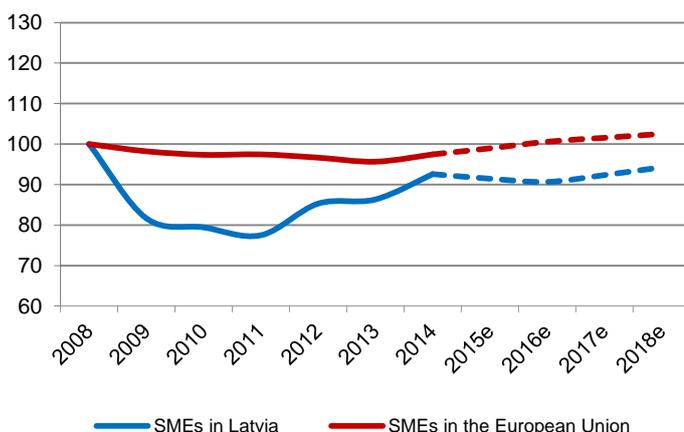
Past & future SME performance¹: Latvian SMEs experienced moderate growth in 2012-2016. SME value added increased by 15.2 % while SME employment rose by 6.3 %, very similar to the growth levels of large firms. Growth in micro firms was particularly strong, at 21.9 % for value added and 12.8 % for employment. However, in 2015-2016 SME growth has been less pronounced, with value added increasing by only 0.9 % and employment actually falling by 0.9 %. The outlook for SMEs in Latvia is favourable. SME value added is forecast to rise by 13.6 % in 2016-2018 and SME employment by 4.0 %. As a result, it is predicted that about 19 000 jobs will be created by SMEs in this period.

Implementing the Small Business Act for Europe (SBA): Latvia continues to have a competitive SBA profile. In most areas, it performs above or on a par with the EU average. The only exception is skills & innovation, where it lags behind the EU average. Stakeholders acknowledge that Latvia's overall progress in implementing the SBA has been modest since its adoption in 2008, perhaps due to the lack of a specific national SBA implementation policy. Since 2008 Latvia has improved its performance in most SBA areas, especially in promoting entrepreneurship. However, in this area as well as a number of others, SME stakeholders note that systemic support and a strategic approach are still missing

SME policy priorities: The area of skills & innovation remains a major weakness in Latvia's overall SBA performance. Key challenges for productivity and competitiveness in Latvia are to rebalance the economy towards higher value added sectors and pursue a policy that promotes innovation and digitisation. One of the main problems reported by SMEs is the lack of qualified employees: improvements in vocational education and training are necessary to address the gap between skills demand and supply. Moreover, further improvements in the business environment are still needed. These include: a more comprehensive assessment of the impact of government decisions on small businesses; the full application of the SME test; and improving the efficiency and accountability of public administration.

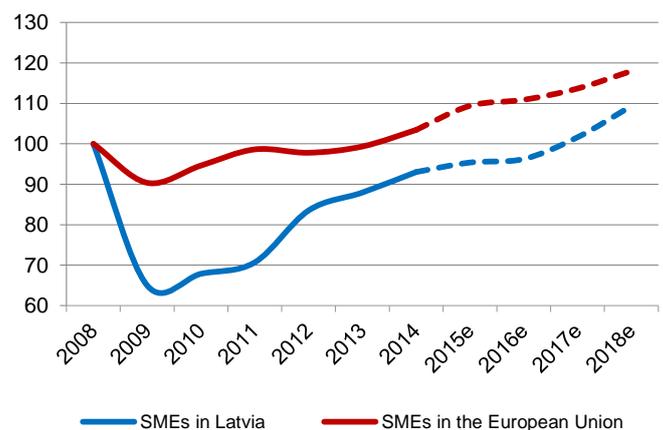
Number of persons employed in SMEs

(Index: 2008=100, estimates as from 2015 onwards)



Value added of SMEs

(Index: 2008=100, estimates as from 2015 onwards)



About the SBA fact sheets

The Small Business Act for Europe (SBA) is the EU's flagship policy initiative to support small and medium-sized enterprises (SMEs). It comprises a set of policy measures organised around 10 principles ranging from entrepreneurship and 'responsive administration' to internationalisation. To improve the governance of the SBA, the 2011 review of it called for better monitoring. The SBA fact sheets, published annually, aim to improve the understanding of recent trends and national policies affecting SMEs. Since 2011, each EU Member State has appointed a high-ranking government official as its national SME envoy. SME envoys spearhead the implementation of the SBA agenda in their countries.

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1. SMEs — basic figures

Class size	Number of enterprises			Number of persons employed			Value added		
	Latvia		EU-28	Latvia		EU-28	Latvia		EU-28
	Number	Share	Share	Number	Share	Share	Billion €	Share	Share
Micro	98 458	91.5 %	93.0 %	192 643	31.8 %	29.8 %	2.2	20.4 %	20.9 %
Small	7 524	7.0 %	5.8 %	148 364	24.5 %	20.0 %	2.4	22.8 %	17.8 %
Medium-sized	1 409	1.3 %	0.9 %	137 629	22.7 %	16.7 %	2.8	26.6 %	18.2 %
SMEs	107 391	99.8 %	99.8 %	478 636	79.0 %	66.6 %	7	69.8 %	56.8 %
Large	193	0.2 %	0.2 %	126 969	21.0 %	33.4 %	3.2	30.2 %	43.2 %
Total	107 584	100.0 %	100.0 %	605 605	100.0 %	100.0 %	10.6	100.0 %	100.0 %

These are estimates for 2016 produced by DIW Econ, based on 2008-2014 figures from the Structural Business Statistics Database (Eurostat). The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed). The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

SMEs play a more important role in Latvia's non-financial business economy than on average in the EU. The SME share of value added is 69.8 % compared to the EU average of 56.8 %. In terms of employment, the SME share is 79.0 %, against the EU average of 66.6 %. Micro firms generate the largest share of employment — almost one third, which is consistent with the EU average. Medium-sized firms stand out as contributing a particularly high share of value added, 26.6 %, which is substantially above the EU average of 18.2 %. Due to the greater than average importance of medium-sized firms, the average Latvian SME has 4.5 employees, higher than the EU average of 3.9.

In 2012-2016, Latvian SMEs experienced moderate growth. SME value added increased by 15.2 %, while SME employment rose by 6.3 %, very similar to the growth levels of large firms. Growth in micro firms was particularly strong, at 21.9 % in value added and 12.8 % in employment. However, more recent SME growth has been less pronounced: in 2015-2016 value added rose by only 0.9 % and employment actually fell by 0.9 %.

The strong SME growth in 2012-2016 was partly driven by the *professional, scientific and technical activities* sector. SME employment grew by 23.8 % and value added by 29.5 %. This increase followed the decision by the Latvian government to take policy measures to increase public and private funding for

research and development (R&D). In 2014, R&D funding comprised 0.7 % of GDP. The target for 2020 is 1.5 %. Total funding for R&D increased by 17 % in 2013-2014². Another driver of growth in this sector was the development of *management and consulting*, in which SME employment grew by 35.0 %. Several international companies have established shared service centres in Riga³, and these outsourcing activities are likely to have contributed to the strong growth in this subsector.

In *accommodation and food services*, SME employment grew by 13.2 % and value added rose by 38.9 % in 2012-2016. This strong performance was driven by an increase in tourism, fostered by targeted support from the government. This support included government participation in international tourism exhibitions and online campaigns⁴. Further contributory factors to the growth in the tourism industry were Riga's role as the European Capital of Culture in 2014 and Latvia's Presidency of the Council of the European Union in 2015⁵. Some 6.8 million foreign tourists visited the country in 2015, an increase of 10 % from the previous year⁶. This growth continued in 2016, with a 7 % rise in overnight stays by foreign tourists⁷.

Developments in the real estate activities sector were not quite so positive. Over 2012-2016 SME employment in the sector stagnated, and in 2016 it was still at only three quarters of its 2008 level. Recent legislative changes are one likely explanation for the fall in residential demand. In 2010-2014, non-EU buyers of residential properties costing at least EUR 143 000 were able to obtain a Latvian residency permit, allowing free travel in the Schengen Area. However, in 2014 the minimum purchase price was increased to EUR 250 000⁸. This coincided with the downturn in the Russian economy, and with Russians comprising the largest share of foreign buyers⁹, the combined impact on the sector was significant. Nonetheless, the general outlook for the

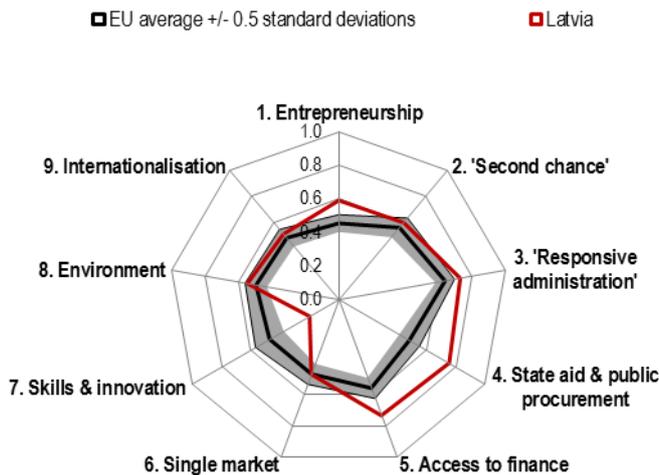
sector remains positive, with the resumption of strong growth in the hotel real estate market¹⁰, and steady demand for shopping centre premises. There are also big forthcoming projects such as Latvia's first IKEA store¹¹.

According to the latest available data for 2016, 11.4 % of all employment in Latvia is self-employment¹², which is lower than the EU average of 14.0 %. In 2015-2016, the number of self-employed dropped by 2.3 % and registrations of new companies declined by 16.9 %. A total of 11 206 new companies were registered in 2016, while 12 227 companies de-registered, an increase of 21.4 % from the previous year¹³. The net effect has been a fall in the number of active firms. However, the high number of de-registrations does not necessarily reflect a deterioration in the business economy. Rather it results from the continuing process of de-registering firms that do not comply with commercial law requirements. Removals from the register include firms that have not been active for several years¹⁴.

In 2014, 1 129 firms — 12.8 % of all firms in the 'business economy' — were high-growth firms¹⁵. This is higher than the EU average of 9.2 %. Apart from mining and quarrying, the sectors with the highest shares of high-growth firms were *information and communication* (14.9 %) and *administrative activities* (13.2 %).

The outlook for SMEs in Latvia is favourable. SME value added is projected to rise by 13.6 % in 2016-2018, while the forecast for SME employment is an increase of 4.0 %. As a result, it is predicted that about 19 000 jobs will be created by SMEs in this period. In contrast, large firms in the non-financial business economy are expected to create only 1 700 new jobs.

2. SBA profile¹⁶



Latvia has a very competitive SBA profile. The country scores above the EU average in four dimensions, namely 'responsive administration', entrepreneurship, State aid & public procurement and access to finance. All but the first of these areas rank among the top three in the EU. Latvia performs in line with the EU average across the remaining domains except skills & innovation, which is the only dimension in which it scores below the average.

Latvia's SBA profile has remained relatively unchanged from last year. The only exception is 'second chance', which saw its performance decline from above the EU average to in line with the average. Since 2008, the country's performance has improved or remained stable in five out of the six SBA principles for which sufficient statistical indicators were available for a quantitative analysis. Most notably, and despite the deterioration from last year, 'second chance' has seen the greatest progress since 2008, followed by smaller but still high growth rates in entrepreneurship. Progress since 2008 in 'responsive administration', access to finance and the single market has been modest. Skills & innovation remains the most problematic area, having deteriorated since 2008.

Stakeholders acknowledge that overall progress in implementing the SBA in Latvia has been modest since its adoption in 2008. They note that this might be because no specific national policy for implementing the SBA has been adopted.

As regards the Latvian authorities' implementation of relevant policy measures, areas that saw little progress were entrepreneurship and 'second chance'. This is probably also due to Latvia's relatively good performance in these two areas. The government needs to increase its efforts to introduce entrepreneurial education and training in order to improve

entrepreneurial skills. On 'second chance', Latvia needs to step up its efforts in a variety of ways. These could include national information campaigns or other measures (such as training, information sessions on procedures, etc.) which could be launched to reduce the stigma of failure. Specific fast-track procedures could also be developed for SMEs to complete legal procedures faster and at lower cost, especially for business restructuring.

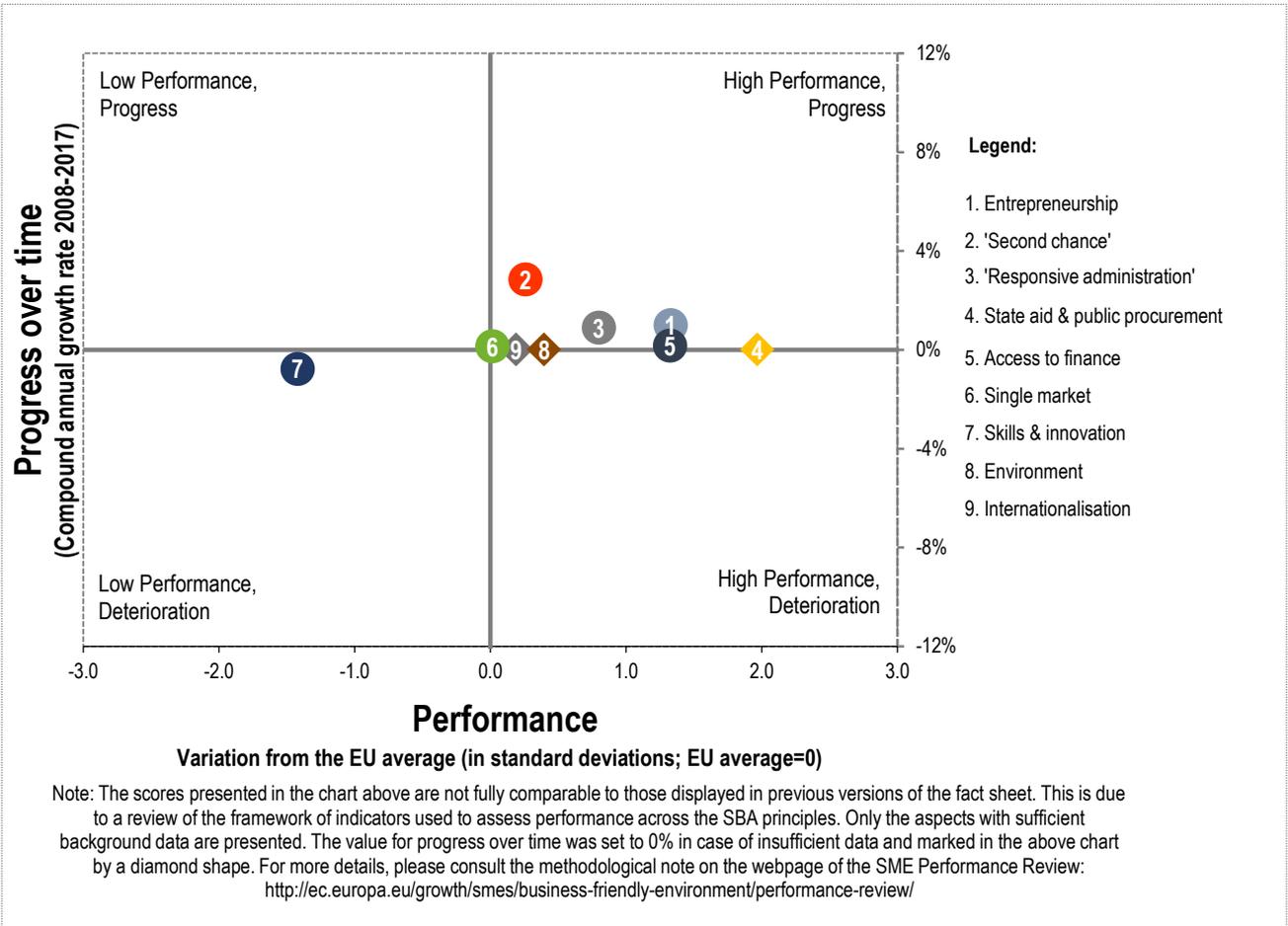
Over the past few years various policy measures have been adopted on skills & innovation and access to finance. During the last two SBA implementation reference periods, seven new measures were introduced on skills & innovation. Their objective is to strengthen SMEs' productivity and competitiveness and increase private investment in R&D by improving access to research infrastructure and a skilled labour force. SMEs are able to access a variety of finance sources. Micro and small companies are able to gain access to finance through public loan programmes, public guarantee schemes and microfinance measures. A number of venture capital, pre-seed and seed capital funds have been established since 2011.

An area where a considerable number of policy measures have been implemented is 'Think Small First'. For instance, nearly every year new amendments have been proposed regarding initial impact assessment procedures. However, it has to be pointed out that stakeholders find that the SME test for new legislation is not being implemented correctly. This suggests there is an ongoing need to reduce the administrative and financial burden on SMEs. Overall, there is still much room to improve implementation of the SBA in Latvia.

In 2016 and the first quarter of 2017, (the reference period for policy measures in this year's fact sheets), Latvia has implemented 13 policy measures which address 7 of the Small Business Act's 10 policy areas. Overall, stakeholders acknowledge that progress in implementing the SBA has been modest. There is a broad consensus that skills & innovation saw the most progress, but it nonetheless remains a problematic area. A number of support programmes were introduced in 2016 to strengthen SMEs' productivity and competitiveness. They also seek to increase private investment in R&D by improving access to research infrastructure and a skilled labour force.

State aid & public procurement is the SBA policy area with the least policy progress over the reference period since no significant measures were announced. However, a number of activities which had been announced in the previous reference period were adopted. One of these is the new Public Procurement Law, which was adopted by Parliament in November 2016 and entered into force in March 2017.

SBA performance of Latvia: state of play and development from 2008 to 2017¹⁷



3. SBA principles¹⁸

3.0 'Think Small First'

The 'Think Small First' (TSF) principle is meant to be a guiding principle for all policy- and law-making activities. It requires policy-makers to take SME interests into account at the early stages of the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply.

The TSF principle is applied both to legislation and administrative procedures affecting SMEs. The regulatory impact assessment process is in place and is part of the initial impact assessment procedures. With respect to public participation, business stakeholders are consulted on the development of planning documents as well as in the drafting of laws and regulations. However consultation mechanisms seem to be rather selective, and there is no obligation on public authorities to take the views expressed by businesses into account. All the legislation and planning documents developed by institutions are published on their websites at the draft stage. The government also carries out public consultations. In general, stakeholders consider that consultation of social and cooperation partners has improved over recent years.

While an Action Plan for Business Environment Improvement is developed annually with a concrete plan to review and simplify business-related legislation, Latvia still needs to put some fundamental elements of TSF in place. Additional measures are necessary to reduce the administrative burden on SMEs and so facilitate daily business operations. Stakeholders also call for a more proactive approach from the government, particularly by communicating amendments and other changes to business-related regulations at least a year in advance.

The most pressing need for policy action on TSF concerns the implementation of 'common commencement dates' (for instance the entry into force of new regulations could take place twice a year), and forward planning of business-related legislation. No progress has been made on introducing common commencement dates since 2008.

Lastly, there is no effective mechanism in place to revise and evaluate existing legislation or modify what is needed based on the impact assessment results. However, some of the changes proposed to the 'Initial Impact Assessment Procedure of Legislative Acts' (Instructions No 19) have started to improve this process and set up a clearer mechanism for *ex post* evaluation.

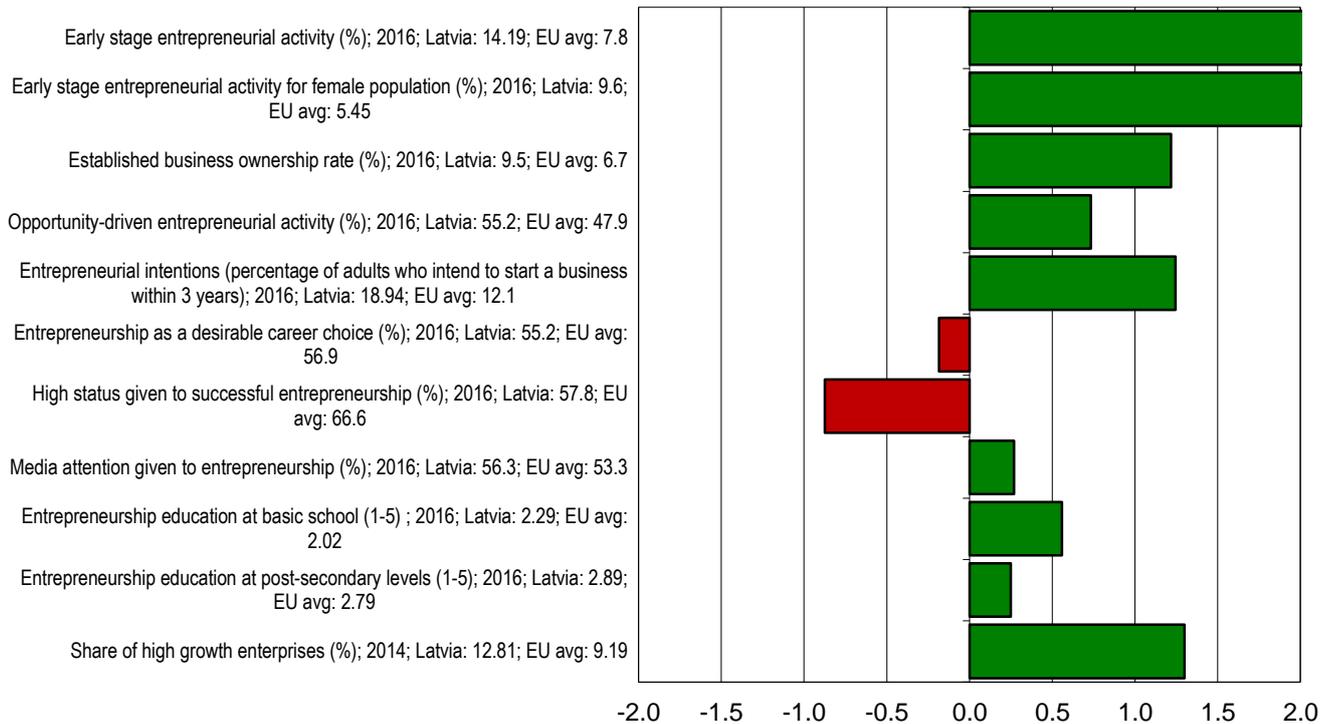
The amendments to Instructions No 19 were the only TSF measure formally introduced in 2016 and the first quarter of 2017.

Amendments are being prepared to improve the 'annotations' (initial impact assessment) of draft legislation. They specify the content and the amount of information that needs to be included in annotations. Prepared amendments to the rules of initial impact assessment procedures offer solutions to improve the content of annotations.

The new requirements will better integrate the SME test into the process of drafting impact assessments of regulation. They also aim to improve assessment of the financial impact on SMEs by estimating the costs incurred to comply with the requirements of draft regulations.

3.1 Entrepreneurship

Variation from the EU average
(measured in standard deviations, EU average=0)



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Latvia continues to score well above the EU average on this dimension and is the third-best performer in the EU, although it has been overtaken by Estonia this year. Compared to last year the country has seen some deterioration in four indicators: female early-stage entrepreneurial activity, entrepreneurial intentions, entrepreneurship as a desirable career choice, and high status given to successful entrepreneurship. It nevertheless remains among the top three EU performers on early-stage entrepreneurial activity and business ownership rate. Conversely, entrepreneurship is being less seen as a desirable career choice: this indicator dropped from 57.5 % in 2015 to 55.2 % in 2016, below the EU average. Likewise, the high status given to successful entrepreneurs further declined from 58.2 % in 2015 to 57.8 % in 2016. Nevertheless, Latvia's performance on this principle has improved since 2008, with progress across most indicators.

Since 2008 a limited number of policy measures have been implemented on entrepreneurship. Most notably, economics was introduced as a secondary school subject in 2011 and the 'Support for self-employment and business start-ups' (*Atbalsts pašnodarbinātības un uzņēmējdarbības uzsākšanai*) programme was launched in 2014. Also, as part of the Innovation Motivation programme funded by the European structural and investment

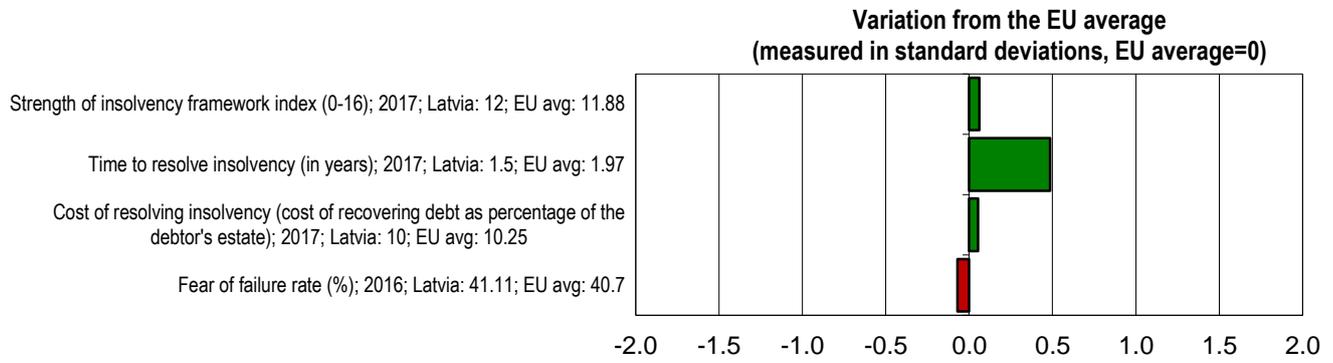
funds (ESIF) and implemented by the Investment and Development Agency of Latvia (LIAA), measures are being implemented in cooperation with private organisations such as Junior Achievement Latvia¹⁹. These build on popular programmes like Demola. Measures also include start-up support, networking seminars and workshops. However, Latvia is still lagging behind on taking a strategic and systemic approach to entrepreneurial education at all educational levels.

At the end of 2016 the Latvian Parliament adopted the 'law on aid for start-up companies'. The law's overall objective is to promote the creation and development of start-ups. It also aims to support the translation of research into innovative ideas, products and processes.

The financial incentives provided under the law include a fixed payment aid programme and an aid programme to attract highly skilled employees. Both confer tax relief on personal and corporate income.

To be eligible, start-ups need to meet nine criteria. They are also required to have secured EUR 30 000 or more in early-stage venture capital funding for every aid application submitted per year. The support mechanisms created under the law are implemented by the LIAA²⁰.

3.2 ‘Second chance’



‘Second chance’ refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. Latvia scores in line with the EU average in this area, a deterioration from last year’s above-average performance. This is due to the increase in the ‘fear of failure’ rate, which rose from 38.6 % in 2015 to 41.1 % in 2016. Nevertheless, this principle has experienced the greatest improvement since 2008. The time required to resolve insolvency has declined from 3 years in 2008 to 1.5 years in 2017. The cost has fallen from 13 % of the debtor’s estate to 10 % over the same period.

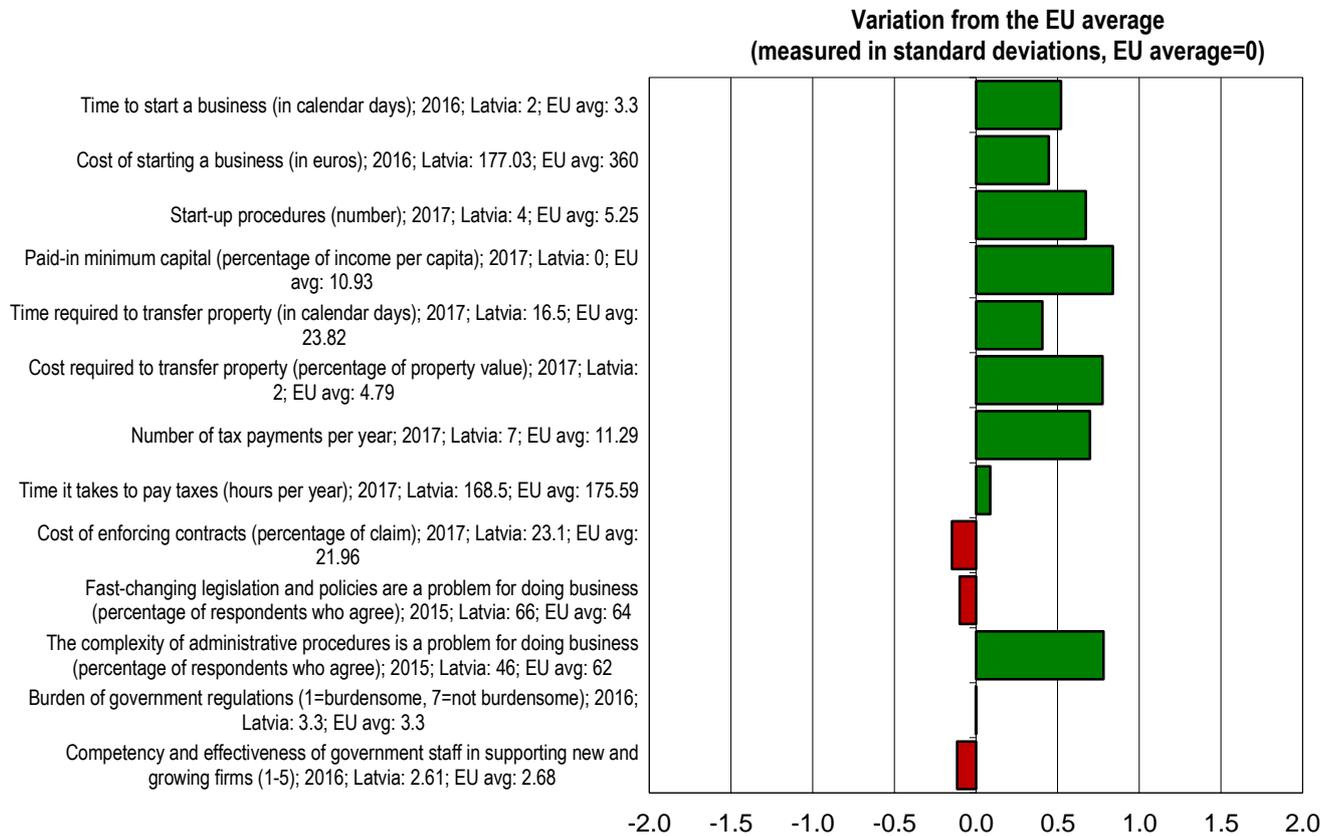
Since 2008 Latvia has changed its insolvency regulation numerous times, in particular with the 2010 Insolvency Law drawn up in close collaboration with World Bank experts. SME stakeholders report that problems mostly occur during the implementation process due to diverging interpretations by the different parties concerned. Key issues have also been highlighted in the Insolvency Abuse Report²¹ of the Foreign Investors’ Council in Latvia (FICIL). These notably include: the lack of an adequate system to monitor and measure the efficiency of insolvency in Latvia; the significant amount of late insolvencies, which causes considerable losses for businesses and creditors; and insolvency abuses, which result in significant

economic damage. A monitoring system is currently being developed.

To facilitate the business rescue culture, Latvia needs to increase its efforts in a number of different ways. These include launching national information campaigns or other measures (such as training, information sessions on procedures, etc.) to help reduce the stigma of failure. Specific fast-track procedures could also be developed for SMEs to complete legal procedures in a quicker and more financially affordable way, especially for business restructuring.

During 2016 and the first quarter of 2017, the Latvian Parliament adopted changes to the Insolvency Law that make more clear and more transparent the legal protection proceedings (LPP) for creditors of companies under LPP. These amendments improve the rules and procedures for LPP. They add a separate section on LPP, including procedures of selection, requirements and restrictions, general obligations and responsibilities, and suspension of action by the person supervising the LPP. The changes also provide more possibilities for creditors to be involved, for instance by choosing the person supervising the LPP or by approving the LPP action plan.

3.3 'Responsive administration'



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

'Responsive administration' refers to public administration being responsive to the needs of SMEs. Latvia continues to perform above the EU average in this dimension. The time required to pay taxes has improved considerably, dropping from 193 hours per year in 2016 to 168.5 in 2017. Conversely, the perceived competency and effectiveness of government staff in supporting growing firms saw some decline, falling below the EU average this year. However, Latvia has made good progress in this area since 2008: it has cut the time and cost of starting a business as well as the paid-in minimum capital, which is one of the lowest in the EU.

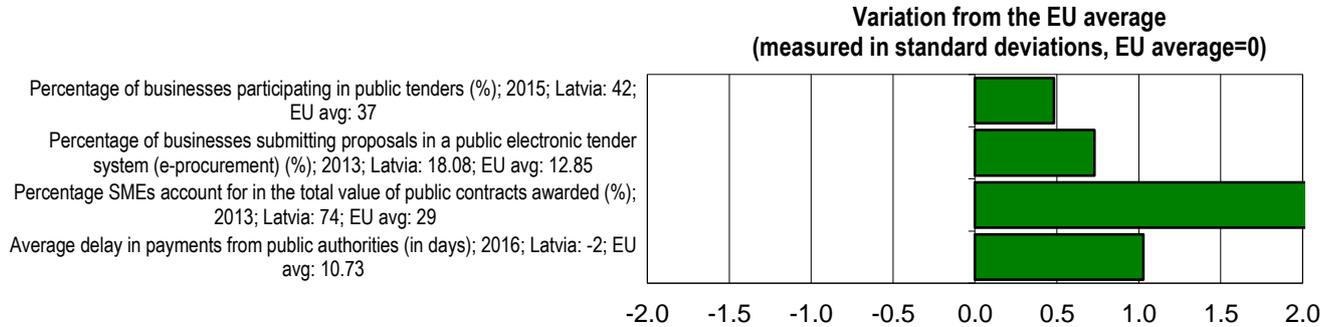
On the policy side, modest progress has been made since 2008. Several measures have been introduced to improve the business environment and reduce the administrative burden for SMEs. In recent years, Latvia has improved its e-services in a number of areas. These include the possibilities to register a company online, to submit tax declarations and communicate only electronically with the tax administration, and to submit applications and receive construction permits in the Construction Information System.

The continuous development of the Action Plan for Business Environment Improvement by the Ministry of Economics is highly appreciated by SME stakeholders and reportedly had a positive impact on the business environment.

During 2016 and the first quarter of 2017, the Latvian State Revenue Service introduced a single significant measure in this SBA area. The measure intends to 'smoothen the requirements for micro and small enterprises in drawing up an annual financial statement'. The administrative burden on such firms will be alleviated by:

- reducing the number of documents required: the management report, cash flow statement and statement of changes in equity are no longer needed;
- reducing the amount of information firms are asked to provide in the annexes; and
- increasing the statutory audit threshold.

3.4 State aid & public procurement



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

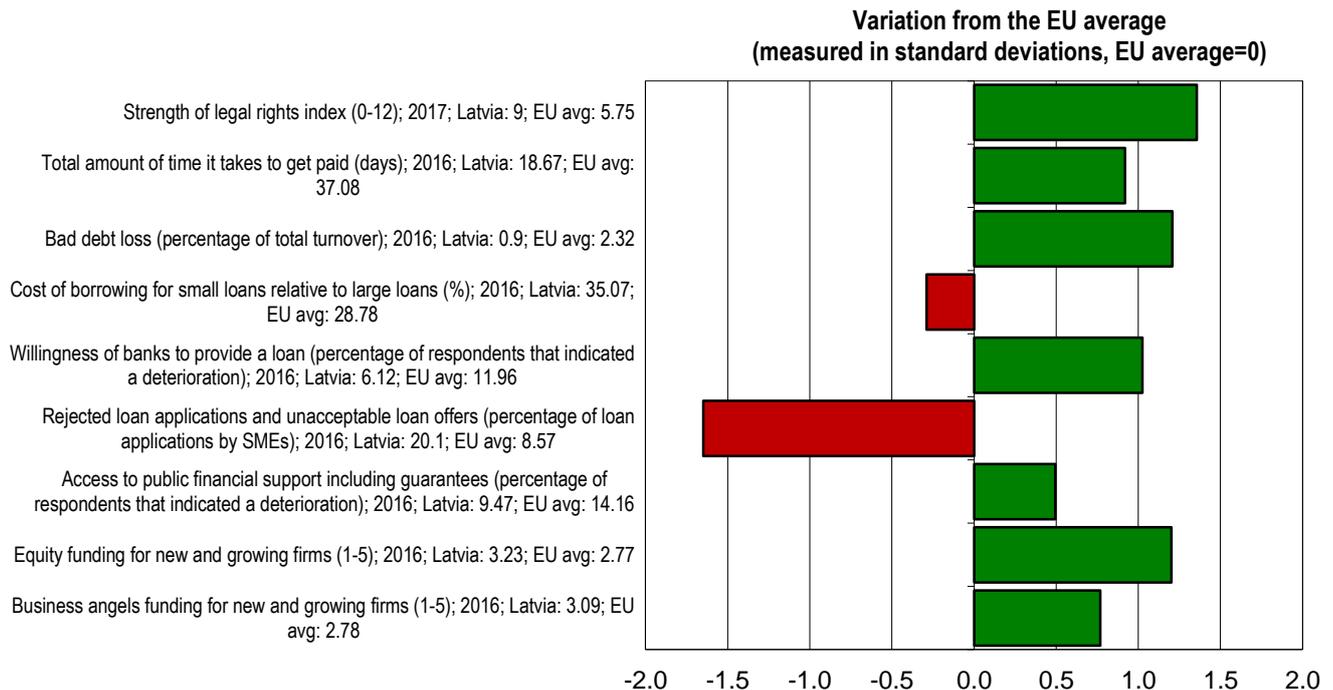
Latvia is the best-performing country in the EU on this principle and continues to be well above the average. Compared to last year only the indicator on the average delay in payments from public authorities declined; on this the country was the second-best performer. It should be noted that in Latvia this indicator is even negative, meaning that public administrations pay earlier than required. Latvia and Ireland are the only countries where this happens. Moreover, Latvia reports the second highest share of SMEs in the total value of public contracts awarded.

However, SME stakeholders recognise public procurement as a significant instrument to help SMEs grow. They are therefore calling for further reforms in this area, notably to provide access to resources and increased transparency on the procurement

process. Latvia has made numerous changes to public procurement regulation since 2008. In 2016 Parliament adopted the new Public Procurement Law aimed at transposing the EU Directive and facilitating SMEs' participation in public contracts.

Latvia still has a lot of room for improvement, particularly to ensure that all procurements are carried out in an effective way through the e-Procurement portal. Further efforts are needed to introduce public procurement of innovation. They are also needed to create more possibilities for SMEs to grow and for government to purchase more effective, innovative and sustainable products or services according to its needs. In addition, corruption remains a problem in this area.

3.5 Access to finance



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Latvia continues to score well above the EU average in this domain and is now the top performer in the EU. However, a few changes have occurred since last year. In particular, access to loans has worsened. The cost of borrowing for small loans relative to large ones increased from 25.6 % in 2015 to 35.1 % in 2016. The proportion of rejected SME loan applications surged to 20.1 %; Latvia's performance is now well below the average and the third worst in the EU. Conversely, bad debt loss dropped to 0.9 % of total turnover in 2016, putting its score above the average; it is now the third best in the EU. Latvia's performance on this principle has also been improving since 2008, particularly on access to public financial support and the availability of business angel funding and equity funding. The latter is the third best in the EU.

There has been significant policy activity in improving SMEs' access to finance since 2008. Access to finance for SMEs is key to the recovery and long-term growth of the economy. The principal providers of external finance are the major Latvian banks. Accordingly, the financial crisis was bound to have an impact on SME finance through the failure and partial nationalisation of banks, the increase in bank funding costs and the subsequent recession²². To tackle these difficulties, the

government implemented a substantial number of measures to facilitate SMEs' access to finance. Most of them were co-funded by EU structural funds. To help young and innovative businesses throughout the different stages of growth, a range of financial instruments for SMEs has been made available (public loans, public guarantees and microfinance measures). In addition, a number of venture capital, pre-seed and seed capital funds have been established since 2011. A more recent achievement was the creation in 2015 of 'ALTUM' (*Latvijas Attīstības Finanšu Institūcija Altum*)²³. This agency brings together all state-supported financial instruments and functions as a 'one-stop shop' for access to finance.

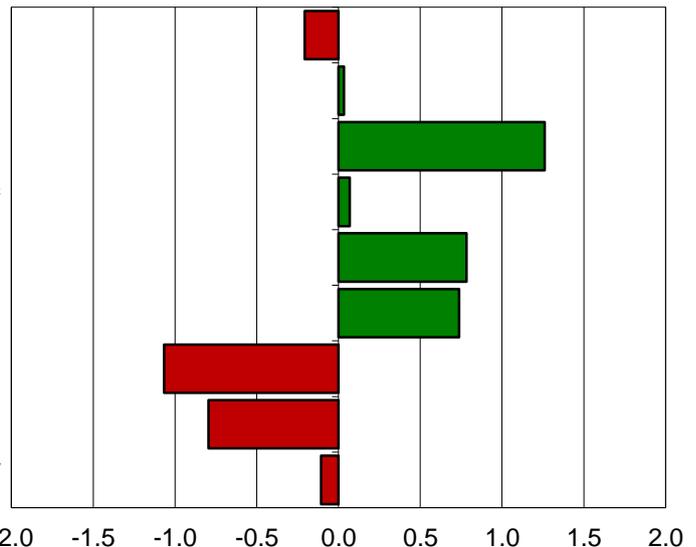
ALTUM cooperates with all major banks in the country. It also operates as a fund of funds providing indirect financial support through acceleration, seed and start-up as well as expansion capital funds. The rollout of ALTUM's operations started only at the end of 2016 and it is therefore still early for a full assessment, but stakeholders are appreciative of its work.

During 2016 and the first quarter of 2017, no new significant measures were adopted in this area. However ALTUM's full operational capacity starting from 2017 will contribute to improving access to finance for SMEs.

3.6 Single market

Variation from the EU average
(measured in standard deviations, EU average=0)

Number of single market directives not yet transposed; 2016; Latvia: 17; EU avg: 15.5	-0.2
Average transposition delay for overdue directives (in months); 2016; Latvia: 7; EU avg: 7.1	0.0
Number of pending infringement proceedings; 2016; Latvia: 7; EU avg: 24	1.2
Public contracts secured abroad by SMEs (percentage of total value of public contracts); 2013; Latvia: 2.9; EU avg: 2.6	0.1
SMEs with intra-EU exports of goods (percentage of SMEs in industry); 2014; Latvia: 23.94; EU avg: 17.12	0.8
SMEs with intra-EU imports of goods (percentage of SMEs in industry); 2014; Latvia: 36.59; EU avg: 25.77	0.8
Intra-EU online exporters (% of SMEs); 2015; Latvia: 3.92; EU avg: 7.52	-1.0
Easy market access for new and growing firms (1-5); 2016; Latvia: 2.46; EU avg: 2.77	-0.8
Market access for new and growing firms without being unfairly blocked by established firms (1-5); 2016; Latvia: 2.71; EU avg: 2.76	-0.1



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Latvia's score in this area remains in line with the EU average. The country's performance has been stagnating since 2008. Although the number of single market directives outstanding increased sharply, from 8 in 2015 to 17 in 2016, this is still close to the EU average²⁴. Moreover, market access for new and growing companies is increasingly being hampered by

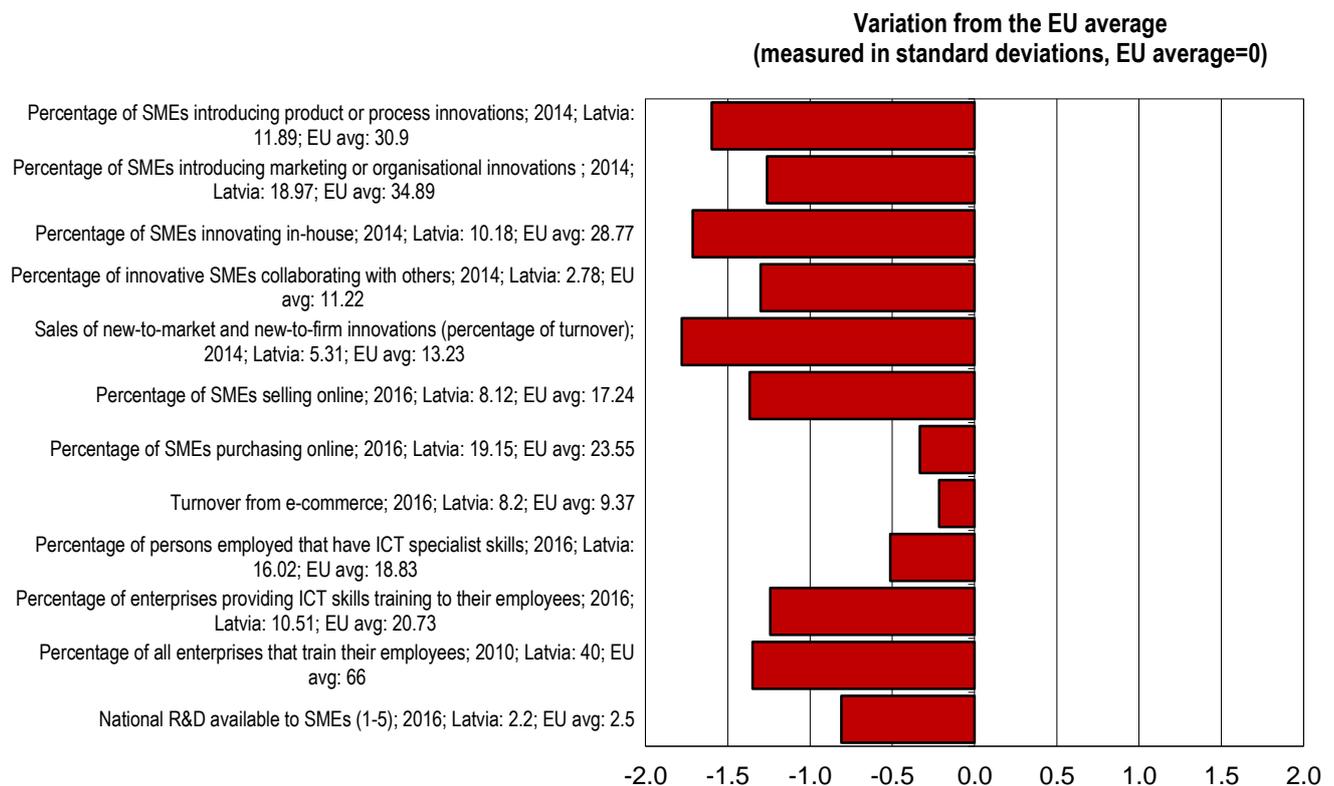
established firms, although Latvia is still within the EU average for this indicator. Online export is an issue for Latvian SMEs, reflecting a more general problem they have in selling online and embracing digital technologies.

Policy-wise, progress in this domain has been limited since 2008. SOLVIT centres are relatively well known and their services are called upon when companies experience difficulties doing business in EU markets. However, the government does not

adequately involve and consult SME stakeholders during the process of transposing EU directives into national legislation.

During 2016 and the first quarter of 2017, no new significant measures were adopted or implemented in this area.

3.7 Skills & innovation



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Latvia continues to perform below the EU average on this dimension, having experienced a deterioration since both last year and 2008. The decline particularly affected innovation and training/skills indicators. Thus, the shares of SMEs innovating in-house, introducing product/process innovations and collaborating with others have all considerably worsened over recent years. Indeed, these indicators show the second-worst scores in the EU. Similarly, despite a slight improvement in the proportion of SMEs providing ICT skills training to their workforce, the share of employees with ICT specialist skills declined from 21.6 % in 2012 to 16.0 % in 2016. The integration of digital technologies by Latvian SMEs remains a major challenge. There was some improvement over 2010-2016: the share of SMEs purchasing online grew from 8.4 % to 19.2 %, while the proportion selling online rose from 5.6 % to 8.1 %. Nevertheless, Latvian SMEs do not yet take sufficient advantage of the opportunities offered by selling online.

Over the past few years various policy measures have been adopted in the skills & innovation area. The last two SBA implementation reference periods have seen seven new measures introduced. They aim to improve the productivity and competitiveness of SMEs and to increase the amount of private investment in R&D by improving access to research infrastructures and to a skilled labour force. This area is one of the government's top priorities as it seeks to accelerate the transition to a knowledge-based economy and step up productivity and the creation of products and services with higher added value²⁵.

During 2016 and the first quarter of 2017, several new policy measures were introduced:

- The 'innovation voucher' is a support programme for micro, small and medium-sized businesses. Its main goal is to promote innovation activities in SMEs in order to support technology transfer for new or

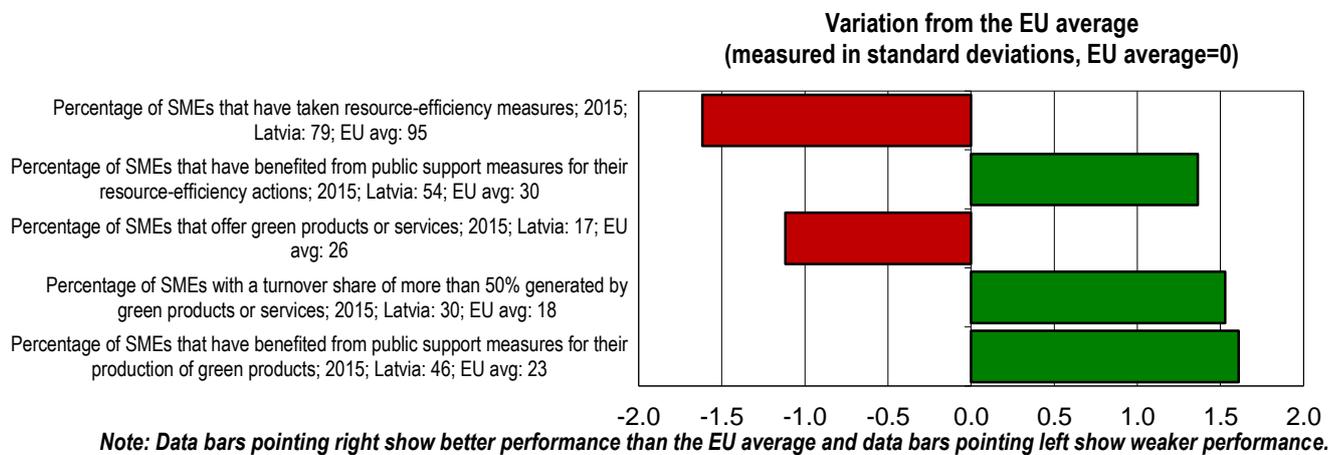
significantly improved products or for developing technology which contributes to the targets of Latvia's 'smart specialisation' strategy. It forms part of the wider 'Support for improvements in the technology transfer system' programme operated under Latvia's ESIF Operational Programme. The programme's budget is EUR 8.23 million and it is implemented by the LIAA and by the Central Finance and Contracting Agency (CFCA);

- The 'Support for new products introduction into production' programme aims to increase SMEs' productivity and private investments in R&D. With a budget of EUR 60 million, it will give support to producing or purchasing experimental technology, as well as for installing and testing it in a real production environment. The programme has been implemented by the CFCA;
- The 'Support for the ICT and non-technological training as well as training to facilitate the attraction of foreign

investments' programme. This supports training activities for the self-employed and SMEs, for instance to improve the digital skills of employees of micro and small businesses. The programme's budget is EUR 6.9 million. It is implemented by the CFCA in cooperation with the Latvian Information and Communication Technology Association, the Latvian Chamber of Commerce and Industry and the LIAA;

- The new 'Competence centres' programme provides support for cooperation between scientists and businesses to develop and commercialise new products and technologies. A call for projects was finalised in May 2016 and consequently eight centres of competence were established in the context of 'smart specialisation' (RIS3)²⁶. The programme's budget is EUR 64.3 million.

3.8 Environment



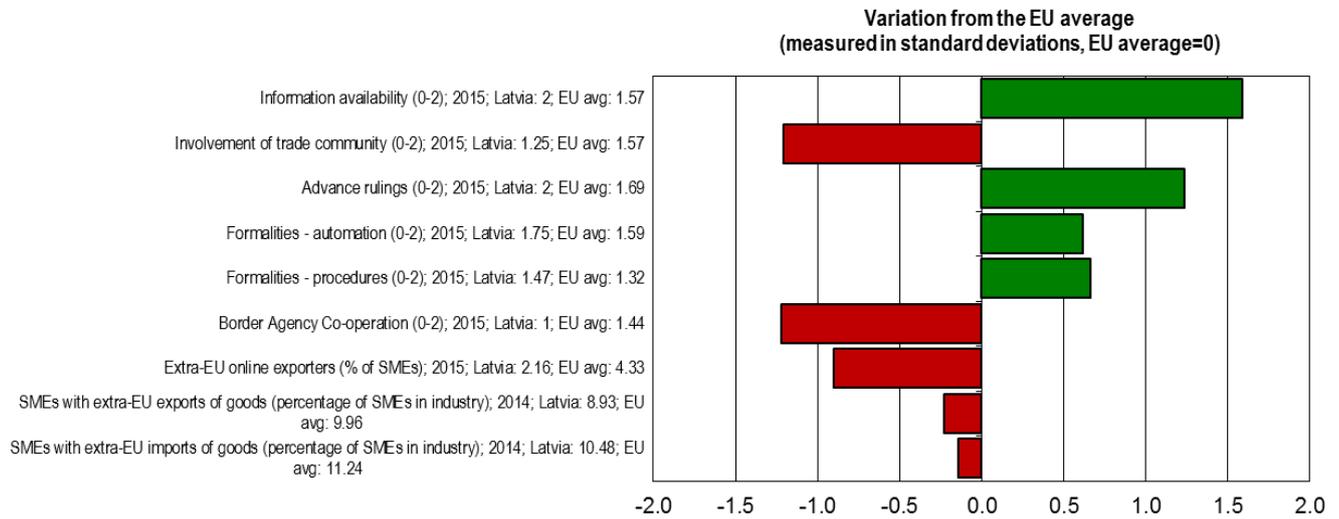
Latvia's performance in this area is in line with the EU average. The country reports a below-average share of SMEs that have taken resource-efficiency measures, as well as the third-lowest proportion of SMEs that offer green products or services. Conversely, the proportion of SMEs that have benefited from public support measures for the production of their green products is well above the average and the second highest in the EU.

Since 2008, Latvia has introduced a limited number of measures to foster energy efficiency and the use of renewables by SMEs and to encourage the development of innovative eco-efficient processes, products or services. Overall, further efforts are still required to promote incentives for eco-efficient businesses. The regulation on 'requirements for green public procurement and rules on implementation procedures'²⁷ needs to be approved by

the Cabinet of Ministers as soon as possible. It aims to promote the use of environment-friendly goods and services, create more opportunities to develop SMEs and reduce the administrative burden.

During 2016 and the first quarter of 2017, one significant support measure was introduced by the CFCA. The 'Promote the efficient use of energy resources, reducing energy consumption and transition to RES in the manufacturing sector' programme supports a number of activities, including energy audits and energy management systems. It also supports energy efficiency in the production of technological equipment, in the restoration of buildings' engineering systems, for reconstruction purposes and for creating and implementing renewable energy sources. The programme's budget is EUR 32.5 million.

3.9 Internationalisation



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Latvia performs in line with the EU average on this dimension. Due to the replacement of most of the indicators in this year's edition, overall performance in this area cannot be compared to last year's.²⁸ The country performs among the top three EU Member States on both information availability and advanced rulings (i.e. binding decisions by Customs on details related to the intended import or export of goods) which facilitate the declaration, release and clearance process. However, cooperation between Latvia's various border agencies scores below the EU average, making it one of the bottom three performers in this respect. Moreover, the share of Latvian SMEs exporting goods outside the EU has been decreasing, from 9.2 % in 2009 to 8.9 % in 2014, whereas the proportion of those importing from outside the EU increased from 9.0 % to 10.5 % over the same period. It is also worth noting that, again, the number of Latvian SMEs exporting online is low compared to the EU average.

Latvia has introduced a modest number of measures in this SBA area since 2008. Overall, there are numerous support measures/incentives available to SMEs to stimulate trade and export. SMEs can also use the 'International promotion of competitiveness'²⁹ programme co-financed by the EU structural funds since 2008. This supports trade missions, trips and networking events to help SMEs enter new markets in and beyond the EU. ALTUM also offers financial support instruments, such as export credit guarantees³⁰, specifically for SMEs' internationalisation needs.

During 2016 and the first quarter of 2017, no new significant measures were adopted or implemented in this area.



4. Interesting initiative

Below is an example of an initiative from Latvia to show what governments can do to support SMEs:

Law on aid for start-up companies

The 'Law on aid for start-up companies' aims to foster the creation of start-ups in Latvia. It is part of a wider push implemented by Latvian Investment and Development Agency to make Latvia an attractive base for start-ups.

The law intends to support the translation of research activities into innovative ideas, products and processes. It includes financial incentives such as a (fixed payment) aid programme (with tax relief on personal and corporate income) and an aid programme to attract highly skilled employees (also through tax relief on personal and corporate income).

To be eligible, a start-up needs to meet nine criteria. Start-ups are also required to have secured EUR 30 000 or more in early-stage venture capital funding for every aid application submitted per year.

The law entered into force in January 2017. The aid programme period lasts 12 months. It starts from the date when the decision of the 'Commission for start-up company activity assessment' (a collegial decision-making authority) to grant the programme enters into force.

References

<https://em.gov.lv/en/news/13242-adopted-law-on-aid-for-start-up-companies>
<https://likumi.lv/ta/id/287272-jaunuznemumu-darbibas-atbalsta-likums>

Important remarks

The European Commission Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW) produces the SBA fact sheets as part of the SME Performance Review (SPR), its main vehicle for economic analysis of SME issues. They combine the latest available statistical and policy information. Produced annually, they help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of Member State policies. Rather, they should be regarded as an additional source of information to improve evidence-based policy-making. For example, they cite only policy measures national SME policy experts consider relevant. They do not and cannot reflect all measures the government has taken over the reference period. There is more policy information on a database accessible from the SPR website.

SME Performance Review:

<http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

grow-spr@ec.europa.eu

Small Business Act:

http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm

European Small Business Portal:

http://ec.europa.eu/small-business/index_en.htm

Endnotes

¹ The two graphs below present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2015, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2014 figures from Eurostat's Structural Business Statistics Database. The data cover the 'non-financial business economy', which includes industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>.

² Ministry of Economics of the Republic of Latvia: Economic Development of Latvia Report, 2016: https://em.gov.lv/files/tautsaimniecibas_attistiba/zin/2016_jun_eng.pdf, last accessed 24/03/2017.

³ Investment and Development Agency of Latvia: Latvia — Smart Investment — Why they set up SSCs in Latvia? 06/08/2014. http://www.liaa.gov.lv/files/liaa/attachments/1_noa_why_ssc_in_latvia_06_08_2014.pdf, last accessed 29/03/2017. *See also* The Baltic Times: Baltics climb in outsourcing index, 03/03/2011. <http://www.baltictimes.com/news/articles/28148/>, last accessed 29/03/2017.

⁴ Ibid.

⁵ Vecgaile, Linda: The Tourism Industry in Latvia as a Mirror of the Economy, 06/02/2017. <https://www.macroeconomics.lv/article/tourism-industry-latvia-mirror-economy>, last accessed 24/03/2017.

⁶ Ibid.

⁷ Latvia Travel: 2016 — one more good year for Latvian tourism, 16/02/2016. <http://www.latvia.travel/en/news/2016-one-more-good-year-latvian-tourism>, last accessed 24/03/2017.

⁸ Oberhaus: Real estate market report '16 — Baltic States Capitals. <http://www.ober-haus.lt/wp-content/uploads/Ober-Haus-Market-Report-Baltic-States-2016.pdf>, last accessed 29/03/2017.

⁹ Global Property Guide: Latvia rising! Riga's housing market up 9.75 %, 20/01/2017, <http://www.globalpropertyguide.com/Europe/Latvia>, last accessed 05/04/2017.

¹⁰ Ibid.

¹¹ Colliers Research & Forecast Report: Baltic States — Property Snapshot Q3-2016, http://www.colliers.com/-/media/files/emea/latvia/research/2016/colliers_baltic_quarterly_report_3q16_final_sec.pdf.

¹² Persons employed and self-employed persons refer to persons aged 15-64. Source of the data is Eurostat. To calculate the 2016 value, quarterly data from the LFS series was averaged over all quarters for which information was available on 20.03.2017.

¹³ Lursoft: 2016.gadā likvidēto uzņēmumu skaits pārsniedzis jaunreģistrēto uzņēmumu skaitu, 03/01/2017, <http://blog.lursoft.lv/2017/01/03/2016-gada-likvideto-uznemumu-skaits-parsniedzis-jauregistreto-uznemumu-skaitu/>, last accessed 24/03/2017.

¹⁴ Ibid.

¹⁵ In line with the Commission implementing regulation (EU) No 439/2014, high-growth enterprises are defined as firms with at least 10 employees in the beginning of their growth and average annualised growth in number of employees greater than 10 % per annum, over a 3-year period. The share of high-growth enterprises is the number of high growth enterprises divided by the number of active enterprises with at least 10 employees. Source of the data on high-growth enterprises is Eurostat (http://ec.europa.eu/eurostat/web/products-datasets/-/bd_9pm_r2, last accessed 10.04.2017). Due to data availability on Eurostat, the data on high-growth firms refers to the 'business economy', which covers sections B-N including section K (financial activities, except activities of holding companies). The 'non-financial business economy' excludes section K.

¹⁶ The 2017 SBA fact sheets benefited substantially from input from the European Commission's Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.

¹⁷ The quadrant chart combines two sets of information. Firstly, it shows current performance based on data for the latest available years. This information is plotted along the X-axis measured in standard deviations of the simple, non-weighted arithmetical average for the EU-28. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2017. These are measured against the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the EU average at a given point in time, but also about the extent of progress made between 2008 and 2017. All SBA principles, with the exception of the 'Think Small First' principle for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>.

¹⁸ The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2016 and the first quarter of 2017. The national SME policy expert that CARSA Spain (DG GROW's lead contractor for the 2017 SBA fact sheets) contracted made the selection. The experts were asked to select only the measures they considered the most important, i.e. the ones expected to have the highest impact in the SBA area in question. The complete range of measures the experts compiled in producing this year's fact sheets will be published alongside the fact sheets in the form of a policy database on the DG GROW website.

¹⁹ Junior Achievement Latvia, <http://www.jal.lv/news>.

²⁰ Aid for Start-up Companies, LIAA, <http://www.liaa.gov.lv/lv/fondi/2014-2020/jaunuznemumu-atbalsta-programmas>.

²¹ FICIL, Insolvency Abuse Report, <http://www.ficil.lv/f/16%2004%2006%20FICIL%20Insolvency%20Abuse.pdf>.

²² Access to Finance ex ante assessment, Latvia, http://www.esfondi.lv/upload/01strukturfondi/petijumi/em_tirgus_nepilnibu_izvertejums_mga_31032015.pdf.

²³ ALTUM. <https://www.altum.lv/en/>

²⁴ The data for 2016 were compiled in December 2016, while the 2015 data were collected in May 2015.

²⁵ National Industrial Policy, https://em.gov.lv/lv/nozares_politika/nacionala_industriala_politika/.

²⁶ Smart specialisation (RIS3) is an innovation policy approach that aims to boost national and regional innovation, contributing to growth and prosperity by helping and enabling Member States and regions to focus on their strengths. The European



Commission called on national and regional governments to develop smart specialisation strategies (RIS3) in its 2010 Communication 'Regional Policy Contributing to Smart Growth in Europe 2020'.

²⁷ Draft Regulation 'Requirements for Green Public Procurement and Rules on Implementation Procedure', <http://tap.mk.gov.lv/lv/mk/tap/?pid=40412067>.

²⁸ All World Bank indicators (time and cost to export and import) have been replaced by six OECD trade-facilitation indicators (following a scale where 0 is the worst and 2 is the best score). Please see Moisé, E., T. Orliac and P. Minor (2011), 'Trade Facilitation Indicators: The Impact on Trade Costs', OECD Trade Policy Papers, No 118, OECD Publishing, Paris. <http://dx.doi.org/10.1787/5kg6nk654hmr-en> for more information on the methodology applied to construct the indicators; further information is available at: <http://www.oecd.org/trade/facilitation/indicators.htm>, last accessed 06/07/2017.

²⁹ International Promotion of Competitiveness, LIAA, <http://www.liaa.gov.lv/lv/fondi/2014-2020/starptautiskas-konkuretspejas-veicinasana/u>.

³⁰ ALTUM. Export Credit Guarantees. <https://www.altum.lv/en/services/support-for-export/>.