

DISCLAIMER: Please note that SME Fact Sheets are not standalone instruments, do not constitute a comprehensive assessment of Member States' policies and should be regarded as a supplement to, and not a substitute for, available national publications. **Please refer to the methodological note before reading this SME Fact Sheet.**

1. SMEs in Latvia – a brief fact check:

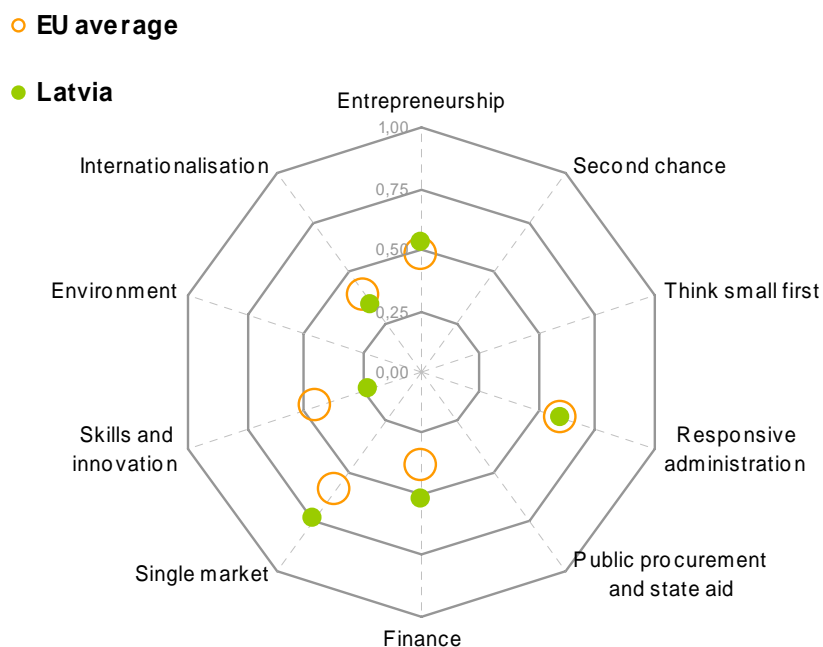
As is the case with other Baltic countries and also other smaller economies, SMEs importance to the domestic economy is significantly elevated as compared to the EU average, despite the fact that the number of SMEs relative to Latvia's population is lower than in other EU countries (27 SMEs per 1000 inhabitants vis-à-vis 40 for the EU-average). This is particularly true for employment, where they contribute a significantly higher share to the overall employment as compared to the EU average. Interestingly, the relative shares are most elevated for small and medium businesses.

	Number of enterprises			Number of persons employed			Value added (MEUR)		
	Value	%	EU-26 average	Value	%	EU-24 average	Value	%	EU-26 average
Micro	51.810	83,4%	91,8%	149.722	24,0%	29,6%	1.174	17,2%	21,1%
Small	8.507	13,7%	6,9%	163.240	26,2%	20,6%	1.774	26,0%	19,0%
Medium	1.616	2,6%	1,1%	158.555	25,4%	16,8%	1.902	27,9%	17,8%
SMEs	61.933	99,6%	99,8%	471.517	75,7%	67,1%	4.849	71,2%	57,9%
Large	218	0,4%	0,2%	151.555	24,3%	32,9%	1.961	28,8%	42,1%

Source: Eurostat SBS data base, 2004 and 2005 data.

2. Latvia's SBA profile¹

Latvia's SBA profile shows a quite positive picture. In three categories it exceeded the EU average. The strong points were "Entrepreneurship", "Finance" as well as "Single Market". Latvia's "Responsive administration" performed in line with the average for all EU countries, while "Skills and innovation" and "Internationalisation" were the weak points of the country.. Latvia also scored positive results in the 4 sections where no category-average could be calculated well above the EU-average for each of individual the indicators available.



Source: European Commission, DG Enterprise

¹ It should be noted that the different dimensions of the radar correspond to the set of 10 principles foreseen in the European Commission's Small Business Act.



I. Entrepreneurship: Latvia's overall performance in this category is positive, although with some exceptions. The strongest performance refers to the desire to be self employed where Latvia comes out first in the EU. On the other hand, the degree to which schooling had an impact on developing an entrepreneurial attitude was significantly below EU-average. Other indicators in this sub-section not taken into account for the average (cf. methodological note) also show a mixed picture and hover around either just above or below the EU-average. Most notably, Latvia has a share of high-growth firms slightly higher than the EU-average (5,9% to 4,2%).

II. Second chance: On the one available indicator in this category – the degree of support for allowing a second chance – Latvia performs just above the EU average (81% to almost 80%).

III. Think small first: On the two available indicators - time it takes to comply with administrative obligations and the share of support among SMEs - Latvia performs well above the EU-average (4% versus 8% and 36% versus 29% respectively).

IV. Responsive administration: Overall Latvia is on a par with EU average in this category, but individual indicators show a mixed picture. The best results are related to the short time and costs for starting-up a business (3% of income per capita versus 6%). Also, e-government is not much developed yet as is the case with many other new member states.

V. Public procurement and State aid: On both indicators in this section, the share of SMEs in public procurement contracts and the proportion of state aid devoted to SMEs, Latvia scores well above the EU-average (67% to 42% for the former, 23% to 11% for the latter).

VI. Finance: Latvia's performance is overall positive, although not all indicators could be taken into account due to a lack of data. As for individual indicators in this sub-section, the picture is rather diverse. On the positive side there are relatively strong legal rights and a high share of EAFRD funds dedicated to support measures for business creation and development making Latvia number one in this area. On the downside, delays in payments (83% vs 50% of average contract time) and the share of lost payments (3,3% of total as opposed to 2,4%) appear to be more noticeable than in the EU on average.

VII. Single market: Latvia's performance in this category is well above the EU-average. As for individual indicators, the best performance refers to the number of directives overdue more than 2 years, where the country tops the EU-ranking (The figure for Latvia is 0, vs 2,2 for the EU average).

VIII: Skills and innovation: In contrast to the preceding category, in this one Latvia returns a score considerably below the EU-average. On almost all individual indicators the country trails the EU average. Among the few above-average-indicators, the most positive performance is related to the proportion of staff with tertiary education (52%, that is twice the EU-average). The indicators with the widest gap vis-à-vis the EU average are those related to measuring the internet-connectivity as an opportunity, as is the case with many other new Member States (5% of Latvian enterprises had purchased on-line over the last calendar year, as opposed to 28% for the EU-average).

IX: Environment: Again, this category does not allow for a general assessment given that only three indicators are available. It only can be stated that in general performance was mixed, i.e. either above or substantially below EU-average, such as average expenditures on environmental protection where Latvian SMEs are found to spend – in absolute terms - substantially less than their average EU-counterparts (ca. €263 as opposed to almost €900 in 2004). Also, the figures indicate that Latvia has the lowest share of SMEs applying simple energy saving measures (only 15%). On the other hand 6% of SMEs have in place comprehensive systems for energy efficiency (versus EU-average of 4%).

X: Internationalisation: Overall data available position Latvia slightly below the EU average, as also most individual indicators in this segment are below the EU-average. The most notable positive exception the relatively high share of inputs purchased abroad by SMEs (16% versus 12% for the EU). On the negative side, the comparatively low share of turnover generated from exports by SMEs together with a low share of SMEs gaining income from subsidiaries and joint ventures abroad are the indicators trailing furthest behind the respective EU-average. As for the share of SMEs exporting outside EU-27 in total SMEs Latvia is almost level with the EU-average.



Example for a good practice in SME policy

To illustrate the efforts of the Government to promote SMEs, the statistical information of the fact sheet is enriched by an example of a good practice in SME policy - as singled out in the European Commission's Communication on "Think small first – A Small Business Act for Europe":

Title of the Project: Public venture capital (VC) fund of funds

Early stage VC financing is almost non-existent in Latvia, as the existing seven or eight VC funds focus on larger expansion projects calling for investment of over €1 million. Besides the difficulties in access to finance for SMEs, limited knowledge among businesses of attracting the right financing to the business, in general, and about venture capital in particular is also observed. To solve those problems, the Ministry of Economics of the Republic of Latvia developed a state aid scheme for venture capital which is carried out, as already written, by the Latvian Guarantee Agency (hereinafter - LGA). The LGA itself is a state backed institution that apart from acting as a "fund of funds" within the venture capital aid scheme also provides credit guarantees for SMEs in Latvia.

The Latvian Guarantee Agency acts as a "fund of funds", investing over €14.5 millions in the three established VC funds. Of that 75% is from the EU Structural Funds and 25% from the Latvian government budget. Apart from the public funding, the funds have raised additional €15 millions from the private sector. Each fund in which the LGA invests is monitored by an investment committee with both public and private sector representatives. The public sector creates the environment for investment and establishes the rules, while the private sector decides on the companies to benefit from investment. This keeps a distance between the state from actual market investment. From 2004 to 2006, the project was financed through structural funds. It was active until August 2008. For the period 2008 till 2013 funding for this project will be continued. Hence, on July 16, 2008 the European Investment Fund (EIF) and Latvia signed the first Funding Agreement in the Baltic States under the European Commission's JEREMIE initiative. EIF activities will include the development of new financial engineering structures and products, primarily in venture capital, technology transfer, export credit and guarantees benefiting Latvian SMEs and micro-enterprises. This initiative is part of an overall Government programme to stimulate further dynamism in the Latvian economy which is to translate into higher growth, renewed, enhance job prospects and enable a healthy and expanding SME sector.

For further information: <http://www.em.gov.lv/em/2nd/?cat=1202>.