Key points

**Past & future SME performance**: In the Latvian ‘non-financial business economy’, SMEs account for 70.0% of value added and 79.0% of employment, significantly higher than the respective EU averages of 56.8% and 66.4%. In 2013-2017, the value added of Latvian SMEs rose by 25.6%. SME value added growth accelerated in 2016-2017, with SMEs generating a two-digit increase of 11.5%, against the modest annual gains of 3.9% in 2014-2015 and 2.4% in 2015-2016. SME employment increased by 8.4% in 2013-2017. Growth of SME value added is predicted to slow down to one-digit rates of 7.4% and 7.9% annually between 2017 and 2019. SME employment is likely to accelerate by around 2% annually in 2017-2019.

**Implementing the Small Business Act for Europe (SBA)**: Latvia has a competitive SBA profile with five principles scoring above the EU average (entrepreneurship, ‘responsive administration’, state aid & public procurement, access to finance and single market). Latvia maintains strong financial and entrepreneurship framework conditions for SMEs. The remaining areas are on a par with the EU average, except for skills & innovation which is the only area that lags behind the other EU Member States.

**SME policy priorities**: Many SMEs continue to perceive administrative procedures as a problem for doing business: further improvements in the business environment are needed. The area of skills & innovation remains a major weakness in Latvia’s overall SBA performance. The country also needs to embrace digital technologies: the number of SMEs selling and exporting online should increase to keep pace with developments at EU level.

**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

<table>
<thead>
<tr>
<th>Class size</th>
<th>Number of enterprises</th>
<th>Number of persons employed</th>
<th>Value added</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Latvia</td>
<td>EU-28</td>
<td>Latvia</td>
</tr>
<tr>
<td></td>
<td>Number</td>
<td>Share</td>
<td>Share</td>
</tr>
<tr>
<td>Micro</td>
<td>104 795</td>
<td>92.1%</td>
<td>93.1%</td>
</tr>
<tr>
<td>Small</td>
<td>7 344</td>
<td>6.5%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Medium-sized</td>
<td>1 421</td>
<td>1.2%</td>
<td>0.9%</td>
</tr>
<tr>
<td>SMEs</td>
<td>113 560</td>
<td>99.8%</td>
<td>99.8%</td>
</tr>
<tr>
<td>Large</td>
<td>195</td>
<td>0.2%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Total</td>
<td>113 755</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

These are estimates for 2017 produced by DIW Econ, based on 2008-2015 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.

In the Latvian ‘non-financial business economy’, SMEs account for 70.0% of value added and 79.0% of employment, significantly higher than the respective EU averages of 56.8% and 66.4%. The annual productivity of Latvian SMEs is slightly less than EUR 17 200 per person, less than half the EU average of EUR 43 900. The majority of SMEs are represented in wholesale and retail trade and manufacturing, with a combined contribution of 44.9% to total SME value added and 43.4% to SME employment.

In 2013-2017, the value added of Latvian SMEs rose by 25.6%, slightly less than the 27.5% growth of large businesses. SME value added growth accelerated in 2016-2017, with SMEs generating a two-digit increase of 11.5%, against the modest annual gains of 3.9% in 2014-2015 and 2.4% in 2015-2016. SME employment increased by 8.4% in 2013-2017, largely thanks to micro firms, which created 24.8% more jobs, whereas small and medium firms reported a decrease of 1.2% in employment in the same period.

Latvian manufacturing grew faster than the rest of the economy during the post-2008 crisis period. SMEs now generate 69.8% of the value added in this sector, a much higher percentage than the EU average of 41.6%. This proportion increased by an additional 4.1 percentage points in 2013-2017, when SME value added rose by 30.3% against the lower growth of 21.4% achieved by large firms. Employment growth in manufacturing is generated entirely by SMEs, in which employment increased by
3.5% in 2013-2017. In contrast, large manufacturing firms lost a fifth of their labour force in the same period. Sector growth has been facilitated by an improvement in the international competitiveness of Latvian manufacturers, helped by various government support programmes which have increased the competitiveness and productivity of SMEs, improving their performance in foreign markets. Although these programmes were intended to support SMEs in almost all sectors of the economy, SMEs in manufacturing were the main beneficiaries since they are more export-oriented by nature. Another factor in the growth of this sector was the positive demand dynamics in major export markets, mostly the growth in spending in the EU.

In wholesale and retail trade, SMEs create 77.5% of value added, a higher proportion than the EU average of 66.0%. However, in contrast to the value added trend in manufacturing, this percentage has been consistently falling: in 2013 it was 81.9%, falling from 83.5% in 2008. In 2013-2017, the value added of large firms grew by 60.5%, whereas in SMEs the gain was more modest, at 22.0%. In terms of employment, large firms achieved growth of 11.7%, while SME employment fell by 0.9%. The cause of this disparity is growing competition, especially in the food retail subsector, from large firms and multinationals that are now entering the Latvian market. Another reason for slower SME growth in this sector is the change overall in consumers’ behaviour, specifically their preference for saving time and money by shopping at large traders. Furthermore, SMEs in this sector are not eligible for support from a number of programmes funded by EU Structural Funds, which have, for example, helped growth in other sectors such as manufacturing.

In the construction sector, SMEs and large firms showed divergent trends in added value. SME value added increased by 11.0% in 2013-2017, whereas the value added of large firms fell by 10.4%. There were similar opposing trends for employment in the same period: a rise of 9.2% for SMEs and a fall of 6.9% for large construction firms. These opposing trends indicate that substantial structural changes have taken place within the Latvian construction services market. The growth of SMEs in the sector can be explained by the widespread use of subcontracting. The benefit of subcontracting is smaller with more competitive prices resulting from a new simplified micro-firm tax regime combining different taxes (such as mandatory social insurance contributions, personal and corporate income taxes) into one single tax. On the one hand, this new legislation has lowered the administrative costs and tax burden for micro firms and simplified the role of government. On the other, experts suspect that there is a growing black market trade in this sector, typified by payments in cash, unregistered employment and tax avoidance, which is now easier for micro firms to practice.

In total, 10 210 new companies were registered in 2017, the lowest number since 2009 and 8.9% lower than in 2016. The overall decrease in company registrations in 2016-2017 can be explained as a reaction to extensive tax reforms in recent years and uncertainty about impending regulations in 2017 and 2018. The number of liquidations (de-registrations) increased by 34.7% in 2016-2017, totalling 16 479 companies, a net loss of 6 269 firms. This increase in liquidations was partially due to the removal of inactive companies by the country’s Register of Enterprises in recent tax and law reforms.

In 2015, 1 051 firms in the ‘business economy’ with at least 10 employees could be classified as high-growth firms. This represented 12.2% of all firms in Latvia, which is substantially higher than the EU average of 9.9%. However, in contrast to the trend in the EU, this percentage has continued to fall for the third year in a row.

Growth in SME value added is predicted to slow down to one-digit rates of 7.4% and 7.9% annually between 2017 and 2019. However, it will still exceed the annual growth rates of large firms. SME employment is likely to rise by around 2% annually in 2017-2019, generating around 19 800 new jobs by 2019.
2. SBA profile

Latvia maintains a strong SBA profile with five principles (entrepreneurship, ‘responsive administration’, state aid & public procurement, access to finance and single market) above the EU average. The remaining areas scored in line with the EU average, except for skills & innovation which is the only area where Latvia performs considerably below the EU average.

Since 2008, policy progress in implementing the SBA recommendations in Latvia has been moderate. The most significant progress has been achieved in implementing recommendations in the areas of skills & innovation and access to finance. SMEs can benefit from a variety of mechanisms to access funding for research and development of new products and services, and to increase their productivity and export capacity. Latvia has improved its policy towards SMEs’ access to skilled workers — improving the vocational education and training system by introducing work-based learning and ensuring funding for companies to further train their employees. Over recent years, Latvia has implemented numerous measures to introduce the ‘Think Small First’ principle and address recommendations under such areas as responsive government — cutting administrative burden and developing accessible e-services, state aid & public procurement, ‘second chance’ and internationalisation.

The SBA areas with the least policy measures implemented since 2008 are environment, single market and entrepreneurship. Latvia needs to address challenges regarding resource efficiency and continue improving the business environment, while entrepreneurship would benefit from a more strategic approach to entrepreneurial education.

No specific SBA implementation policy has been introduced in Latvia; SBA recommendations are implemented through different policies and institutions. Stakeholders acknowledge that more focused policy towards micro and small firms could be valuable. The government has developed numerous action plans (e.g. Action Plan for Business Environment Improvement, Action Plan for Reduction of Shadow Economy, etc.) to improve the business environment but overall the support system is fragmented and does not fully answer the needs of SMEs.

In 2017 and the first quarter of 2018, which is the reference period, Latvia implemented 15 policy measures and addressed 6 of the Small Business Act’s 10 policy areas. Overall, stakeholders acknowledge that progress in implementing the SBA has been moderate. Most progress was achieved in improving access to finance for SMEs and in developing the administration’s responsiveness towards improving the business environment. Also, Latvia has made steps towards a more resource-efficient economy developing financial instruments for SMEs to improve their energy efficiency. The area that remains the most problematic is skills & innovation. The SBA areas that have progressed the least during the reference period are single market and internationalisation.
SBA performance of Latvia: state of play and development from 2008 to 2018

Note: The scores presented in the chart above are not fully comparable to those displayed in previous versions of the fact sheet. This is due to a review of the framework of indicators used to assess performance across the SBA principles. Only the aspects with sufficient background data are presented. The value for progress over time was set to 0% in case of insufficient data and marked in the above chart by a diamond shape. For more details, please consult the methodological note on the webpage of the SME Performance Review:
3. SBA principles

### 3.0 ‘Think Small First’

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

The ‘Think Small First’ principle is broadly implemented in Latvia’s policy and law-making processes. It is included in the ‘Initial Impact Assessment Procedure of Legislative Acts’ (Instructions No 19) covering all steps of the ‘SME test’. Stakeholders believe that the first two steps — identification of affected businesses and consultation of SME stakeholders — are being carried out effectively. However, there is an urgent need to improve the application of the other steps of the ‘SME test’, in particular to better evaluate the impact of regulations on SMEs and to assess alternative options and mitigating measures.

To better measure the impact of legislative acts on SMEs, amendments to ‘Instructions No 19’ were adopted in 2017 and entered into force on January 2018. These amendments aim to improve the assessment of the financial impact on SMEs by estimating the costs incurred to comply with the requirements of draft regulations. The new rules enable public institutions to estimate the application costs for SMEs on every new requirement in any regulation that affects a business. According to stakeholders, these amendments are a step towards better regulation for SMEs; they could reduce the financial burden in implementing the new rules. SME stakeholders consider these amendments as a way to improve the dialogue between government and business organisations and to look for alternative options and mitigating measures in newly developed regulations.

Although some initiatives have been implemented, there are still some elements to be put in place. Latvia should open a discussion on introducing ‘common commencement dates’ for legislative acts, to ease the administrative burden for micro and small companies. Formal consultation periods with stakeholders should be extended — according to European Commission’s recommendations — to at least 8 weeks prior to making any legislative or administrative proposal that has an impact on SMEs.

During 2017 and the first quarter of 2018, no new significant measures were adopted or implemented in this area.
3.1 Entrepreneurship

Latvia continues to perform above the EU average in entrepreneurship, scoring among the top three EU Member States with continuous progress since 2008. However, between 2016 and 2017 there was a small deterioration in opportunity-driven entrepreneurial activity, falling from 55.2% to 46.9%. The same downward trend is observed with entrepreneurial intentions in 2017 against the previous year. Conversely, the high status given to successful entrepreneurs slightly increased from 57.8% in 2016 to 58.5% in 2017 (even though the performance remains below the EU average). The proportion of the population who perceive entrepreneurship as a desirable career choice has slightly increased (57.5% in 2017 against 55.2% in the previous year).

Since 2008, a limited number of policy measures have been implemented on entrepreneurship. These measures cover entrepreneurial education, support mechanisms to strengthen self-employment and the creation of start-ups. An Innovation Motivation programme was developed to foster entrepreneurial spirit in society, including entrepreneurship education activities at school. Most notably, in 2016, the legislator adopted the ‘Law on Aid for Start-up Companies’. The objective of this law is to promote the creation and development of start-ups. It also aims to support the transfer of research into innovative ideas, products and processes. To improve this support, amendments were proposed in 2018 to extend eligibility criteria and attract more applicants. According to data from the Latvian Start-up Association, there are around 320 companies in Latvia that could apply for this support.

Latvia has set an objective to attract and support the creation of start-ups on its territory. The Ministry of Economics released a statement with planned activities for 2018 to achieve this goal, including: (i) an open representation in Silicon Valley; (ii) facilitating entrepreneurs’ participation in the acceleration process; (iii) further regulation to support FinTech development; (iv) facilitating cooperation between universities and businesses; (v) expanding support for R&D. To supplement existing aid for start-up companies, the concept of ‘start-up visa’ was adopted in immigration law to fast-track, and to simplify and alleviate immigration proceedings.

To support SMEs scale-up, Latvia has implemented several instruments to ease access to finance such as: acceleration funds, venture capital funds, credit guarantees, SME growth loans, co-financing (mezzanine) loans, short- and long-term export credit guarantees to cover export business risks and thus increase export volumes.

During the reference period, one significant measure to strengthen entrepreneurship was implemented: a Social Enterprise Law (Sociālā uzņēmuma likums) was adopted. This law aims to support the improvement of quality of life within
society and to promote employment for groups at risk of social exclusion.

This law will boost the establishment and expansion of social entrepreneurship in Latvia. It defines social enterprises and establishes a legal framework for them. It also sets criteria for acquiring the status of a social enterprise, as well as procedures for receiving state aid, such as corporate income tax relief, the right to accept donations and to attract volunteers.

3.2 ‘Second chance’

‘Second chance’ refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. Latvia continues to perform in line with the EU average in this area. The country has made substantial progress since 2008. However, Latvia’s main weakness is the fear of failure rate that has slightly increased from 41.1% to 42.3% between 2016 and 2017 while it fell at EU level over the same period. The other indicators have stagnated compared to last year’s fact sheet, with two indicators remaining in line with the EU average and the ‘time to resolve insolvency’ above the EU average.

Since 2008, Latvia has notably improved its insolvency legislation to ensure efficient and transparent insolvency procedures. In 2010, amendments to insolvency law were adopted reducing the length of insolvency procedures from 3 years to 1½ years. In 2016, amendments were adopted for more comprehensible and more transparent legal protection proceedings (LPP) for creditors of companies. The changes in legislation provide more possibilities to involve creditors, for instance, by choosing the person supervising the LPP or by approving the LPP action plan.

The government confirmed its willingness to continue reforms in insolvency procedures by eliminating deficiencies in the process, ensuring transparency and monitoring the efficiency of proceedings and the activities of insolvency administrators.

Latvia needs to improve its measures and available support tools to reduce the stigma of failure. It is important to convey a positive attitude in society towards giving entrepreneurs a fresh start. This is reflected in national information campaigns and other measures such as training and information sessions on procedures to educate society and SMEs.

During 2017 and the first quarter of 2018, no new significant measures were adopted or implemented in this area.
3.3 ‘Responsive administration’

‘Responsive administration’ refers to public administration being responsive to the needs of SMEs. Latvia continues to score above the EU average in this area. The performance for most indicators stagnated compared to last year’s fact sheet. The percentage of businesses reporting fast-changing legislation and policies as a problem rose (from an increase of 66% in 2015 to 71% in 2017). Moreover, government regulations were perceived as more burdensome in 2017 than in 2016. Conversely, the perceived competency and effectiveness of government staff in supporting growing firms saw an increase; however, this still remains in line with the EU average this year.

On the policy side, substantial progress has been made since 2008. Several measures have been introduced to improve the business environment and reduce the administrative burden for SMEs. Each year, the Ministry of Economics develops an action plan to improve the business environment. It aims to identify the most common administrative burden for business and present possible solutions in cooperation with other government institutions and business organisations.

Latvia has significantly improved its public services, implementing new e-services and improving existing ones — specifically those related to tax administration and construction proceedings. In 2014, single customer centres for state and local government — the ‘unified customer service network’ — were established to make government more accessible to entrepreneurs.

Although progress was made in implementing SBA recommendations in this area, entrepreneurs, in particular business starters, and micro and small companies, claim that the complexity of administrative procedures and fast-changing legislation are a problem for doing business. More active policy towards introducing a ‘zero bureaucracy’ principle is greatly needed.

During the reference period, four policy measures were implemented in Latvia. The most significant was the introduction of Consult First Principle Implementation Guidelines (Konsultē vispirms principa ieviešanas vadlīnijas). The Ministry of Economy developed these guidelines to improve cooperation between the regulatory authorities and entrepreneurs, to facilitate the fulfilment of requirements and enable clear conditions for operation. The guidelines outline good practices by regulatory authorities to promote customer-oriented activities, which other institutions can use as a tool to change the culture of customer service and monitoring.

Three more measures were implemented to improve public e-services for companies. The State Revenue Service implemented improvements of the Electronic Tax Declaration System (EÖS...
3.4 State aid & public procurement

Latvia scores above the EU average in state aid & public procurement. There has been some progress in the proportion of companies participating in public tenders, which has increased from 42 % to 45 % between 2015 and 2017. The average delay in payments from public authorities is the single indicator that continued to worsen, rising to 10 days, thereby falling from above the EU average last year to being in line with it this year.

On the policy side, Latvia has implemented only a limited number of measures since 2008. Most notably, the new Public Procurement Law was adopted in 2016. This law aims to ensure that (i) procurement procedures are transparent; (ii) suppliers are treated fairly and equally and can compete freely; and (iii) public institutions are efficient regarding their spending, minimising their risks.

Efficiency and transparency in public procurement have so far improved, but not significantly. The use of negotiated procedures without prior publication declined in 2017 (10 % against 12 % in 2016). There was also a fall in the proportion of tenders awarded on the basis of only one bidder (27 % against 31 % in 2016), showing increased competition in public tenders. However, businesses continue to highlight procedures where discriminatory or unnecessarily complex technical specifications hinder competition (FICIL, 2018).21

Further progress could be achieved by increasing the administrative capacity of staff performing tender procedures. Also using e-procurement more widely could not only be beneficial in terms of transparency but also for the increased efficiency of public projects.

During the reference period, one significant policy measure was implemented in this area. The Cabinet of Ministers adopted a new regulation to improve the E-Public Procurement System (E-iepirkumu sistēmas uzlabošana). This regulation provides requirements and standards for information systems used in electronic procurement with electronic submission of applications or tenders. It also stipulates a centralised system for listing groups that are involved in purchasing goods and services: the information thus obtained makes it possible to check that a candidate is not excluded from participating in procurement. This measure is implemented in close cooperation between the Ministry of Environment Protection and the Regional Development and State Regional Development Agency. The new regulation aims to reduce administrative costs and burden on purchases by digitising the procurement process.

The entrepreneurship section in the E-government portal (Uzņēmējdarbības sadaļas uzlabojumi portālā Latvija.lv) has improved as regards providing clear general information on (i) how to start and develop a business, (ii) how to register a company, (iii) how to obtain environmental permits, (iv) tax and (v) recruitment support.

Noteikumi par valsts pārvaldes pakalpojumu, t.s. e-pakalpojumu, un vienas pieturas agentūras principa lietošanu (vienas pieturas aģentūras) were adopted. This entails a full transposition of the Service Directive in Latvia, by ensuring that the Single Service Contact Point in the E-government portal (www.latvija.lv) functions at full working capacity.

The use of negotiated procurement procedures (Noteikumi par valsts pārvaldes pakalpojumu, t.s. e-pakalpojumu, un vienas pieturas agentūras principa lietošanu) were adopted. This entails a full transposition of the Service Directive in Latvia, by ensuring that the Single Service Contact Point in the E-government portal (www.latvija.lv) functions at full working capacity.

Percentage of businesses participating in public tenders (%); 2017; Latvia: 45; EU avg: 32
Percentage of businesses submitting proposals in a public electronic tender system (e-procurement) (%); 2013; Latvia: 18.08; EU avg: 12.85
Percentage SMEs account for in the total value of public contracts awarded (%); 2013; Latvia: 74; EU avg: 29
Average delay in payments from public authorities (in days); 2017; Latvia: 10; EU avg: 9.27

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.

21

ui labojumi) to facilitate taxpayers’ day to day operations, reducing the time spent on tax reporting.

Regulations on public services, incl. e-services and the use of the one-stop-shop principle (Noteikumi par valsts pārvaldes pakalpojumu, t.s. e-pakalpojumu, un vienas pieturas aģentūras principa lietošanu) were adopted. This entails a full transposition of the Service Directive in Latvia, by ensuring that the Single Service Contact Point in the E-government portal (www.latvija.lv) functions at full working capacity.
3.5 Access to finance

Latvia continues to score above the EU average in access to finance, and is the best-performing EU country in this area (like last year). Significant progress has been made since 2008. The percentage of rejected loan applications and unacceptable loan offers fell from 20.1% to 0% between 2016 and 2017, which has been the best result achieved in EU. Moreover, the population perceived banks as less reluctant to provide loans, while there is increasing public financial support and a fall in the cost of borrowing for small loans since 2016.

On the policy side, substantial progress has been made since 2008 to facilitate SME access to finance. In 2014, the Development Financial Institution ALTUM was established. It is a one-stop-shop where SMEs can apply for European, national and local grants, loans, etc. Latvia has been very active in using available EU Structural Funds to prevent market failure in the financial sector and ensure that SMEs get the required investments so they can grow. Since 2008, a variety of financial instruments have been created to facilitate the availability of financial resources in all stages of business development, especially for starting up a business. In 2017, additional financial products were launched, including three acceleration funds, while three more acceleration funds begin operations in 2018. Since 2017, financial instruments provided by ALTUM including venture capital instruments, have been fully operational.

During the reference period, three significant new measures were implemented in this area. In 2017, a wide tax reform was adopted in Latvia. One of the most important changes has been the introduction of 0% corporate income tax (CIT) to reinvested profits (0% UIN likme reinvestētajai pelnai) to support investments in business development and to promote economic growth. Since January 2018, CIT is paid only when a company pays dividends or makes other payments with the aim of actual profit distribution. Individuals who receive these dividends will not be required to pay personal income tax. The new effective CIT rate represents 20% of gross profit.

To complement the newly adopted Social Enterprise Law, ALTUM launched the Social Entrepreneurship Programme (Atbalsts Sociālās uzņēmējdarbības uzsākāsai). This programme aims to support companies whose mission is to help society (e.g.: support residents exposed to the risk of poverty and social exclusion). The amount provided for a grant to support an entrepreneurship project can range from EUR 5,000 to EUR 200,000. Funds under this programme may be granted for companies starting or to expand social entrepreneurship and more than 200 projects are expected to avail of these funds. For a project to benefit from this programme its business idea should be viable, with significant long-term social influence.

Following market demand for more accessible funding to help companies grow, the Portfolio Guarantee Instrument (PGI) (Portfeļgarantijas) regulation has been adopted. It defines the conditions for the granting of guarantees, financing arrangements and for providing state aid to SMEs. The PGI provides state aid to SMEs in the form of a guarantee for a

Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.
financial service provided by a credit institution. In case the SME defaults, the guarantee covers part of the losses incurred by the credit institution for the financial service not refunded by the SME. ALTUM together with credit institutions will be the PGI implementing body. Available funding for this instrument is EUR 7.8 million.

3.6 Single market

Latvia performs above the EU average in this area despite stagnating since 2008. Considerable progress has been made in addressing the transposition delay for overdue directives, which fell from 7 to less than 6 months between 2016 and 2017 (while the average delay increased at EU level). Pending infringement proceedings remained stable (7 cases) over the same period: this is more than three times less than the EU average (24 cases). Moreover, the proportion of SMEs that are online exporters within the EU increased from 3.9 % to 4.7 % between 2015 and 2017, although this remains well below the EU average. On the two last indicators on market access for new and growing companies, Latvia has slightly improved and its performance on both are now in line with the EU average.

Progress in this area of the SBA has been weak over the past 10 years. SOLVIT is well recognised among stakeholders, and a number of information campaigns about aspects of the single market took place. The reform of the standardisation system, which began in 2016, to change the legal status of the national standard body to that of a business organisation is still ongoing. The objective of this reform is to bring the standardisation process closer to businesses and their needs.

Available data show that Latvia needs to improve regulation and develop support tools to step up the use and development of e-commerce in SMEs. A clear regulation that is easy to apply should be proposed for selling goods and services online and for promoting the sharing economy. Also, measures need to be implemented to promote internationalisation and facilitate trade.

During 2017 and the first quarter of 2018, no new significant measures were adopted or implemented in this area.
3.7 Skills & innovation

Latvia continues to score below the EU average in skills & innovation, with its performance stagnating since 2008. This is the weakest among the 10 SBA areas. A substantial improvement was made is in the number of companies that train their employees. There is also a slight upward trend in the proportion of SMEs selling online, increasing from 8.1% in 2016 to 10.6% in 2017 (even though Latvia still scores below the EU average). All other indicators for this SBA area are challenges to be addressed as a priority, such as the proportion of the workforce with ICT specialist skills and the percentage of companies providing ICT specialist training to their employees.

The area of skills & innovation has been a top priority for Latvia’s policymakers since 2014. Implemented policy measures focused on developing the potential of scientific activity, promoting long-term cooperation between companies and scientists, supporting the development of innovative companies and providing a skilled labour force. Most of these activities have been funded by EU Structural Funds and are in line with Latvia’s smart specialisation strategy. Addressing the comparatively low investment in research and development, in particular private sector investment in R&D, is still one of the main challenges.

It is expected that the introduction of the 0% corporate income tax to reinvested profits (see 3.5) will have a positive impact on companies’ investments in innovation.

To respond to entrepreneurs’ demand for a skilled labour force, vocational education and training systems have been improved. In 2017, guidelines for implementing work-based learning were approved. The Employers Confederation in Latvia is leading a project financed by EU Structural Funds ‘Participation of VET Schools Students in Work Based Learning and Apprenticeships in Enterprises’ (ESF projekts ‘Profesionālo izglītības iestāžu audzēkņu dalība darba vidē balstītās mācībās un mācību praksēs uzņēmumos’). The aim of the project is to increase and ensure the participation of VET school students in work based learning and apprenticeships in companies. The project is implemented in cooperation with VET schools and companies that are interested in hosting apprentices. It covers costs related to the provision of WBL courses and apprenticeships in companies. Students’ mobility, work clothing and insurance costs are covered, as well as companies’ costs related to equipment and work space for the students and supervisors. By 2023, 3 150 VET students will have participated in WBL and 25 600 students in practical training in companies.
3.8 Environment

Latvia performs in line with the EU average on this principle. Public support has been cut drastically including public support measures for the production of green products and public support for resource efficiency measures. However, the proportion of SMEs that offer green products slightly increased from 17% to 20% between 2015 and 2017, which is still below the EU average. Conversely, the percentage of SMEs generating more than 50% of turnover from selling these products and services is well above the EU average with a significant increase from 30% to 41% between 2015 and 2017.

Latvia has adopted and implemented a moderate number of policy measures in this SBA area since 2008. Most notably, the energy efficiency law was adopted in 2015 to establish measures for implementing energy efficiency and set the rules for the use of renewable energy in companies. A green public procurement regulation was adopted in 2016 to promote the use of environmental-friendly goods and services, creating more opportunities to develop local businesses and reduce administrative burden. The grant programme to support energy efficiency and use of renewable resources was implemented in 2016 to promote the efficient use of energy resources, reduce energy consumption and support the transition to renewable energy sources in the manufacturing sector.

During the reference period, two significant policy measures were implemented. The Development Financial Institution ALTUM created two financial instruments for companies to better respond to the challenge of improving their energy efficiency.

‘The Loan for the Company’s Energy Efficiency’ (Aizdevums uzņēmuma energeefektivitātes paaugstināšanai) is available for companies to improve the energy efficiency of their equipment. This loan provides funding for lighting, ventilation, manufacturing equipment and other equipment that involves energy consumptions. This is particularly advantageous for companies whose energy consumption results in significant costs and exceeds EUR 20 000 annually (e.g.: warehouses, hotels, woodwork and metalwork companies, large companies and large energy consumers). EUR 7 000 000 is made available for loans to companies. One project can receive up to EUR 500 000, with ALTUM financing up to 85% of the total project amount for a five to seven-year term.

The Financing Aid for Energy Service Companies (ESCO) (Atbalsts ESKO darbībai) will promote the development of ESCO companies in Latvia who will be able to increase their business volumes and take larger projects. This will result in more companies becoming energy efficient. A total of EUR 15 million has been made available for ESCO, to provide energy services to companies and households, to facilitate the use of energy efficient equipment and renewable energies.
3.9 Internationalisation

Latvia performs in line with the EU average with mixture of progress and regression across the indicators since 2015. While the trade community is now more involved in supporting the internationalisation process, procedures became fully automated in 2017, compared to the previous year. Latvia also continues to score among the best EU performers 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 simplify the declaration, release and clearance processes. Furthermore, the proportion of Latvian SMEs exporting goods online outside the EU increased from 2.2% to 3.2% between 2015 and 2017. However the percentage is still below the EU average. The performance on border agency cooperation has not changed since 2015 and this is still an issue in Latvia, with a ranking that remains among the weakest EU countries for this indicator.

Latvia has adopted and implemented a moderate number of policy measures in this SBA area since 2008; for example, SMEs have access to the ‘International Promotion of Competitiveness’ programme. This supports SMEs that enter into non-domestic markets by covering costs related to their participation in international exhibitions and the organisation of trade missions. Exporting companies then have access to short-term and long-term export credit guarantees. With these guarantees, companies secure themselves against the insolvency of a foreign customer or long-term non-payment when selling goods or providing services with a deferred payment.

Since 2010, export volumes have grown rapidly and stand as the main driver of economic growth. The Latvian Investment and Development Agency (LIDA) was initially established to support the internationalisation of SMEs. LIDA established representative offices in foreign markets to ensure strong links to major markets, business partners and locations. In total, 21 offices have opened in both EU and non-EU countries\(^22\).

During 2017 and the first quarter of 2018, 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:

0% corporate income tax to reinvested profits

As part of the larger tax reform, a ‘0% corporate income tax to reinvested profits’ was introduced in Latvia in 2017. This initiative aims to support investments in business development and to promote economic growth.

**Tax rate**

As of January 2018, the CIT rate has been set at 20%. Reinvested profit will be subject to 0% tax. The 20% rate of CIT will only have to be paid from the profit share which will be distributed or disbursed as dividends or used for purposes not directly related to business development.

**Procedure for declaration and payment of tax**

As of 2018, the application of CIT is transferred from the moment the profit is generated to the moment the profit is distributed. The tax base for corporate income tax is composed of distributed profit and any profit that is deemed to be distributed. The tax period has also changed — it is now a calendar month or, for certain taxpayers — a calendar quarter.

References:


https://likumi.lv/doc.php?id=292700

http://www.fm.gov.lv/lv/nodoklu_reforma/
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:
grow-spr@ec.europa.eu

Small Business Act:

Entrepreneurship and SMEs:
https://ec.europa.eu/growth/smes

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 2016, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2015 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 These programmes are mainly part of the EU Structural Funds' support to Latvia https://www.em.gov.lv/lv/es_fondi/atbalsta_pasakumi_2014_2020/.
To improve performance in foreign markets, SMEs have access to short and long-term export credit guarantees to cover their business risks https://www.altum.lv/en/services/support-for-export/.
SMEs can also apply for specific support to attract new business and to improve performance in foreign markets http://www.liaa.gov.lv/lv/fondi/2014-2020/starptautiskas-konkurentsiejas-veicinasana/.
Targeted support is provided to improve SMEs employees’ competitiveness and production process efficiency https://www.em.gov.lv/files/eiropas_saviemiba/NRP_Latvia_2018_LV.pdf.
All websites last accessed 16.05.2018.


Būvniecība Latvijā. Ilgtspējas izaicinājumi.

8 ‘Konkurētspēju ietekmējošo faktoru analīze Latvijas būvniecības nozarē’.


10 Indeed, only 15.6 % of de-registered firms did not carry out any economic activities in 2016, whereas the average age of the firms was 10.3 years. http://blog.lursoft.lv/2018/01/02/2017-gads-nav-nesis-butiskas-izmainas-uznemumu-registresanas-un-likvidesanas-tendencies/, last accessed 18.05.2018.

11 Due to data availability, the data on high-growth firms refers to the ‘business economy’ only, which covers sections B-N including section K (financial activities, except activities of holding companies). The ‘non-financial business economy’ excludes section K.

12 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 three-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 13.04.2018).

13 The 2018 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.

14 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 2018. 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 2018. 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/

15 The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2017 and the first quarter of 2018. The national SME policy expert that PwC (DG GROW’s lead contractor for the 2018 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.

16 Common commencement dates ensure that new laws, administrative decrees and ministerial regulations come into force on fixed dates.

17 Amendments to the ‘Law on Aid for Start-up Companies’ http://tap.mk.gov.lv/lv/mk/tap/?pid=40442846


22 LIDA Representative offices http://www.iliaa.gov.lv/en/about/representative-offices