

# 2019 SBA Fact Sheet

## LATVIA

### Key points

#### **Past & future SME performance<sup>1</sup>:**

SMEs play a particularly important role in the non-financial business economy of Latvia. In 2014-2018, the overall value added and employment shares of SMEs and large firms grew at similar rates. The strong growth in value added is expected to continue, rising by 14.5% in 2018-2020. SME employment is projected to increase by 4.0% in the same period, with most of this growth being generated by micro firms, in which employment is predicted to grow by 6.1%. As a result, approximately 20,600 new SME jobs are likely be created by 2020.

#### **Implementing the Small Business Act for Europe (SBA):**

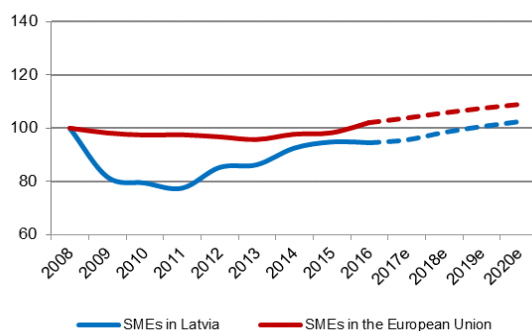
Latvia performs above the EU average in three areas – entrepreneurship, 'responsive administration' and State aid & public procurement. It is the EU's top performer in State aid and public procurement. The only SBA principle scoring below the EU average is skills & innovation, although substantial progress has been achieved in this domain since 2008. The other SBA areas remain in line with the EU average. In recent years, most policy effort has been put into the areas of skills & innovation, 'responsive administration', 'think small first' and environment.

#### **SME policy priorities:**

The biggest challenge for Latvia lies in skills & innovation. Despite recent progress, further efforts are needed to increase participation in vocational training. This training needs to match current skills requirements and foster the upskilling of low-skilled workers. In the specific area of ICT skills, Latvian companies would benefit from further investment in programmes for life-long learning in digital skills. The lack of private investment in research and development, as well as recent difficulties experienced by SMEs in accessing bank finance, are hampering economic development in all sectors. Focus on productivity growth and expanding export opportunities, in particular in the area of cross-border e-commerce, will be crucial to the development of the Latvian economy.

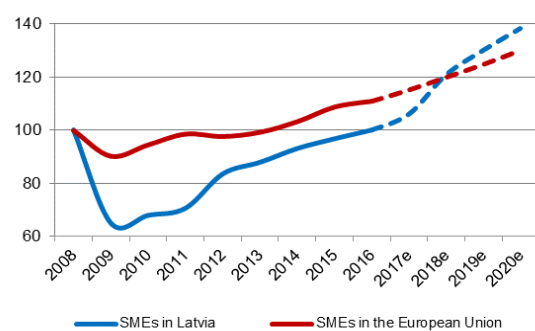
**Number of persons employed in SMEs**

(Index: 2008=100, estimates as from 2017 onwards)



**Value added of SMEs**

(Index: 2008=100, estimates as from 2017 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	104,705	91.6%	93.0%	217,364	33.2%	29.7%	2.7	21.0%	20.8%
Small	7,976	7.0%	5.9%	158,454	24.2%	20.1%	3.1	23.9%	17.6%
Medium-sized	1,450	1.3%	0.9%	143,879	22.0%	16.8%	3.4	26.3%	18.0%
<b>SMEs</b>	<b>114,131</b>	<b>99.8%</b>	<b>99.8%</b>	<b>519,697</b>	<b>79.4%</b>	<b>66.6%</b>	<b>9.3</b>	<b>71.1%</b>	<b>56.4%</b>
Large	195	0.2%	0.2%	135,144	20.6%	33.4%	3.8	28.9%	43.6%
Total	<b>114,326</b>	<b>100.0%</b>	<b>100.0%</b>	<b>654,841</b>	<b>100.0%</b>	<b>100.0%</b>	<b>13.1</b>	<b>100.0%</b>	<b>100.0%</b>

*These are estimates for 2018 produced by DIW Econ, based on 2008-2016 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 particularly important role in the non-financial business economy of Latvia. They generate 71.1% of total value added and 79.4% of total employment, well above the respective EU averages of 56.4% and 66.6%. However, the average productivity of Latvian SMEs, calculated as value added per person employed, at only €17,900, is less than half the EU average of €44,600. As in most EU countries, the most important sectors in terms of SME value added and SME employment are *manufacturing* and *wholesale and retail trade*.

On average, SMEs in Latvia employ 4.6 people, above the EU average of 3.9.

In 2014-2018, the overall value added and employment shares of SMEs and large firms grew at similar rates. However, while value added increased by 29.9% for SMEs and 29.1% for large firms, SME employment growth was significantly lower, with a rise of only 6.3% for SMEs and only 5.0% for large firms. The main drivers of SME value added growth were small firms, with an increase of 36.7% in 2014-2018. In terms of employment

growth, micro firms led the way, with a rise of 10.8% in the same period. More recently, in 2017-2018, overall SME value added increased strongly by 14.0%, whereas the rise in overall SME employment was much smaller, at 2.9%.

SMEs in the *transportation and storage* sector have generated high growth in recent years. In 2014-2018, SME value added increased by 22.0%, whereas the value added of large firms dropped slightly, by 1.3%. SME employment also grew, albeit at a lower rate of 5.6%, as did employment in large firms, which increased by 3.2%. In 2018, as a result of these positive economic developments, SMEs exceeded their 2008 pre-crisis level of value added by 24.0% and their pre-crisis level of employment by 14.9%. The factors which influenced this growth included an increase in manufacturing production and export activities, and a rise in e-commerce trading<sup>2</sup>. This also led to increased economic activity in the *transportation and storage* sector as well as in postal and courier services<sup>3</sup>, all of which are serviced predominantly by SMEs. In 2014-2018, SME value added increased by 34.5% in the largest subsector, *storage and trans-shipping*, whereas the value added of large firms in this sector fell by 12.4%. In the *postal and courier services* subsector, SME value added was similarly robust, especially in medium-sized firms.

In 2014-2018, the overall growth of the *manufacturing* sector and its strong contribution to the growth of the Latvian economy as a whole was largely thanks to the increasing competitiveness of Latvian companies of all sizes, arising from a steady reduction in their production costs, especially employment costs<sup>4</sup>. This explains the strong rise of 25.2% in SME value added in 2014-2018, as well as why SME employment remained static at 1.8%. In large firms, the pattern was even more marked: an increase of 44.3% in value added at the same time as employment dropped by 9.3%. In 2018, SME value added in this sector exceeded its 2008 pre-crisis level by 33.6%, whereas SME

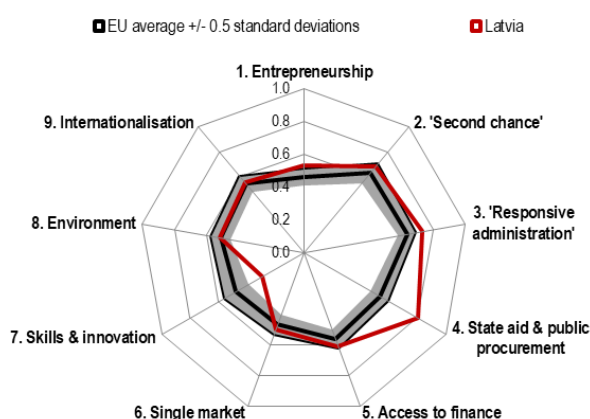
employment remained 8.0% lower than its 2008 level. In a further boost to SME growth, SMEs in the *manufacturing* sector have also been the main beneficiaries of a €377 million funding programme, established by the Latvian Ministry of Economics specifically to promote the competitiveness of Latvian SMEs across all sectors in 2014-2020<sup>5</sup>.

In 2018, for the third year in a row, the total number of new business registrations was lower than the total number of de-registrations. Despite an increase of 4.4% in new registrations, from 10,210 in 2017 to 10,660 in 2018, the number of de-registrations increased even more, from 16,480 in 2017 to 20,745 in 2018, an increase of 25.9%<sup>6</sup>. This net loss of 10,085 businesses was due to ongoing efforts by the Latvian Register of Enterprises to reduce the incidence of money laundering, which has become problematic in recent years, by deleting economically inactive companies from the register<sup>7</sup>. For example, 6,647 firms were deregistered on 14 January 2019 alone<sup>8</sup>.

In 2016, 1,113 firms, which account for 12.5% of all firms in the 'business economy'<sup>9</sup> with at least 10 employees, were high-growth firms<sup>10</sup>. This percentage share exceeds the EU average of 10.7%. In 2018, SMEs in *high-tech manufacturing and knowledge-intensive services*, which are usually R&D-intensive, accounted for 25.6% of SME value added and 22.8% of SME employment in the overall SME manufacturing and services sectors in Latvia. This is lower than the respective EU averages of 33.0% and 26.0%.

The strong growth in value added is expected to continue for Latvian SMEs, rising by 14.5% in 2018-2020. SME employment is projected to increase by 4.0% in the same period, with most of this growth being generated by micro firms, in which employment is predicted to grow by 6.1%. As a result, approximately 20,600 new SME jobs are likely to be created by 2020.

## 2. SBA profile<sup>11</sup>



Latvia performs above the EU average in three areas – entrepreneurship, 'responsive administration' and State aid & public procurement. It is the EU's top performer in State aid and public procurement. The only SBA principle scoring below the EU average is skills & innovation, even though substantial progress has been achieved since 2008. The remaining SBA areas are in line with 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 access to finance, skills & innovation, 'think small first' and 'responsive administration'. Access to finance for SMEs has improved significantly since 2013, when the Financial Development Institution ALTUM was established. SMEs, business starters and exporters can apply for a wide range of financial instruments offered by ALTUM. The corporate income tax system reform, which was implemented in 2018, introducing a 0% tax rate for reinvested profits, also helps companies fund their growth. Skills & innovation has been the Latvian government's priority for the past few years, giving SMEs opportunities to (i) fund creation of new products and services, (ii) up-skill and re-skill the labour force and (iii) transfer knowledge and technologies from scientific institutions to SMEs. Continuous improvements in the area of 'responsive administration' have led to lighter administrative and financial burdens for SMEs, improving access to public services, reducing red tape and introducing e-services at all government levels. Responsible authorities have also run extensive informal campaigns to raise SME awareness of usage of e-services.

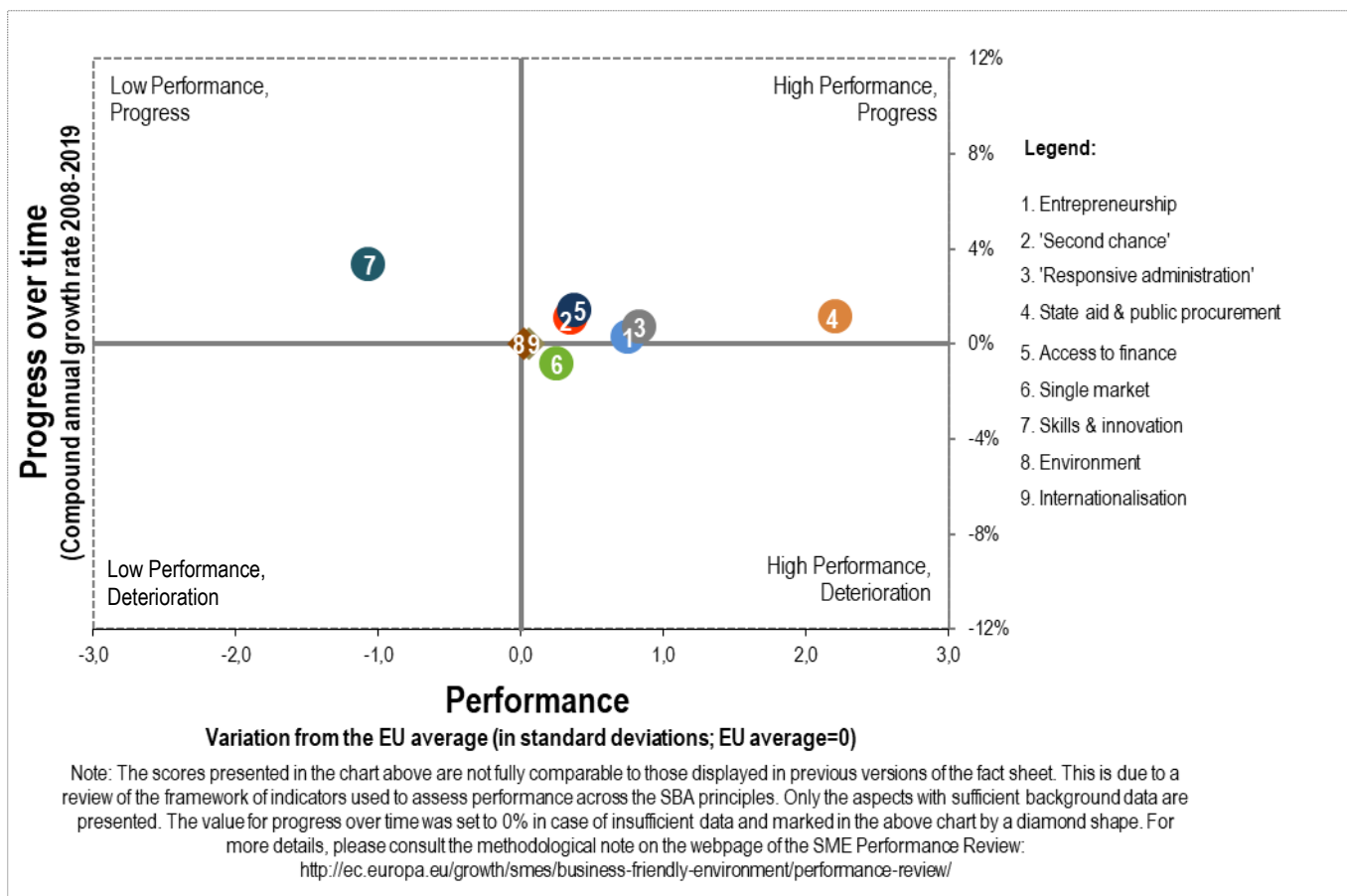
Measures to improve SME internationalisation, the creation of a more accessible and transparent public procurement system and better application of the 'think small first' principle have been on the government's agenda. The SME Test, one of the 'think small first' principle's core elements, has been fully implemented and conducting it on all new regulatory and policy initiatives, to assess their impact on SMEs, is obligatory. Stakeholders acknowledge that this is a meaningful instrument with impact on SME policy in Latvia.

The SBA areas with the fewest policy measures implemented since 2008 are environment, single market and entrepreneurship. A number of measures have been introduced to improve SME energy efficiency, mostly by offering grants and financial instruments for SMEs, but other environmental challenges have been left behind. There is still no targeted approach to improving SME performance in single market and entrepreneurship.

In 2018 and the first quarter of 2019, which is the reference period for this year's fact sheet, Latvia implemented 15 policy measures and addressed 7 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 the area 'responsive administration', by introducing a wide range of measures to reduce the administrative burden for SMEs and create a more favourable business environment. The areas that remain problematic are environment and skills & innovation. The SBA areas that have shown least progress during the reference period are single market, 'second chance' and the 'think small first' principle.

Despite these specific measures, no overall strategy for the implementation of the Small Business Act has been introduced in Latvia. The World Bank's 'Doing Business' publication and Latvia's 'Study of administrative procedure impact on business environment' are the main reports evaluating the business environment. Based on the results of the Doing Business report and the proposals of the leading business support organisations, the Ministry of Economics develops an annual action plan to improve the business environment, defining specific actions along with a time frame and achievable results. Stakeholders acknowledge that a more focused SME policy framework would be beneficial for faster growth of companies.

## SBA performance of Latvia: state of play and development from 2008 to 2019<sup>12</sup>



## 3. SBA principles<sup>13</sup>

### 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 policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply.

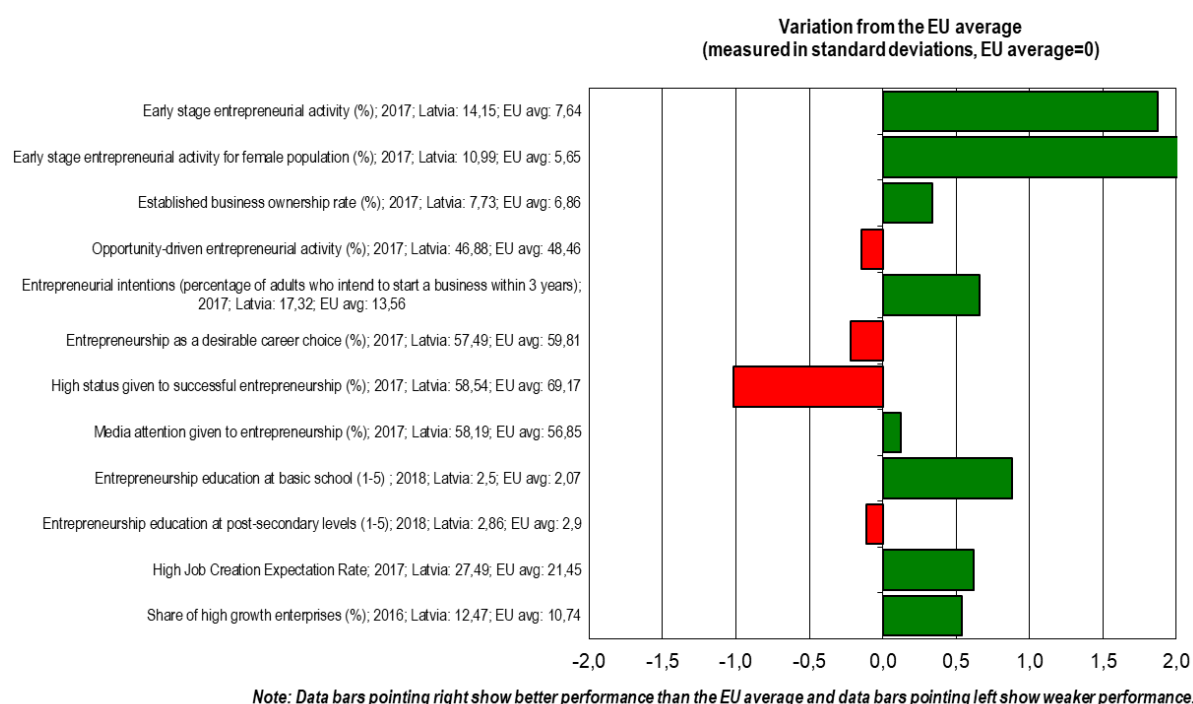
The core element of 'think small first', the SME Test, has been fully introduced in Latvia. Its requirements are part of the 'initial impact assessment procedure of legislative acts', whose application is mandatory for all new regulatory and policy initiatives developed by government institutions. Since 2008, a number of improvements have been made to enhance the introduction of the 'think small first' principle into the policy-making process. Most of the measures concern amendments and improvements to the 'initial impact assessment procedure'

(specifically 'instructions No 19'). June 2017, for instance, saw the adoption of the SME Test requirement to measure the financial impact of new regulations on SMEs.

Latvia is still lagging behind in the implementation of some elements of the 'think small first' principle. Discussions on introducing common commencement dates, ensuring that new laws and regulations come into force on fixed dates, have not yet begun. Business support organisations urge a longer public discussion period for proposals with an impact on SMEs, replacing the existing period of 2 weeks plus 10 working days with the European Commission's recommendation of an 8-week period.

No new significant measures were adopted or implemented in this area in the reference period.

### 3.1 Entrepreneurship





Latvia maintains an above average position in this SBA area, but its performance has been sluggish since 2008. Most indicators have not been updated since last year. Latvia is among the leaders in early-stage entrepreneurial activity. There is still room for improvement in terms of the status given to successful entrepreneurship, with the country scoring below the EU average. This is reflected in a slightly poorer position in terms of entrepreneurship education at post-secondary level (2.86 in 2018, against 3.02 in 2017). With respect to high growth, the newly introduced indicator on the 'high job creation expectation rate' reveals that the share of early or nascent entrepreneurs in Latvia, expecting to create 6 or more jobs in 5 years, is higher than in other EU countries. The share of high-growth companies with more than 10 employees has grown as well, from 12.2% in 2015 to 12.5% in 2016. It is still above the EU average, which, however, has increased at a faster rate.

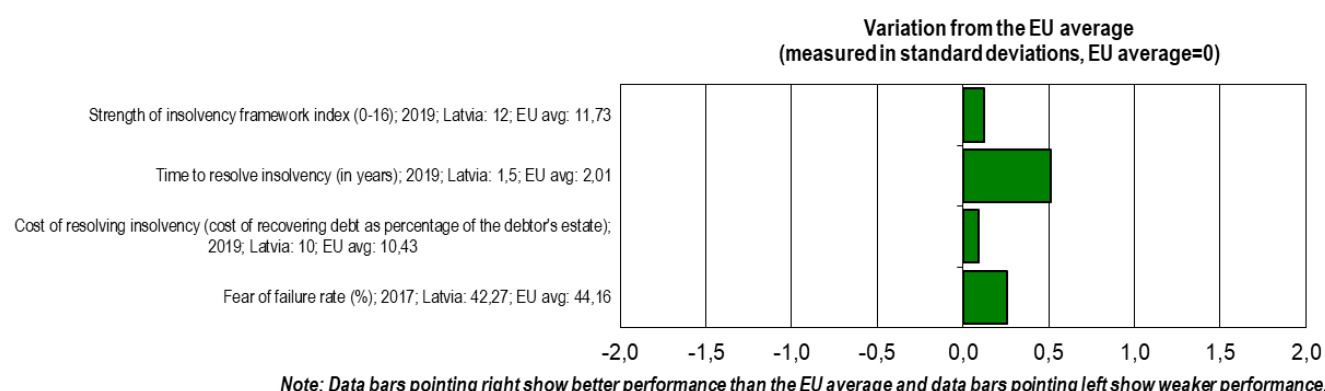
A limited number of the policy measures on entrepreneurship have been implemented since 2008. What is lacking is a global governmental strategic approach to fostering an entrepreneurial spirit in society by establishing entrepreneurship education in the school curriculum and by providing guidance to specific groups (women, immigrants, unemployed people, and young people) on starting a business. In October 2017, the legislator adopted the 'Social enterprise law' to boost the establishment and expansion of social entrepreneurship in Latvia. According to data available on the webpage of the Ministry of Welfare, the register<sup>14</sup> includes 53 social enterprises compliant with the criteria for acquiring social enterprise status and eligible for State aid. Companies on the register can also apply for the 'Social entrepreneurship programme' and receive a grant ranging from €5,000 to €200,000 to implement their business plan.

The Latvian start-up environment is dynamic and rapidly growing, nurtured by a number of important stakeholders. The

Law on aid for start-up companies was adopted in November 2016 to support the creation and development of start-ups. The local entrepreneurial ecosystem consists of more than 400 registered start-ups, a pool of institutional investors and business angels, a diverse range of modern co-working spaces, and dozens of business incubators funded by the government, academia and private individuals. This ecosystem is benefiting from a variety of gatherings, conferences, 'hackathons'<sup>15</sup> and meetups, as Riga has been hosting numerous annual tech & innovation conferences: The Digital Freedom Festival, iNovuss, Deep Tech Atelier and TechChill. Moreover, a unique Start-up Law has been passed and a 'Start-up visa', officially named 'temporary residence permit', has been created to make the Latvian start-up ecosystem more vibrant and productive<sup>16</sup>.

During the reference period, one significant measure was adopted in this SBA area. This was 'Support for start-ups - changes in procedures for applying and administering aid' (*Atbalsts jaunuzņēmumiem - izmaiņas pieteikšanās noteikumos un administrēšanā*). Two of the application criteria were improved to support more start-ups. The period for start-ups to receive investments from venture capital was extended from 12 months to 24 months, which is one of the main criteria for participation in the support programme. Similarly, start-ups with venture capital investments of at least €150,000 may now apply for two consecutive periods of support. The rules of the Cabinet of Ministers specify the form and content of the application and the relevant documents for participation in the support programme. Amendments to the Law on aid for start-up companies and the complementing rules of the Cabinet of Ministers reduce the administrative burden and procedures applicable to the application arrangements. This will make it easier for start-ups to apply, and reduce the time to getting effective support for the development of their business.

## 3.2 'Second chance'



Latvia continues to perform in line with the EU average in 'second chance' – the support for honest entrepreneurs who have gone bankrupt – with moderate progress made since 2008. Most indicators remained unchanged or stable compared to last year's fact sheet. Latvia scores above the average in time to resolve insolvency, with an average of 1.5 days, compared to 2 in the EU, while also maintaining an average score in the costs

of resolving insolvency, amounting to 10% of the debtor's estate in 2019.

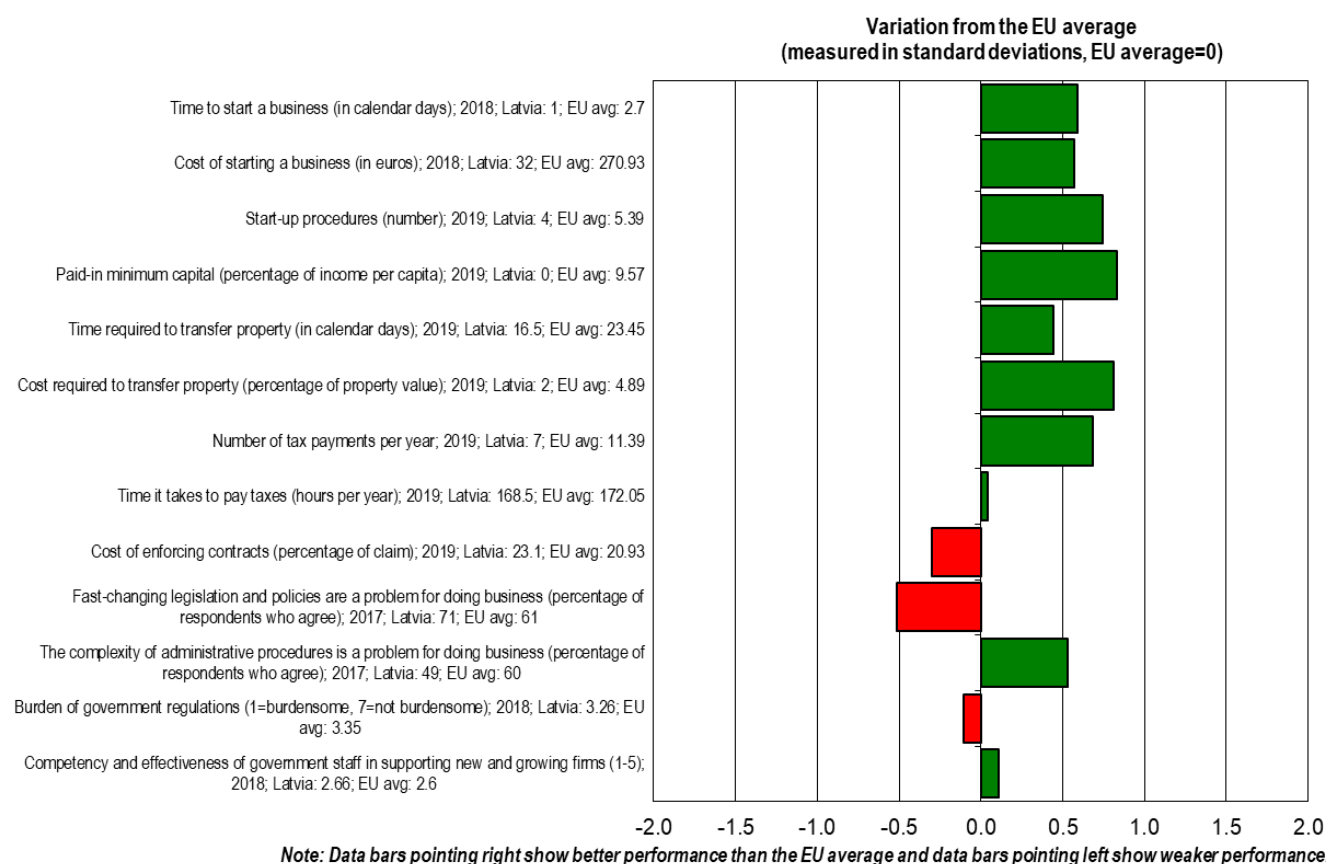
Since 2008, Latvia has significantly improved its insolvency legislation and complementary regulations ensuring the protection of creditors' interests and the restructuring process of companies under legal protection proceedings (LPP). This has made it easier for companies to continue their economic activity.

In 2018, the Insolvency Control Service published a research paper with the aim of identifying challenges in the LPP framework and its practical application, prepare a well-founded proposal to address the identified problems and facilitate the application of the LPP in SMEs. According to this paper: (1) SMEs lack financial literacy; (2) SMEs deal with financial difficulties too late; (3) the LPP status makes it difficult for debtors to engage in commercial activities; (4) costs tend to be a significant burden for some small businesses; and (5) the statutory funding model for a person supervising LPP does not work in practice. A number of recommendations were issued to address the identified problems, such as (i) the introduction of an early warning system, (ii) an increase in SME financial literacy, (iii) cutting the costs of LPP using State aid, and (iv) changing legislation to allow SMEs under LPP status to participate in public procurements. Stakeholders expect the proposed changes to be discussed and implemented in the legal framework.

In 2010, amendments to the insolvency law reduced the length of insolvency procedures from 3 years to 1½ years. In 2016,

amendments were adopted to make LPP more comprehensible and more transparent for creditors. During the reference period, amendments to the Law on Insolvency and interlinked amendments to the Civil Procedure Law were adopted. The aim of the changes to both laws, and a corresponding cabinet ruling, is to improve the transparency and functionality of the insolvency process, making it simpler and more comprehensible. A substantial part of the adopted amendments to the Law on Insolvency is devoted to ensuring the functioning of the Electronic Insolvency Surveillance System (Accounting System) and to harmonise the Law with EU regulations on insolvency proceedings. The changes will clarify and complement the scope and sources of the information to be included in the accounting system. Amendments to the Civil Procedure Law introduce the application of temporary protection in certain cases in the insolvency proceedings of a legal person and a natural person.

### 3.3 'Responsive administration'



'Responsive administration' refers to the public administration's being responsive to the needs of SMEs. Latvia continues to perform above the EU average in this area and has made substantial progress since 2008. The country ranks second,

together with several other Member States, in terms of the time needed to start a business – it takes one day. Additionally, Latvia has greatly reduced the cost of starting a business, scoring well above the EU average, especially since the introduction of online



registration in 2017 (the cost was €32 in 2018, against €177 in 2017). Four procedures are required to start a business, the third lowest value in the EU, a position shared with several other Member States. Nevertheless, 71% of businesses agree that fast-changing legislation and policies are a problem for doing business in Latvia.

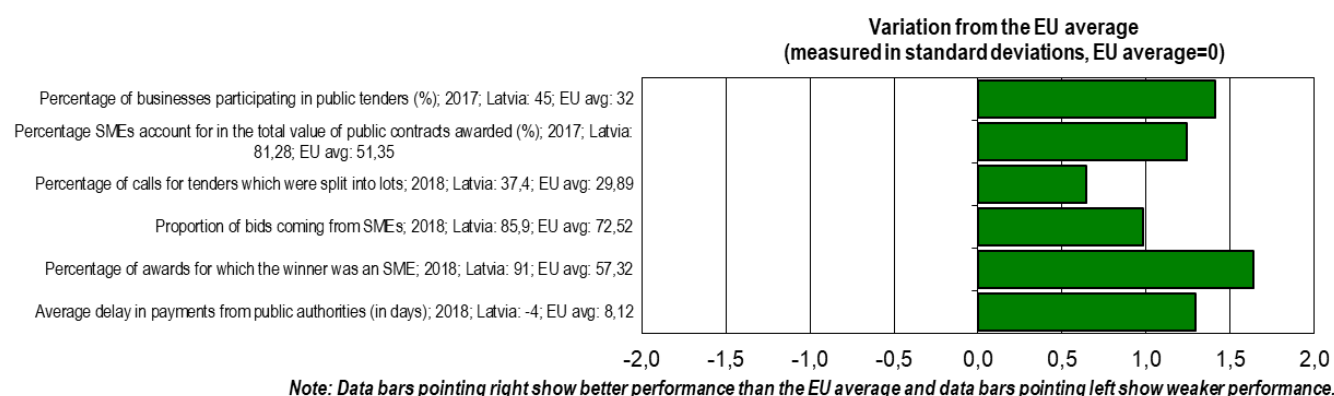
The introduction of e-services has led to significant improvements in accessibility and use of public services. The responsiveness of public institutions towards SME needs has also been significantly improved with the introduction in 2017 of the 'consult first' principle, which improves cooperation between the regulatory authorities and entrepreneurs. Twenty-two regulatory authorities implemented the related guidelines, and were assessed in 2018 on the basis of this principle. It was concluded that companies highly value the work of the Latvian regulatory authorities - on a 100-point scale, the institutions were given an average score of 80. Entrepreneurs highly appreciated the authorities' customer service culture. In order to improve institutional cooperation, companies called on the institutions to further encourage and support voluntary activity. Entrepreneurs would also find it helpful if the authorities provided convenient and comprehensible self-assessment tools (checklists, questionnaires, etc.) to help them identify and carry out activities related to the field under scrutiny<sup>17</sup>.

During the reference period, five policy measures were implemented in Latvia.

- To encourage better cooperation between the tax administration and taxpayers, the State Revenue Service has expanded the 'In-depth cooperation programme' (*Padziļinātas sadarbības programma*). The expanded programme now also allows SMEs to participate. Participants are entitled to preferential services based on defined criteria. Programme advantages include shorter waiting times for answers and consultations, VAT rebates, and receipt of permits for commercial activities.

- Laws were amended to simplify tax payments by introducing a single account for paying all taxes (*Vienotais nodokļu kots*). Currently, the taxes of individuals and SMEs are paid to the Treasury in nearly 50 tax accounts (a different account for each tax).
- The Ministry of Economy adopted amendments to the Construction Law, which stipulates that, from 2019 onwards, the submission of all documentation required in the construction process will only take place electronically (*Būvniecības procesa digitalizācija*). The submission of documentation, decision-making and the performance of consistency checks will be carried out through the Construction Information System, which will allow every participant in the construction process to receive state electronic services in a convenient, harmonised, rapid and efficient manner. This will reduce the administrative burden for all those involved in the administrative process of construction.
- The 'Summary of government e-services for entrepreneurs' (*Dari digitāli!*) ensures that the information and recommendations that help save time by resolving business-related formalities digitally can be found in the official government e-services portal [mana.latvija.lv](http://mana.latvija.lv).
- The 'Report on the support mechanism for promoting entrepreneurship in municipalities' (*Atbalsta mehānismi uzņēmējdarbības veicināšanai pašvaldībās*) proposed a variety of activities to increase economic activity in municipalities, such as amendments to grant the right to entrepreneurs who were already tenants and who had invested in property development, to be the first bidder when leased real estate is sold by the municipality, on the basis of a real estate rental agreement, and a reduced price for this property. It is also proposed that the rights of municipalities be extended and a cooperation model established with ALTUM so that they can give guarantees to entrepreneurs who set up, or plan to set up, a business in the relevant municipality.

### 3.4 State aid & public procurement



Important methodological changes have been introduced for this principle in this year's fact sheet. Three new indicators from the Tenders Electronic Daily (TED) database have been added and refer to procurement above EU thresholds:

- percentage of awards for which the winner was an SME;
- proportion of bids by SMEs;
- percentage of calls for tender which were split into lots.

In addition, the indicator on e-procurement has been removed. Therefore, the overall performance in this area cannot be compared to last year's.

Latvia is the top performer in the EU in terms of State aid & public procurement, and has made moderate progress overall since 2008. The country has the third highest percentage in the EU of businesses participating in public tenders. Correspondingly, the share of SMEs in the total value of public contracts awarded stands at 81.3%, the fourth highest score in the EU. The country recorded a substantial share of awards for which the winner was a SME, 91% in 2018.

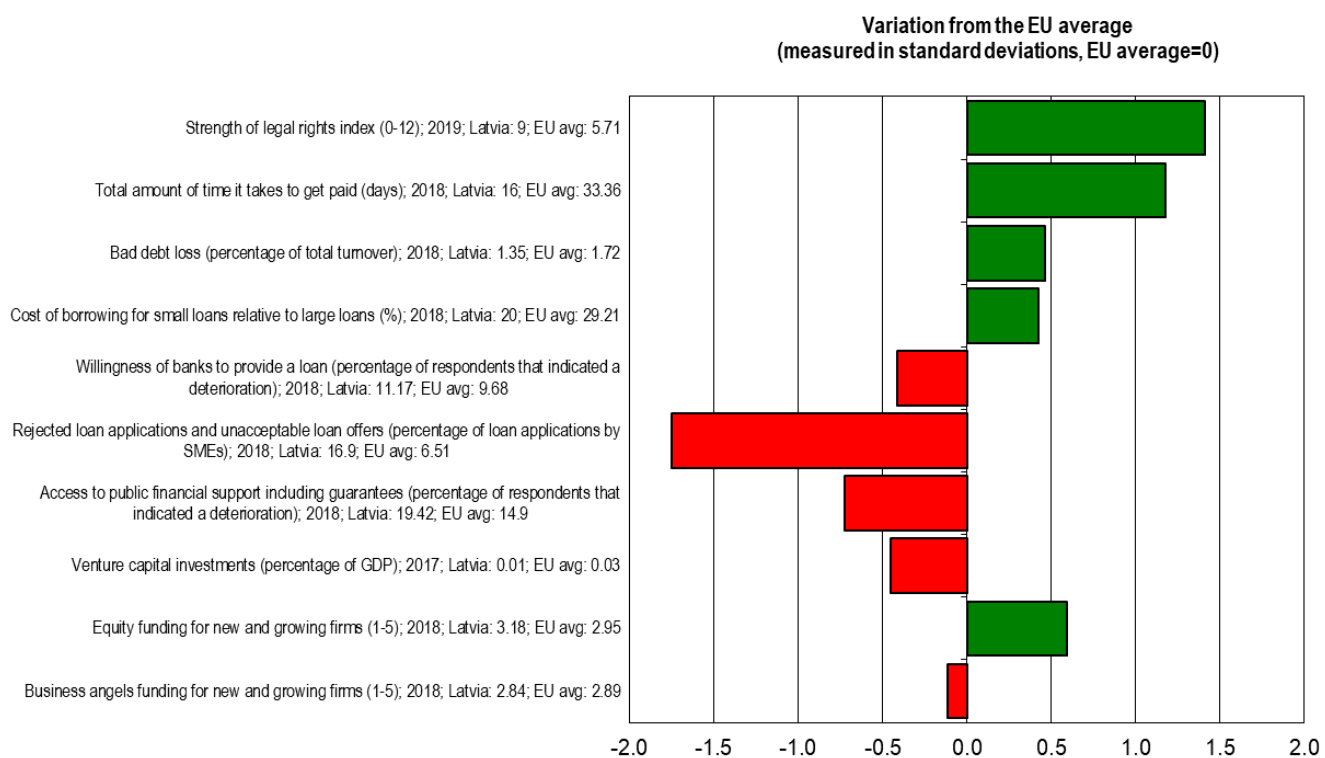
On the policy side, Latvia has implemented only a limited number of measures since 2008. The most recent improvements, in 2017, concern the e-Public Procurement System. Amendments to regulations were approved to reduce administrative costs and the burden on purchases by digitising the procurement process, i.e. through e-auction, e-tendering, mandatory e-notification, e-catalogues and e-ordering services. In 2016, the legislator adopted the new Public Procurement Law,

which ensures that public procurement procedures are transparent, SMEs can compete freely and public spending became more efficient.

During the reference period, two significant policy measures were implemented in this area.

- First, the legislator adopted amendments to the Public Procurement Law (*Grozījumi Publisko iepirkumu likumā*). The amendments provide that, in an open or closed tender, the contracting party must reject the tender of a bidder whose proposed contract price exceeds the one indicated in the procurement documents, if this is set as a requirement for the conformity of the tender. This is also the case if the contract price exceeds 150% of the estimated contract price indicated in the procurement documents.
- Second, the rules for the applicable standard for electronic invoicing and specification for the use of its basic elements and procedures for circulation (*E-rēķinu standarts*) were approved by the Cabinet of Ministers. The rules provide for the implementation of the obligations of Directive 2014/55/EU of the European Parliament and of the Council of 16 April 2014 on electronic invoices in public procurement procedures for contractors, public service providers and public partners or their representatives to accept and process electronic invoices.

### 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's performance in this SBA principle has declined compared to the previous reference period. While the country scores in line with the EU average and has been making some progress since 2008, a number of indicators have deteriorated since the previous SBA fact sheet. The percentage of rejected loan applications by SMEs increased, reaching the fourth highest share in the EU and marking a substantial jump since the previous reference period (16.9% in 2018 against 0% in 2017). This corresponds to an increase in the share of respondents who indicate a deterioration in the willingness of banks to provide loans (11.2% in 2018 against 4.4% in 2017) Furthermore, 19.4% of respondents indicated a deterioration in access to public financial support, including guarantees, compared to 7.1% in 2017. The main reason for this development is much stricter bank requirements following the recent money laundering scandals.

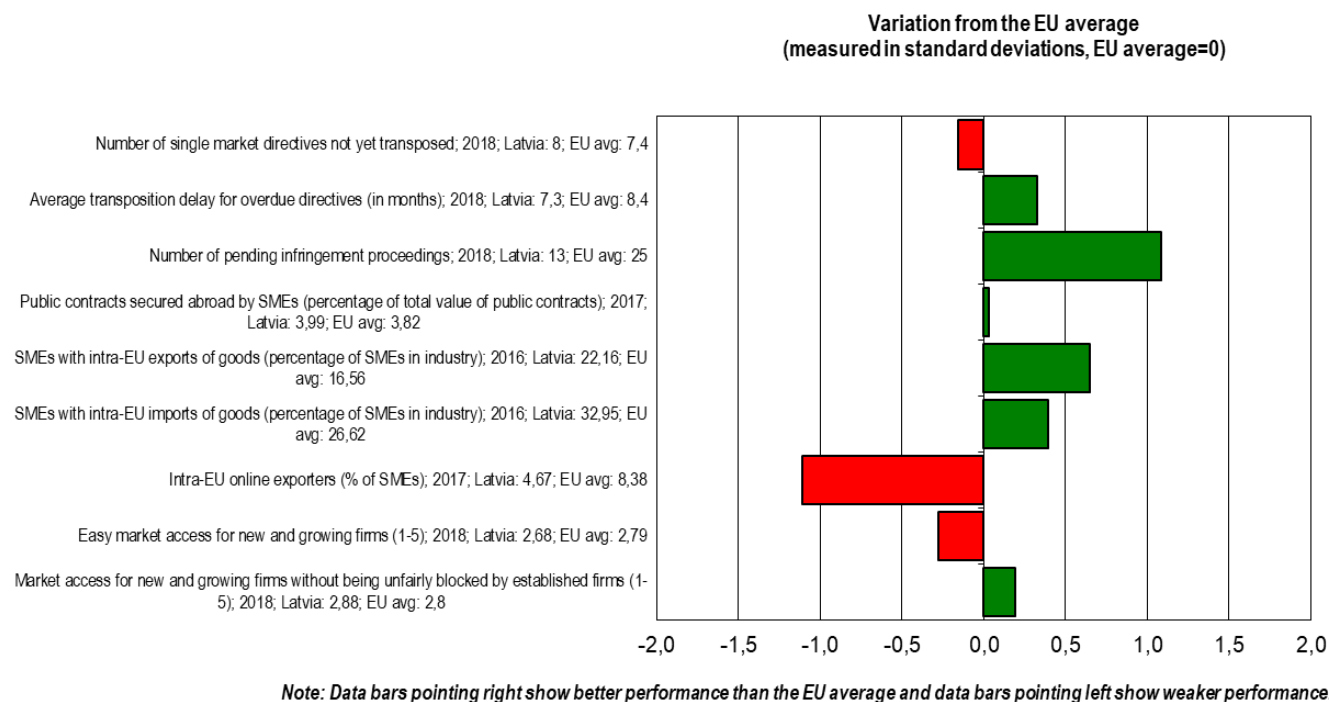
Nevertheless, Latvia also made substantial improvements in the current reference period. The total amount of time it takes to get paid by customers fell steeply, reaching 16 days in 2018, down from 25 in 2017. This is the shortest period among all Member States. Additionally, Latvia is the top performer in the EU in terms of strength of legal rights index.

On the policy side, substantial effort has been put into this area since 2008 to facilitate SME access to finance. To respond to SME demands for better access to funding to promote investments and company growth, the corporate income tax (CIT) reform was developed and adopted in autumn 2017. Since

January 2018, CIT is paid only when a company pays dividends or makes other payments with the aim of actual profit distribution. If a company reinvests its profits in its growth, the tax rate is 0%. The Portfolio Guarantee Instrument (PGI) was created to supplement the already existing variety of financial instruments which are developed, managed and issued by ALTUM. The PGI provides State aid to SMEs in the form of guarantees for financial services provided by a credit institution. If an SME defaults, the guarantee covers part of the losses incurred by the credit institution for the financial services.

One significant measure was adopted during the reference period, when the 'acceleration funds' (*Akselerācijas fondi*) became fully operational. In total, for the 2014-2020 programming period, the three acceleration funds (BuildIT Latvia, the Commercialisation Reactor Fund, and Overkill Ventures) amount to €15 million (€13 million mobilised by the European Regional Development Fund and €2 million by Latvian public funds), €5 million for each fund. The acceleration programme has been operational since the third quarter of 2018. Support to entrepreneurs is provided in two phases. These are pre-seed funding for the establishment, advice and product development, exploration, evaluation and approval (up to €50,000) and seed financing for enterprises that have successfully completed a pre-seed investment stage for further growth, product and business model development (up to €250,000). This support mechanism is managed by ALTUM.

## 3.6 Single market

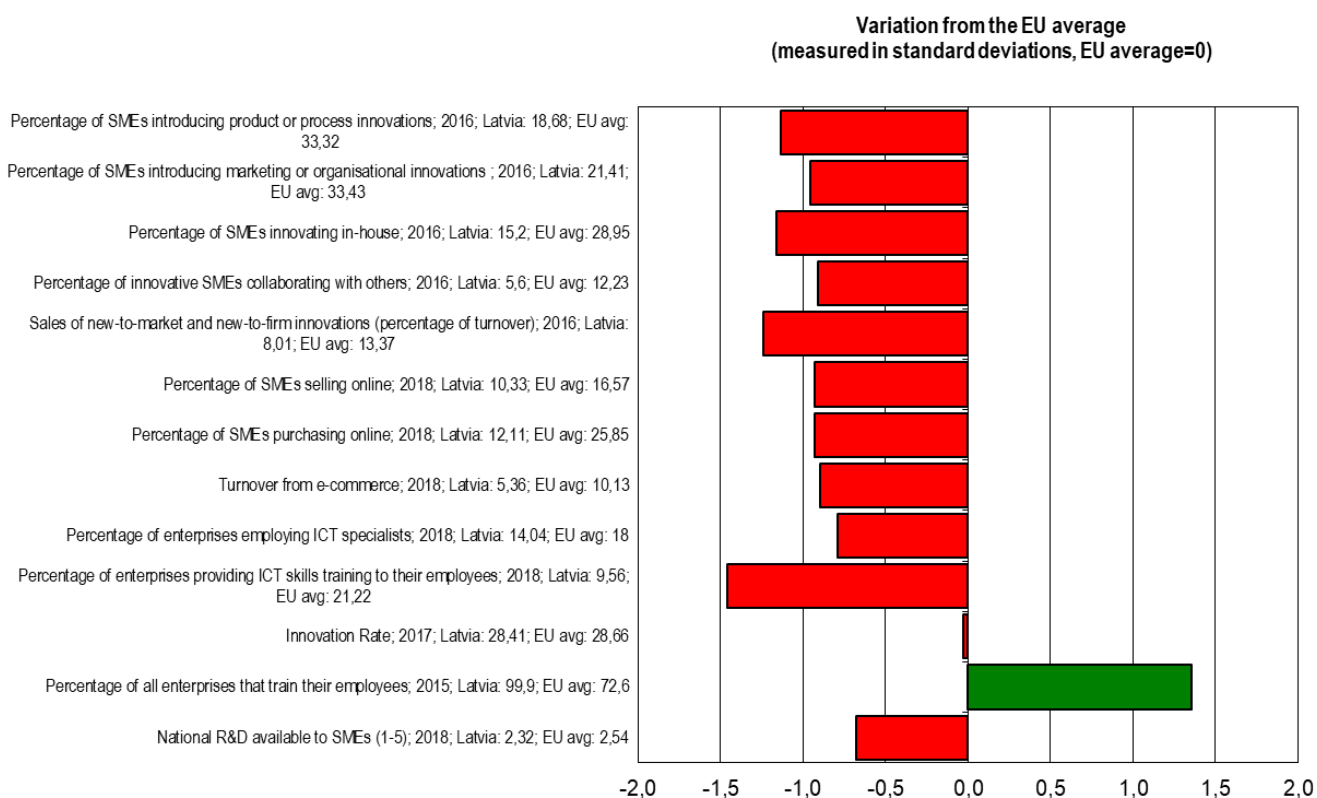


Latvia's performance in the single market is in line with the EU average, despite a downward trend in this area since 2008. The number of single market directives not yet transposed increased to eight in 2018, against six in 2017. Conversely, while still performing well above the average, the indicator 'number of pending infringement proceedings' worsened in the current reference period (13 in 2018 against 7 in 2017). On SME trade performance within the single market, the percentage of SMEs that are intra-EU online exporters remains well below the average with only 4.7%. This is counterbalanced by stable results in regular trade of goods by SMEs in the manufacturing industry.

Progress in the single market area of the SBA has been weak since 2008. Advisory services to companies are available at the different government agencies, and include information on the implementation of technical regulations on labelling, chemical substances, and measures to ensure protection of intellectual property rights, ensuring the correct application of the mutual recognition principle, but according to stakeholders the single-point-of contact principle needs to be applied to these services.

According to the available data and stakeholder feedback, an overarching strategy for the digitisation of businesses needs to be developed, in particular in the area of cross-border e-commerce. No significant new measures were adopted or implemented in this area during the reference period.

### 3.7 Skills & innovation



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

Despite substantial progress since 2008, Latvia continues to perform well below the EU average in skills & innovation. This is Latvia's weakest performing SBA area. While most of the indicators perform below the EU average, progress has been achieved here too. For example, while the percentage of SMEs innovating in-house is well below the average for the EU, the indicator has shown some improvement (15.2% in 2016 against 10.2% in 2014). The percentage of enterprises providing ICT skills training to their employees also improved, reaching 9.6% in 2018 (8.6% in 2017). In line with this development, Latvia shows a generally high percentage of enterprises that train their employees, performing well above the EU average. The newly introduced indicator of innovation rate shows that new and nascent entrepreneurs claiming that their product or service is new to customers is in line with the EU average.

Latvia is facing the challenge of skill shortages. Most of them are found in the STEM sectors (science, technology, engineering, and mathematics), including ICT and the healthcare sector. This development is now also occurring in the construction sector, as a consequence of recent growth. The Latvian government is currently addressing these challenges through reforms in the education and skills governance system by, among other measures, giving incentives to employers to recruit highly skilled

workers from non-EU countries in occupations with a significant shortage of skilled labour<sup>18</sup>.

Latvia is lagging behind most of the EU on the integration of digital technology by businesses. This development is also hampered by the shortage of skilled professionals and a persistently low proportion of ICT specialists. More than half of all Latvian enterprises that want to recruit ICT specialists report difficulties in filling their vacancies<sup>19</sup>.

On the policy side, skills & innovation is an area that has been a top priority since 2014, but the overall performance in this area has been moderate. Implemented policy measures and support programmes are helping to create an environment where SMEs can improve their innovation capacity. Cooperation models between companies and scientific institutions have been developed, supported by the EU Structural Funds, to address an investment gap in research and development, in particular in the private sector.

Since 2008, there has been a variety of improvements on skills, with offers to companies to up-skill and re-skill their labour force. Vocational education and training (VET) systems have been improved to respond to labour market demand and skills mismatch. Work-based learning has been introduced as to create

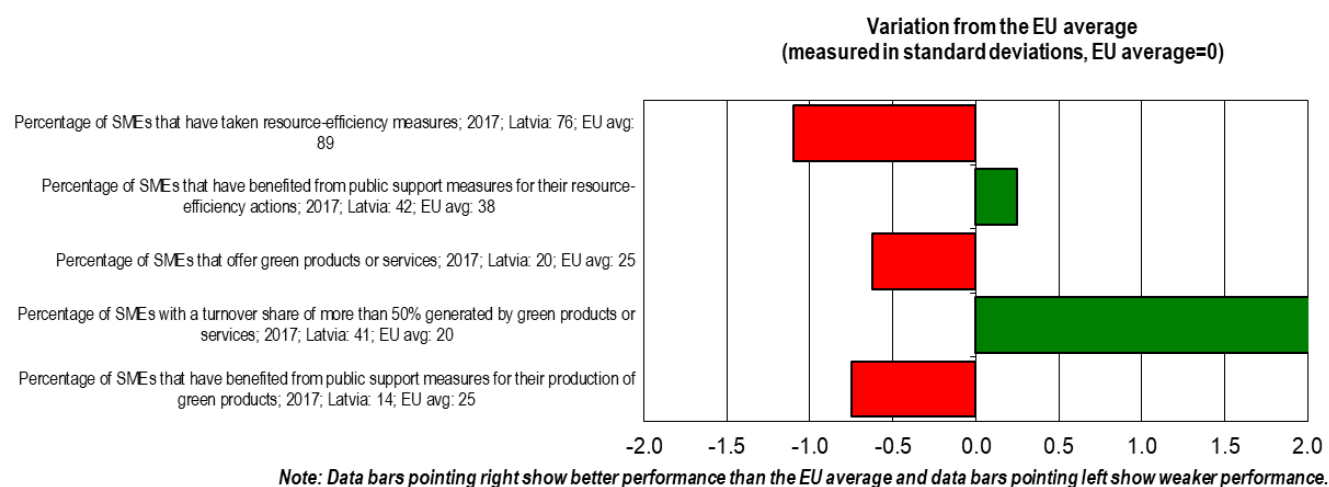
a cooperation model between VET schools and companies that are interested in hosting apprentices.

Two measures were adopted during the reference period.

- Support for the development of new products and technologies within competence centres, Round 4 (*Jaunu produktu ieviešana ražošanā 4. kārtā*). Already existing competence centres will continue to coordinate research projects with the support of the European Regional Development Fund (ERDF). Companies will be able to receive support for industrial research, experimental development and technical economic feasibility studies for research projects within one competence centre. Extra funding of €37 million has been allocated from the ERDF. This support programme will continue with ERDF co-financing to boost the competitiveness of SMEs by promoting cooperation between the research and industrial sector.

- Amendments to the existing technology transfer programme. 'Innovation voucher' support for SMEs (*Inovāciju vaučeri*) have been implemented to raise interest in this type of support and improve the level of innovation in SMEs in 2018. This support programme is being implemented by the Latvian Investment and Development Agency, with a total allocation of €2.8 million from the EU Structural Funds. New activities — which form part of the technology transfer programme — include external experts for innovation audit and designer services to introduce new products. The co-funding rate for innovation vouchers was increased from 60% to 85% and the administrative burden of the support scheme has been reduced. In addition, a 'starter' innovation voucher was introduced for SMEs that have never collaborated with research organisations. This new type of voucher has a co-funding rate of 100% and a maximum amount of €5,000.

## 3.8 Environment



Latvia continues to perform in line with the EU average in this SBA area; there have been no updates since last year's fact sheet. Only 76% of SMEs have undertaken resource-efficiency measures, well below the EU average of 89%. On the other hand, the country is one of the top performers in the EU in the proportion of SMEs with a turnover share of more than 50% generated by green products or services (41% of Latvian SMEs, compared to the EU average of 20%).

Latvia has adopted and implemented a moderate number of policy measures in the environment area of the SBA since 2008. In recent years, the main focus has been on measures to improve industrial energy efficiency. In 2015, the legislator adopted the energy efficiency law and a variety of support programmes was subsequently created to offer the necessary financial support. In 2016, grant programmes were developed to promote the efficient use of energy resources, reduce energy consumption and support the transition to renewable energy sources in the manufacturing sector. In 2017, the 'Loan for the company's energy efficiency' was implemented to provide

funding for lighting, ventilation, manufacturing equipment and other energy-intensive equipment. This is particularly advantageous for companies whose energy consumption is a significant cost and is more than €20,000 annually. Financing aid for energy service companies was also created to facilitate the creation and growth of such companies, and increase the availability of their services to SMEs.

The wider use of green public procurement has also been promoted. Guidelines and standardised documentation for the purchase of certain products and services were developed to raise awareness. There have also been activities promoting (i) green products in the Electronic Procurement System (EIS) e-catalogue, (ii) the development of a life cycle cost estimation model for certain product groups, (iii) the organisation of training courses, and (iv) awareness-raising campaigns for contracting authorities at the State and local level<sup>20</sup>.

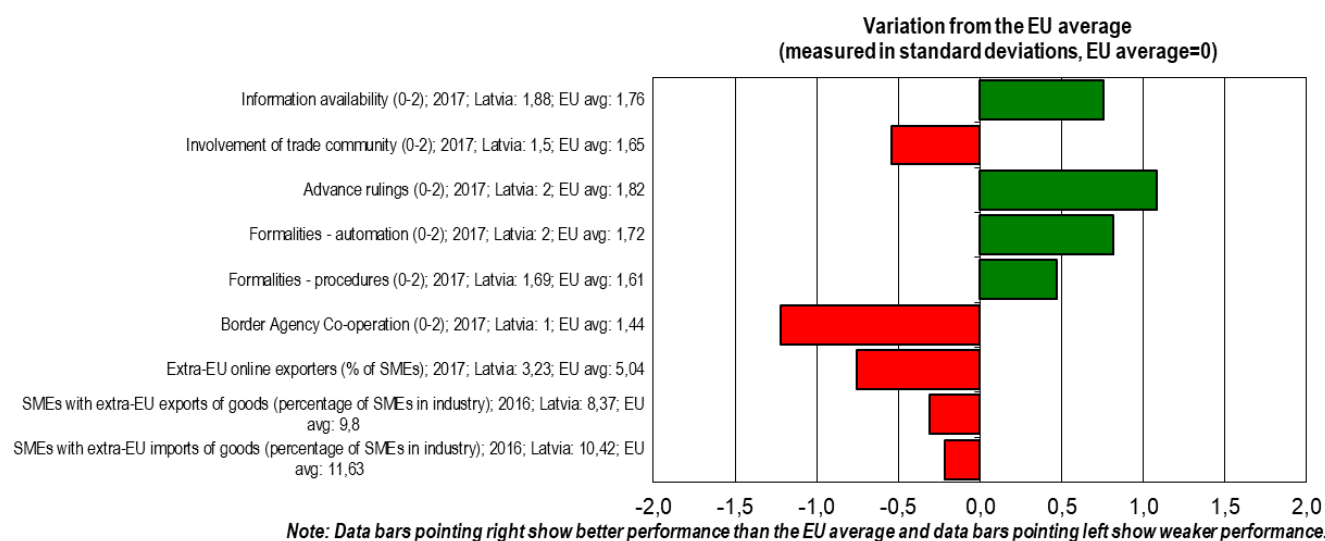
One significant measure was adopted during the reference period — the creation of a grant for the development of energy



efficiency projects (*Energoefektivitātes grants projektu attīstīšanai*), which offers funding for SMEs to implement necessary energy efficiency activities. The grant covers 85% of the total costs of research, technical solutions and economic justifications for energy audits and necessary improvements,

while the company itself has to fund the remaining 15%. Funding for this grant is allocated under the Horizon 2020 programme of the European Investment Bank and the European Commission, and is managed locally by ALTUM.

### 3.9 Internationalisation



Latvia continues to perform in line with the EU average in terms of internationalisation. The country is a top performer in terms of advance rulings and formalities – automation, and holds a well above average position in information availability. On the other hand, Latvia is the third worst performer on border agency cooperation, which is a significant area for potential improvement. Despite remaining below the EU average, the share of SMEs engaging in extra-EU online exports increased in 2015-2017, reaching 3.2%. There was no update available for the trade facilitation indicators.

Latvia has adopted and implemented a moderate number of policy measures the SBA area of internationalisation since 2008. SME activities to enter foreign markets are widely supported by the 'International promotion of competitiveness' programme. The Latvian Investment and Development Agency (LIDA) manages a one-stop-shop to access export support services. LIDA also operates representative offices in foreign markets to ensure strong links to major business partners and locations. Various financial instruments to support exporting companies are available, such as short-term and long-term export credit

guarantees to cover commercial risks (buyer's risks), as well as political risks.

During the reference period, one measure in internationalisation was adopted — the Health Services Export Development Plan 2019-2023 (*Veselības pakalpojumu eksporta plāns*), adopted by the Cabinet of Ministers. The plan includes guidelines and specific measures for developing the export of health services, including the formulation of an action plan on how to improve regulations for SME performance and how to conduct marketing in external markets. This includes the dissemination of information on available health services and the support of industries, as well as attracting customers. In the coming years, the promotion of exports of health products and services will be pursued taking into account three key aims: (i) ensuring the sustainability of the plan; (ii) defining the target market for strategic export countries, which is important in developing the conditions for receiving aid in the field of health tourism; and (iii) establishing and maintaining the image of Latvia as an exporter of health care services, ensuring the trust of foreign residents in healthcare services provided by Latvian medical institutions and medical practitioners.

## 4. Interesting initiative

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

### **Taxpayer Rating**

The taxpayer rating rates a company according to various criteria set by the State Revenue Service (SRS), providing a single result expressed in percentage terms. The more points there are, the better the company's rating is. At the same time, entrepreneurs can view the measurements of individual indicators as well.

The rating is compiled by analysing various data available to the SRS, including a company's financial indicators, salaries paid, declaration discipline, tax debt and registration risks.

There are plans to expand the Taxpayer Rating System to create a target rating system, where entrepreneurs will be able to see the 'quality' of their social roles, for example, whether a company is a reliable counterparty in the VAT transaction, supplier, employer, etc.

Any entrepreneur can view its rating in the SRS Electronic Declaration System. If necessary, the rating can be printed out. A unique QR (Quick Response) code is automatically added to the print-out. The entrepreneur can then decide whether it wants to make the rating accessible to employees only, or to share it publicly.

Reference:

<https://www.vid.gov.lv/en/srs-presents-unique-company-rating-tool-baltics-0>

## 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](mailto:grow-spr@ec.europa.eu)

Small Business Act:

[http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index\\_en.htm](http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm)

Entrepreneurship and SMEs:

<https://ec.europa.eu/growth/smes>

## Endnotes

<sup>1</sup> 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 2017, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2016 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/>

<sup>2</sup> Ministry of Economics, Latvia, 2018, Economic Development of Latvia, available at: [https://www.em.gov.lv/files/tautsaimniecibas\\_attistiba/leap/leap\\_2018-en.pdf](https://www.em.gov.lv/files/tautsaimniecibas_attistiba/leap/leap_2018-en.pdf), last accessed on 20.5.2019.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> Lursoft Statistika, available at: [https://www.lursoft.lv/lursoft\\_statistika/?id=3](https://www.lursoft.lv/lursoft_statistika/?id=3), last accessed on 20.5.2019.

<sup>7</sup> Lursoft Blog, available at: <http://blog.lursoft.lv/2019/02/18/14-janvari-likvideto-uznemumu-vairak-neka-citkart-visa-gada-garuma/>, last accessed on 20.5.2019.

<sup>8</sup> Ibid.

<sup>9</sup> 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.

<sup>10</sup> 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](http://ec.europa.eu/eurostat/web/products-datasets/-/bd_9pm_r2), last accessed 15.4.2019).

<sup>11</sup> The 2019 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.

<sup>12</sup> 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. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2019. 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 2019. 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/>

<sup>13</sup> The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2018 and the first quarter of 2019. The national SME policy expert that PwC (DG GROW's lead contractor for the 2019 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.

<sup>14</sup> <http://www.lm.gov.lv/lv/es-finansejums/lm-istenotie-projekti/aktualie-projekti/esf-projekts-atbalsts-socialajai-uznemejdarbibai/socialo-uznemumu-registrs>

<sup>15</sup> A hackathon (also known as a hack day, hackfest or codefest) is a design sprint-like event in which computer programmers and others involved in software development, including graphic designers, interface designers, project managers, and others, often including domain experts, collaborate intensively on software projects.

<sup>16</sup> <http://www.liaa.gov.lv/en/invest-latvia/start-up-ecosystem>

<sup>17</sup> <https://www.em.gov.lv/lv/jaunumi/24238-iniciativas-konsulte-vispirms-lideris-2018-gada-partikas-un-veterinarais-dienests>

<sup>18</sup> European Semester Country Report, Latvia 2019, (p. 27) [https://ec.europa.eu/info/sites/info/files/file\\_import/2019-european-semester-country-report-latvia\\_en.pdf](https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-latvia_en.pdf)

<sup>19</sup> Digital Economy and Society Index (DESI) 2019 Country Report Latvia: <https://ec.europa.eu/digital-single-market/en/countries-performance-digitisation>

<sup>20</sup> [https://ec.europa.eu/regional\\_policy/sources/policy/how/improving-investment/public-procurement/study/country\\_profile/lv.pdf](https://ec.europa.eu/regional_policy/sources/policy/how/improving-investment/public-procurement/study/country_profile/lv.pdf)