

JOSEFIN

Regional Market Study

Region: LATVIA

Author: "Laboratory of Analytical and Strategic Studies", Ltd. upon the request of LIAA

CONTENT STRUCTURE

| | |
|--|-----------|
| 1. INTRODUCTION | 4 |
| 2. METHODOLOGY | 5 |
| 2.1. Research technical information..... | 5 |
| 2.2. Research methodology..... | 6 |
| 2.3. Team of the research executors | 8 |
| 3. REGIONAL ECONOMIC PROFILE | 9 |
| 3.1. Macroeconomic indicators | 9 |
| 3.2. Regional context for SMEs | 11 |
| 4. LITERATURE REVIEW | 13 |
| 5. DEMAND ANALYSIS FOR SMEs | 28 |
| 5.1. Degree and Forms of Internationalisation in the Region..... | 28 |
| 5.2. Obstacles and Barriers for Internationalisation | 29 |
| 5.3. Drivers for Internationalisation | 34 |
| 5.4. Motivation for Internationalisation | 35 |
| 5.5. Analysis of Finance Demand | 36 |
| 6. SUPPLY ANALYSIS FOR FINANCIAL AND NON-FINANCIAL SCHEMES | 39 |
| 6.1. Awareness of Facilities to Attract Financing | 39 |
| 6.2. Analysis of Financial Schemes | 40 |
| 6.2.1. JEREMIE | 40 |
| 6.2.2. Commercial Banks | 41 |
| 6.2.3. Land and Mortgage Bank of Latvia (Latvijas Hipotēku un zemes banka)..... | 44 |
| Investment Loans | 44 |
| Working Capital Loans | 44 |
| Micro-credits for SMEs | 45 |
| 6.2.4. ALTUM Promotional Programmes Office within Hipotēku bank (Hipotēku bankas Atbalstu programmu pārvalde) | 45 |
| High Risk Loans | 45 |
| Support for Self-employment and Business Start-ups..... | 46 |
| Loan Guarantees for Small Enterprises | 47 |
| 6.2.5. Latvian Guarantee Agency (Latvijas Garantiju aģentūra)..... | 48 |
| Credit Guarantees | 48 |

| | |
|--|-----------|
| Export Guarantees | 49 |
| 6.2.6. Investment and Development Agency of Latvia (Latvijas Investīciju un attīstības aģentūra) | 50 |
| Access to international trade markets | 50 |
| Support for employee training | 50 |
| Development of new products and technologies | 51 |
| Competence centres | 51 |
| 6.2.7. Rural Support Service (Lauku atbalsta dienests) | 51 |
| Support for enterprise formation and development | 51 |
| Tourism promotion | 52 |
| 6.2.8. Constructing, Energy and Housing State Agency of Latvia (Būvniecības, enerģētikas un mājojļu valsts aģentūra) | 52 |
| 6.2.9. EUREKA | 53 |
| 6.2.10. Business Angels and Private Investors | 53 |
| 6.3. Entrepreneur's Opinion on Different Financing Sources | 53 |
| 6.4. Market Gaps of Financial Schemes | 57 |
| 6.5. Analysis of Non-Financial Support Schemes | 60 |
| 6.5.1. Investment and Development Agency of Latvia (Latvijas Investīciju un attīstības aģentūra) | 60 |
| Foreign trade related data base www.exim.lv | 61 |
| Support services for exporting enterprises | 61 |
| Business incubators | 61 |
| Contact points of transfer of technologies | 61 |
| 6.5.2. ALTUM Promotional Programmes Office within Hipotēku bank (Hipotēku bankas Atbalstu programmu pārvalde) | 61 |
| 6.5.3. Business Mentoring | 62 |
| 6.5.4. Business Angels and Private Investors | 62 |
| 6.6. Market Gaps of Non-Financial Support | 62 |
| 7. CONCLUSIONS | 65 |



1. INTRODUCTION

The research is realized in compliance with a methodology elaborated within the framework of the Baltic Sea Region Programme project JOSEFIN (Joint SME Finance for Innovation) anticipating face-to-face in-depth interviews with enterprises and supervisors of financial supporting instruments and an analysis of information gained from interviews, as well as an analysis of financial and non-financial supporting scheme available in Latvia. In addition a review of literature is prepared during the research initiation stage batching information and the main conclusions from researches performed up to now providing directly or implicitly analysed information and data on issues of finance availability for small and middle enterprises.



2. METHODOLOGY

2.1. Research technical information

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| Research executor: | “The Laboratory of Analytical and Strategic Studies”, Ltd. |
| Research contracting entity: | “The Investment and Development Agency of Latvia”, the Government Agency |
| Research title: | „Research on Demand and Supply of Finance for International Innovation Projects for Small and Middle Enterprises” |
| Research performance period: | December, 2009 – January, 2010 |
| Field work conducting period: | 15th of December, 2009 – 15th of January, 2010 |
| Research target groups: | <ol style="list-style-type: none"> 1) Enterprises in Latvia, who have realized international innovation projects or faced problems with getting a funding for such projects; 2) Representatives of institutions of financial instruments; 3) Experts of small and middle enterprises. |
| Number of respondents in target groups: | <ol style="list-style-type: none"> 1) 10 enterprises in Latvia, who have realized international innovation projects and 5 enterprises, who have faced problems with getting a funding for such projects; 2) 10 representatives of institutions of financial instruments; 3) 10 experts of small and middle enterprises. |
| Respondents: | A person in an enterprise/ organisation, who is the most informed and competent to answer the questions on preparatory and realization of international innovation projects will have been recruited for interviewing. |
| Selection of respondents: | Respondents will have been selected from data bases given by the research client supplementing them with data bases in hand of the research executor; in addition the selection of respondents will be performed using so called „snowball” method – interviewed respondents will be asked to recommend other respondents up to the target group. |



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| Research method: | Face-to-face in-depth interviews – a qualitative research method having subjacent individual approach to every respondent. The form of in-depth interview is a conversation during which an interviewer gets answers to questions to be analysed within the framework of research. An audio record of each interview is made for making transcripts - a written form of a spoken-language source - afterwards. |
| Number of interviewers: | 3 |
| Total number of accomplished interviews: | 36 |

2.2. Research methodology

The research is elaborated and realized in the following consecutive stages:

1. Preparing of review of literature. Within the framework of this stage a summarization of information and data and a secondary analysis of former researches analysing issues regarding finance availability are performed. The review of literature includes a list of researches performed formerly and a summary of the main conclusions. The prepared review of literature has been submitted to the research client as a deliverable.
2. Elaboration of research set of instruments. The research set of instruments had been elaborated building on the research client's initial guidelines, the prepared information summarized in the review of literature and considering aims set up for the research – questions for face-to-face in-depth interviews for each target group ((a) enterprises, who have realized international innovation projects or faced problems with attraction of finance for such projects; (b) representatives of institutions of financial instruments; (c) experts of small and middle enterprises). The elaborated research set of instruments is coordinated with the research client and will be used for making interviews after its final acceptance only. The prepared set of instruments will be submitted to the research client as a deliverable, as well as supplemented in an appendix of the final report.
3. Processing of the research field work. Within the framework of this stage the lists of persons and institutions to be interviewed are prepared for each target group, as well as testing of the



elaborated set of instruments is performed in order to ascertain on an unambiguous interpretation and comprehensibility of questions in each target group, as well as to define an approximate length of interview for the further field work planning. The prepared lists of persons and institutions to be interviewed have been submitted to the research client and the final list of persons to be interviewed has been coordinated with the research client before the recruitment of respondents is started.

4. Realization of the research field work. The field work is realized during three consecutive stages: (a) recruitment of persons to be interviewed (it occurs by getting in touch with a potential respondent by phone and explaining him/ her the research project aims, content and results and asking for his/ her agreement on giving an interview; in case of assent an exact time and place of interview is settled); (b) performing of an interview on agreed place and time (a digital audio record of each interview is made); (c) processing of the material of interviews (the made audio records are transcribed into a written form and saved as MS Word files). Audio records made in the research field work and their transcripts in a written form will be submitted to the client at the end of the research as a deliverable.
5. Analysis of information gained in the research field work. The information obtained from transcripts of audio records will be drawn on for analysis grouping and coding the information given by respondents with regard to thematic content. The material obtained from interviews is structured in compliance with a structure of questions of the research set of instruments. The summary of analysis of the acquired information will be given in the final report of the research project.
6. Preparing of the report on financial and non-financial supporting instruments available for enterprises. Within the framework of this stage an overview on financial supporting instruments available for enterprises in Latvia and analysis of financial and non-financial supporting schemes accessible in Latvia are prepared. For preparing the overview also the information gained in interviews, as well as the information and data summarised in output of the review of literature will be used. The prepared overview will be included as a separate chapter in the final report of the research project.
7. Preparing of the final report. The final report includes all thematic chapters prepared during the elaboration course of the research project, as well as the analysis of information obtained from

interviews. The final research report contains also a summary of the main research results in a short annotation part. The final report in English will be submitted to the client as a final deliverable of the research project.

2.3. Team of the research executors

[„The Laboratory of Analytical and Strategic Studies”, Ltd.](#)

| | |
|---------------|---|
| Gints Klāsons | Supervisor of the research team |
| Uldis Spuriņš | Expert in economy issues |
| Anna Selecka | Expert in realization of qualitative researches |

[Representatives of the client \(The Investment and Development Agency of Latvia\)](#)

| | |
|---------------|---|
| Viesturs Zeps | LIAA, Investments Project Department, Project Development Section |
| Anete Vītola | LIAA, Knowledge and Innovation System Department (ZINIS) |

3. REGIONAL ECONOMIC PROFILE

While during the time period of 2005-2007 Latvia experienced substantial economic growth, more recently the country has suffered from economic recession. Real GDP decreased by 4.5% in 2008 compared to 2007 and according to last available estimates by additional 18% in 2009 compared to 2008. Overall, Bank of Latvia anticipates that as a result of economic crises real GDP is going to contract by around 37% against the high attained in the fourth quarter of 2007 and drop to around the 2004 level.¹ The unemployment rate reached 18% in the third quarter of 2009 and the prices increased slightly during 2009 (Consumer price index rose by 3.5%).

3.1. Macroeconomic indicators

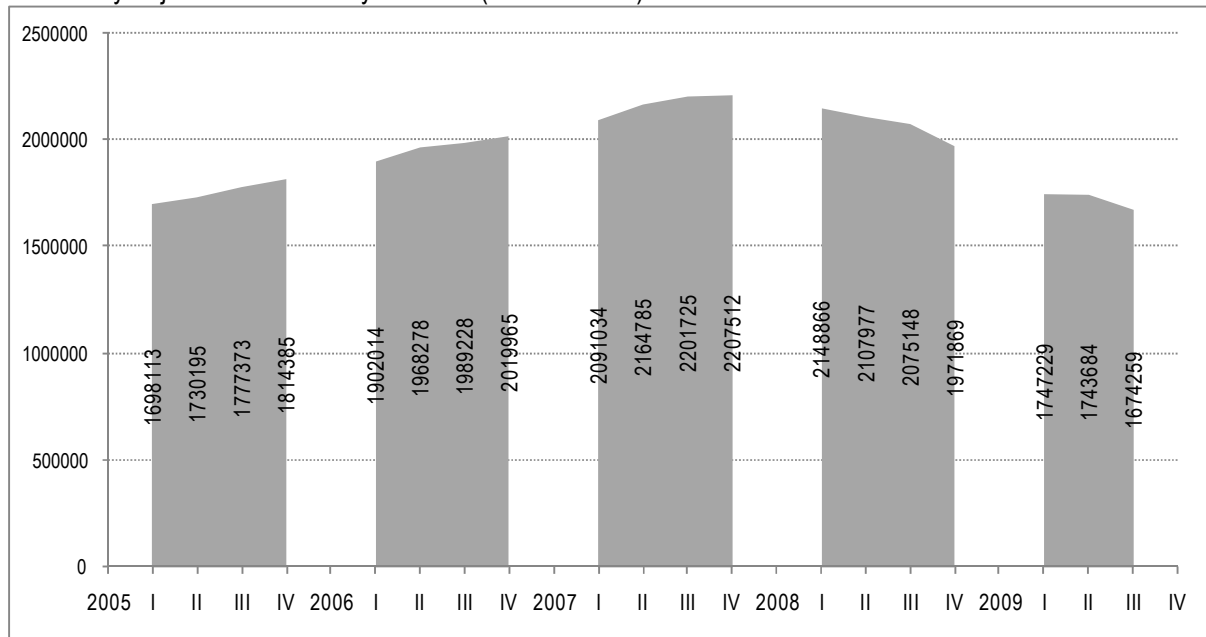
The time period between 2005 and 2007 was marked by considerable economic growth in Latvia and it was ranked among the fastest growing economies in the EU. The growth was propelled by easily available credit resources that mainly stimulated local consumption. However, Latvia also ran high current account deficit of the balance of payments and inflation reached two digit numbers. As the world economy slowed down and global financial crises limited borrowing opportunities, Latvia found itself ill prepared to deal with the situation. During the last two years economic conditions have significantly deteriorated and while the downturn has slowed there are few signs indicating fast recovery.

As can be seen in the graph, real GDP has been declining since the fourth quarter of 2007 and the Bank of Latvia predicts this trend to continue in 2010 with a possibility economic recovery in the second half of the year. All components of GDP are also decreasing. Ministry of Economy estimates for 2009 yearly changes are -21% for private consumption, -9.5% for public consumption, -24% for investment, -12% for exports and -29% for imports.² Economic downturn is felt in all of the economy's sectors. According to Bank of Latvia capacity utilization rate in manufacturing declined steadily during 2008 and first two quarters of 2009 to less than 54% and increased by less than one percentage point in the third

¹ Bank of Latvia (2009). *Macroeconomic Development Report, 3/2009*.
(http://www.bank.lv/images/img_lb/izdevumi/latvian/mnp/MNP_2009-3-eng.pdf, accessed Jan 28, 2010).
² Ministry of Economy (2009). *Economic Development of Latvia, June 2009*.
(http://www.em.gov.lv/images/modules/items/EM_Report_June_2009_PDF.pdf, accessed Jan 28, 2010).

quarter of 2009. In the time period from the third quarter of 2007 (a peak) to third quarter of 2009 retail trade turnover contracted by 43% and other service sectors did not perform much better.³

Seasonally Adjusted Real GDP by Quarters (thousand LVL)



Source: Central Statistical Bureau of Latvia]

Mainly due to significant decrease of imports since the fourth quarter of 2007 there has been an improvement in Latvia's trade balance. However, Bank of Latvia is very cautious about Latvia's export potential and warns that as economy recovers imports will increase and current account deficit might return as soon as in 2011.

Latvian government ran a consolidated budget deficit of 892.1 million LVL in 2009. Compared to 2008 overall budget revenue decreased by 16%, while budget expenditure dropped by 11%. At the end of 2009 the general government debt amounted to 4265.1 million LVL.⁴ To finance the deficits among other the government has borrowed extensively from the IMF where it currently has a stand-by arrangement signed at the end of 2008 that expires in 2011 with 1521.63 million SDR approved and 713.79 million SDR drawn as of December 31, 2009.⁵

³ Bank of Latvia (2009) *op.cit.*

⁴ Bank of Latvia (2010). *Monetary Bulletin 2009/12.*

(http://www.bank.lv/images/img_lb/izdevumi/latvian/monbil/2009/Mon_bull_12-2009.pdf, accessed Jan 28, 2010).

⁵ Latvia: Financial Position in the Fund (<http://www.imf.org/external/country/LVA/index.htm>, accessed Jan 28, 2010)

According to Central Statistical Bureau of Latvia unemployment rate reached 18.4% in the third quarter of 2009, while overall job vacancy rate decreased to 0.3% with no sectors showing substantially better results. Bank of Latvia warns that even if the economic recovery starts in 2010 no significant increase in job vacancies or decrease in unemployment rate are to be expected at the initial stages of recovery.⁶ During 2009 more people emigrated from Latvia for long-term purposes (7292) than immigrated to Latvia (2511) resulting in a negative net-migration. That has been a trend for more than 10 years but recently until 2009 it seemed to subside.

In 2009 year-to-year consumer price index was 3.5%, which was a sharp decline from 15.4% in 2008. Prices of many consumer goods (for example, food and non-alcoholic beverages) actually declined, but a further drop in inflation was prevented in part by increases in administered prices (for example, health services).

On the positive side Bank of Latvia points out that at the end of third quarter of 2009 year-to-year measures of manufacture of wood, chemicals and paper products had increased. Latvia's export market shares were expanding in a number of foreign trade partners suggesting improving competitiveness amid global financial crisis. Last, several business confidence indicators pointed to tentative bottoming out in the economic activity.⁷

3.2. Regional context for SMEs

Latvia uses the definition of SMEs adopted by the European Commission in 2003 according to which an enterprise is classified as medium-sized if it has less than 250 employees and its turnover does not exceed 50 million EUR and/or its balance sheet total is less than 43 million EUR; as small if it has less than 50 employees and turnover and/or balance sheet total of less than 10 million EUR; as micro if it has less than 10 employees and turnover and/or balance sheet total of less than 2 million EUR. In 2008 there were only 393 enterprises in Latvia that can be classified as large and that number due to economic downturn most likely decreased during 2009. In terms of percentages large enterprises made up less than 1% of all enterprises and only 3% of small, medium-size and large enterprises (not including micro enterprises). So most of the Latvian enterprises can be classified as SMEs (more than 99%) and most of those are micro enterprises (88%). Regionally SMEs are much more evenly

⁶ Bank of Latvia (2009). *op.cit.*

⁷ *ibid.*



distributed than the large enterprises. The capital city Riga hosts 65% of all large enterprises, but only 38% of all SMEs.

Market Sector Economically Active Statistical Units in 2008

| REGION | MICRO | SMALL | MEDIUM-SIZE | LARGE | TOTAL |
|---------------|----------------|---------------|--------------|------------|----------------|
| Riga | 39 766 | 6 768 | 1 390 | 256 | 48 180 |
| Pieriga | 16 095 | 1 547 | 293 | 41 | 17 976 |
| Vidzeme | 12 890 | 894 | 166 | 14 | 13 964 |
| Kurzeme | 14 548 | 1 206 | 259 | 31 | 16 044 |
| Zemgale | 12 116 | 930 | 188 | 23 | 13 257 |
| Latgale | 15 268 | 1 001 | 190 | 28 | 16 487 |
| Latvia | 110 683 | 12 346 | 2 486 | 393 | 125 908 |

Note: Market sector statistical units: self-employed persons, individual merchants, commercial enterprises, peasant and fishermen's farms. Non-market sector statistical units: funds, foundations and associations, state budgetary institutions, local government budgetary institutions.

Source: Central Statistical Bureau of Latvia

According to the Ministry of Economy in 2007 there were 29 economically active SMEs per 1000 inhabitants.⁸ According to Eurostat statistics for 2005 Latvian SMEs in non-financial business economy accounted for 75.6% of employment and 71.1% of value added, which indirectly shows lower labour productivity for SMEs compared to large enterprises.⁹ However, for the time period between 2004 and 2006 Eurostat statistics show that in Latvia labour productivity increased more rapidly for SMEs than large enterprises. Further, SMEs compared to large enterprises contributed more to value added growth as well as employment growth with more than 80% of growth coming from SMEs.¹⁰

⁸ Ministry of Economy (2009). *op.cit.*

⁹ Eurostat (2008). *Statistics in Focus, 31/2008: Enterprises by size class – overview of SMEs in the EU.* (http://epp.eurostat.ec.europa.eu/portal/page/portal/product_details/publication?p_product_code=KS-SF-08-031, accessed Jan 28, 2010).

¹⁰ Eurostat (2009). *Statistics in Focus, 71/2009: SMEs were the main drivers of economic growth between 2004 and 2006.* (http://epp.eurostat.ec.europa.eu/portal/page/portal/product_details/publication?p_product_code=KS-SF-09-071, accessed Jan 28, 2010).



4. LITERATURE REVIEW

This review of literature embraces information on researches carried out up to now which directly or implicitly have been reviewed the issues of finance availability for small and middle enterprises, as well as issues related with elaboration and implementation of innovation projects. The review of literature includes a list of former researches and a summary of the main conclusions and results.

| „Administrative Procedures and Business Environment in Latvia 2001-2009” Riga, 2009 | |
|---|--|
| Research client: | The Ministry of Economics of Latvia |
| Research executor: | “The Laboratory of Analytical and Strategic Studies”, Ltd. |
| Research link: | http://www.em.gov.lv/em/2nd/?cat=21086 |
| Research methodology: | The research goal was to find out Latvian entrepreneurs’ viewpoint regarding the government and self-government administrative procedures in areas of a company registering, granting of licences and permits, environmental demands accomplishment, proprietary rights registering, construction coordination, foreign trade, labour legal provisions, tax administration and other areas. In total 735 economically active enterprises (commercial companies and individual merchants) in Latvia had been surveyed. |
| The main results and conclusions: | <ul style="list-style-type: none"> • In this survey on business environment tax rates have been mentioned noticeably oftener than other barriers problematic for one’s business – 76% entrepreneurs have identified them as an obstacle. Approximately one half of entrepreneurs acknowledge that their business is obstructed by problems with access to financial resources (49%). 2/5 of entrepreneurs evaluate a lack of the state aid (41%) and competition with grey/ shadow economy (40%) as barriers. • 1/10 of entrepreneurs for reducing business obstacles have suggested undertakings related to financial accessibility (improvement of credit accessibility, arrangement of bank sector issues, support in finance provision, attraction of investments, and facilitation of accessibility of EU funds). • 59% are confirmed that there is no state aid for entrepreneurs for development of business and another 34% are of the opinion that there is rather no aid – as follows in total 93% give negative evaluations regarding the state aid. Only 4% have said that the state provides support. • 43% of entrepreneurs are of the opinion that development of business could be secured by different undertakings connected with taxes (tax reduction, revision of tax system, improvement of tax administration), but 17% - by rendering of financial support (support in financial provision, improvement of credit accessibility, provision of accessibility of EU funds, provision of the state guarantees, attraction of investments etc.) |



- In total only 28% of enterprises of Latvia have applied for at least one financial resources attraction programme.
- Comparatively oftener – in 21% of cases – entrepreneurs have applied for bank credits for small and middle enterprises. Noticeably less often merchants have applied for the state aid programme – only 8% of entrepreneurs have tried to get funding via the EU structural fund programmes or applied for single space payment or such. Solely about 1% of entrepreneurs have applied for export credit guarantees, the state or self-government guarantees.
- 67% of companies in Latvia indicate at least one problem they have faced while preparing projects for getting financial resources. More frequently as a problem was mentioned the amount of documents for application (43%). Speed of the revision procedure (32%) and application standards (31%) have been mentioned as a problem a bit rarely. Significant problems were also availability of information – (23%) and maximal amount of aid for one project (22%). 15% of survey participants consider that supervision and control during project implementation was a problem.
- Reasons mentioned by entrepreneurs, who hadn't applied for any of the state aid programmes: 28% indicated that they are not interested in the offered opportunities by the state aid programmes or there is no need for them; 16% mentioned that company's profile doesn't meet the standards; 15% - lack of information; 14% - distrust; 7% entrepreneurs pointed at the complicated, time consuming process of project elaboration; 4% said that it is difficult for small companies to get support; 3% of entrepreneurs express their unwillingness to undertake financial obligations and another 3% - that it is too expensive to apply for the state aid programmes and therefore unprofitable for a company.
- Proportion of those entrepreneurs who are going to apply to some financial resources in the nearest future and those who already have such experience is almost the same: in total 28% of entrepreneurs of Latvia have had an experience in elaboration of project applications for attraction of financial resources and 31% are planning to elaborate such projects during the next year.
- Comparatively more respondents - 20% - plan to apply for the state aid programme, but slightly fewer - for bank credits for small and medium enterprises (17%). About 1/10 have interest in credits provided by the state for small and middle enterprises. While other financial resources are considered by very few respondents: 6% plan to apply for credits provided by self-governments for small and middle enterprises, 5% - for warranties provided by the state, 4% - for warranties provided by self-government, but 3% - for export credit guarantees.



| „Flash Eurobarometer 271: Access to Finance.” European Commission, 2009 | |
|---|---|
| Research client: | Directorate General Communication of the European Commission |
| Research executor: | The Gallup Organisation |
| Research link: | http://ec.europa.eu/enterprise/policies/finance/data/index_en.htm |
| Research methodology: | <p>In total more than 9000 representatives of enterprises from European Union countries, Iceland, Norway and Croatia (110 interviews with enterprises in Latvia) had been polled within the framework of the research.</p> <p>The research goal was to find out what kind of finance sources had been used by enterprises; to what degree entrepreneurs did face difficulties in attracting financing, as well as to clarify entrepreneurs' needs in the nearest future in financing the planned projects.</p> |
| The main results and conclusions: | <ul style="list-style-type: none"> • In total 32% (23% in Latvia) of businesses reported that they had introduced a new or significantly improved product or service to the market in the past 12 months, 20% (13% in Latvia) - the introduction of new or a significantly improved method of production. • On average 52% of surveyed companies from European Union countries reported at least one form of innovation in their business during the past 12 months, while in Latvia the proportion of such companies is only 40%, which is one of the lowest in EU. • 50% of managers in the EU stated that their company had grown in terms of annual turnover in the past three years (20% companies had an average annualised growth of more than 20%, but 30% - to a lesser extent than 20% per year), while in Latvia the proportion of such companies is only 40% (12% and 28% correspondingly). • In the aspect of increase in the number of employees Latvia companies have the lowest indicators in EU – if in total 32% of entrepreneurs in the EU reported an increase in the number of employees in their company in the past three years then there had been only 12% of such in Latvia. • Generally in the EU on average 5% of companies had been taken for so called „gazelles” – companies up to five years old with an average growth greater than 20% per year. In Latvia there were 3% of such companies (12% - in Estonia, 8% - in Lithuania). • Generally in European Union countries on average 48% of companies have experienced a decrease in turnover during the past 6 months, in Latvia there were 67% of such companies (80% - in Lithuania, 71% - in Estonia). Though exactly entrepreneurs from Latvia had stated a decrease in turnover comparatively less often out of all entrepreneurs from the Baltic states, nevertheless as regards to changes in the amount of profit those from Latvia oftener than the ones from Lithuania and Estonia had experienced a decrease in profit (73%, 69%, 64% - correspondingly). |



- On average 16% of entrepreneurs of EU companies indicate access to finance as the main business problem, in Latvia this is the most pressing problem for 18% of entrepreneurs (22% - in Lithuania, 15% - in Estonia).
- Companies from Latvia had the highest indicator as regards to using internal funds among all EU countries – if 16% of EU companies had used only internal funds then in Latvia – 47% used only such source of financing (8% - in Lithuania, 14% - in Estonia).
- During the past 6 months only 7% of companies from Latvia had applied for a bank loan, while the average indicator in the EU is 22% (16% - in Lithuania, 10% - in Estonia).
- During the past two years only 29% of companies from Latvia had obtained loans (on average 45% - in the EU, 19% - in Lithuania, 35% - in Estonia).
- 88% of entrepreneurs from Latvia stated that the general economic situation had worsen (the average indicator in the EU is 60%).
- 18% of entrepreneurs from Latvia said that there had been a decrease in the willingness and involvement of private banks of Latvia to provide loans in the past six months, but 22% were of the opinion that it had remained constant (on average 30% and 33% in the EU correspondingly). At the same time only 6% of entrepreneurs said that their company's need for bank loans had increased, while 69% were of the opinion that the need for loans had remained constant, but 15% - had increased.
- 29% of entrepreneurs from Latvia believe that access to public financial supporting mechanisms including guarantees has worsen during the past six months (on average 22% of entrepreneurs had the same viewpoint in the EU).
- Latvia has the biggest proportion of the companies the need of which for various sources of external financing had increased during the last six months (trade credit, loan from acquaintances, leasing etc.) – 14% reported such answer, while in EU countries - only 4% on average.
- Latvian entrepreneurs have one of the most pessimistic expectations on business development in the coming 2-3 years – only 20% believe that their company's annual turnover will increase in the next years (on average 47% - in the EU, 33% - in Lithuania, 38% - in Estonia), but 34% think that it will decrease.
- Solely 15% of representatives of companies of Latvia felt confident that they would be able to obtain the desired result after talking to banks about financing and it is the lowest indicator in the EU (59% on average).
- 47% of companies of Latvia expect that it would become more difficult to acquire internal funds in the next six months – it is the lowest indicator in the EU (on average 14% of the EU entrepreneurs hold



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| | such viewpoint). 15% are worried about the availability of bank loans and another 74% are confirmed that availability of bank loans will remain the same in comparison to the existing situation (though an absolute majority believe that the situation either will remain constant or will worsen). |
| „Elaboration of Research on Implementation of Zemgale Business Development Programme.” Riga, 2009 | |
| Research client: | Zemgale Planning Region |
| Research executor: | “The Laboratory of Analytical and Strategic Studies”, Ltd. |
| Research link: | http://www.zemgale.lv/images/stories/File/Projekti/Kilis_Uznemejdarbiba_2009.pdf |
| Research methodology: | The research goal: (1) to revise the former activities provided by municipalities regarding entrepreneurs, (2) to define business promoting activities and (3) to elaborate recommendations for implementing of business promoting activities. 11 local business experts had been interviewed (10 municipalities' experts and 1 expert from Zemgale Planning Region) and 146 entrepreneurs representing different business fields were polled within the framework of the research. |
| The main results and conclusions: | <ul style="list-style-type: none"> • 72% of Zemgale entrepreneurs think that an essential obstacle for business development is a lack of current assets, 65% - insufficient access to financial resources (including for launching and risk capital), 34% - insufficiently rapid implementation of modern technologies, 29% - low investment in research and development, 27% - insufficient collaboration among educational, research institutions and entrepreneurs. • Solely 17% of Zemgale companies assert that they collaborate with science and research institutions on a regular basis. • In majority of cases entrepreneurs have reported that their companies are innovative and creative in their activities – such assertion was stated by 55% of interviewees in total and only 18% have stated the contrary. This fact most likely confirms once again a conclusion mentioned in the context of other researches that entrepreneurs do not fully realize the essence of innovation process. • 19% of Zemgale entrepreneurs believe that in the coming three years the successful development of regional business will be established by availability of financings, 7% - availability of the state aid for small and middle companies, attraction of foreign investments and EU funds. • 89% of entrepreneurs from Zemgale have stated that innovations are a significant factor for regional business development; in turn fewer entrepreneurs – 66% - believe that it is research. |
| „Executive Summaries of Evaluations Studies on SME Access to Finance in EU Member | |



| States/Regions carried out by EIF in the Context of JEREMIE.” European Commission, 2007 | |
|--|--|
| Research client: | The research was carried out within initiative of the European |
| Research executor: | Commission and the European Investment Fund JEREMIE. |
| Research link: | http://ec.europa.eu/regional_policy/funds/2007/jjj/doc/pdf/jeremie_sme_access.pdf |
| Research methodology: | The European Investment Fund JEREMIE initiative was launched by The European Commission within the framework of which the EIF analysed the situation of demand and supply for financial products for small and middle companies from countries involved in the initiative. The research goal was to define gaps between supply and demand for financial products for small and middle companies, as well as to elaborate recommendations for elimination of imperfections. In total the situation in 53 countries involved in the JEREMIE initiative had been analysed. |
| The main results and conclusions: | <ul style="list-style-type: none"> • The existing business launching and micro-financing products do not cover needs/ the demand of potential and existing micro enterprises. • No social micro-financing programmes are available. • The existing guarantee schemes have insufficient resources, as well as their prevalence is comparatively minor. • Lack of financing had been taken for the main obstacle for business start-up. • Private Banks are rather passive in giving credits for small and middle enterprises showing no willingness to take an overly big risk. • Insufficient investments of private capital in business preparatory and start-up period. • First-time entrepreneurs have access to a number of programmes offering small grants, but largely lack equity products which offer adequate financing to support them through the critical first years of life. • Gap of expansion investment for the smaller established companies needing capital to increase production capacity, working capital and capital for the further development of the product or market. • Insufficient activity of „Business Angels” movement. |
| „The Potential Project Applicants’ Demand for Financial Support under the EU Structural Funds Entrepreneurship and Innovation Activities for the Programming Period 2007 – 2013” Riga, 2007 | |
| Research client: | Ministry of Finance of the Republic of Latvia |
| Research executor: | “The Laboratory of Analytical and Strategic Studies”, Ltd. |
| Research link: | http://www.esfondi.lv/upload/01-strukturfondi/petijumi/2004-2006_zinojums_FINAL_27_11_2007.pdf |
| Research methodology: | The general objective of the research was to determine the potential demand for financial support under EU Structural Funds for programming period 2007-2013. In order to meet the objective, the study on potential enterprises’ interest about the demand for financing for scheduled |



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| | <p>entrepreneurship and innovation activities during the EU Structural Funds programming period 2007-2013 had been elaborated and carried out within the framework of the research. Different indicators featuring the demand had been analysed in the research: total number of potential concerned persons on each activity, amount of the potential demand for financing each activity, amount of the potential co-financing of enterprises, period of time of project submission, as well as division of the demand for activities by economic sectors and regions.</p> <p>1924 enterprises had been polled within the framework of the research.</p> |
| <p>The main results and conclusions:</p> | <ul style="list-style-type: none"> • In total interest in submission of projects for applying for EU financial support for entrepreneurship and innovation activities during the EU Structural Funds programming period 2007-2013 had been stated by 12% of enterprises of Latvia. • The biggest number of concerned persons can be observed regarding the following activities: elaboration of new products and technologies (sub-activity 2.1.2.2.), attraction of highly skilled employees (activity 1.3.1.9.), support for training courses for employed persons with the intention of promoting merchants' competitiveness (sub-activity 1.3.1.1.1.), adoption of external markets (activity 2.3.1.1.), as well as high value added investments (sub-activity 2.3.2.4.). • The lowest interest of enterprises can be observed regarding the following activities: support for searches of the best innovative solutions and integration of good practice examples into labour market policies and implementing set of instruments (activity 1.3.1.8.), transfer of technologies (sub-activity 2.1.2.1.2.), Competence centres (sub-activity 2.1.2.1.1.) and support for employed persons and self-employed persons with the intention of promoting their competitiveness and preventing unemployment (sub-activity 1.3.1.1.2.). • The analysis of the quantity of applications of the EU Structural Funds programming period 2004-2006 by activities shows that the greatest increase of interest during the programming period 2007-2013 is related to the activity "Elaboration of new products and technologies". |
| <p>„Analysis of Needs of Small and Middle Enterprises of Latvia for Innovation” Riga, 2007</p> | |
| <p>Research client:</p> | <p>“The Investment and Development Agency of Latvia”, the Government Agency</p> |
| <p>Research executor:</p> | <p>“Latvian Technological Centre”</p> |
| <p>Research link:</p> | <p>http://www.liaa.gov.lv/zinis/lv/biblioteka/petijumi/</p> |
| <p>Research methodology:</p> | <p>The research goal was to analyse Latvian companies' needs for innovations using the methodology of analysis conducted in 2003 and to compare the results of analysis of 2003 and 2007.</p> <p>The assessing method of innovation capacity of enterprises (<i>Firm-Level Innovation In The Korean Economy</i>) suggested by RIS Latvia project and</p> |



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| | <p>the World Bank had been used for carrying out the analysis. 306 enterprises of Latvia were polled, including 122 representatives of regions of Latvia and 184 ones of Riga and Riga region. The target group of analysis was industrial enterprises of Latvia – both technology-guided and enterprises from low technology sectors, as well as enterprises which do not manufacture products themselves but their activities and services are tightly coupled with usage of new technologies.</p> |
| <p>The main results and conclusions:</p> | <ul style="list-style-type: none"> • 70% of interviewed enterprises have a business plan. Only 37% enterprises have elaborated a business strategy for their company. Solely 24% have elaborated a marketing strategy. • Most often mentioned obstacle influencing a faster development of enterprises is “No tax incentives for promoting innovations” (mentioned by 83%). The second most often mentioned obstacle is „Lack of trained labour force” (79%). Other stated obstacles: „High interest credit as an obstacle for innovations” and „High competition”. • The least mentioned obstacles influencing a faster development of enterprises: „Low quality of production”, „Dissatisfactory design”. That is indicative of the fact that entrepreneurs mainly see obstacles in “external” conditions not inside their companies. • The greatest number of entrepreneurs notices the improvement of entrepreneurship environment for innovation promoting in modernization of production machines (85%) and a possibility to invest their profit into development by 0% tax rate (84%) followed by arrangement of VAT repayment issue, compensation of employees training course expenditures and creation of fiscal stimulus (tax allowances etc.). • Some of improvements of entrepreneurship environment for innovation promoting which have been least interesting for entrepreneurs are as follows: industrial projecting and process engineering, grants for creation of new vacancies for engineers, research and development expenditures, labour and residence permits for technical engineers, and donations to universities and research and development centres (mentioned by less than 20%). • Only 24% of enterprises have the research and development departments and oftenest there are no more than 3 employees. • 28% enterprises have participated in some Latvian or European-scale project related to innovations and research. • Entrepreneurs report that development of new products takes 5-6 months on average. During such a short period of time it’s impossible to elaborate high technology products. It’s also not viable to elaborate and to develop radically new products during 5-6 months. • 92% of enterprises have not taken out a patent of any product or service during the last 10 years. • An absolute majority of entrepreneurs are of the opinion that the |



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| | <p>process of patenting is overly expensive (79%), overly time consuming (78%) but 64% consider that „Know How” is insufficiently protected.</p> <ul style="list-style-type: none">• Most often enterprises have seized services provided by the Professional Association of Fields (44%), the Investment and Development Agency of Latvia (40%) and the Latvian Chamber of Commerce and Industry (29%).• 41% of entrepreneurs have asserted in the research that some innovation processes do occur in their enterprises, however the answers given by the very entrepreneurs are indicative of the fact that the term „innovations” has been attributed to any novelty in the activity of enterprise, as follows it can be affirmed that entrepreneurs of Latvia as often as not do not take in a matter of innovation process.• The surveyed enterprises declare that the innovation process oftenest improves the quality of services for clients. The fact that the result of innovations improves basic technology or some stage or process of it in enterprises has been mentioned half as less often.• The surveyed enterprises mentioned demands of clients and contractors (42%) as the main factor for implementation of new developments. From the point of view of entrepreneurship it is good, but brand new products in such cases are not being elaborated since clients rarely dictate development tendencies of fundamentally novel products.• 58% of enterprises mentioned detection of new market niche in Latvia as the main factor of growth, 53% see the growth in development of brand new products and 52% – in optimization of business activity in order to reduce expenditures.• Oftenest two obstacles had been named to have more active cooperation among enterprises and research and science institutions – in 62% of cases interviewees mentioned a lack of information about such institutions and in 43% of cases – passivity expressed by research institutions.• Only 18% of interviewees are of the opinion that outsourcing of experts is a significant factor for business growth. Enterprises are not ready to pay market price for external competences in research and development. The greatest number of enterprises agrees to invest time not money.• More than a half of enterprises (58%) put to use less than 1% of total research and development expenditures for external services. Thus the main donor and driving force of innovation in Latvia is the state.• In 2007 enterprises oftenest used financial services provided by Hansabanka (now Swedbank) (50%), Parex Banka (31%) and SEB Unibanka (27%). The EU Structural Funds (16%) takes the forth position by the usage of financial services.• When asked about what kind of financial instrument an enterprise is |
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| | <p>planning to use, the greatest number of enterprises (63%) pointed at the EU financing. A bit smaller number of enterprises (57%) is going to take a credit and 53% plan to use the state supporting financing. Noticeably smaller number of enterprises is going to use other financial instruments in the future.</p> <ul style="list-style-type: none"> • Results of the World Bank Korean method show that the greatest part of enterprises in Latvia (48%) is in the middle stair-zone of innovation capacity characteristic with outdated technologies and equipments, necessity for serious improvements and development, weak cooperation with organizations in the field of research and development, occasional elaboration of new products, lack of working capital, technology development dictation from the clients' side. Enterprises are able to compete with companies equal to them and with low technology companies in local markets. • 30% of enterprises can be taken for innovative companies. These enterprises are characteristic with strong strategy of technology development and high valuation of innovation process, good collaboration net, new products and investments in research and development, competent management and skilled employees. These enterprises slightly drop behind globally acknowledged innovation leaders. In order to become an innovation leader, these enterprises must conquer new markets using or developing new technologies and products. • Cooperation among enterprises and foreign and Latvian universities, as well as research institutes and other innovative companies is the weakest dimension of business innovation capacity. |
| <p>„Availability of External Financing for Small and Middle Merchants in Latvia” Riga, 2006</p> | |
| Research client: | Ministry of Economics of the Republic of Latvia |
| Research executor: | „Baltic Consulting”, Ltd. |
| Research link: | http://www.em.gov.lv/em/images/modules/items/item_file_21102_1.zip |
| Research methodology: | <p>Within the framework of the research an analysis of external financing market in Latvia had been carried out; in addition financing lenders were surveyed and analysed, as well as a quantitative analysis of financing demanders were done. The aim of this research was to identify the market segments – groups of enterprises financing demand of which hadn't been met; as well as to analyse the existing and planned state aid instruments, their ability to improve the current external financing market and to furnish recommendations for improvement of the programme of the state aid instruments.</p> |
| The main results and conclusions: | <ul style="list-style-type: none"> • By analysing enterprises' ability to earn back financing in order to repay it for a lender or an owner, it can be concluded that in general a line of fields and enterprises in Latvia are not able to offer adequate levels of profit and predictable incomes so as to stand even the |



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| | <p>financing expenditures to the bank apart from the risk capital expenses. The analysis shows that exactly these enterprises are the ones, which are incapable to attract adequate financing sources. An essential fact – in general enterprises do have quite substantial credit capacities and ability to guarantee their credits by both equipments and real estates. That means that creditworthiness of enterprises is not exhausted at all and the main reason why enterprises do not choose to increase an amount of credit liabilities is that profit indicators disallow them to earn back financing expenditures.</p> <ul style="list-style-type: none">• By analysing the probable reasons why financing doesn't come from its lender (a bank or an investor) to a receiver (an enterprise) and what exactly obstruct these transactions, it was concluded that a greater part of obstacles existing between financing lenders and financing receivers are not monetary but political and heritage in nature.• It was concluded that the biggest barriers in attracting financing are as follows: (1) protection of investors' rights in Latvia is under-secured, especially rights of minority shareholders are actually unprotected; (2) Latvia in western markets still associates with post-soviet territory which arises suspicious and wherewith a line of financing lenders don't even consider on investing in this region; (3) the way of thinking and mentality of entrepreneurs of Latvia prevent forming of structures of several owners, because owners of enterprises don't want to sell a major part of one's enterprise (the position „all or nothing” prevails); (4) a lack of experience and knowledge of enterprise owners and managers concerning corporative management issues and regulation of owners' relations (this condition prevents enterprises from looking for financing in a formal way which is proved by the fact that enterprises of Latvia endow with a great part of financing through loans provided by non-financial institutions (principally these are loans grounded on personal contacts), thus entrepreneurs are likely to choose informal loans instead of formal relations with investors or banks); (5) sense of high risk and fears from failure (entrepreneurs are very reluctant to choose large profit-bearing and high-risk projects being afraid of failure and therefore giving a preference to low-risk projects securing a smaller profit which leads to a lack of serious and ambitious projects in Latvia where to invest, wherewith financing haven't been offered since there is no demand for it. |
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Conclusions

About the environment of entrepreneurship in general

The researches conducted during the last years, within framework of which polls of entrepreneurs had been realised, almost always point at the three main problems regarding development of entrepreneurship – overly



high taxes, availability of financial resources (both of these aspects have been peculiarly updated and became strained during the last two years) and a lack of the state aid. Pretty often entrepreneurs specify also competition with shady economy as a significant problem. Judging the environment of entrepreneurship in this aspect it is obvious that entrepreneurs take the state regulating role for major – on the one hand, by giving a noteworthy assistance to entrepreneurs directly and indirectly (reduction of taxes, increase of available financial support and facilitation of its access), on the other hand, by limiting dirty competition.

At the same time researches also bear witness that entrepreneurs themselves support and promote existence of shady economy to a great extent (attitude towards non-paying taxes is not explicitly negative, as well as the very entrepreneurs accept it at definite conditions), all together waiting the state to form conditions of the environment of entrepreneurship that could minimise risks and burdens as much as possible and maximise profit chances. Taking into account that the most preferable ways of the state aid frequently stated by entrepreneurs are tax reduction, lessening of various inspections and controls (at the same time asking for dirty competition abatement), maximal lessening of bureaucracy, allocation of different facilitations for entrepreneurs etc. – it is clear that such sort of “ideal situation” preferred by entrepreneurs is neither real nor advisable (since in this case only the very entrepreneurs are winners to the highest degree).

As follows – former researches to a great extent (though indirectly) point not only to the state’s and its institutions’ necessity to revise and correct the ways and mechanisms of support but also expect the very entrepreneurs to intervene in and to bear responsibility. At the same time it must be accented that this doesn’t lower significance of various obstacles for entrepreneurship mentioned by entrepreneurs and necessity to revise them (amount of tax load, shady economy, bureaucracy, the state aid mechanisms a.o.).

About the state support in general

Talking about sufficiency and availability of the state aid, assessments given by entrepreneurs are conflicting as often as not: on the one hand, entrepreneurs assert and assess that getting of the state aid is very complicated and even impossible (obligation of overly great documentation, big bureaucracy, unfavourable financial conditions, unfavourable payment conditions etc.) but, on the other hand, when asked about reasons of not taking advantage of available state aid, entrepreneurs most often say that they are not interested in getting such support believing that these are not proper for them, and being afraid of risk and great responsibility instead of pointing to concrete shortages of the state aid mechanisms. It must be also taken on discount that various obstacles and imperfections in getting the state aid have been mentioned by an absolute majority of entrepreneurs of Latvia, and only an entirely small part of entrepreneurs admit that they have received themselves or at least have tried to use some of the state aid mechanisms thus attracting financing.



As follows – usage of the state aid still is not a commonly used practice in entrepreneurs' daily life and the reason is not only an overly big bureaucracy of these kinds of support but also indisposition of the very entrepreneurs to risk and invest resources into attracting of support provided its attainment potentiality is not secure enough. The research data also bear witness that those receivers of the state aid or various other kinds of support, who have already got it once, apply for that again but the number of new applicants is comparatively smaller, in addition to that – those without a former experience and practice in attracting support, most often also do not plan to do it in the nearest future. This is greatly indicative of the fact that availability of the state aid mechanisms is greater for those, who have already a former experience, but limited to the ones, who do not have such practice.

About attraction of external financing

Taking into account that elaboration of long-time and competitive innovation products and services usually ask for financing that exceeds internal resources of the very enterprise, the entrepreneurs' receptiveness towards attracting of external financing resources is essential, as well as their skills and competences to attract it. Unfortunately international comparisons detect problems of entrepreneurs of Latvia also in this aspect – Latvia has one of the highest indicators of utilization of internal financing resources of enterprise and consequently one of the lowest indicators of attraction of external financing. On the whole, that means that entrepreneurs of Latvia in comparison to other countries have significantly lesser both experience and practice and therefore lesser competences and skills in attraction external financing as well. Could this be because of complexity of attraction mechanisms of external financing and its inaccessibility to entrepreneurs or a lack of initiative of the very entrepreneurs and their readiness to risk, it can't be unambiguously inferable (because no more profound researches regarding these aspects have been conducted).

The existing economical situation and entrepreneurs' expectations of its development make this aspect even more problematic. On the one hand, utilization potentialities of internal financing resources during the last year and a half have noticeably decreased or even drained away, on the other hand, entrepreneurs have no previous experience and competency in attracting external financing resources, also their availability has evidently decreased, which means that currently it is practically impossible for inexperienced entrepreneurs to get external financing.

In addition to that one must take into consideration the entrepreneurs' anticipations concerning the development of economical situation in the immediate future which in Latvia are one of the most pessimistic in the EU (namely entrepreneurs expect further worsening of the situation without seeing its improvement in the near future). In turn, such expectations make entrepreneurs to be cautious towards attraction of different kinds of external financing, especially if it anticipates a high risk level for an entrepreneur.



As follows – competitive capacity of entrepreneurs of Latvia on a scale of the EU in attracting external financing is noticeably lower not only among the old member states but also in the circle of closest neighbour countries. On the one hand, it causes necessity for comparatively easier available external financing resources, on the other hand, for mechanisms that allow entrepreneurs to get and develop competences for attracting such financing.

About elaboration and implementation of innovation projects

International entrepreneurship environment comparisons usually present backwardness of more or less noteworthy enterprises of Latvia from enterprises of other countries according various criterions – elaboration and implementation of new products and services, elaboration of innovations, general development of enterprise (growth of turnover/ profit/ number of employees, average increment rate (for instance, in Latvia there are approximately half as less so called ‘gazelles’ than in nearest neighbour countries)).

Enterprises of Latvia elaborate strategic development plans only in rare cases – though the greatest part of enterprises (not all of them) has a business plan, only few of them has a business strategy and also a marketing plan. The research data also show that development of entrepreneurship mostly is being planned in the short term (for a period of half-year up to year, maximum – three years).

The conclusion presented in researches is also essential – entrepreneurs of Latvia are very inactive in collaboration of various kinds with research and educational institutions. Besides – entirely small number of enterprises themselves are ready to invest time and financial resources in investigation and development that in the long term would promote elaboration and realization of innovation products and services.

As follows – most often entrepreneurs ‘react’ only to temporary, short-term market situations, demands without planning and realizing the entrepreneurship in the medium term or long term that potentially would bring bigger benefits. In the aspect of implementation of innovation projects this fact is especially significant because elaboration and implementation of them usually is not a short-term activity; in turn, entrepreneurs of Latvia lack a former practice and consequently competency in elaboration and realization of long-term projects. Likewise research and education are insufficiently integrated in processes of the entrepreneurship – possibilities of elaborating innovation products are limited by the lack of practice and readiness of entrepreneurs of Latvia to collaborate with research and educational institutions or to keep their own research and development (R&D) departments. As a result of which innovations quite often are only isolated, concrete ideas (products) not a process that in the long term could provide an environment for creating potential innovative products and services. Under such conditions in Latvia today the main activator and promoter of innovation projects is the state not involvement and readiness of the very entrepreneurs to elaborate such projects; in turn, entrepreneurs are rather interested in adoption of available financing not in elaboration and implementation of the very innovative solutions. In the long term successfulness of innovation projects would be secured by involvement and activity of

the very entrepreneurs in elaborating them, including readiness to invest in R&D and to attract external financing for that. In this aspect availability of both financial and non-financial support and also wider complexes of activities are equally significant, which promotes entrepreneurs' interest in innovation projects and R&D in general and in the long term.

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The given research deeply analyses issues of availability of financing for innovation projects not only in a point of view of the very entrepreneurs (who pretty often may be subjective and unilateral) but also viewed by other target groups involved – representatives of financial institutions and experts of various small and middle enterprises (SMEs). As follows in distinction to researches that have been conducted before the given research gives a bit wider aspect regarding both issues of financing availability in general and elaboration of innovation projects and availability of financing for them in the concrete. Besides – the research includes summarised and analysed information about not only successful examples, but also unsuccessful ones thus evaluating the conditions and the factors that have influenced and affected successfulness or unsuccessfulness of concrete projects.

Also the given research embraces not only issues related directly to availability of financing for innovation projects, but evaluates them in a wider context reviewing them in the aspect of the environment of entrepreneurship in general (assessing not only concrete facts, but also the ones that indirectly impact successfulness of attraction of financing for innovation projects – entrepreneurs' former practice in realization of the entrepreneurship and attraction of financing, entrepreneurs' competency and knowledge etc.).



5. DEMAND ANALYSIS FOR SMEs

5.1. Degree and Forms of Internationalisation in the Region

Entrepreneurs of Latvia during the last years have been getting into different international projects having various statuses. Entrepreneurs have realised these projects by both attracting investments on their own account and using various available state and EU supportive programmes - EU The Seventh Framework Programme, Leonardo da Vinci programme etc. Projects have been and are being realised in different fields: chemistry, pharmacy, biotechnology, and engineering, metal working, elaboration of software, as well as elaboration and production projects of new mechanisms and equipments, etc. Prevalence of one or some fields is not observable.

It's evident that those projects, in which collaboration had been made using personal contacts and possibilities formed in the course of time by the very entrepreneurs, have been comparatively more successful, as well as those, where the number of collaboration partners is small, as follows - coordination of cooperation has been easier and simpler. Also the very entrepreneurs during interviews pretty often reported that it had been easier for them to realise international projects in case there were one or two partners and it was grounded on personal contacts not partners found within the framework of some supportive programmes.

Great part of projects today are only in the development stage, therefore their successfulness or unsuccessfulness cannot be assessed, however, according to information given by the entrepreneurs it can be concluded that the existing economical situation considerably burdens prosecution of opened projects and beginning of new projects.

By evaluating different forms of internationalisation it is observable that most often entrepreneurs of Latvia take part in international projects as one of outside partners within the framework of some bigger project or as order executors of some big development project abroad (for instance, a company in Latvia has an order to elaborate concrete technologies, raw materials etc. or to produce them up to amount). There are comparatively less collaboration projects in which entrepreneurs of Latvia participate as equal partners within the framework of some wider international project, though also such sort of projects exist (for instance, when entrepreneurs of Latvia are able to provide human resources competence of which is equivalent to representatives of foreign partners, consequently new products have been elaborated together by investing knowledge and competency of both sides equally). There

are a bit of projects in which representatives of Latvia had been project initiators and coordinators or advancers.

Nevertheless on the whole it is observable that there are comparatively few international collaboration projects in Latvia and oftenest they had been formed thanks to entrepreneurs who had been looking for solutions for concrete needs in their entrepreneurship. Namely – pretty often internationalisation projects had been one of the ways how to solve a company's development problems unable to resolve in internal market or by using only one's own finances and human resources available. Consequently as often as not different available facilities of support programmes to attract financing for international projects are rather utilized as one of the ways for financial attraction that is easier available than other financing resources but without intention to make a long-term international collaboration.

Likewise it is noticeable that entrepreneurs of Latvia have comparatively many barriers and obstacles in elaboration and implementation of international projects that denies making use of opportunities and advantages provided by them of full value. Besides these barriers are spotted in both inception and realization stages of international projects, which means that bigger or smaller obstacles exist in all implementation stages of internationalisation projects.

5.2. Obstacles and Barriers for Internationalisation

Regarding implementation of international projects entrepreneurs in interviews have mentioned several essential problems:

- Limited financial facilities of entrepreneurs to go on business trips abroad in order to get exchange of experience, to establish new contacts and to look for collaboration partners. The very entrepreneurs report that exactly personal acquaintanceship with collaboration partners in other countries is a very significant factor for projects to be successful, yet financial facilities significantly limit the number of business trips.
- Non-effective usage of funds granted to the state and municipal institutions for promotion of international projects. Entrepreneurs point at inability of municipalities to utilize granted funds efficiently. According to entrepreneurs quite often various foreign visits organised by the state and municipal institutions do not furnish the desired return because the conducted negotiations are theoretical and without a practical disposition. Also representatives of institutions often have poor foreign language knowledge. Due to that negotiations are defective and not constructive.



As a result financing as often as not has been used as a trip payment only but not like a practical and applicable facility for entrepreneurship development.

- In common with the state and municipal representatives also the foreign language knowledge of the very entrepreneurs in general is a significant obstacle for foundation of international collaboration. Not infrequently entrepreneurs reported in interviews that some special business English and German courses would be necessary available within the framework of the state support.
- Also detection of information on potential markets and collaboration partners has been announced to be a problem. Information is available but it is located in many different sources. An entrepreneur without a former experience in information searching and summarization may become confused in a huge hive of information, especially bearing in mind that information tends to be contradictory.
- SMEs experts reveal their observation that local investors don't want to commit capital in long-term projects looking for gainful short-term investment potentialities, which is one of problems to launch realisation of international projects that partly should be related with problematic financial availability at large. In fact the local financing for investments is available yet innovative projects can't attract it since they almost always foresee a long-term realization and implementation.
- By evaluating an overall practice of elaboration and implementation of international innovative projects in Latvia experts point at the fact that the environment of entrepreneurship is not proper for creative activities and innovations that is primary connected with gaps in educational system, which is not guided towards searching of non-standard solutions and processing of new approaches (one of reasons is the fact that acquisition of hard sciences has not been secured on a sufficient level). Consequently experts specify that potential of innovative (including international) projects are tightly interlinked with topical issues in educational system.

The following general problems are common in both inception and realization of projects:

- During the last year/ a year and a half distrust to the Republic of Latvia and its economy has noticeably increased in international markets, that markedly burdens both inception of projects (because entrepreneurs of Latvia are taken for potentially precarious partners), and further advancement of projects in progress (because entrepreneurs of Latvia are regarded as



potential threat to successful project realization in general, as a result, on one hand, entrepreneurs representing Latvia have been claimed harder requirements and, on the other hand, they have been laid greater limits, control etc.).

- Distinctions in labour style, mentality, habits and thinking. Entrepreneurs of Latvia say that it's problematic to cooperate with businessmen and representatives of different institutions and institutes from other countries because of diverse labour style (slow project progression or vice versa – chaotic and not integrated and the like).
- Distinctions in technological development – on this score entrepreneurs of Latvia most of the time are not equivalent to foreign partners due to their outdated technique and underdeveloped technologies (of course there are also some well-equipped companies too). This noticeably limits opportunities of enterprises of Latvia to establish partnership in international projects of equal worth.
- During the last years comparatively successful modernization of technologies have been done in educational institutions (universities, institutes etc.) by purchasing modern equipments and technologies conformable to the highest standards, however representatives point at the fact that these equipments are not available for them. There is a lack of system that could secure entrepreneurs' facilities to use existent equipments in Latvia (for instance, lease rights, cooperation opportunities, barter etc.). Taking into account that it's not gainfully for entrepreneurs to purchase such technologies and equipments individually, there could be some cooperation facilities so that the existing technique units in Latvia were available for as wider circle of interests as possible.
- Manufacturing expenditures of production of Latvia are not competitive in the international market that causes two problems: it is more advantageously to procure raw materials necessary for elaboration of different projects abroad (which demands additional time, as well as necessity to look for and to find the most beneficial tenders and to form extra international partnerships), and also prices of final products are not competitive with the ones offered by other countries. As one of the reasons of a lack of competitiveness of prices is the fact that entrepreneurs of Latvia are not able to operate freely with the desirable level of profit (%) because as often as not they have purchased equipments or premises on credit that asks for definite monthly payments,



consequently it is impossible to reduce the necessary threshold of turnover and profit. However by keeping it inadequately high one loses clients and collaboration partners.

- Not infrequently entrepreneurs also have drawn attention to the fact that companies of Latvia not always are able to secure high enough quality of both daily work and produced goods. Partly it is related with the fact that specialists working in Latvia not always have high enough qualification, competency and knowledge on newest tendencies and scientific discoveries in the world that to use it in significant improvement or creation of innovative products. In addition it must be noted that entrepreneurs anticipate that during the nearest year/ a year and a half they will have to face a problem of manpower drain – great part of competent, professional and knowledgeable specialists will leave Latvia searching for employment in other countries. That will bound availability of skilled manpower, which is especially significant in case of international (and innovative) projects.
- Also an overly big bureaucracy in application of the state aid has been mentioned as one of the essential problems that makes one to dedicate more intense attention and resources to formal documentation not the very product or service. Though entrepreneurs admit that during the last years a bureaucracy load on creative projects has diminished, nevertheless it is reported that it's still considerable enough robbing human resources from the very creation.
- A lack of mechanism securing communication and exchange of information among scientists and entrepreneurs is another problem current exactly inside Latvia. Today entrepreneurs and scientists are working each on their own and there are no more or less formal ways how to secure exchange of information and experience between these two target groups that potentially could develop in new collaboration projects. Entrepreneurs are of the opinion that some communication mechanisms of both groups would be necessary, as well as data bases containing information on, first of all, technique, equipments available in Latvia (because pretty often entrepreneurs need some equipment but it's not known whether and where such apparatus in Latvia is accessible) and, secondly, on ideas elaborated by scientists that potentially could do for commercializing.
- In relation with the abovementioned – quite often entrepreneurs have faced situations when scientists and inventors do not want to share ideas/ novelties being afraid of that entrepreneurs will derive a profit out of that leaving inventors with empty hands. In this aspect a wider



explanatory work is necessary to be done so that to achieve mutual confidence and joint action among scientists and entrepreneurs, simultaneously precisely ensuring legal and fiscal rights and petitions of both sides. It must be added that SMEs experts indicate that also the very entrepreneurs sometimes don't want to reveal their innovative ideas and intentions and therefore it is problematic to find the most suitable kinds of support. Also entrepreneurs can't avoid a failure in finding collaboration partners without talking about their ideas openly enough. In this context representatives of financial institutions admit that scientists at times lack knowledge and skills in commercialization of ideas that, on the one hand, leaves many good and potentially successful ideas unrealised and, on the other hand, burdens cooperation with investors or business partners by mistrusting and not allowing elaboration of projects for commercialization of ideas.

- Since innovative projects most often are related with necessity to attract outsourced service providers, scientists etc. one of the problems in realization of such projects is the fact that entrepreneurs themselves are not able to control fully and to foresee the whole course of project. To great extent successfulness of projects is connected with labour productivity and quality of outsourced specialists. That causes risks for entrepreneurs because responsibility on project elaboration and implementation falls upon a formal project manager. Though this is not a common problem, some entrepreneurs have identified it as a sore point.

The identified reasons of unsuccessfulness of international collaboration projects (this question was asked only to those entrepreneurs, who admitted in interviews that their realised or planned projects had been fruitless):

- The effect of global economical recession is especially tactile in Latvia – collaboration had been stopped in many already launched projects because entrepreneurs of Latvia couldn't honour their commitments. Most often the reason for that had been problems with financing availability – entrepreneurs hadn't had an access to external financing so that to provide funding for a further course of project (to secure attraction of human resources, to procure necessary raw materials etc.).
- Pretty often problems had been caused by entrepreneurs' local partners in Latvia incapable to honour their commitments towards a Latvian partner of international company (for instance, by not supplying with necessary orders (materials, details, mechanisms etc.) or not settling



accounts with a company for provided services, goods), as a result entrepreneurs couldn't manage to fulfil contracts with their foreign partners for their part.

- One of reasons of unsuccessfulness is also administration from the side of supervisory bodies. Namely, interviewees draw attention that supervision is overly heavy, ineffective and business limiting not conducive (too complicated reporting forms, bureaucratic procedures etc.).
- Problems with financial availability in the aspect of co-financing. Even if entrepreneurs believe they could elaborate successful projects in order to attract financing from the state aid programmes, necessity for the overly great co-financing may become an unsurpassable obstacle.

5.3. Drivers for Internationalisation

The research also analyses factors which in the very entrepreneurs' opinion have insured successfulness of the realised international projects. Entrepreneurs have mentioned very different contributory factors, therefore it is impossible to identify the most significant one, however up to a point the greater part of them as common has singled out an ability to offer individual, fitted and creative solutions, and to be flexible in relation to requests of market or concrete partners, and clients. Other factors are more or less formal which ensure mutual confidence of partner and development of partnership in the further course of project.

- Ability to respond to demand, flexibility in execution of orders and partnership. Several entrepreneurs of Latvia consider exactly ability to adjust to individual orders and specific requirements as their advantage in international projects. Likewise ability to respond quickly to requirements and to offer fitted creative solutions has had a crucial role.
- Communication has also been mentioned as a significant factor of luck – entrepreneurs believe that if there is a desire to establish and to develop international partnership, one of the most significant things is to maintain continuous communication with potential partners concerned - to furnish information on one's facilities, competences, offerings. It is especially accented that by getting acquainted with potential clients or collaboration partners one can't get by only with virtual contacts in a way of sending business correspondence, also face-to-face meetings are necessary. Also talking about a project realisation process availability and overtness for project management have been identified as essential, namely – one must maintain contacts with



partners and/ or clients on a regular basis, and inform on a project development course, problems etc.

- Competency of a company's human resources and experience in general. Entrepreneurs consider this as one of the most essential factors of successfulness – foreign partners want to be assured that they collaborate with competitive, experienced and skilled specialists. That forms the foundation of trust. In such context it is obvious that enterprises with an experience would be potentially more successful in international partnership not new-founded ones unless they are not founded by specialists, individual experience and competency of which can convince partners on successfulness of collaboration. In addition abilities and competence of an enterprise are justified by available technologies, equipments, because knowledge and competence of human resources without high modern standards and technique up to requirements is not enough for realisation of fruitful projects.
- Also cooperation direction of all partners concerned is important for successful realisation of international projects, namely, it is significant to have all collaboration partners working in partnership without competing with each other, so that elaborated product or service would be with a long-term potential (usable also when a project is done), so that all involved persons would have similar conception on an aim to achieve.
- Those entrepreneurs, who have some unique, inventive product, mechanism, equipment or innovative solution as the foundation for international collaboration projects, emphasize that successfulness has been ensured by uniqueness of an offering either in some concrete market or in the EU in general.

5.4. Motivation for Internationalisation

In order to identify entrepreneurs' motivation for internationalisation the managers in this research were asked to mention reasons why they had intervened or planned to intervene in international partnerships. The interviewed entrepreneurs as argument and motivation mentioned several considerations:

- Market expansion by assessing that market of Latvia is not big and thus insufficient for a company's business targets. So international collaboration projects have been realised as one of initial stages to start an export.



- Pretty often entrepreneurs mention the limited possibilities to attract financing or to realise a project on the spot in Latvia as a good motivation for internationalisation, namely – entrepreneurs had been looking for foreign collaboration partners able to attract financing in their countries and hence could realise an international partnership, while by attracting financing each in their respective countries partners had been able to secure a possibility to realise creative projects on a larger scale. Here it must be added that in such aspect entrepreneurs pretty often have mentioned that financial support is limited in Latvia (overly minor, project examination and elaboration cost an overly long time, overly bureaucratic procedure etc.) and therefore they had been ‘forced’ to look for other facilities within the framework of international partnership.
- Sometimes elaboration and realisation of international collaboration projects is the only way how entrepreneurs can attract external financing, which serves as motivation to do that. Subsequently for one part of entrepreneurs an explicit determinant of internationalisation is limited availability of external financing.

5.5. Analysis of Finance Demand

By assessing the extent to which financial availability and attraction conditions are problematic in realisation of international innovative projects it is observable that entrepreneurs’ assessments differ depending on the degree of financing available for the very entrepreneurs for creative activities. The wider entrepreneur’s financial facilities are, the lesser criticism has been addressed to different kinds of external financing sources. In turn, those enterprises, who have very limited possibilities to finance or at least to co-finance their creative projects, believe that attraction of financing is one of the main problems and obstacles in elaboration and implementation of novel projects.

With regard to financial availability several imperfections that limit entrepreneurs’ facilities in elaboration of innovative projects have been identified:

- Today actually entrepreneurs do not have an access to other external financing except the one available in the state aid programmes. In turn, its availability is limited, on the one hand, by overly firm (and multiple) requirements towards support receivers (the request for a definite turnover of a previous period of business activities has been mentioned as one of limiting factors, which likely makes available getting of support only for those enterprises that had



already been working effectively in the past; likewise another nuisance is a fact that support programmes do not foresee advance payment which gives a risk for entrepreneurs because due to formal reasons in the final stage of project some activities may have not been accepted and consequently not paid) and, on the other hand, by the necessary co-financing that most frequently is not at enterprises' disposal and is also impossible to borrow from banks because of their unwillingness to credit enterprises (or because of crediting conditions disadvantageous for entrepreneurs).

- Talking about options to attract the state aid both entrepreneurs and SMEs experts, as well as representatives of financial institutions addressed explicit criticism exactly in relation to provisions of the state aid programmes availability and administration of the received state aid, being of the opinion that in these programmes entrepreneurs have too many bureaucratic obstacles regarding both attraction and project management afterwards. Some SMEs experts even declared a necessity to change radically the existing system of getting the state aid and supervision that to make it to be more oriented towards the final result not bureaucracy process (one of suggestions – an administrative/ supervising institution needs to secure a concrete person in charge for every project, who would work in one united team together with an entrepreneur's work group instead of carrying out only supervising and controlling functions). However it is considered that in the long term even under the risks created by the reduced conditions benefits from the potentially successful projects would be greater than losses, which have been limited and prevented by various administrative and bureaucratic embarrassments that are introduced in conditions of project.
- Problems to prepare projects requesting support without recruiting experts with an appropriate experience, to wit entrepreneurs admit that they couldn't be able to prepare projects on their own that would be winning in attraction of the state aid. That means necessity of additional resources even during the elaboration process of projects requesting support but in the current situation neither small nor micro enterprises don't have resources for such purposes.
- The fact that project elaboration and implementation is very time consuming has been identified as another problem, because all changes, additions done in projects need to be coordinated with supervising institutions and usually coordination is very slow and long. Several entrepreneurs said that due to that reason their projects realised had been unproductive.



- On the whole both entrepreneurs and SMEs experts are of the opinion that the available financing of different state aid programmes is overly minor so that it could promote elaboration and realisation of international innovative projects in a sufficient amount and quality. Namely it was specified that there should be more and easier available support programmes for entrepreneurs.
- Entrepreneurs and representatives of financial institutions report that executives, who evaluate projects requesting support, every so often have insufficient knowledge and comprehension on concrete business fields that is taken for one of obstacles limiting financial availability for potentially fruitful ideas. Entrepreneurs are of the opinion that project evaluators at times have scarce competency for adequate assessing of concrete ideas consequence of which is the fact that financing has been willingly granted to traditional fields having concrete, foreseeable though also potentially smaller benefit prospect leaving non-traditional, small niche fields unsubsidized.
- Generally it can be concluded that entrepreneurs perceive only banks and the state aid programmes as possible financial sources, however by taking into account the limited possibilities to get financing from banks, currently solely the state aid is taken for the most feasible financing foundation. In this context representatives of financial institutions have reported that entrepreneurs have very few information and knowledge about other ways of financing attraction (risk capital, business angels, business incubators etc.) and therefore some supportive activities would be necessary on that score.
- Representatives of financial institutions report that in the near future exactly risk capital could be the most topical and most available external financing for entrepreneurs for international innovative projects (at the same time experts indirectly acknowledged that during the previous years commercial banks had largely occupied a niche of risk capital by financing innovative projects of enterprises that is not a scope of commercial banks in normal market situation).



6. SUPPLY ANALYSIS FOR FINANCIAL AND NON-FINANCIAL SCHEMES

6.1. Awareness of Facilities to Attract Financing

On the whole entrepreneurs admit that they are well-informed on various availabilities to attract external financing. At the same time it was emphasized that an amount of information is very huge and most often it is fragmented along different institutions and information sources that burdens summarization and comprehension of information. Entrepreneurs report that notable human and financial resources have been used for obtaining information. One part of entrepreneurs even buy this kind of service from outsourced service providers in order to have the newest information, unable to do it themselves being pressed for time.

Pretty often web pages of different institutions have been taken with a grain of salt. Web pages tend to be unforeseeable with overly many subsections and too huge information amount (for instance, entrepreneurs are of the opinion that it's not necessary to publish all rules, regulations, programme documentations of the Cabinet of Ministers; instead there could be short informative review and summary understandable for every entrepreneur). A significant shortage of web pages of official institutions is insufficiently updated information. The available information is outdated and thus delusive. Hence even if information is available one can't fully confide in it.

Entrepreneurs have also uttered a desire for one institution administrating all the state aid programmes according to a One-Stop Agency principle – so that all the necessary information and consultations were possible to get at one place instead of 4-5 different institutions.

Regarding entrepreneurs' awareness SMEs experts are of the opinion that entrepreneurs working in Riga are better informed than their colleagues from regions.

In turn, entrepreneurs' awareness on banks' offerings for enterprises is good. However they have very low-level awareness on different other kinds of financial support – risk capital, guarantees etc.

On the whole it is observable that by assessing the awareness level both entrepreneurs and experts, first of all, had taken into account exactly the state aid programmes and banks now and then mentioning also other supporting mechanisms, which is indicative of the fact that awareness is quite good on the most popular supporting ways but scanty regarding different other kinds of supporting mechanisms available. That means – if awareness is insufficient, also possibilities to find the most appropriate way of

financing to attract for oneself are limited because entrepreneurs just don't know all the supporting mechanisms available in the market.

6.2. Analysis of Financial Schemes

External financial resources that are available to companies in Latvia are structured around the institutions that provide them and sources of financial resources available to those institutions. Often when a specific source of financial resources disappears so does the financial scheme that is linked to it. For example, until 2008 Latvian Guarantee Agency ran a venture capital programme that was mainly financed from ERDF. Within the programme three venture capital funds were established that were responsible for allocating the resources. Once the programme ended, however, none of the funds raised additional financial resources to continue equity investments in Latvian companies. For this reason we have also structured the description of financial schemes around the institutions and financial sources that provide and administrate them.

6.2.1. JEREMIE

JEREMIE (Joint European Resources for Micro to Medium Enterprises) is a joint initiative launched by the European Commission (DG Regional Policy) and the European Investment Bank group to improve access to finance for SMEs in the EU within the Structural Funds framework for the period 2007 - 2013. JEREMIE enables the EU Member States and Regions to put money from the structural funds and also national resources into holding funds that can finance SMEs in a flexible and innovative way.

European Investment Fund (EIF) has chosen in principle Swedbank and SEB bank to manage a newly created Funded Risk Sharing Instrument established to provide loans for Latvian SMEs. SEB bank will receive up to 30 million EUR and Swedbank will receive up to 22 million EUR from the Latvian JEREMIE Holding Fund. Selected banks will contribute to the implementation of the instrument providing the same amount from their own resources. The Funded Risk Sharing Instrument allows selected banks (Swedbank and SEB bank) to provide combined total of up to 104 million EUR of investment and working capital loans for the development and expansion of micro, small and medium size companies in Latvia, primarily in manufacturing sector.

Prior in 2009 the EIF selected BaltCap Management Latvia to manage a new venture capital fund dedicated to investing in SMEs in Latvia. The fund will provide start-up and expansion financing for micro, small and medium size companies with growth potential located in Latvia taking equity stakes



between 0.3-3 million EUR with the aim to build a diversified portfolio of 15-20 investments and a target size of 30 million EUR. In January 2010 BaltCap Management Latvia completed private fund raising and signed a contract with EIF on establishment the venture capital fund.

The EIF has also selected Imprimatur Capital Baltics to establish and manage a seed and start-up capital fund with a planned total capital of 20.4 million EUR (14.7 million EUR public and 5.7 million EUR private) focused on investing in micro, small and medium enterprises in the country. The funds will provide early-stage financing for innovative technology companies with international growth potential. The seed fund will provide proof-of-concept financing of up to 100 thousand EUR per qualifying company, and the start-up fund will invest up to 1 million EUR per company, with the target of creating a portfolio of 14-16 technology growth companies in Latvia in the medium and long term.

The above mentioned transactions are currently in negotiation stage with legal structuring in process. Signed contracts are expected to follow during the first quarter of 2010, enabling selected intermediaries to start lending and investing in SMEs.

6.2.2. Commercial Banks

In the third quarter of 2009 there were 29 commercial banks (21 local and 8 subsidiaries of foreign banks) operating in Latvia. The four top banks (Swedbank, SEB, Nordea Bank Finland and DnB Nord) that together account for 63.2% of the loans to customers all are subsidiaries of foreign banks. The last major local bank Parex had to be bailed out by the Government during the recent financial crises and is currently undergoing major restructuring. On September 30, 2009 the total assets of the banks were 21579.2 million LVL of which loans to customers were 15763.2 million LVL. Compared to December 31, 2008 total assets have decreased by 7.2% and loans to customers have decreased by 5.4%. Tables 1 and 2 provide data for individual banks. According to Central Statistical Bureau in 2009 the average weighted long-term interest rate in LVL on credits in credit institutions was 15.2% while the corresponding short-term interest rate was 14.4%.¹¹ According to the Bank of Latvia, during the third quarter of 2009 the loan supply continued to be limited due to uncertainty of economic recovery in Latvia and volatility in money market. The banks continued to keep large amounts of money in deposits at the Bank of Latvia at a 1.0% interest suggesting that they are still reluctant to lend to economy.¹²

¹¹ See Central Statistical Bureau web site for more details (<http://www.csb.gov.lv/csp/content/?lng=en&cat=355>, accessed 28 Jan, 2010).

¹² Bank of Latvia (2009). op.cit.

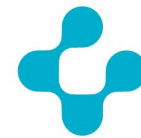


The market leader Swedbank at least on paper offers a wide variety of financing options for enterprises ranging from investment and working capital loans, opportunity loans for start-up businesses to credit lines and overdrafts.¹³ Most of the loans offered are secured loans and demand the borrower to pledge some real estate or other fixed asset as a collateral. Even unsecured overdraft may require a personal guarantee. The investment loans require at least 20% co-financing from other sources and opportunity loans for start-up businesses cannot exceed 60% of the market value of the pledged collateral. The maximum term for an investment loan is 10 years, whereas the short term loans are usually for up to 1 year. For most of the loans the borrowers are offered a choice between a fixed and variable interest rate that is set depending on the financial situation of the company, risk level of the specific project, type of collateral, etc. The financing opportunities offered by SEB are similar, whereas other banks have fewer core options that during negotiation process can potentially be altered to fit specific needs of the clients. Most of the banks also offer trade finance services and different leasing opportunities.

Table 1. Total Assets of Banks on September 30, 2009 (thousand LVL)

| No | Bank | 30.09.2009. | Compared to 31.12.2008. | | Market share, % |
|-----|----------------------------------|-------------|-------------------------|-------|-----------------|
| | | | Thousand LVL | % | |
| 1. | Swedbank | 4 964 421.7 | -308 478.1 | -5.9 | 23.0% |
| 2. | SEB | 2 946 559.8 | -81 860.6 | -2.7 | 13.7% |
| 3. | Nordea Bank Finland | 2 306 219.9 | -16 290.6 | -0.7 | 10.7% |
| 4. | DnB NORD | 1 875 357.7 | -86 625.6 | -4.4 | 8.7% |
| 5. | Latvijas Hipotēku un zemes banka | 1 029 444.4 | 67 232.4 | 7.0 | 4.8% |
| 6. | Rietumu Banka | 999 918.1 | -144 017.9 | -12.6 | 4.6% |
| 7. | Aizkraukles banka | 974 609.1 | -36 017.0 | -3.6 | 4.5% |
| 8. | UniCredit Bank | 790 024.1 | -11 198.1 | -1.4 | 3.7% |
| 9. | Latvijas Krājbanka | 519 809.7 | -169 150.9 | -24.6 | 2.4% |
| 10. | NORVIK BANKA | 457 423.2 | -56 615.6 | -11.0 | 2.1% |
| 11. | GE Money Bank | 290 279.7 | 24 703.2 | 9.3 | 1.3% |
| 12. | TRASTA KOMERCBANKA | 260 779.8 | 37 488.6 | 16.8 | 1.2% |
| 13. | Danske Bank | 257 640.6 | -38 502.1 | -13.0 | 1.2% |
| 14. | Baltic International Bank | 196 394.8 | 28 263.3 | 16.8 | 0.9% |
| 15. | PrivatBank | 182 833.9 | -1 954.3 | -1.1 | 0.8% |
| 16. | LTB Bank | 148 682.7 | -180 022.9 | -54.8 | 0.7% |
| 17. | Reģionālā investīciju banka | 116 035.7 | 3 628.0 | 3.2 | 0.5% |
| 18. | Latvijas Biznesa banka | 110 454.0 | -24 040.6 | -17.9 | 0.5% |
| 19. | Komercbanka Baltikums | 103 259.2 | -7 528.7 | -6.8 | 0.5% |
| 20. | SMP Bank | 70 050.7 | -6 809.4 | -8.9 | 0.3% |
| 21. | Allied Irish Banks | 48 184.9 | -2 752.0 | -5.4 | 0.2% |

¹³ See Swedbank web site for more details (http://www.swedbank.lv/eng/pakalpj_r_5_1.php, accessed 27 Jan, 2010).



| | | | | | |
|----------------------|-------------------------------|--------------|--------------|-------|--------|
| 22. | BIGBANK | 15 898.8 | - | - | 0.1% |
| 23. | Latvijas pasta banka | 13 113.7 | 8 092.5 | 161.2 | 0.1% |
| 24. | VEF banka | 4 875.8 | -2 033.7 | -29.4 | 0.02% |
| 25. | Svenska Handelsbanken AB | 3 697.3 | 1 511.0 | 69.1 | 0.02% |
| 26. | Skandinaviska Enskilda Banken | 488.4 | 3.4 | 0.7 | 0.002% |
| 27. | Parex banka * | - | - | - | - |
| Total Banking Sector | | 21 579 171.3 | -1 664 172.7 | -7.2 | 100% |

* Data for Parex banka are not currently available

- No data

Table 2. Loans to Customers on September 30, 2009 (thousand LVL)

| No | Bank | 30.09.2009. | Compared to 31.12.2008. | | Market share, % |
|----------------------|----------------------------------|--------------|-------------------------|-------|-----------------|
| | | | thousand LVL | % | |
| 1. | Swedbank | 3 904 069.2 | -406 774.0 | -9.4 | 24.8% |
| 2. | SEB | 2 330 814.8 | -64 270.0 | -2.7 | 14.8% |
| 3. | Nordea Bank Finland | 2 102 286.6 | -3 189.6 | -0.2 | 13.3% |
| 4. | DnB NORD | 1 631 149.7 | -74 534.0 | -4.4 | 10.3% |
| 5. | Latvijas Hipotēku un zemes banka | 723 780.3 | -7 805.5 | -1.1 | 4.6% |
| 6. | UniCredit Bank | 659 213.2 | 18 210.6 | 2.8 | 4.2% |
| 7. | Aizkraukles banka | 607 961.6 | -41 087.0 | -6.3 | 3.9% |
| 8. | Rietumu Banka | 503 333.3 | -59 852.6 | -10.6 | 3.2% |
| 9. | Latvijas Krājbanka | 358 822.1 | 14 311.7 | 4.2 | 2.3% |
| 10. | NORVIK BANKA | 297 538.8 | -9 762.4 | -3.2 | 1.9% |
| 11. | Danske Bank | 220 859.3 | -17 750.4 | -7.4 | 1.4% |
| 12. | GE Money Bank | 186 848.9 | -21 100.7 | -10.1 | 1.2% |
| 13. | TRASTA KOMERC BANKA | 114 198.8 | -8 645.2 | -7.0 | 0.7% |
| 14. | PrivatBank | 113 209.1 | -3 572.5 | -3.1 | 0.7% |
| 15. | Latvijas Biznesa banka | 69 014.0 | -304.6 | -0.4 | 0.4% |
| 16. | Reģionālā investīciju banka | 64 451.8 | -1 492.9 | -2.3 | 0.4% |
| 17. | SMP Bank | 48 932.2 | 4 827.4 | 10.9 | 0.3% |
| 18. | Allied Irish Banks | 42 673.1 | -1 303.1 | -3.0 | 0.3% |
| 19. | Baltic International Bank | 37 718.0 | 3 706.2 | -8.9 | 0.2% |
| 20. | Komerccbanka Baltikums | 29 185.2 | -5 185.7 | -15.1 | 0.2% |
| 21. | BIGBANK | 13 783.9 | - | - | 0.1% |
| 22. | Latvijas pasta banka | 2 297.5 | 2 297.5 | - | 0.01% |
| 23. | VEF banka | 1 675.8 | -505.5 | -23.2 | 0.011% |
| 24. | Svenska Handelsbanken AB | 324.9 | 127.8 | 64.8 | 0.002% |
| 25. | LTB Bank | 149.3 | -25.4 | -14.6 | 0.0% |
| 26. | Skandinaviska Enskilda Banken | 0 | - | - | - |
| 27. | Parex banka * | - | - | - | - |
| Total Banking Sector | | 15 763 223.2 | -825 641.4 | -5.0 | 100% |

* Data for Parex banka are not currently available

- No data



6.2.3. Land and Mortgage Bank of Latvia (Latvijas Hipotēku un zemes banka)

Hipotēku bank was established in 1993 and today it remains the only state owned commercial bank in Latvia. Currently the bank has 29 branches in district centres and 9 sub-branches in all regions of Latvia. In 2006 Latvian Government accepted the development strategy for 2007-2013. It is planned to restructure Hipotēku bank into full service development bank that would implement and administrate the state financial support schemes and try to mitigate capital market imperfections.

It offers variety of loans, trade finance services (letters of credit, documentary collections, and letters of guarantee) and leasing opportunities (via its subsidiary Hipolīzings) for established businesses as well as start-up companies.

Investment Loans

The loans offered are between 350 thousand LVL and 5 million LVL (although they are only offered in EUR) and can cover up to 75% of the investment expenses. The borrower has to secure at least 25% of co-financing from private sources. In addition the borrower has to provide collateral that covers 100% of the loan (100% loan to collateral ratio). A loan can be issued for a term of up to 10 years and in a case of long term investment project the repayment of the principal can be delayed for additional 2 years. The borrower can choose between fixed and variable interest rates that are determined based on the borrower's credit rating. There are rather extensive sector restrictions that include agriculture, fishing, shipbuilding, steel industry, production of synthetic fibres, wholesale and retail trade, transportation, catering industry, education, health services, arts, entertainment, etc. Applicants from manufacturing industry do qualify but they have to show how their investment projects will improve some specific efficiency indicators. The loans are primarily for SMEs, however, large enterprises may apply as well, if they meet some additional requirements on importance of their investment project.

Working Capital Loans

The loans offered are between 105 thousand LVL and 2.5 million LVL although they are issued in EUR. The borrower has to provide collateral that exceeds the value of the loan (75% loan to collateral ratio). A loan can be issued for a term of up to 5 years (3 years for a line of credit) and in a case of long term investment project the repayment of the principal can be delayed for additional 2 years. The borrower can choose between fixed and variable interest rates that are determined based on the borrower's credit rating. Most of the investment loan sector restrictions apply for working capital loans as well.



Micro-credits for SMEs

Micro-credits are offered to SMEs for investment projects and current asset financing. The borrower can be a self-employed person or a company with up to 10 employees. The company should have an individual majority shareholder but all shareholders have to act as guarantors. However, at the time of the borrowing no collateral has to be pledged. The borrower cannot be tax debtor and its total liabilities cannot exceed 10 thousand LVL. Only applicants from outside of Riga are eligible. The maximum amount of a loan is 3000 LVL. The borrower will have to pay a fixed interest of 5-8% annually. The bank plans to issue micro-credits to approximately 300 applicants.

6.2.4. ALTUM Promotional Programmes Office within Hipotēku bank (Hipotēku bankas Atbalstu programmu pārvalde)

In 2005 following the EU requirements to separate commercial activity and state funded financial and non-financial assistance programmes within an organization, state owned Hipotēku bank established its Promotional Programmes Office that was later renamed ALTUM. The objective of ALTUM is to provide financial assistance to specific groups of entrepreneurs and population in accordance with priorities set by the Latvian Government. The primary tool used by ALTUM is high risk loans. It particularly targets perspective projects that private commercial banks refuse to finance due to lack of sufficient collateral or some other risks associated with the projects.

In the time period from 2005 until the end of 2008 ALTUM issued 889 loans to business start-ups and fast growing SMEs worth 44.8 million LVL. In the same time period ALTUM also paid out 2.5 million LVL in grants to business start-ups and trained almost 1000 young entrepreneurs. The funding for those activities came from Mortgage Bank and Ministry of Economy that contributed ERDF, ESF and state budget money.

Currently ALTUM continues to provide high risk loans to private businesses and to administrate a support programme for self-employment and business start-ups.

High Risk Loans

Within ERDF Promotional Programme for Improvement of Competitiveness of Businesses ALTUM offers loans to enterprises that can demonstrate economically feasible business plans but are considered too risky and thus cannot get external financing from conventional credit institutions. The loans are mainly for companies from manufacturing industry. The loans are available for small, medium and large



enterprises. For SMEs their owners (those possessing at least 10% of the shares) have to act as loan guarantors. Large enterprises have an additional option to pledge at least 75% of their shares as collateral. The loans are not being issued to businesses in financial distress, to tax debtors and companies registered more than 3 years ago. The loans being offered are Hipotēku bank's investment loans and working capital loans but the money cannot be used to refinance existing loans or to purchase equity shares. Total amount of a loan cannot exceed 6 million LVL.

Within the programme ALTUM plans to help secure loans to approximately 430 enterprises. Until January 2010 Hipotēku bank had already issued loans to 22 enterprises for the total amount of little over 24 million EUR.

[Support for Self-employment and Business Start-ups](#)

The main goal of the programme is to increase the economic activity in the country by supporting business start-ups and self-employment. It offers multi dimensional support package that includes consultations, training, loans and grants. To qualify for the assistance one simply has to be more than 18 years old and have an idea for a business or self-employment or in a case one already has an established enterprise, it has to be registered not more than 3 years ago. The enterprises that have been registered more than 1 but less than 3 years ago can only apply for training and loans. Financial assistance within the programme is not being offered to companies in financial distress. There are also some sector restrictions, most notably for agriculture, fishing, wholesale and transportation services.

The successful applicants first receive consultations from Hipotēku bank's employees on how to draft a business plan and implement a project. Then they are screened to determine whether they need some training in basic business operations. Subsequently a training schedule is arranged that may include courses in business basics, finance, accounting, marketing, e.a. Once the training is complete the final business plan is prepared and submitted to Hipotēku bank for an evaluation. The most promising projects are chosen to receive financing in the form of a loan and/or a grant.

The total financial assistance for a project cannot exceed 60 thousand LVL. The recipients also have to provide 10% co-financing from private sources. Start-up loans are offered for investments and working capital for a maximum term of 8 years. The loan cannot exceed 54 thousand LVL. To secure the loan the company has to pledge its property and the owner has to provide a personal guaranty. The borrower has to pay either a fixed 8-11% interest or a variable interest that is calculated as 6 months RIGIBOR + 1-4%.



There are also two types of grants offered. On the one hand a grant to facilitate business operations is being offered as a stipend during the first year of the loan agreement in monthly payments. It is calculated as 35% of the received loan but its total cannot exceed 3600 LVL. On the other hand a grant for the repayment of the loan may be offered upon successful completion of the project. It is essentially a concession of the principal repayment in the amount of 20% of the received loan, not exceeding 2000 LVL.

The programme is being financed from ESF, state budget and resources provided by Hipotēku bank. It is estimated that 1200 participants will receive consultations and training and 600 projects will receive financial assistance. During the time period from October to December of 2009 18 enterprises have already received financial assistance worth 413 thousand LVL (333 thousand LVL in loans and 80 thousand LVL in grants).

Loan Guarantees for Small Enterprises

In 2009 Hipotēku bank and EIF signed an agreement that will enable ALTUM to administrate EIF loan guarantees to small enterprises in the framework of the Competitiveness and Innovation Framework Programme (2007-2013) of the EU. EIF has committed a total of 30 million EUR for this programme in Latvia. ALTUM plans to start offering the guarantees during the first months of 2010. The guarantees will aim at reducing particular difficulties small enterprises face in accessing finance either due to perceived higher risk associated with investments in certain knowledge-related and innovative activities, or to lack of sufficient collateral. The guarantees will be offered to small enterprises with less than 50 employees and a turnover or a balance sheet total of less than 10 million EUR. The guarantees will be for Hipotēku banks' investment and working capital loans for small enterprises that are also soon to be available. A loan to be offered within this programme will not exceed 200 thousand LVL and will have a term of 2-10 years for investment loans and 2-5 years for working capital loans. Additionally, the investment loans will require 25% co-financing from other sources. The guarantees will be offered to enterprises at no additional cost and will cover 50% of the banks' losses in a case of a default. So to secure a loan the enterprises will still have to pledge some asset as collateral but it will be relatively smaller compared to the loan. In addition, loan to collateral ratio applied will be 120% instead of the usual 75%, thus further reducing the size of collateral needed to secure the loan. Due to no cost of the guarantees and a restriction on application of guarantees offered by Latvian Guarantee Agency for

these particular loans, ALTUM expects the demand for the guarantees to be considerable and to complete the programme before its due date.

6.2.5. Latvian Guarantee Agency (Latvijas Garantiju aģentūra)

LGA is a state enterprise and Ministry of Economy is its sole share holder. It was established in 1998 and since then it has provided different forms of financial assistance to private businesses specifically supporting innovative business ideas and SMEs. The main tool used by LGA is provision of guarantees for businesses when those seek external financing in the form of loans or leases but lack sufficient collateral. In the time period from 2005 until the end of 2008 LGA extended 359 guarantees for the total amount of 34.3 million LVL that allowed 275 businesses to secure external financial resources worth 62.9 million LVL.

In the same time period LGA also ran a venture capital programme. The main objective of the programme was to increase availability of external financing and facilitate access to investment for SMEs. LGA used 5.6 million LVL to co-finance investment projects in 28 enterprises. At least 30% of the money in those projects had to come from private investors so as a result the enterprises secured additional 11.6 million LVL from private funds.

The funding for guarantees as well as for the venture capital programme came from ERDF (75%) and from the state budget (25%).

Currently LGA continues to provide credit guarantees and has also launched an export guarantee programme.

Credit Guarantees

Similar as in the past these guarantees are provided by LGA to credit institutions or leasing companies for private businesses that seek external financing but lack sufficient collateral. Financial services for which guarantees can be granted include loans for investment projects, working capital loans, finance leases, and local factoring. According to LGA loans for acquirement of raw materials will be soon added to this list. An LGA guarantee covers up to 80% of a single loan, not exceeding total of 3 million EUR for a borrower. The guarantees for investment loans and finance leases are extended for maximum of 10 years, while for other financial services the maximum term is 3 years. The borrower pays a yearly premium according to its credit rating and extent of the guarantee. For a recently founded company

(registered within the last 3 years) the yearly premium cannot exceed 1.2%. There are application restrictions for some sectors, most notably agriculture, fishing, wholesale and retail trade.

Currently LGA has 33.8 million LVL committed to the guarantee programme that under its guidelines allows it to extend guarantees worth 101.4 million LVL. During the first three quarters of 2009 LGA has extended 246 guarantees to 72 enterprises for the total amount of 25.2 million LVL. More than 50% of that amount was committed to guarantees for working capital loans. Most of the guarantees for investment loans and finance leases have been issued to secure loan restructuring rather than new investment projects. The average amount of a guarantee was 107 thousand LVL. In terms of sector distribution, most of the guarantees have been issued to manufacturing industry companies (51% of LGA's guarantee portfolio).

Export Guarantees

In 2009 LGA launched an export guarantee programme that is aimed at supporting local exporters directly by facilitating export transactions as well as indirectly by easing access to external financing needed for those transactions. An export credit guarantee issued by LGA insures local exporters against non-payment by their buyers from abroad. It covers 90% of a missed payment, but its value cannot exceed 1 million EUR. The term of the payment cannot exceed 2 years. The guarantee provides insurance against both commercial and political risks. The cost of a guarantee is calculated on case by case basis evaluating the exporter's and the buyer's credit rating as well as the country to which the goods will be exported. In a case of a default there is a 90 day grace period during which the exporter has to submit all the paperwork necessary to prove an event of a missed payment. After that LGA has 30 days to make the payment. However, the grace period is not applied in a case of buyers' inability to pay. There are restrictions for some countries of destination, most notably EU member states and several OECD member states (USA, Japan, Australia, Canada, etc.). Initially the applicants export turnover had to be at least 20% of its total turnover for the last 2 years and at least 500 thousand EUR in the past year, but those restrictions have recently been lifted.

From June to September of 2009 and before the restrictions on exporting experience were lifted LGA reviewed 35 applications for the export credit guarantees. It accepted 16 projects for the total amount of 1.2 million LVL and from those 16 projects 3 have resulted in guarantee contracts worth 240 thousand LVL. Most of the rejections were due to the high risk of potential foreign buyers not meeting their contractual obligations. More than half of the accepted applications were for export transactions to

Russia. In terms of sector distribution, almost all accepted applications came from manufacturing industry companies.

6.2.6. Investment and Development Agency of Latvia (Latvijas Investīciju un attīstības aģentūra)

Investment and Development Agency of Latvia (LIAA) is a state institution under supervision of the Ministry of Economy. It was established in 1993 and its objective is to increase the competitiveness of Latvian entrepreneurs in both domestic and foreign markets, as well as to facilitate foreign investment. Currently LIAA runs the following financial support programmes for entrepreneurs – access to international trade markets programme, support programme for employee training, support programme for development of new products and technologies, and support programme for competence centres.

Access to international trade markets

Individual enterprise or commercial associations can apply for a refund of actual or planned expenses related to participation in various export related seminars, conferences, and trade fairs. LIAA covers 50% of the expenses related to participation in foreign trade fairs, conferences or business visits, and 75% of the expenses related to organizing local seminars or conferences on export issues. Each applicant is eligible to receive a maximum of 200 thousand EUR in a period of 3 years. The total amount available under this programme does not exceed 500 thousand LVL per month.

Support for employee training

This programme is yet to be approved by the Government, therefore its specifications might change. The aim of this programme is to provide funding for employee training. The funding can cover costs associated with the training – teacher's pay, costs of study materials, rent of study space, costs of equipment, travelling costs, e.a. It is planned to run two employee training support programmes – one for training organized by commercial associations and another for training organized by individual enterprises. Under the former LIAA will cover full costs of the training. Under the later LIAA will cover from 25% to 60% of costs depending of the size of the applicant enterprise and the scope of the training. Each applicant will be eligible to receive maximum of 150 thousand LVL.



Development of new products and technologies

This programme is yet to be approved by the Government, therefore its specifications might change. The aim is to support development of new products, services or technologies and the start-up of their production. Enterprises may apply for a funding to cover any costs directly related to the research such as researcher's pay, costs of equipment and materials required for the research, necessary payment for intellectual rights, e.a. Enterprises also may apply for funding to cover costs of assets necessary to start actual production of a new product or service, or introduction of a new product technology. LIAA covers 45% of total costs. Each applicant is eligible to receive a maximum of 500 thousand LVL.

Competence centres

This programme is yet to be approved by the Government, therefore its specifications might change. The aim is to support cooperation among research institutions and industrial producers. Funding is available for centres of competence – establishments that repeatedly invest all of their profit in research and are joint ventures of at least one scientific research institution (certified by the Ministry of Science and Education) and at least three commercial enterprises. The funding may cover research related costs and long-term investments in production technologies. Each applicant is eligible to receive a maximum 5 million LVL for research costs and 1.25 million LVL for long-term investments.

6.2.7. Rural Support Service (Lauku atbalsta dienests)

Rural Support Service (LAD) is a state institution under the supervision of the Ministry of Agriculture. It was established in 2000 and since then has been engaged in overall development of rural territories among other things by providing assistance to rural entrepreneurs.

Support for enterprise formation and development

The programme is designed to promote economic activity or employment not related to agriculture within rural territories thus diversifying and increasing sources of income for the rural population. It offers financing for three distinct purposes: micro-enterprise formation, development of existing enterprises, and fuel (except biogas) production from agricultural and forestry sources. To qualify the applicants among other things have to show economic viability of their investment project and how it will either create or sustain employment. There are also some sector restrictions for enterprise formation and development programmes and good financial performance criteria in the past years for the enterprises that plan to apply for fuel production programme. The investment projects that can be financed include



purchase of fixed assets, development of construction plan, construction or reconstruction projects, and purchase of construction materials. The financing can cover up to 40% of the investment projects but not exceeding 100 thousand EUR for micro-enterprise formation, 200 thousand EUR for enterprise development, and 350 thousand EUR for fuel production. In 2009 one enterprise development project and seven fuel production projects were financed for the total amount of 180 thousand LVL.

Tourism promotion

The main goal of the Tourism promotion programme is to promote economic activity not related to agriculture within rural territories by developing rural tourism and tourism related services and infrastructure. The programme offers financing for different kinds of construction or reconstruction projects and for diversification of the tourism services offered. The applicant can be a self-employed person, an enterprise or a farm but it has to be an officially listed tourism service provider. To qualify the applicants have to meet certain good financial performance criteria for the past years of operation, show economic viability of their investment project and how it will either create or sustain employment. The financing covers 30-50% of the project but cannot exceed 375 thousand EUR for a single applicant. In 2009 two projects were financed for the total amount of 23 thousand LVL.

6.2.8. Constructing, Energy and Housing State Agency of Latvia (Būvniecības, enerģētikas un mājokļu valsts aģentūra)

The agency is in the process of being shut down and its functions related to administration of financial support schemes for heat insulation of buildings, for efficiency improvements of central heating systems and for development of cogeneration power plants that use renewable energy resources, e.a. will be transferred to LIAA by July 1, 2010.

The above mentioned financial support for heat insulation of buildings is for private owners of apartment buildings and municipalities but the actual implementers of heat insulation projects would most likely be local construction firms. The total ERDF, state and municipality funds available for those projects could reach up to 23.4 million LVL.

The programme for efficiency improvements of central heating systems offers financing to enterprises that are licensed to produce or transmit and distribute thermal energy. The total funding from ECF is worth 42.3 million LVL. The financing can cover 40-50% of an investment project not exceeding 3 million LVL for a project. The programme for development of cogeneration power plants is aimed at

promoting the use of renewable energy resources. It offers financing opportunities to enterprises that are licensed thermal energy producers. The total funding from ECF is worth 17.3 million LVL. The financing can cover up to 50% of an investment project not exceeding 4 million LVL for a project.

6.2.9. EUREKA

Eureka is a European intergovernmental network launched in 1985 to support market-oriented R&D and innovation projects by industry, research centres and universities across all technological sectors. Small and medium size commercial enterprises and research institutions can apply for public funding administered by the Ministry of Education and Science. To receive funding the projects should result in an innovative commercial product, service or technology, and it should involve at least two institutions from at least two EU member states. Each project can receive a funding of up to 130 thousand EUR, 60%-80% of total project costs. The applications are reviewed and the funding is allocated by the Ministry of Science and Education of Latvia. So far 17 Latvian enterprises have received funding through this programme.

6.2.10. Business Angels and Private Investors

Business angels is a programme established by the Latvian Association of Private Investors. Business angels are private investors, usually entrepreneurs with significant business experience and available financial capital, who are investing in high risk businesses. There is no information available on actual investments, but the amounts, if any, are not significant.

The owners of one of the most successful web projects in Latvia draugiem.lv offers small equity investments (1000 to 5000 LVL) and work environment for development of IT projects. In addition, they pledge to assist with their expertise and to cover marketing and hosting expenses.

6.3. Entrepreneur`s Opinion on Different Financing Sources

The table below contains a summary of opinion on concrete financing resources and kinds expressed by entrepreneurs and experts interviewed within the framework of this research. The table reflects financing kinds regarding which interviewees had concrete judgements.

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| Commercial Banks | The greater part of interviewees of the research admit that today bank financing is unavailable in fact, though the very representatives of banks |
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assert that crediting of enterprises has not been stopped. However submitted inquiries have been more accurately examined and well-elaborated projects still may get financing.

Those entrepreneurs, who have tried to attract financing from banks during the last six months, say that usually banks offer very disadvantageous terms (high interest rates, less favourable repayable conditions, necessity of collateral and guarantee) in case the aim to attract financing is related to elaboration and implementation of innovation, so risky business.

Also new enterprises have restrictions to get a bank financing because banks primary support enterprises with former experience in the market and definite success indicators of previous business activities (turnover, profit, loan collateral).

On the whole representatives of all interviewed target groups, including the very banks, admit that banks are not interested in financing business ideas but are interested in a concrete collateral/ guarantee – in case an entrepreneur is unable to secure it, he won't get a loan (almost all entrepreneurs acknowledge insufficient collateral as one of the main problems in their attempt to attract financing from banks). That means that bank financing is hard or even impossible to attract for development and innovative projects but easier for hard investments (equipments, purchasing of raw materials etc.)

Talking about development and innovative projects, entrepreneurs and experts note that banks not always have a sufficient competency to evaluate concrete projects. This is another reason why bank financing is comparatively harder available for R&D projects.

At the same time representatives of banks also specify that financing of business ideas is beyond their scope. For such needs the movement of risk capital in Latvia, as well as involvement of private investors should be more promoted.

It's remarkable that entrepreneurs' estimations differ regarding bank interest rates – one part of them is of the opinion that these are overly high, while the



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| | <p>other part of entrepreneurs accept it as a normal factor in cooperation with banks and do not take it for a direct obstacle in realisation of development projects.</p> |
| <p>Land and Mortgage Bank of Latvia (Latvijas Hipotēku un zemes banka) <i>Investment Loans</i> <i>Working Capital Loans</i> <i>Micro-credits for SMEs</i></p> | <p>Only a small part of entrepreneurs interviewed within the framework of this research has had a personal experience in collaboration with the Land and Mortgage Bank of Latvia. On the whole entrepreneurs' evaluation is positive, namely, necessity and availability of financing acquisition kinds offered by the bank have been assessed positively, at the same time those entrepreneurs, who have planned or have already realised bulky international collaboration and/ or innovative projects, do not consider offerings of this bank as suitable for their needs, thinking that they are more proper for new enterprises that need comparatively small financial support.</p> <p>One part of entrepreneurs also point at the fact that the Land and Mortgage Bank of Latvia offers overly high interest rates and ask for too much documentation for getting a loan (frequently it was noted that in point of fact the Land and Mortgage Bank of Latvia doesn't differ from other commercial banks), that is to say there are too many bureaucratic obstacles created for getting financing from this bank. Interviewees think that the state bank primary should be interested in development of entrepreneurship not profit-making.</p> |
| <p>ALTUM Promotional Programmes Office within Hipotēku banka <i>High Risk Loans</i> <i>Support for Self-employment and Business Start-ups</i> <i>Loan Guarantees for Small Enterprises</i></p> | <p>As regards to ALTUM as a financing source both entrepreneurs and SMEs experts say that its criterions previously had been unreasoned and incomprehensible that resulted in allocation of financing to many projects that proved to be ineffectual, while potentially productive ones were not granted due to some formal reasons. SMEs experts reported that within the framework of ALTUM programme assessment of business plans of submitted projects had not been decent and competent.</p> <p>Interviewees also believe that the circle of supportable fields should be wider, especially underscoring agriculture and some other specific sectors too (educational projects, elaboration of various new technologies etc.)</p> <p>On the whole both entrepreneurs and SMEs experts came to conclusion that</p> |



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| | <p>this programme is not proper for attracting of financing to bulky innovative projects in view of the fact that in the past almost none of that sort of projects had been granted in contradiction to small projects, however oftenest not innovative ones.</p> |
| <p>Investment and Development Agency of Latvia (Latvijas Investīciju un attīstības aģentūra) <i>Access to international trade markets</i> <i>Support for employee training</i> <i>Development of new products and technologies</i> <i>Competence centres</i></p> | <p>In general entrepreneurs and experts have discordant opinions regarding programmes administrated by LIAA – one part admits that these are very successful and fruitful; others believe that programmes are unreasoned ignoring relevant needs of entrepreneurs.</p> <p>Still the greater part agrees that structural funds support is necessary. At the same time interviewees point at several problems: overly complicated elaboration requirements of project application, difficult project realisation and reporting mechanism, various restrictions for financial availability (insufficient amount of financing, overly great threshold of co-financing, long-term repayment of financing).</p> <p>Similarly entrepreneurs and experts point at necessity to revise activities of structural funds granting that need to be flexibly adjusted agreeably to the current market requirements instead of continuing realisation of projects potential return of which may be minor in the new market situation.</p> |
| <p>Latvian Guarantee Agency (Latvijas Garantiju aģentūra) <i>Credit Guarantees</i> <i>Export Guarantees</i></p> | <p>Entrepreneurs have very few information about the Latvian Guarantee Agency and in most cases the entrepreneurs interviewed within the framework of this research were not able to give any evaluation on guarantees available.</p> <p>Those some entrepreneurs, who had used guarantees provided by the Latvian Guarantee Agency, gave positive references regarding their cooperation simultaneously adding that the received guarantees not always had rendered the expected support. For instance, banks unwillingly accept such guarantees and their conditions are considered as not overly advantageous.</p> <p>By evaluating suitability of guarantees as a solution way for getting a bank loan, the majority of entrepreneurs are sceptical basing their opinion on the fact that banks reluctantly take guarantees (they still ask for some additional ‘hard’ collateral in a form of real estate, equipments etc.). They also believe</p> |



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| | <p>that acquisition of the very guarantees most likely is very complicated and bureaucratic and their terms – disadvantageous (for instance, guarantees for less than 70% are not advantageous anymore for entrepreneurs).</p> <p>One of reasons of possible negative attitude of banks towards guarantees may be their distrust to the Republic of Latvia and its economy; specifically banks don't believe the guarantees will be fulfilled. In entrepreneurs' mind a solution could be guarantees from the EU which is considered as more reliable guarantee provider.</p> |
| <p>Venture capital</p> | <p>On the whole it is considered that attraction of risk capital in Latvia is problematic, on the one hand, because of its limited offering and, on the other hand, due to its overly unprofitable conditions. Entrepreneurs hold a view that risk capitalists want to gain an overly big share of profit of the likely successful enterprise, to wit – initially to commit a comparatively small capital so that afterwards when an enterprise has fruitfully started and developed a business to gain investments fully together with a remarkable share of profit of an enterprise and its sale.</p> <p>SMEs experts note that profit shouldn't be the main goal for those risk capital managers, who operate with financing attracted from different support programmes. Their primary task should be to act without incurring losses.</p> <p>For the most part entrepreneurs accept as true that usage of risk capital is an overly 'expensive' financing source under disadvantageous terms.</p> <p>The research data shows that entrepreneurs overall awareness on risk capital, its attraction options and conditions is poor. Also the very representatives of risk capital indirectly assent to low knowledge mentioning that as often as not they themselves have to look for projects to finance because of scanty entrepreneurs' interest in total.</p> |

6.4. Market Gaps of Financial Schemes

The main market gaps identified by analysing evaluations given by entrepreneurs regarding availability of financial support:



- Overly bureaucratic access system to the state aid (too complicated descriptions of the state aid programmes, application conditions, unclear overall scheme and structure of the state aid (a lot of institutions in charge, mutual unconformity of programmes etc.), niggling and bureaucratic supervisory requirements for project implementation, small available support). Taking into account that financing of banks, which is taken for the only alternative to the state aid to entrepreneurs' mind, today is actually unavailable, the bureaucratic obstacles in getting and administrating the state aid are now considered as one of the most significant barriers in attracting external financing.
- Mainly financing is comparatively easier available for the traditional entrepreneurship – manufacturing of concrete products, purchasing of equipments, also real estate projects during the previous years etc. It is hardly available for innovative ideas and projects. For attraction of financing for elaboration of innovative projects entrepreneurs have been asked for additional loan collateral that in most cases they just don't have.
- One of significant shortages is a fact that the existing support programmes are more directed towards enterprises that have already been working in the market for long enough time and want to introduce some innovations or improvements into current technologies etc. In turn, a minimal support (seed capital etc.) is available for innovative projects in the foundation of which there are ideas without active entrepreneurship.
- Non-flexible financing policy of banks especially regarding different kinds of creative projects.
- Sponsors' desire to put all risks on entrepreneurs' shoulders. Namely, entrepreneurs are of the opinion that an equal risk distribution among financing attractors and donors, including the state as a support provider (directly or indirectly – in a way of guarantees) would be necessary.
- Problems with financing availability for micro enterprises. Both entrepreneurs and experts assess that all the facilities to attract financing available in the market are more devised for middle and even big enterprises, which are able to give bigger collaterals and to attract extra co-financing from different sources. In turn, options to get external financing of small and especially micro enterprises are very limited.
- Likewise it was admitted that the support should be provided not only for enterprises of some kind or one target group (by defining priorities, for instance, with or without export capability, innovative or innovative to-be etc.), but for as wider circle of enterprises as possible. Even if a



concrete enterprise is not export capable or an elaborator of innovative project, it may be a supplier or a client of some exporting or innovative enterprises. As follows – both the direct support for concrete target groups and overall support for development of business environment are equal essential.

- Representatives of financial institutions point at the fact that today apart from the state aid there is a very limited access to different kinds of external financing in the market (both risk capitalists and private investors commit their capital in the long-term projects and the like very cautiously), therefore now the role of the state aid is important more than ever.
- In the current situation one of the necessities is to offer an instrument of financial aid that could give support to enterprises in need. If enterprises having short-term financial difficulties caused by outer independent circumstances can't get additional external support (short-term loans, guarantees or tax payment postponement or discounts etc.) their ongoing international projects may become endangered. Here it must be taken into consideration that every ineffectual international project in which exactly a representative of Latvia has been the cause of failure creates a negative partnership background for other collaboration projects in the future as well based on which foreign partners will act towards entrepreneurs of Latvia with greater caution and distrust. Therefore it is important to solve short-term problems of entrepreneurs involved in international cooperation as soon as possible and by maintaining the power of enterprises to continue ongoing projects.
- Inflexibility in regard to changes necessary to be done in the course of projects eligible for financial support. Entrepreneurs report that at times they need to implement some operative changes in projects in order to react to market fluctuations; however coordination of such changes quite often is almost impossible or asks for a lot of time (even several months). Consequently more flexible approach would be necessary during the realisation process of projects that have received financial aid thus securing quicker coordination of changes, as well as foreseeing options to introduce corrections dictated by floating market situation into the initial project already in the course of its elaboration.
- A significant problem for entrepreneurs to apply for the EU's structural funds support programmes is provision of co-financing, as well as the fact that it is possible to get financing

after project realisation that causes necessity to attract another financing source in the course of project realisation.

- In relation with the abovementioned interviewees also point at the fact that for entrepreneurs it would be very essential to get advance payment instead of the whole grant paid only after project realisation and behind time – within several months after a project is closed.
- Another problem is a fact that appeals of the state aid programmes occur with certain regularity. Subsequently entrepreneurs' ideas to be developed must coincide with appeal periods that is not always probable. Therefore entrepreneurs would like to have some forms or kinds of support allowing them to apply for necessary financing apart from appeals of concrete programmes.
- Taking into account the lack of uniformity of various kinds of support and financial sources administrated by different institutions, some unified mechanism would be advisable that could allow entrepreneurs to get information and to choose the most suitable kind of support or financing for them in an easier and more effective way. It could be some One-Stop Agency that summarises and furnishes information, advises entrepreneurs, and also administers support programmes by coordinating them mutually thus saving both administration expenses from the state side and also entrepreneurs' resources (that now have been spent by gathering information and consulting with different institutions).

6.5. Analysis of Non-Financial Support Schemes

Similarly as the description of the financial schemes available to Latvian enterprises the discussion of the existing non-financial support schemes will also be structured around the institutions that provide and administrate those schemes.

6.5.1. Investment and Development Agency of Latvia (Latvijas Investīciju un attīstības aģentūra)

Currently LIAA offers the following non-financial support programmes for entrepreneurs – foreign trade related data base www.exim.lv, support services for exporting enterprises, business incubators programme, and technology transfer contact points programme.

[Foreign trade related data base www.exim.lv](http://www.exim.lv)

LIAA has established an internet based data base of enterprises seeking international business partners. Enterprises can create their profiles, post a cooperation proposal, or browse through the database free of charge.

[Support services for exporting enterprises](#)

LIAA offers a variety of services for enterprises that are already exporting to other countries or just planning to do so. First, LIAA organizes free export seminars that include presentations on export markets of specific countries and products and educational presentations on how to increase the competitiveness in export markets and what specific skills are needed to start exporting. LIAA also conducts trade missions during which different business forums, seminars and meetings with potential partners are organized. Last, LIAA can also manage individual visits to the countries where it has representative offices.¹⁴

[Business incubators](#)

The aim of this programme is to promote the establishment of new enterprises by providing the potential entrepreneurs office space, communication technologies, recruitment assistance, management and marketing consulting services. Currently there are nine operating business incubators each covering a distinct geographical region. The total amount of funding available is 20.2 million LVL, where 85% comes from ERDF and 15% from the state budget.

[Contact points of transfer of technologies](#)

Under this programme there are contact persons appointed in eight major universities of Latvia who are responsible for providing information on the research developments of their institution and promoting embodiment of research findings into actual commercial product or technology.

6.5.2. ALTUM Promotional Programmes Office within Hipotēku bank (Hipotēku bankas Atbalstu programmu pārvalde)

Within Support programme for self-employment and business start-ups ALTUM offers both consultations and training for people with potential business ideas as well as recently established enterprises. See the description of the programme under financial schemes for more details.

¹⁴ Similar services are offered also by private firms. For example, GatewayBaltic offers both market and export intelligence services including market research, market and client monitoring, partner identification, etc.



6.5.3. Business Mentoring

Business Mentoring Club was established by alumni of Stockholm School of Economics in Riga. It provides business mentoring for existing small and medium enterprises and entrepreneurs willing to start a new enterprise. Each successful applicant is assigned a mentor, an experienced entrepreneur or manager with several years of business experience, who spends with the enterprise about six months, 5 hours per month. The mentor works together with the enterprise to find the best way for development. So far the Business Mentoring Club has provided support for 27 enterprises.

6.5.4. Business Angels and Private Investors

Theoretically in addition to investments business angels also contribute their expertise but it is hard to evaluate the extent of such consultations as they depend on the nature of the project and specific business angel. As mentioned above one of the most successful web projects in Latvia draugiem.lv in addition to small equity investments offer to share their experience in the development of IT projects.

6.6. Market Gaps of Non-Financial Support

Here are the main gaps identified by analysing evaluations given by entrepreneurs and experts regarding non-financial support availability:

- Generally it is observable that entrepreneurs are under-informed on different kinds of non-financial support. The greater part of entrepreneurs interviewed within the framework of this research were not able to give their opinion in that connection admitting their lack of knowledge about that sort of support. In turn, those, who commented upon availability of non-financial support, most often told about consultations only not knowing any other non-financial support instruments.
- Entrepreneurs, especially the young ones, as often as not have insufficient knowledge and competency regarding, first of all, attraction of initial financing necessary for realisation of their business ideas (for selling ideas) and, secondly, elaboration of business plans and projects for commercializing ideas. In this context there is a lack of both general training programmes and consultations on business management and project elaboration issues. Such consultations and aid are especially topical for entrepreneurs without prior business experience, as well as



scientists and inventors who have ideas but have no skills to elaborate plans how to commercialize them.

- By evaluating necessity and availability of consulting services, one part of entrepreneurs is sceptically-minded considering that to great extent necessity for consultants has been intentionally created by overly complicating terms and procedures of support programmes. To be exact, if procedures and documentation of the state aid programmes were simpler and not so bureaucratic, entrepreneurs could uptake them successfully without any assistance of consultants. Likewise it was mentioned that services of such specialists should be paid by the state if it's offered as a non-financial support mechanism.
- Those entrepreneurs, who have comparatively more positive attitude towards facilities and necessity to attract consultants, are of the opinion that one of scopes of such consultants could be explanation of specific features of fields represented by enterprises to financing donors, for instance, banks that not always are competent to evaluate concrete projects on their merits and do it only after financial indicators. Entrepreneurs see significance of such consultants if they were able competently and in straightforward language to justify and to explain investors the nature of concrete development and innovative projects, market value etc.
- Lack of mechanism that could secure mutual exchange of information and partnership search options among scientists, inventors and entrepreneurs. All of interviewees – entrepreneurs, SMEs experts and representatives of financial institutions - talk about the necessity of such mechanism. First of all, data bases are needed (or some other kind of data source) to develop where entrepreneurs could get information on ideas with a potential to be commercialized and also to furnish information on scientific elaborations necessary for them. Secondly, a unified platform of information is required where it would be possible to get all information about technologies and equipments available in Latvia that could be used in elaboration process of innovative projects not only by scientists at institutes or in some concrete enterprise, but also by a wider range of persons concerned. And thirdly, some communication area is necessary that could guarantee a greater cooperation among scientists, scientific institutions and entrepreneurs so that they could exchange both information and experience mutually.
- Pretty often interviewees urge for a greater cooperation among administrative institutions and entrepreneurs; to wit not to work only as supervisors and controllers but to act more like

collaboration partners interested not only in arrangement of precise documentation, but also in concrete projects.

- As regards to business incubators, there is a need for such ones located in Riga as well, where the greatest part of entrepreneurship is concentrated.
- Entrepreneurs positively appraise performance of representatives of LIAA working abroad. Though some concrete agencies were also criticized. However in general entrepreneurs believe that such kind of non-financial support is very necessary for establishing international partnerships.

7. CONCLUSIONS

By summing up information given by entrepreneurs and experts it is possible to identify the main gaps in financial and non-financial availability and demand:

- As regards to the state financial aid:
 - Diminishing of bureaucracy, facilitation of procedures concerning project application, realisation, and supervision from the side of institutions.
 - Time period for project examination, approval of changes and getting of financing must be noticeably reduced in case of development and innovative projects. It is especially significant for innovative projects that need to be elaborated as soon as possible while no other equivalent competitors have emerged in the market.
 - Concentration of information and consultants at one institution, One-Stop Agency, thus reducing resources of both the state and enterprises that currently have been spent for gathering information, prospecting different kinds of support and project management.
 - To widen a circle of enterprises capable to get financial support. Representatives of financial institutions and experts report that as often as not support programmes are intended for very narrow target groups eligible for support and restrictions tend to be ungrounded and unjustified.
 - Competent experts should be involved in assessment of projects for getting the state aid, who know specific features of concrete fields where innovative projects are planned to be fulfilled. Today entrepreneurs report that projects have been evaluated only financially not in point of fact.
 - One part of experts interviewed point at necessity to decentralize financial support instruments thus making them available also on the spot in regions, for instance, to make several state-aided regional investment funds that would focus on business development projects in concrete regions.
 - Taking into consideration that one of the significant obstacles for entrepreneurs in getting the state aid is provision of co-financing, amounts of co-financing must be revised and/ or additional financial support mechanisms should be elaborated that

could furnish entrepreneurs possibilities to attract co-financing from other financial sources.

- On the whole entrepreneurs' awareness on different financing attraction kinds is low. Oftenest they are more or less informed only about support options provided by commercial banks, the state and the Land and Mortgage Bank of Latvia.
- Special attention should be paid to provision of risk capital availability – both experts and entrepreneurs, who have already realised international innovative projects in the past, are of the opinion that development projects with heightened risk should be financed exactly by risk capital funds not commercial banks.
- Availability of financial support is especially topical for micro enterprises – if big enterprises are able to finance development projects themselves or to involve investors, micro and small ones can only get a very minor financial support in the state aid programmes while their options to get financial support from other external financing sources are minimal due to their insufficient prior business experience, deficient collateral and other reasons.
- Guarantees as a kind of support have been acknowledged to be useful by comparatively small part of entrepreneurs, though in general they have not been evaluated explicitly negatively. One of the most essential drawbacks of them is a fact that a common disbelief in Latvia prevails not only in external markets, but also in local commercial banks, which don't trust to the state guarantees fully. Also terms for getting guarantees and an amount of given guarantees have been identified as obstacles to use them.
- As regards to non-financial support:
 - On the whole entrepreneurs are very poor informed regarding different non-financial support kinds. Oftenest they are aware of consultations only. Definitely some additional information and explanation about usage situations of each kind of non-financial support would be necessary.
 - Necessity of consultations and training programmes regarding exactly financing attraction issues (selling of business ideas and including foreign language courses) available for entrepreneurs. For instance, representatives of financial institutions draw

attention to that only a small part of entrepreneurs, who want attract financing for development projects, can competently, justifiably and with certainty present their intentions.

- Consultations and courses at which advice is given how to use the state aid programmes and other financing sources.
- One unified information data base is needed accessible for entrepreneurs containing summarised information on technologies, equipments being in possession of some institute and companies in Latvia that could be necessary and available also for other persons concerned for elaboration of innovative projects etc.
- Some mechanism is necessary that could secure mutual exchange of information, communication among scientists, inventors and entrepreneurs and for storing innovative ideas with a potential to be commercialised in some data base.
- Overall business environment problems:
 - Increase of tax load.
 - Distrust to the Republic of Latvia in external markets that disturbs, on the one hand, searching and involvement of collaboration partners and, on the other hand, attraction of financing, investments.
 - Entrepreneurs distrust to and disbelief in the state aid programmes, as well as prevalence of entrepreneurs' negative practice in society forms a negative informative background for new support programmes and prevents entrepreneurs (especially the ones of micro and small enterprises) from being involved in them.
 - Increase of manufacturing expenditures due to increasing resource expenses (electricity, gas, transport etc.), consequently the international competitive capacity of enterprises of Latvia dwindles.
 - Short-term financial problems of enterprises, as well as financial problems of clients and partners cause knock-on effect. Even a successful enterprise may get into difficulties due to its clients or partners who don't honour their commitments.
 - Entrepreneurs' fears from collaboration – from 'opening' of their enterprises for partnership with other cooperation partners. SMEs experts think that business culture in Latvia is explicitly competitive not collaborative. As follows – it is necessary to enable

entrepreneurs' comprehension on collaboration benefits and to promote their willingness to cooperate by furnishing them information and positive examples of good practice.

- Wider usage of e-government options, for instance, concerning acceptance of project applications, project administration and supervision, unification and centralization of data bases of different institutions etc.
- Reform of educational system, by implementing creativity more stimulating study programmes including development of entrepreneurship competences etc. Likewise interviewees point at necessity to make partnership among educational institutions and entrepreneurs – for informing young people, for exchange of experience, for quickening youth's interest, and also for practising and specific training. Both entrepreneurs and experts emphasize necessity to include more hard sciences in study programmes.
- Interviewees also see a need to invest capital in development of science that will give return in 5-6 or more years. At the same time they emphasize that without a strong enough scientific and qualitative educational base elaboration of long-term and competitive innovations is impossible.
- Insufficient competency, knowledge and education of entrepreneurs in implementing innovative projects. It is especially topical in the aspect of commercialisation of innovative ideas.

On the whole it can be concluded that entrepreneurs, who are elaborating or want to elaborate international innovative projects, expect improvements and revision of the existing financial and non-financial state aid mechanisms and are less likely to urge for some new kinds of support. In the aspect of current state aid support instruments entrepreneurs anticipate simplification of them and widening of target groups, as well as securing of changes in work style of administrative institutions from controlling approach to cooperative one. At the same time administrative institutions could also give advice to entrepreneurs and take part in a project as a partner from the state side bearing responsibility on successfulness of projects. In addition representatives of all target groups interviewed within the framework of this research admit that also different kinds of non-financial support are useful, especially in regard to teaching and consulting of entrepreneurs (on the score of business management, selling of



business ideas, foreign languages and exchange of experience). And finally – both the very entrepreneurs and experts point at necessity to look at business development and especially elaboration of innovative projects in a wider context, namely, to connect it with the educational system in Latvia and the environment of entrepreneurship in general. To great extent the whole elaboration process not some separate cases/ projects of innovations depends from education. Interviewees are of the opinion that only open and creative educational system and study programmes may ensure the environment for creative activities, unaccustomed solutions, and innovations in the long-term. In turn, the total competitive capability of entrepreneurs in global markets, ability to be equal partners of entrepreneurs from other countries depends on business environment (to achieve that local entrepreneurs want to be directly or indirectly supported in conquest of international markets, to have as minimum equal business conditions at least among neighbour countries etc.).