



Features of state financial support to the small business sector in the republic of Latvia

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The purpose of my study was to identify, study and evaluate the state support measures for small businesses using the example of the Republic of Latvia. The subject of the study is a system of financial regulation and stimulation of the development of small and medium-sized businesses. The object of the research is the system of state financial support for SME, the subject - the possibility of obtaining this financial assistance from government institutions.

The practical significance of my research lies in the fact that the study supplements a number of conclusions and practical recommendations in the field of organizational measures for effective financial support and multilateral development of the small and medium business sector in the economy, recognition of the effectiveness of financial support and development of the small business sector as the main goal of the economic policy of the State of Latvia. The practical part of my work can also serve as information material for acquainting and comparing the possibilities of attracting state financing, in comparison with the proposals of Latvian commercial banks and private financial institutions.

I continue to study the impact of government support on small business development in Latvia. The previous article "The role of small business in the economy and methods of its state support on the example of the Republic of Latvia" described the system of state support for small business, which is comprehensive assistance in the following areas: financial support, legislative, property, educational, consulting and informational.

Methods of government support for SME



Methods of government support for SME

FINANCIAL

state subsidies for starting a business, introduction of special lending conditions (loans with reduced rates), state guarantees for the establishment and development of a company, financing of investment and innovation projects, etc.

PROPERTY

the state and local governments establish modern business incubators and technology parks, in which small companies can develop, the state transfers its property, premises, land, equipment for temporary or permanent use to entrepreneurs, leasing is offered on favorable terms

EDUCATIONAL

the state develops special educational programs aimed at developing entrepreneurial skills in different sections of the population, creates conditions and programs for the improvement of professional knowledge in the field of business management and administration, organizes training seminars and lectures

LEGISLATIVE

simplifies national legislation and reduces the number of company registration procedures, reduces and simplifies tax and administrative burdens (reduces the type and type of reporting), introduces preferential tax regimes for small and medium-sized enterprises

INFORMATIONAL

the state creates resources (websites or information stands) for the exchange of business information, general information dissemination systems, organizes information seminars and advertising stands, industry and intersectoral exhibitions, where potential partners can find both suppliers and buyers.

CONSULTING

the state establishes and supports centers that provide consulting services for the organization of enterprises, development assistance in accordance with the specifics of business, as well as reimburses entrepreneurs for the costs of services of such organizations

The data analyzed in the aforementioned study was obtained from participants in a survey organized and developed by the author of the study. A survey conducted in March 2019 was attended by 367 respondents, active Facebook users who are not indifferent to the economic situation in the Republic of Latvia. The questionnaire was developed by the author of the study and consisted of 13 questions offering different answer options, such as choosing a specific answer from the proposed ones, as well as a 6-point priority system for assessing various indicators. Key questions were devoted to the opinion of survey participants about the availability of the above methods of state support for small businesses. According to the survey results, respondents consider the most important and expected financial support from the state.

Priority of measures of state support for small and medium-sized businesses (survey results)



The relevance of my survey is confirmed by the data of the Register of Enterprises, the number of enterprises in Latvia has been rapidly decreasing in recent years, and moreover, many more companies are being liquidated every year than are being created. In this regard, and taking into account the results of the study, I put forward a hypothesis that perhaps one of the most important factors affecting the viability of enterprises in the small business sector is insufficient government funding or its complete absence.

To prove or refute this hypothesis, I decided to comprehensively study the available possibilities of attracting state aid in the form of additional funding to facilitate the opening of new and development of existing enterprises, to get acquainted with the works of Latvian and foreign scientists who were also studying this issue. The object of the study was the system of state financial support for SME, the subject was the possibility of receiving this financial aid from state institutions.

The most popular and demanded by Latvian entrepreneurs measures of financial support of small business from the state are reflected in this diagram, however, it should be noted that the majority of respondents named the loan as the main source of the desired additional financing.



The main financial institution for the state development of the Republic of Latvia is ALTUM, which provides financing through various financial instruments such as loans, credits, grants, guarantees, investments in venture funds, etc. However, this financial assistance is provided to enterprises only in those areas that the state has identified as important and supported, and where sufficient financing from credit institutions is not available.

The main tasks of ALTUM are:

- assistance and support in creating a business, its development, increasing competitiveness, introducing new technologies and innovations;
- development of regions and agriculture;
- promoting the export of goods and services;
- increasing energy efficiency, etc.

As a state-owned company, ALTUM focuses on supporting business through financial instruments, without making donations, but through targeted cooperation and financial support for business promotion activities. ALTUM support programs are implemented at the expense of state resources - funding attracted by the European Union, other international organizations, the Latvian state and ALTUM.

Loans for start-up entrepreneurs - ALTUM

| Age of the company from | Provided amount, Euro | Annual interest rate from | Loan term, to | Own participation |
|-------------------------------|-----------------------|--|---------------|-----------------------------|
| 0 to 5 years | | | | |
| Working capital | up to 7 000 | 2.5% + Cost of the resources of the State Treasury (including service fees) 0.5% | 3 years | 0% of the project amount |
| | from 7 000-150 000 | | | 10% of the project amount * |
| Investment loan for equipment | up to 7 000 | 4% + Cost of the resources of the State Treasury (including service fees) 0.5% | 7 years | 0% of the project amount |
| | from 7 000-150 000 | | | 10% of the project amount * |
| Financing real estate | up to 7 000 | 2.5% + Cost of the resources of the State Treasury (including service fees) 0.5% | 15 years | 0% of the project amount |
| | from 7 000-150 000 | | | 10% of the project amount * |

Loans for operating enterprises - ALTUM

| Age of the company from 0 to 5 years | Provided amount, Euro | Annual interest rate from | Loan term | Own participation |
|--------------------------------------|-------------------------|--|--------------------------|-----------------------------|
| Working capital | from 2 000 - 25 000 | 2.5% + Cost of the resources of the State Treasury (including service fees) 0.5% | from 6 months to 3 years | 0% of the project amount |
| | from 25 000 - 1 000 000 | | | 10% of the project amount * |
| Investment loan for equipment | from 2 000 - 25 000 | 3% + Cost of the resources of the State Treasury (including service fees) 0.5% | from 2 to 7 years | 0% of the project amount |
| | from 25 000 - 2 850 000 | | | 10% of the project amount * |
| Financing real estate | from 2 000 - 25 000 | 3% + Cost of the resources of the State Treasury (including service fees) 0.5% | from 2 years to 15 years | 0% of the project amount |
| | from 25 000 - 2 850 000 | | | 10% of the project amount * |

I conducted a comparative analysis of interest rates on loans granted to enterprises and individual entrepreneurs by private investment companies, credit companies and commercial banks in Latvia. The information available on the websites of commercial banks was taken as a basis, as well as information from the platform for comparing available loans www.altero.lv, which is currently the leader in the Latvian market in providing information on available additional financing from 30 credit companies, banks and investment funds.

Loans from commercial banks in Latvia

| Commercial banks | Provided amount, Euro | Annual interest rate | Loan term | Loan fee |
|---|-----------------------|----------------------|---------------|--------------------------------|
| Microcredit against working capital with a guarantee from ALTUM | up to 50 000 | from 9,8 % | up to 5 years | 1% + 1.42% for ALTUM guarantee |
| Microcredit for an entrepreneur | from 1 000 - 20 000 | from 14 % | up to 5 years | 2% (or to 150 Euros) |

Loans from lending firms - www.altero.lv

| Lending firms | Provided amount, Euro | Annual interest rate | Loan term, to |
|--|-----------------------|----------------------|----------------------------|
| Loan secured by real estate | from 2 000 | from 8,4% | up to 2 years |
| Agricultural financing | from 5 000 | from 14 % | from 1 month up to 5 years |
| Factoring | from 500 | from 20 % | up to 90 days |
| Loan without collateral | from 1 000 | from 12 % | up to 3 years |
| Targeted financing (purchase of real estate, investment properties, renovations) | from 50 000 | from 5 % | up to 90 days |

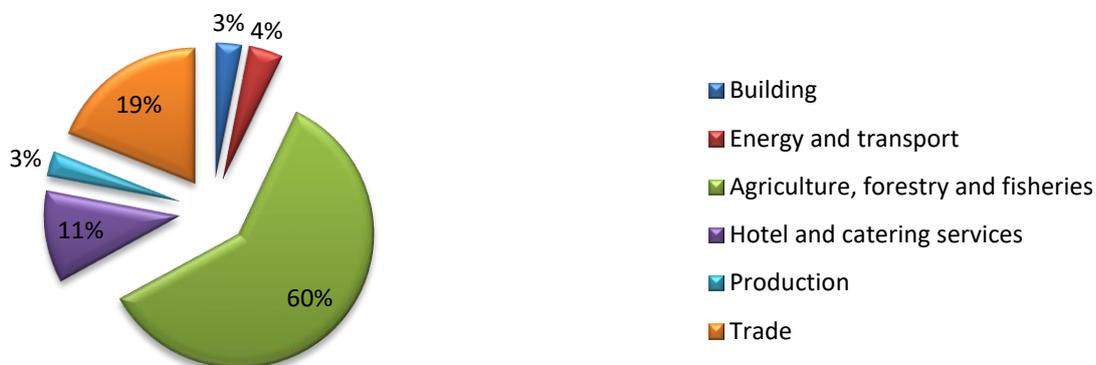
Analyzing the above data, it can be stated that the proposals of private investment companies, companies for fast lending, as well as commercial banks differ from the possibilities of obtaining additional government financing ALTUM by higher interest rates on loans, shorter terms and the amount of financing provided, as well as the amount of additional commission.

As you can see from the table, the number of approved ALTUM loans for start-up entrepreneurs in 2019 decreased by almost 100 requests compared to 2018, but the average amount of loans received is growing every year. For operating enterprises, there is also a trend towards an increase in the average amount of funding received.

ALTUM issued loans 2017-2019

| Year | For start-up entrepreneurs | | | For existing enterprises | | | Total | |
|------|----------------------------|-------------------|----------------------------------|---------------------------|-------------------|----------------------------------|------------------------|----------------|
| | Number of loans issued, A | Amount in Euro, B | Average loan amount, Euro, B / A | Number of loans issued, A | Amount in Euro, B | Average loan amount, Euro, B / A | Number of loans issued | Amount in Euro |
| 2017 | 432 | 8 419 585 | 19 490 | 705 | 30 165 131 | 42 787 | 1137 | 38 584 716 |
| 2018 | 462 | 10 048 156 | 21 749 | 658 | 34 794 724 | 52 880 | 1120 | 44 842 880 |
| 2019 | 367 | 8 662 360 | 23 603 | 700 | 54 353 669 | 77 648 | 1067 | 63 016 029 |

But not every enterprise can apply for state credit assistance from ALTUM, because there are industries and activities for which funding is not provided. Statistical data on the distribution of the ALTUM loan portfolio by industry are as follows



Based on the data of the above graph, it can be seen that the most supported sectors in Latvia are agriculture, forestry and fisheries, the total size of state financial investments is 60%, followed by manufacturing with 19% and hotel and catering services - 11%.

In this regard, it should be noted that the state financial assistance that a start-up entrepreneur or an operating enterprise provided by ALTUM can receive looks more attractive, the amount of funding is limited only by approved industries and meeting certain criteria for applying. The state also provides an opportunity for additional financing in the form of a soft loan or grant to enterprises affected by COVID-19.

Having paid attention to the amount of ALTUM financing already provided, according to Fig.10, we have to state the following: there is state financing for small and medium-sized businesses in Latvia, the proposed interest rates are much lower than similar proposals from commercial banks and lending firms, the terms and conditions of obtaining are more affordable. Accordingly, the hypothesis that formed the basis of this study was not confirmed.