

EIS 14/2020

Public Financing  
Support Options to  
Micro-Enterprises for  
Innovation

Submitted 03/2020

Accepted for  
publication 05/2020

# Public Financing Support Options to Micro-Enterprises for Innovation

**Ilona Beizitere**

RISEBA University of Applied Sciences

**Ieva Brencē**

Latvia University of Life Sciences and Technologies

**Biruta Sloka**

University of Latvia

 <http://dx.doi.org/10.5755/j01.eis.1.14.26569>

## Abstract

Innovation related to the technological advances of entrepreneurship are essential in Industry 4.0 and are essential for economic development of the micro companies. The availability of sufficient funding is one of the factors promoting innovations in companies. The study investigates the availability of public financial support for micro-enterprises - the largest enterprise category in Latvia (approximately 94 %), focusing on those for whom the introduction of innovations is essential for their growth. In an ad hoc survey of companies registered in Latvia in nationally defined sectors, entrepreneurs disclosed their sources of funding over the three-year period: 2015-2017. Valid responses from 2511 companies, of them 1879 were micro-enterprises, revealed not only the diversity of their financial sources but also the reluctance of external financiers to support companies willing to innovate. Out of the micro-enterprises surveyed, which required new or additional funding during the three-year period in question, 21% stated that the goal of funding was "the development and introduction of new products or services". Innovation as an important factor was stated by 28 % micro-enterprises. According to the survey data processed by SPSS, micro-enterprises still prefer internal financing (64%) among many sources, whereas only 11 % of the respondents used public funding. The micro-enterprises, for which innovation is important, relied solely on internal finance (65%), while public support was used by 13 %. Based on the results of the study of Latvian companies, the need to improve the availability of financing for micro-enterprises is highlighted by creating a targeted external funding offer in the form of a financial instrument based on public finance support.

**KEYWORDS:** finance institutions; financial instruments; micro-enterprises; public financing; state aid.

## Introduction

The Fourth Industrial Revolution (Industry 4.0) emphasizes innovations as technological advances in business. To remain competitive, companies need to be innovative, which means that they need to adjust their strategies offering products and services in a more innovative way. The losers will be not only companies that are late in introducing innovative solutions, but also the national economy as a whole (Schwab, 2016). Access to finance promoting their companies and public financial support is a way for the state to provide support to them. Financial support is one of the three main drivers of innovation performance external to the company (European Commission, 2016). Allocating the necessary resources to financial markets plays an important role, not only in the performance of companies as a whole, but also in the introduction of innovations in the company (Kerr, Nanda & Rhodes-Kropf, 2014).



The study focuses on the availability of finance to micro-enterprises, which according to the European classification system (European Commission, 2003) is the most common type of non-financial companies. In Europe they represent 93 % of all businesses and employ 30 % of the EU employees (Kraemer-Eis, *et al.*, 2019). Micro-enterprises also form the largest share of companies in Latvia, where they account for 94 % of all the economically active enterprises (Central Statistical Bureau of Latvia, 2019). Their role in Latvian economy is comparatively higher than on average across the EU, with a business turnover of 26 % against the EU average of 17 % (Ministry of Economics of the Republic of Latvia, 2019b). In terms of employment growth, micro-enterprises in Latvia have developed, with an increase of 10.8 % in the 2014–2018 period (European Commission, 2019). This highlights the need to support the smallest-sized companies.

Although it is possible for companies of any size to be innovative, statistics do not provide an opportunity to estimate the number of innovative companies in the micro-enterprises group. So far, neither Latvia (Central Statistical Bureau of Latvia, 2020) nor Europe (OECD/Eurostat, 2019) lists innovative companies in a group with less than 10 employees (corresponding to the number of micro-enterprises employees), but innovative companies are identified only among larger peers. According to the definition “An innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations. The minimum requirement for an innovation is that the product, process, marketing method or organisational method must be new (or significantly improved) to the enterprise” (Central Statistical Bureau of Latvia, 2020). Among other things important for development of the companies it was found that the level of innovation in companies in Latvia is lower than the average in the EU Member States (Ministry of Economics of the Republic of Latvia, 2019b), moreover there is a deterioration in access to public financial support, including guarantees, compared to 2017 (European Commission, 2019).

Previous studies have shown improved access to finance as the most effective way of removing the barriers for company growth (e. g. Beck & Demirgüç-Kunt, 2006). However, a survey by the European Central Bank reports that access to finance largely remains a problem for the European micro-enterprises as compared to companies of other size classes, with 9 % of micro-enterprises reporting it as their biggest problem in 2019. This is an improvement since 2014 when 15 % of the micro-enterprises reported it as their most essential problem (European Central Bank, 2019). In contrast, the survey SAFE (Kwaak, *et al.*, 2019) have stated that 56 % of surveyed innovative firms face barriers to obtaining funding, while 14 % have indicated that they do not have sufficient collateral or guarantees to obtain it. The survey sought to establish how prevalent was the problem of accessing external funding among companies, depending on their size and according to the legal address of the companies of Latvia.

To investigate the current situation in Latvia, the services of a professional research company the *Marketing and Public Opinion Research Center (SKDS)* were used to conduct a representative survey for field work in order to obtain an ad hoc online survey (WAPI). It was conducted among the enterprises registered in Latvia to establish the financial sources predominantly used by the entrepreneurs, to find out the main constraints on the enterprises’ growth and the importance of availability of public funding support to overcome them. This article examines the use of public support funding among micro-enterprises which have recognized that a lack of innovation is essential to their growth. By looking at the perceptions of businesses of public financial support implemented through the financial offers from the joint stock company *Development Finance Institution Altum (ALTUM)*. The aim of the work is to investigate the differences in ambitions to access finance, including public financial support, between both micro-enterprises in general and the micro-enterprises willing to innovate.

A computer assisted web interview (CAWI) questionnaire was sent out to all companies with publicly available e-mail addresses in the period between October 1, 2017 and January 25, 2018. The request to fill out the questionnaire was addressed to the person in charge of the company's finances. The target population included all companies across the territory of Latvia with activities in sectors eligible for public support. The entire segment studied included all the active businesses registered in the Register of Enterprises of the Republic of Latvia with the 11 defined NACE codes, i.e. 32 308 companies in total. For improved representativeness data were weighed by the share of the sector. Responses of 2511 companies were considered valid, of which 1879 replies were provided by micro-enterprises. Businesses were invited to reveal their financial sources over the period of three years: from 2015 to 2017. The results demonstrated, that majority of micro-enterprises still prefer internal finance among many sources, and only small part of the respondents used public funding. Surprisingly, while the micro-enterprises for whom the innovations' financing is very important, relied solely on internal finance (65 %), whereas 13 % of the respondents used public funding. In contrast, venture capital funds and business angel investments suitable for supporting innovative companies were not used at all. This suggests that despite the policy measures established and implemented for improving access to public finance, including for the micro-enterprises there have been few targeted actions for making these measures work, and the proposals drafted may be delayed.

It should be noted that the term "innovation" was not specified in our survey. By analyzing the answers, we relied on the entrepreneurs' own knowledge and perception of innovations, but the official definition of this term was taken into account as it is available.

A second aspect in the context of the assessment was availability of public funding to micro-enterprises in the situation of seemingly ample availability of EU funds to Latvian businesses. The current situation, with EU Member States receiving significant public financial support, continues to show that lack of access to finance is one of the main obstacles to the growth of micro-enterprises including innovative ones (Masiak, Moritz & Lang, 2017b; Kraemer-Eis, *et al.*, 2019; OECD/European Union, 2019).

---

### Micro- enterprises financing – theoretical aspects

The issue of access to finance for micro-enterprises with respect to available public support has not been a topic widely studied. Focused issues on support for innovative micro-business with public funding are also rarely addressed. Therefore, the literature review includes sources with conclusions on accessibility of finance also for other businesses, when they are relevant for micro-enterprises. A range of authors have made attention to the study of the smallest businesses, as well as start-up companies. Since newly established companies are predominantly very small and do not exceed the size of micro-enterprises conclusions on start-ups have also been included. For example, Brown & Lee (2017) have acknowledged that small firms are different from big firms, and these features have significant ramifications for their ability to obtain finance and the problems related to financing seem particularly acute for the smallest firms and new start-ups. Until recently, access to finance was considered to be one of the biggest obstacles to the development and growth of such businesses, especially for those starting a new business. At the time, informal financing seemed to be crucial for business development. In addition, innovative companies usually need a significant, larger amount than traditional business, because they need additional funds for market research, research to implement their idea (Reynolds, *et al.*, 2005).

It is possible that World Bank researchers (Schiffer & Weder, 2001) were among the first to highlight company size as an obstacle to their development. An important conclusion of the study was that smaller companies have significantly greater problems with access to finance than larger companies. Thus, one of the main objectives in developing support policies for micro-en-

terprises in order to create a level playing field among companies is to find a way to mitigate the effects of this difference. A survey (Masiak, *et al.*, 2017a) of the EU Member States companies (according to the EU definition of SMEs) report that micro-enterprises differ from small and medium-sized companies in their funding models. The results reveal that micro companies most often rely on internal financial sources. Also, micro-enterprises appear to be less financed by subsidized loans or grants, although they are often targeted by special support programs.

Traditionally, debt finance in banks, a type of financing with a low to medium risk profile, is suitable for companies with proven business models. The availability of alternative financial instruments offered by the EU has changed this traditional risk-sharing approach, as it provides access to finance for higher-risk companies, such as for start-ups, high-growth and innovative companies. Equity financing is more suitable for young and innovative SMEs, especially in the seed and early stages. The contribution of business angels can also be important in financing early-stage companies (OECD, 2015). Research suggests that financial instruments should be tailored to companies according to their size, degree of risk, business life cycle, level of novelty and other criteria, as in many places this type of public finance support in their current form are only available to a small number of SMEs (OECD, 2018).

Despite the substantial measures undertaken by authorities to increase financial support, it is found that small businesses, particularly start-ups, face some obstacles (Ruchkina, *et al.*, 2017; Klein, *et al.*, 2019). The most recent data show that micro-enterprises are less active in using external financial instruments than their larger peers, the reason possibly posed by difficulties in accessing them (European Central Bank, 2019). Similar observations are made in Australia, where micro-enterprises including innovators are more likely to face barriers to accessing funding, although public support programs are offered (ASBFEO, 2019).

A study on investments by the *European Angels Fund* have found that angel investments are an indispensable source of venture capital funding, especially for young, small and innovative start-ups and disproportionately target smaller companies. With the help of National programs, business angels in several countries (Germany, Spain, Ireland, Denmark, Austria, Finland and Belgium) were able to fill the funding gaps left by official venture capitalists with their unique investment approach (Gvetadze, *et al.*, 2020). In addition, after two years of the angel investments, there has been a positive impact on companies' performance: employment, total assets and in particular turnover.

Another important source of finance for start-ups and micro-enterprises to drive growth through innovation is venture capital funds. This source of finance is important not only for companies themselves, but also for the economies of EU Member States as a whole (Botsari, *et al.*, 2019). According to this study, the investment of venture capital funds in Latvian companies is one of the lowest among the EU countries.

The effect of the European funds guarantee programs is more pronounced for smaller and younger firms, and micro-enterprises benefit most from guaranteed loans. Guarantee schemes set up to support innovative companies (in Italy and the Nordic countries) contribute to an increase in intangible assets, which is a reliable sign of innovation in a company (Brault & Signore, 2019).

An innovation mind-set is a mental framework that fosters development and the implementation of new ideas. Many policymakers, corporate leaders and managers need an updated understanding of management issues: a global mind-set, a virtual mind-set, an innovative mind-set and a collaborative mind-set are all key issues in the European Integration environment. Cognitive skills and mind-sets of global leaders are an important part of new management thinking (Kai-vo-oja & Lauraéus, 2018). The launch of new micro-enterprises, especially the development of innovative ideas, requires not only access to funding, but also mind-set support for the implementation of their initiative in the form of advice and counseling. According to a study (Smus,

2017), the entrepreneurs receiving support in the form of both investment and consulting in accelerator centers are more likely to achieve better business results.

Several authors (e.g. Hall, *et al.*, 2000; Beck & Demirgüç-Kunt, 2006; Beck, *et al.*, 2008; Moritz, *et al.*, 2016) have emphasized the importance of company size in accessing finance, stating that small businesses are more restricted in this area than larger companies. They also have accentuates the importance of financial institutions that may provide for appropriate funding and enable access. The amount of EU funding allocated to each country in the multi-annual plan is based on market failure research and thus also limits the amount and focus of state aid funding. Mazzucato (2015) have emphasized the role of public agencies not only in addressing market failures, but also in providing broader support to companies in shaping public policy. Such an active approach can help to better target public finances than simply helping a large segment of SMEs. Mazzucato & Semieniuk (2017) emphasizes the role of state aid as the main risk-taking for business support, and a successful support policy must itself be innovative.

Vivarelli (2013) emphasizes that public support, in order to be used as effectively as possible to achieve nationally important goals, must be focused on carefully selected target groups of companies. In addition, banks and financial institutions should not apply the same standards to all companies (Janda, Rausser & Strielkowski, 2013). Policy makers should avoid some mistakes when drawing up programs of public support financial instruments. Contrary to the fact that the *European Angels Fund* business angels have made the largest investments (65 %) in the ICT sector (Gvetadze, *et al.*, 2020), it should be noted that most fast-growing companies are companies in day-to-day business and service sectors, for which timely and appropriate support is important (Brown & Mason, 2016). Brown & Lee (2017) have drawn attention to the fact that companies can look for opportunities to use state aid loans in the absence of more suitable debt-based financial products in banks.

## Empirical research results and discussion

### Results

A company survey was carried out in early 2018 to establish the options of micro-enterprises in Latvia for obtaining funding and the potential sources. The aim of the survey was to find out the funding needs in strategically important sectors, the importance of “access to finance”, the preferences of companies when choosing the sources and the extent to which micro-enterprises have sought for public support and obtained it. The survey data processing, reliability tests (Table 1) have been done by the data analysis programme in the SPSS environment and report a high Cronbach's alpha coefficient (Table 1).

**Table 1**

Data reliability tests by SPSS

Case Processing Summary				Reliability Statistics	
		N	%	Cronbach's Alpha	N of Items
Cases	Valid	1879	100,0	0,823	13
	Excluded <sup>a</sup>	0	0		
	Total	1879	100,0		

<sup>a</sup> Listwise deletion based on all variables in the procedure.

Source: Authors' constructions

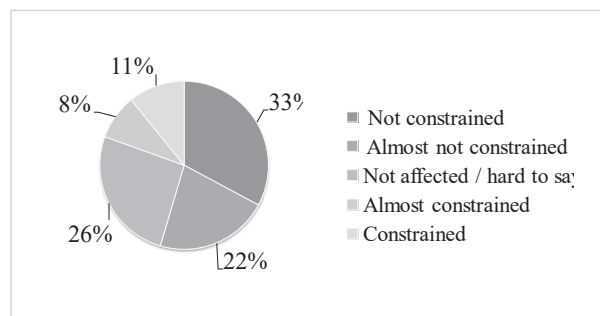
In response to the question “What types of financing does the company use now or in 2015-2017?”, 64 % of a total of 1869 micro-enterprises indicated that they relied solely on internal financing (loans from the owner, relatives, friends or related companies, proprietary investment in fixed assets, or undivided profits). The survey allowed micro-enterprises to indicate more than one source of financing. Among the prevailing sources of external financing mentioned by the rest of the micro-enter-

prises were: *ALTUM* loans – 4 %, EU funds – 6 %, bank loans guaranteed by *ALTUM* – 3 %, long-term or short-term bank loans, credit line, overdraft – 11 %, lease financing – 13 % and supplier or contractor debt – 10 %. Other sources appeared rarely, e.g. only 10 micro-enterprises mentioned venture capital funds and business angel funds. Growth impediments were rated on a scale of 1 to 5. Micro-enterprises that responded to “almost restrictive” (4) and “restrict” (5) are considered as limited. The total number of micro-enterprises whose access to finance factor limits their growth was 667 or 35 % of all surveyed micro-enterprises. Access to finance is most limited by micro-enterprises operating in the following areas: construction (29 %), tourism (17 %), information and communication services (11 %), woodworking (7 %).

The number of micro-enterprises which indicated that their lack of innovation limited their growth was 269 or 14 % of all micro-enterprises. The lack of innovation is most limited by micro-enterprises, which has been operating in the following areas: construction (26 %), tourism (21 %), information and communication services (14 %), wood processing (11 %). It is noteworthy that the distribution of priority sectors is identical. In addition, the information and communication services sector is not the first.

The survey revealed that existing micro-enterprises in the start-up phase of a company (up to 2 years – 7 %) feel less the need for innovation for their growth. Their need is most recognized later, in 2 to 5 years of development (34 %). In total, 48 % of micro-enterprises who value innovation are also concerned about access to finance (130 out of 269). In turn, among those for whom access to finance is important, 19 % of micro-enterprises also gave important value to innovation (130 out of 667) main results are included in [figure 1](#).

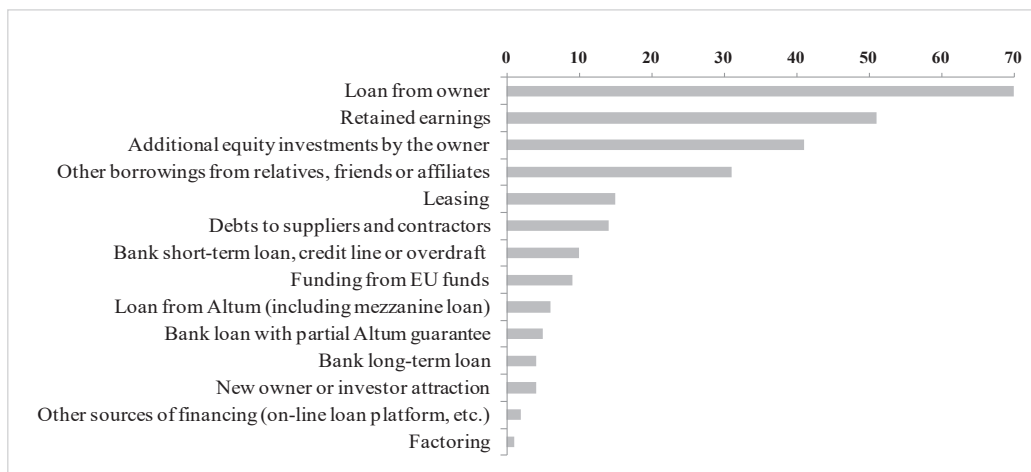
In order to analyze micro-enterprises for which both access to finance and innovation are important, the answers to the question were analysed: “What types of financing does the company use or has used in the last three years (2015-2017)?” Each micro-enterprise could indicate several sources of funding ([Figure 2](#)). Surpri-



Source: Authors' constructions

**Figure 1**

Evaluation of micro-enterprises in Latvia for which finances were important about the “impact of the lack of innovation on the company's growth” in 2017 (n = 667)



Source: Authors' constructions

**Figure 2**

The sources of funding most frequently used by micro-enterprises in Latvia for which both „access to finance” and „lack of innovation” had impact on the company's growth in 2015-2017 (n=130)



singly, informal funding has been the most popular. Only 17 micro-enterprises of this group had used public financial support (bank loans guaranteed by *ALTUM*, *ALTUM* loans, including mezzanine and EU fund-based financing). Venture capital funds and business angels, on the other hand, were not used at all.

Answering the question "For what purposes has the company you represent needed new or additional financing in the last three years?" 21 % of all respondents stated that the purpose of funding was: "For the development and introduction of new products or services". But in the group of micro-enterprises for which innovations were important it was more – 28 %. In all isolated groups of micro-enterprises, most relied solely on internal financing (loans from the owner, relatives, friends or related companies, proprietary investment in fixed assets, or undivided profits) – results are reflected in [table 2](#). Among the most popular sources of financing in 2015-2017 was leasing, which in terms of frequency of use competes with public financial support (bank loans guaranteed by *ALTUM*, *ALTUM* loans, including mezzanine and EU fund-based financing). Micro-enterprises that were important to innovate had less often used bank financial products.

**Table 2**

Distribution of micro-enterprises in Latvia by the most frequently used sources of funding depending on the attitude towards the importance of some factor for its growth in the period from 2015 to 2017

Financial sources	Factors	Not allocated (n=1879)	Accesss to finance (n=667)	Innovation (n=269)	Accesss to finance un inovācijas (n=130)
Internal finance, solely		64%	57%	65%	65%
Leasing		13%	15%	13%	12%
Public support finance		11%	15%	12%	13%
Bank finance (long-term and shor-term)		11%	14%	9%	9%

Source: Authors' constructions

Although out of the surveyed micro-enterprises 49% indicated new or additional finance needs in 2015-2017, however, only a small proportion of surveyed micro-enterprises turned to *ALTUM* (8 %) or at least considered doing so by 11 % (data are relected in [table 3](#)). Of those micro-enterprises for which the access to finance was an essential factor, more companies applied to *ALTUM* (14 %) or considered such an option (21 %). In contrast, those for whom the lack of innovation was the main impediment to growth were less: 6 % and 14 %, respectively. Looking in more detail at the micro-enterprises group for which both access to finance and the introduction of innovations are important for growth – it was found that only 7 % approached *ALTUM*, but 22 % of micro-enterprises considered such an option.

**Table 3**

Distribution of micro-enterprises in Latvia depending on the attitude to apply to *ALTUM* for new or additional funding in the period from 2015 to 2017

Responses	Factors essential for growth	Not allocated (n=1879)	Accesss to finance (n=667)	Innovation (n=269)	Accesss to finance un inovācijas (n=130)
Turned to the bank		8%	14%	6%	7%
Did not turn		30%	40%	34%	42%
Didn't turn, but consider doing so		11%	21%	14%	22%
Hard to say		1%	1%	1%	0%
No response		51%	24%	45%	29%

Source: Authors' constructions

The question of why the micro-enterprises did not consider applying to *ALTUM* for funding was answered by 31 % of the respondents. Notably 53 % indicated that they lacked knowledge about the funding possibilities offered by *ALTUM*, whereas 19 % thought that *ALTUM* would not support their financial needs (Table 4). Representatives of other micro-enterprises groups had quite similar views. Most of the micro-enterprises that had acknowledged the lack of both financing and innovation as a significant obstacle to the growth of their company were not sufficiently informed about the *ALTUM* offer (60 %). In addition, 19 % of them did not believe that they have had the opportunity to finance *ALTUM*.

Answers to the question: Why didn't the company turn to <i>ALTUM</i> to get the necessary financing?	Not allocated (n=591)	Accesss to finance (n=284)	Innovation (n=101)	Accesss to finance and innovation (n=58)
No/insufficient knowledge about <i>ALTUM</i> 's offer	53%	57%	53%	60%
Disbelief that <i>ALTUM</i> would provide for the required funding	19%	23%	20%	19%
Better sources of funding available	11%	4%	10%	3%
Other reasons	5%	6%	5%	7%
Hard to say	12%	11%	12%	10%

Source: Authors' constructions

In turn, of those micro-enterprises for which innovations are important (n=269) and which indicated the availability of other better sources of financing (n=10), in fact, the following sources were indicated as used in 2015-2017: retained earnings – 6, additional owner's investment in share capital – 3, loans from the owner – 8, from relatives, friends or related companies – 2, leasing – 2, factoring – 1, EU funding – 1.

In contrast, from the micro-enterprises group, for which it is important to innovate and obtain financing (n=130), 9 entrepreneurs applied to *ALTUM* to obtain it. As a result: request declined by *ALTUM* – 2; granted by *ALTUM*, but declared by ME – 2, granted by *ALTUM* in part – 3; granted by *ALTUM* in full – 2.

A range of financial instruments providing for state aid have been developed in the EU to offer alternative financial products instead of traditional debt financing. Financial instruments are measures of financial support provided on a complementary basis from the budget in order to address specific policy objectives of the EU in the form of equity or quasi-equity investments, loans or guarantees and other risk-sharing instruments (Regulation (EU, Euratom), 2018). From the 4.4 B EUR planned for entrepreneurial support in the multi-annual financial framework of 2014-2020 in the priority "Competitiveness of small and medium enterprises", the amount allocated to Latvia was 334.3 M euros (Ministry of Economics of the Republic of Latvia, 2019a). After deducting the share of the intermediaries, the amount available to the final beneficiaries (commercial companies) through different financial instruments in the financial institution *ALTUM* and the accelerator and venture capital funds has been 162.46 M euros. Essentially, EU grants funding in the form of state aid for every Member State on the condition that it will be solely used to target market failure. The progress report on implementation of financial programs has established that despite the measures to ensure SME access to finance in the Latvian financial market, market failure persists (Ministry of Economics of the Republic of Latvia, 2017). The report recommended maintaining *ALTUM*'s interventions in funding the small businesses, given the differences in the lending policies and financing conditions of *ALTUM* and the commercial banking sector.

**Table 4**

Grounds for the micro enterprises in Latvia to address their funding needs to *ALTUM* in the period from 2015 to 2017

## Discussion



In addition to public funds *ALTUM* attracts private resources through partnerships with a number of hedge funds. They are set up with state aid funding to support start-ups in the early stages of their business cycle or to implement new, innovative projects. The Government of Latvia has allowed the funds repaid or released within the framework of financial instruments to be re-directed to other programs. However, the use of risk and acceleration funds has not gained popularity (Ministry of Economics of the Republic of Latvia, 2019b). In turn, in their final evaluation of the contribution of EU funds for business support in the 2007-2013 programming period in Latvia, the authors (Ernst & Young Baltic, 2018) found that previous activities focused on innovation and high added value in companies were not targeted. It is recommended that support for start-ups be further implemented, including support for the creation of new high-growth companies and innovation activities.

Latvia is one of the few countries that has developed a separate law for public support of innovative start-ups that might be rapidly developed to a global scale. In 2019 there were more than 400 start-ups that complied with the criteria in the legislation; however, in early 2020 only 6 of them obtained support from the state financing programme (Investment and Development Agency of Latvia, 2020). Yet, the study (GatewayBaltic, 2019) found that several start-ups were needed a loan for development but had been prevented from turning to *ALTUM* on account of the private guarantee requirement for securing the loan. Such requirements are, in fact, inappropriate in the initial stage of a business when the success of the business is still under question. This study on start-ups concluded that the initial goal for supporting them has become outdated.

The most recent survey (ALTUM, 2020a) among more than 300 new entrepreneurs in Latvia which have started a new business or business project over the past three years established that the majority or 85 % of the entrepreneurs initially sourced it from internal funding, which is more than the share of 76 % recorded in 2017. Even though the surveyed entrepreneurs perceived *ALTUM* as the most popular institutional financing source, they also indicated their perception that there would be less available funds in the coming year.

The EC encourages Member State governments, in collaboration with researchers, to find solutions to support entrepreneurship in order to overcome the COVID-19 crisis and its consequences. In most EU countries, immediate government intervention is aimed at supporting the small business sector and in particular their liquidity (Mason, 2020). In Latvia, the main emphasis is on issuing short-term loans and providing loan guarantees so that banks can continue to lend to companies experiencing short-term liquidity difficulties to support suspended or restricted commercial activities (ALTUM, 2020b). Therefore, Mason (2020) calls for timely support for innovative, high-growth and potential high-growth enterprises, given that such enterprises could provide a sustainable way out of the crisis in the medium and long term. Using examples from the UK's crisis-based public support offers for SMEs, the author recommends that innovative, high-growth enterprises develop public financial support products, involving investments of venture capital funds and business angels.

---

## Conclusions

The EU has developed a wide range of financial instruments that can be applied to support micro-enterprises and to implement innovative initiatives, and international research confirms that they are targeted at focused support to promote both the growth or performance of an individual company and a positive contribution to the national economy. However, the availability of the public financing support to micro-enterprises in Latvia is discussible. Positive policy initiatives to support young innovative enterprises are not matched by appropriate public financial support programs. Their conditions do not meet the needs of companies. Although sufficient public funding have been accumulated in Latvia for many micro-enterprises the availability of financing instruments still remain a challenge, especially for those which want to promote their growth and competitiveness through innovation.

A survey of Latvian enterprises provides an overview reveals shortcomings in the supply of public funding for micro-enterprises and especially for innovation. On the other hand, the actual amount of funding required by micro-enterprises in Latvia has not been fully assessed: many micro-enterprises refrain from turning to *ALTUM*. Accessibility is also affected by the willingness, approach and readiness of the entrepreneurs themselves.

Some recommendations are made based on the our research:

- It would be worthwhile for business policy makers to activate, stimulate risk capital support for micro-enterprises, especially start-ups, for the implementation of innovative ideas, and to create a more focused diversified funding offer with this external source.
- The founders and managers of micro-enterprises should assess their chances of obtaining funding and turn to an appropriate funder. If the project contains innovative ideas, then it is recommended to go to venture capital or accelerator funds (which are supported by public investment).
- As financial institutions, instruments and markets have changed significantly in recent years, there is a need to raise business awareness of these changes and, in particular, of the offers of public financial support.

## Acknowledgements

Thanks to the Marketing and Public Opinion Research Center (*SKDS*) for assistance in conducting the survey.

The research was supported by the national research programme project *Towards the Post-pandemic Recovery: Economic, Political and Legal Framework for Preservation of Latvia's Growth Potential and Increasing Competitiveness* ("reCOVery-LV").

ASBFE0. (2019). Small business counts: small business in the Australian economy. Australian Small Business and Family Enterprise Ombudsman, July. Retrieved from <https://www.asbfeo.gov.au/sites/default/files/documents/ASBFE0-small-business-counts2019.pdf>

ALTUM. (2020a). Biznesa uzsaceju petijums 2020.02.25 (Business Startups Study 2020.02.25). Retrieved March 1, 2020, from <https://www.slideshare.net/ALTUMlv/biznesa-uzsaceju-pt-jums-20200225>.

ALTUM. (2020b). Business | Covid19. Retrieved May 3, 2020, from <https://www.altum.lv/en/>

Beck, T. & Demirgüç-Kunt, A. (2006). Small and Medium-Size Enterprises: Access to Finance as a Growth Constraint. *Journal of Banking & Finance*, 30(11), 2931-2943. <https://doi.org/10.1016/j.jbankfin.2006.05.009>

Beck, T., Demirgüç-Kunt, A. & Maksimovic, V. (2008). Financing Patterns Around the World: are Small Firms Different? *Journal of Financial Economics*, 89(3), 467-487. <https://doi.org/10.1016/j.jfineco.2007.10.005>

Botsari, A., Crisanti, A. & Lang, F. (2019). EIF VC Survey 2019. Fund managers' market sentiment and

policy recommendations. September 2019. Working Paper 2019/59. EIF Research & Market Analysis. Retrieved from [https://www.eif.org/news\\_centre/publications/EIF\\_Working\\_Paper\\_2019\\_59.pdf](https://www.eif.org/news_centre/publications/EIF_Working_Paper_2019_59.pdf)

Brault, J. & Signore, S. (2019). The real effects of EU loan guarantee schemes for SMEs: A pan-European assessment. June 2019. Working Paper 2019/056. EIF Research & Market Analysis. Retrieved from [https://www.eif.org/news\\_centre/publications/EIF\\_Working\\_Paper\\_2019\\_56.htm](https://www.eif.org/news_centre/publications/EIF_Working_Paper_2019_56.htm)

Brown, R. & Lee, N. (2017). The theory and practice of financial instruments for small and medium-sized enterprises. EC-OECD Seminar Series on Designing better economic development policies for regions and cities. 28 June 2017. Retrieved from [https://www.oecd.org/cfe/regional-policy/Brown\\_When-to-use-financial-instruments.pdf](https://www.oecd.org/cfe/regional-policy/Brown_When-to-use-financial-instruments.pdf)

Brown, R. & Mason, C. (2014). Inside the high-tech black box: A critique of technology entrepreneurship policy. *Technovation*, 34(12), 773-784. <http://dx.doi.org/10.1016/j.technovation.2014.07.013>

Central Statistical Bureau of Latvia. (2019). SRG030. Economically Active Enterprises of Market Sector in Statistical Regions, Cities and Counties by

## References

Size Group According to the Number of Employees and Main Economic Activity (NACE Rev. 2). Retrieved April 29, 2020 from [http://data1.csb.gov.lv/pxweb/en/uzn/uzn\\_\\_01\\_skaitis/?rx-id=d8284c56-0641-451c-8b70-b6297b58f464&tablelist=true](http://data1.csb.gov.lv/pxweb/en/uzn/uzn__01_skaitis/?rx-id=d8284c56-0641-451c-8b70-b6297b58f464&tablelist=true)

Central Statistical Bureau of Latvia. (2020). Enterprises. Innovation. Retrieved April 30, 2020 from <https://www.csb.gov.lv/en/statistics/statistics-by-theme/enterprises/innovaton>

Ernst&Young Baltic, Ltd. (2018). Contribution and Impact of EU Support to Entrepreneurship in the 2007-2013 Period. Evaluation Final Report (LV). (Original title: Nosleguma izvertējums: Eiropas Savienības fondu ieguldījumu izvertesana uzņemejdarbības atbalstam 2007. - 2013. gada planosanas perioda un so ieguldījumu ietekmes noteikšana). Latvijas Republikas Finanšu ministrija, 06.07.2018. Retrieved from: [https://ec.europa.eu/regional\\_policy/en/policy/evaluations/member-states/](https://ec.europa.eu/regional_policy/en/policy/evaluations/member-states/)

European Central Bank. (2019). Survey on the Access to Finance of Enterprises in the Euro Area. April to September 2019. November 2019. Retrieved from [https://www.ecb.europa.eu/stats/ecb\\_surveys/safe/html/index.en.html](https://www.ecb.europa.eu/stats/ecb_surveys/safe/html/index.en.html)

European Commission. (2003). Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (Text with EEA relevance) (notified under document number C(2003) 1422). Official Journal L 124, 20/05/2003 P. 0036 - 0041

European Commission. (2016). Innovation Union Scoreboard 2015. 02.02.2016. Retrieved from [http://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards/files/ius-2015\\_en.pdf](http://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards/files/ius-2015_en.pdf)

European Commission. (2019) 2019 SBA Fact Sheet LATVIA. The European Commission Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW). Retrieved from <https://ec.europa.eu/docsroom/documents/38662/attachments/17/translations/en/renditions/native>

GatewayBaltic, Ltd. (2019). Latvijas jaunuzņēmumu ekosistēmas novērtēšana, pasreizeja stavokla identifikācija un uz tas balstītu priekšlikumu izstrāde (Assessing the Ecosystem of Start-ups in Latvia, Identification of the Current Situation and Development of Proposals), id.nr. EM 2018/58, Ekonomikas ministrija, 08.02.2019. Retrieved from [https://www.em.gov.lv/files/attachments/2019-03-27\\_11\\_46\\_18\\_Jaunuznemumu\\_petijums.pdf](https://www.em.gov.lv/files/attachments/2019-03-27_11_46_18_Jaunuznemumu_petijums.pdf)

Gvetadze, S., Pal, K. & Torfs, W. (2020). The Business Angel portfolio under the European Angels Fund: An empirical analysis. January 2020. Working Paper 2020/062. EIF Research & Market Analysis. Retrieved from [https://www.eif.org/news\\_centre/publications/eif\\_working\\_paper\\_2020\\_62.pdf](https://www.eif.org/news_centre/publications/eif_working_paper_2020_62.pdf)

Hall, G. C., Hutchinson, P. J. & Michaelas, N. (2000). Industry Effects on the Determinants of Unquoted SMEs' Capital Structure. *International Journal of the Economics of Business*. 7(3), 297-312. Investment and Development Agency of Latvia (2020). Atbalstīto jaunuzņēmumu reģistrs (Register of supported start-ups). Retrieved March 8, 2020, from <http://www.liaa.gov.lv/lv/fondi/2014-2020/jaunuznemumu-atbalsta-programmas/atbalstito-jaunuznemumu-reģistrs> <https://doi.org/10.1080/13571510050197203>

Janda, K., Rausser, G. & Strielkowski, W. (2013). Determinants of profitability of Polish rural micro-enterprises at the time of EU Accession. *Eastern European Countryside*, 19, 177-217. <https://doi.org/10.2478/eec-2013-0009>

Kaivo-oja, J. & Lauraéus, T. (2018). The European Mind-set, European Opinion and Economic Developments in 2007-2017: Major Changes of Public Opinion and the European Mind-set in Years 2004-2018. *European Integration Studies*, 12, 32-49. <https://doi.org/10.5755/j01.eis.0.12.21870>

Kerr, W.R., Nanda, R. & Rhodes-Kropf, M. (2014). Entrepreneurship as experimentation. *Journal of Economic Perspectives*, 28(3), 25-48. <https://doi.org/10.1257/jep.28.3.25>

Klein, M., Neitzert, F., Hartmann-Wendels, T. & Kraus, S. (2019). Start-up Financing in the Digital Age-A Systematic Review and Comparison of New Forms of Financing. *The Journal of Entrepreneurial Finance*, 21(2), 46-98.

Kraemer-Eis, H., Botsari, A., Gvetadze, S., Lang, F. & Torfs, W. (2019). European Small Business Finance Outlook: December 2019. Working Paper 2019/061. EIF Research & Market Analysis. Retrieved from [https://www.eif.org/news\\_centre/publications/EIF\\_Working\\_Paper\\_2019\\_61.htm](https://www.eif.org/news_centre/publications/EIF_Working_Paper_2019_61.htm).

Kwaak, T., Cheikh, N., de Kok, J., Kruihof, B., Sniijders, J. & Stoilova, V. (2019). Survey on the Access to Finance of Enterprises (SAFE). Analytical Report 2019. November 2019. European Commission. Retrieved from <https://ec.europa.eu/growth/access-to-finance/data-surveys>

Masiak, C., Block, J.H., Moritz, A., Lang, F. & Kraemer-Eis, H. (2017a). Financing Micro Firms in

- Europe: An Empirical Analysis. Working Paper 2017/44, EIF Research & Market Analysis. Retrieved from [http://www.eif.org/news\\_centre/publications/eif\\_wp\\_44.pdf](http://www.eif.org/news_centre/publications/eif_wp_44.pdf)
- Masiak, C., Moritz, A., Lang, F. (2017b). Financing Patterns of European SMEs Revisited: An Updated Empirical Taxonomy and Determinants of SME Financing Clusters. Working Paper 2017/40, EIF Research & Market Analysis. Retrieved from [https://www.eif.org/news\\_centre/publications/eif\\_wp\\_40.pdf](https://www.eif.org/news_centre/publications/eif_wp_40.pdf)
- Mason, C. (2020). The Coronavirus Economic Crisis: Its Impact on Venture Capital and High Growth Enterprises. European Commission, 30 April 2020. Retrieved from <https://eprints.gla.ac.uk/215154/1/215154.pdf>
- Mazzucato, M. (2015). From Market Fixing to Market Creating: A New Framework for Economic Policy. ISI Growth, Working Paper 2/2015. Retrieved from [http://www.isigrowth.eu/wp-content/uploads/2015/11/working\\_paper\\_2015\\_2.pdf](http://www.isigrowth.eu/wp-content/uploads/2015/11/working_paper_2015_2.pdf) <https://doi.org/10.2139/ssrn.2744593>
- Mazzucato, M. & Semieniuk, G. (2017). Public financing of innovation: new questions. *Oxford Review of Economic Policy*, 33(1), 24-48. <https://doi.org/10.1093/oxrep/grw036>
- Moritz, A., Block, J. H. & Heinz, A. (2016). Financing Patterns of European SMEs - an Empirical Taxonomy. *Venture Capital*, 18(2), 115-148. <https://doi.org/10.1080/13691066.2016.1145900>
- Ministry of Economics of the Republic of Latvia. (2017). An Updated Market Gap Assessment in the Field of Financial Accessibility: Progress Report on Implementation of Financial Instrument Programs. Riga, 2017. Retrieved from [https://www.em.gov.lv/files/es\\_fondi/MoE\\_Market\\_gap\\_assessment\\_specified\\_26102017.pdf](https://www.em.gov.lv/files/es_fondi/MoE_Market_gap_assessment_specified_26102017.pdf)
- Ministry of Economics of the Republic of Latvia. (2019a). Atbalsta pasākumi 2014-2020 (Support Measures for 2014-2020). 04.03.2019. Retrieved March 29, 2020 from [https://www.em.gov.lv/lv/es\\_fondi/atbalsta\\_pasakumi\\_2014\\_2020/](https://www.em.gov.lv/lv/es_fondi/atbalsta_pasakumi_2014_2020/)
- Ministry of Economics of the Republic of Latvia. (2019b). Norvegijas finansu instrumenta līdzfinansētas programmas "Uzņēmējdarbības attīstība, inovācijas un mazie un vidējie uzņēmumi" koncepcijas projekts (Concept Project of the Norwegian Financial Instrument Co-financed Program "Entrepreneurship Development, Innovation and Small and Medium Enterprises"). Retrieved from <http://tap.mk.gov.lv/lv/mk/tap/?pid=40476439&mode=mk&-date=2019-08-27>
- OECD. (2015). *New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments*. OECD Publishing, Paris. <http://dx.doi.org/10.1787/9789264240957-en>
- OECD. (2018). *Enhancing SME access to diversified financing instruments*. Discussion Paper, SME Ministerial Conference, 22-23 February 2018. Mexico City. Retrieved March 3, 2020, from <https://www.oecd.org/cfe/smes/ministerial/documents/2018-SME-Ministerial-Conference-Plenary-Session-2.pdf>.
- OECD/European Union. (2019). *The Missing Entrepreneurs 2019: Policies for Inclusive Entrepreneurship*, OECD Publishing, Paris. <https://doi.org/10.1787/3ed84801-en>.
- OECD/Eurostat (2019), *Oslo Manual 2018: Guidelines for Collecting, Reporting and Using Data on Innovation*, 4th Edition, The Measurement of Scientific, Technological and Innovation Activities, OECD Publishing, Paris/Eurostat, Luxembourg. <https://doi.org/10.1787/9789264304604-en>
- Regulation (EU, Euratom). (2018). 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012. *Official Journal of the European Union*, L 193/1, 30.7.2018, pp. 1-222.
- Reynolds, P., Bosma, N., Autio, E., Hunt, S., De Bono, N., Servais, I., Lopez-Garcia, P. & Chin, N. (2005). *Global Entrepreneurship Monitor: Data collection design and implementation 1998-2003*, *Small Business Economics*, 24(3), 205-231. <https://doi.org/10.1007/s11187-005-1980-1>
- Ruchkina, G., Melnichuk, M., Frumina, S. & Mentel, G. (2017). Small and Medium Enterprises in Regional Development and Innovations. *Journal of International Studies*, 10(4), 259-271. <https://doi.org/10.14254/2071-8330.2017/10-4/20>
- Schwab, K. (2016). *The Fourth Industrial Revolution*. (p. 171) World Economic Forum, Switzerland.
- Smus, T. R. (2017). Sources of Support and Funding Innovative Start-Ups. *International Solutions*. *Quartalnik Naukowy Uczelni Vistula*, 2(55), 127-142.

Schiffer, M., Weder, B. (2001). Firm Size and the Business Environment: Worldwide Survey Results. International Finance Corporation. Discussion paper no. IFD 43. August 2001. The World Bank. Retrieved from [http://documents.worldbank.org/curated/en/574601468739143195/Firm-size-and-the-business-environment-worldwide-sur-](http://documents.worldbank.org/curated/en/574601468739143195/Firm-size-and-the-business-environment-worldwide-sur-vey-results)

[vey-results https://doi.org/10.1596/978-0-8213-5003-4](https://doi.org/10.1596/978-0-8213-5003-4)

Vivarelli, M. (2013), Is Entrepreneurship Necessarily Good? Microeconomic Evidence from Developed and Developing Countries. *Industrial and Corporate Change*, 22(6), 1453-1495. <https://doi.org/10.1093/icc/dtt005>

## About the authors

### **BEIZITERE ILONA**

**Mg.oec., candidate for doctoral degree**

RISEBA University of Applied Sciences

#### **Fields of interests**

Micro-enterprise development; micro-enterprise financing, state aid for micro-enterprise.

#### **Address**

3 Meza iela, Riga, LV-1048, Latvia,

Phone + 37126566887.

E-mail: [ilona.beizitere@gmail.com](mailto:ilona.beizitere@gmail.com)

### **IEVA BRENCĒ**

**Dr.sc.admin.,**

Latvia University of Life Sciences and Technologies

#### **Fields of interests**

Companies financing, influence of different factors on economic development of regions.

#### **Address**

Liela iela 2, Jelgava, LV-3001, Latvia

Phone + 37126363506.

E-mail: [ieva.brence3@gmail.com](mailto:ieva.brence3@gmail.com)

### **BIRUTA SLOKA**

**Dr.oec. Professor, Senior Researcher**

University of Latvia, Faculty of Business, Management and Economics, Institute of Economic and Management Research

#### **Fields of interests**

Statistical analysis of different factors influencing economics and management decisions.

#### **Address**

Aspazijas bulv. 5, Riga, Latvia, LV-1050

Phone +37129244966

E-mail: [Biruta.Sloka@lu.lv](mailto:Biruta.Sloka@lu.lv)

