



ANNEX 4.15 TO THE JRC TECHNICAL REPORT

High Growth Enterprises:

demographics,
finance &
policy measures

FACTSHEET - LATVIA (LV)

F. FLACHENECKER
J. GAVIGAN
X. GOENAGA BELDARRAIN
G. PASI
N. PREZIOSI
B. STAMENOV
G. TESTA

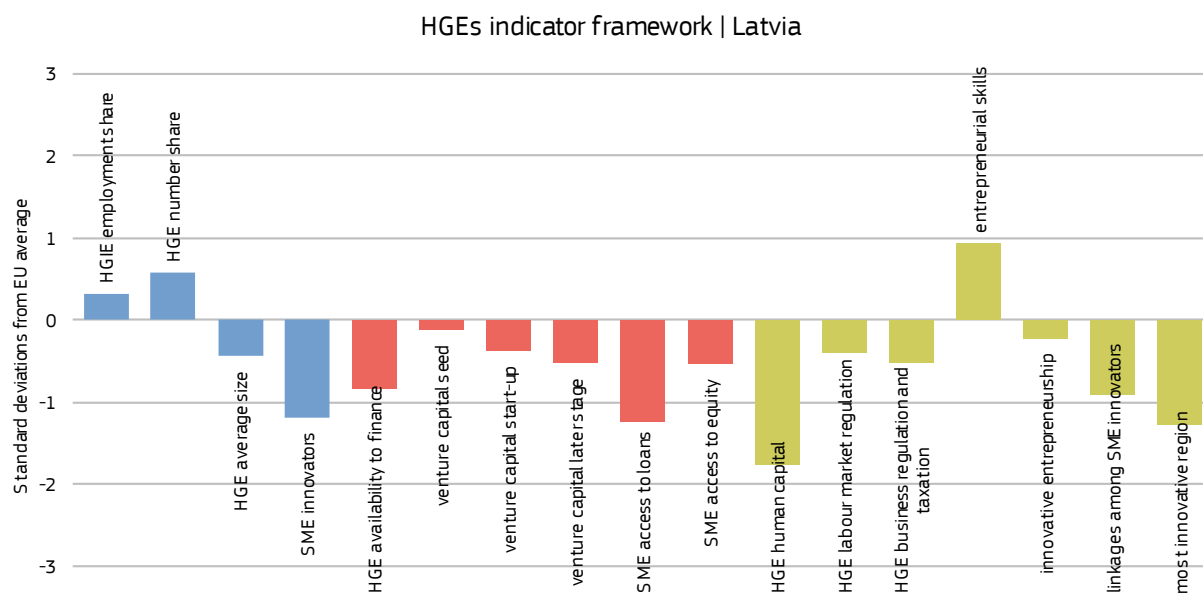
1. Executive summary

LV underperforms in most factors determining the development of high growth enterprises* HGEs. While the employment and number share of HGEs in LV is slightly above the EU average, the country performs below the EU average in terms of access to finance and in most framework conditions with the notable exception of **entrepreneurial skills**. This is reflected in the fact that the start-up community is steadily growing with roughly 50 new start-ups per year. While the community has not grown to a well-developed start-up ecosystem yet, there is an active work in collaboration with the public and non-profit sector to improve the framework conditions and organisational links for the rudimentary ecosystem to mature.

In terms of access to finance, there has been an overall increase in venture capital availability in LV in the recent years except in 2017. The sectoral distribution of venture capital investments is diversified, but certain sectors stand out, such as ICT and manufacturing. There is a strong concentration of venture capital in the region of Riga which is also where most HGEs are found. According to the start-up ecosystem mapping completed in 2019, over the period 2012-2018 the total amount of venture capital attracted by Latvian start-ups reached €122.2m distributed over a total of 178 cases. Venture capital constitutes the main form of financing for start-ups or 46%. Other investors like banks and financial institutions represent 23% of the total investment, business angels - 6%, enterprises - 5% and crowdfunding - 1%†. Despite the increasingly positive trend in VC availability, the venture capital market in Latvia is developing relatively slowly, it is focused in early stages of financing and is quite dependent on public co-funding.

The conditions for HGEs could improve by supporting the **development of human capital** and the **linkages** between different actors in the innovation ecosystem. Human capital shortage due to demographic and emigration trends has been one of the primary sources of concern for the development of the Latvian innovation and entrepreneurship system for a long time now. In addition, there are relatively few research-industry and intra-industry links, in no small part because the industrial side is technologically weak. While the development of a technology-oriented start-up ecosystem sends promising signals bringing together and supporting the entrepreneurial talent in Latvia, it is clear that the country's current human capital cannot support a long-term expansion of this trend.

2. HGEs indicator framework



- LV performs below the EU average in most indicators, especially in terms of access to finance, human capital and

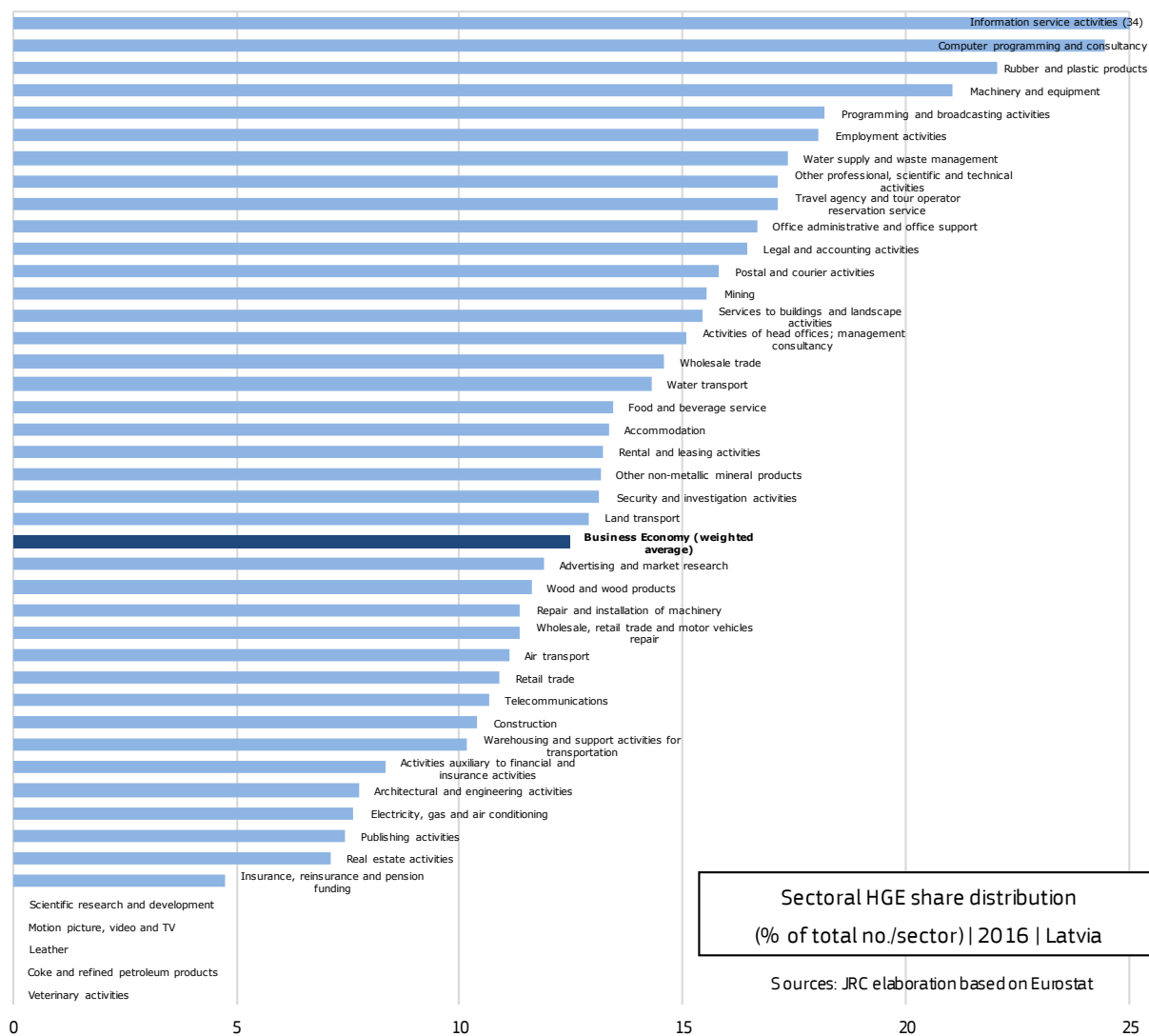
* In line with Eurostat, HGEs are defined as enterprises having experienced an annualised average employment growth rate of 10% per year over a three-year period and at least 10 employees at the beginning of the growth period. The importance of HGEs is directly linked to their substantial contribution to employment growth, productivity improvements, economic renewal and innovativeness.

† Gate way & Partners (2019) *Assessment of Latvian Start-Up Ecosystem, Identification of its Current Status and Development of Policy Recommendations*. Ministry of Economics

linkages among SME innovators. This indicates an overall weekly performing (innovation) ecosystem in the country.

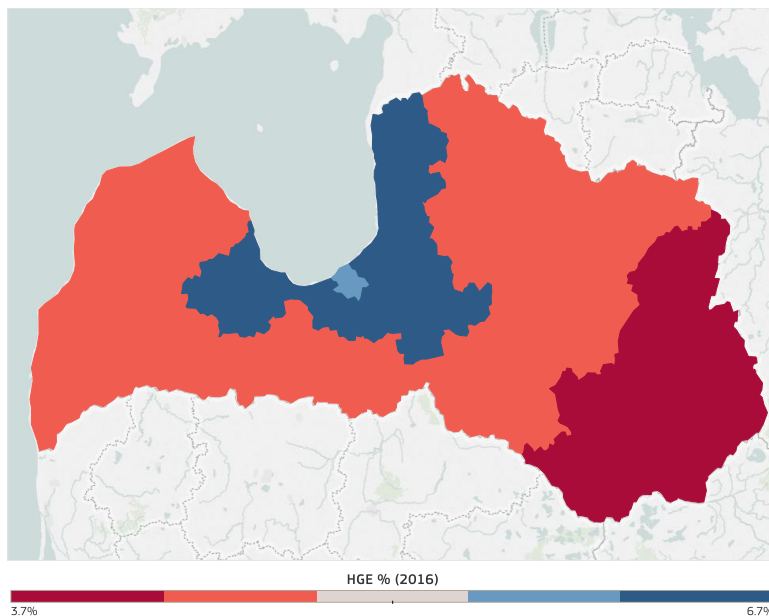
- The emergence of HGEs and their shares among total enterprises is favoured by strong entrepreneurial skills.
- LV could improve the conditions for HGEs by supporting the development of human capital (e.g. by attracting people with the right skills) and by continuing to promote access to financial resources.

3. Firm demographics and sectoral decomposition



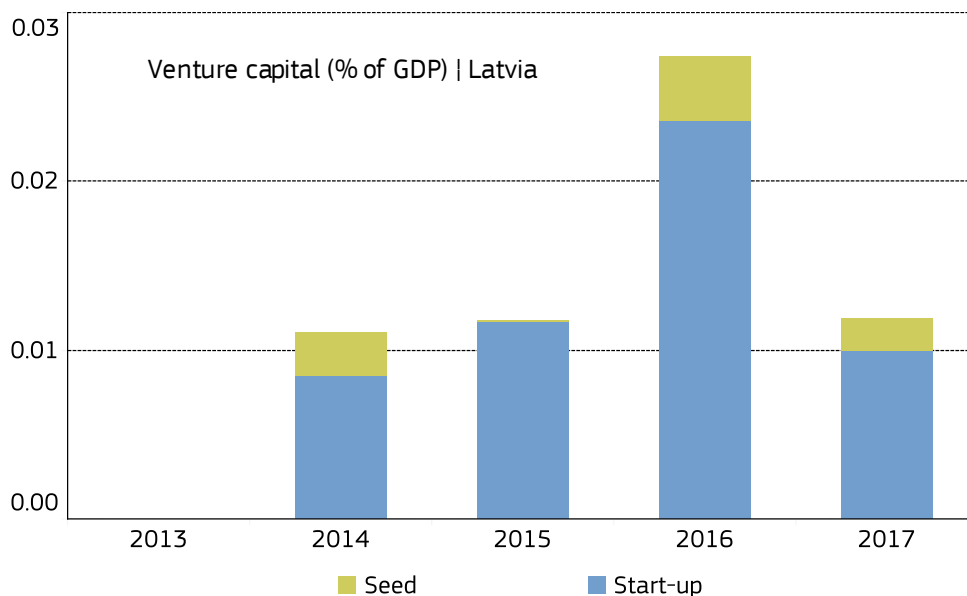
Sectoral HGE share distribution
(% of total no./sector) | 2016 | Latvia

Sources: JRC elaboration based on Eurostat



- The average share of HGEs in LV is 12.5% across the business economy, ranging from 4.8% in insurance activities to an impressive 34% in information service activities.
- The highest shares of HGEs are found not only in knowledge-intensive and medium-high tech manufacturing industries, particularly in ICT and machinery and equipment, but also in medium-low tech sectors such as rubber and plastic products.
- The highest share of HGEs among active enterprises is concentrated in the Riga region.

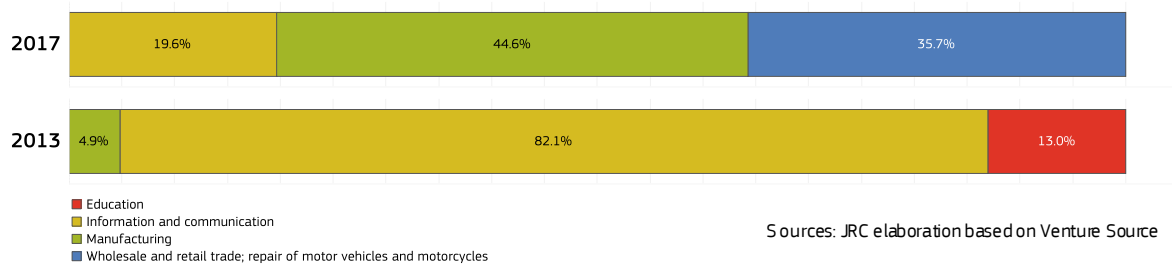
4. Financing HGEs and start-ups: the role of venture capital



Sources: JRC elaboration based on Venture Source

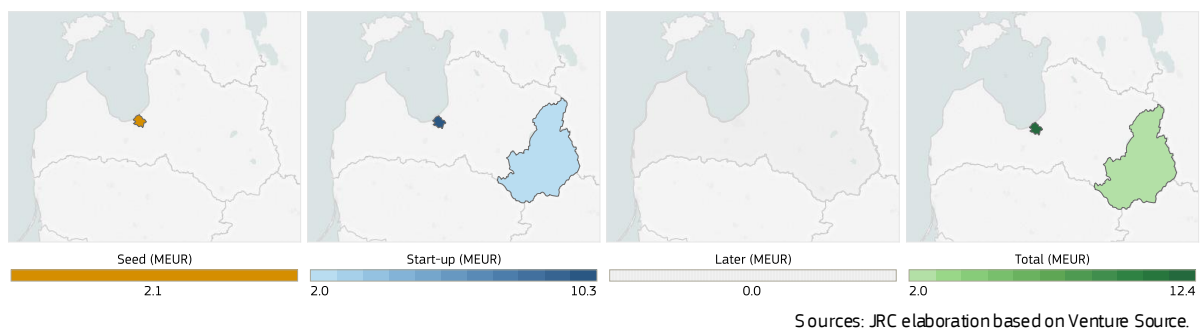
- LV has increased venture capital investments as a share of GDP from 2014 to 2016, but has seen a reduction in 2017.
- LV has a problem with later stage VC which indicates the underdevelopment of the growth venture market.

Sectoral distribution of VC investment (in %) | Latvia | 2013 & 2017



- The sectoral distribution of venture capital investments is diversified, but certain sectors receive most investments, such as ICT, manufacturing, and wholesale and retail trade.
- The sectoral distribution of venture capital investments can change substantially over time.

Regional distribution of VC investment by stage of financing (in MEUR) | Latvia | 2013-2017

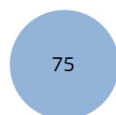


- VC investments are concentrated in the capital city of Riga and in the region of Latgale.

5. Finance-related policy measures

Financial instruments Latvia (MEUR)

Seed, start-up and growth risk capital funds



Type: ■ equity

- The Seed, start-up and growth risk capital funds may be viewed as the main publicly supported financial instrument for HGEs and it is mostly funded by the ERDF which indicates a strong reliance on EU Structural funds. It is planned that this public funding through risk capital funds leverages additional 40 MEUR from private investors.
- Latvia also uses loan guarantees and mezzanine loans to support young companies with growth ambition. The maximal amount of a mezzanine loan is 5 MEUR and it cannot exceed 45% of the overall project costs.
- The target group of the policy instruments is defined quite generally as technology and knowledge-intensive enterprises
- Latvia does not have a strong policy evaluation culture, hence more in-depth studies of the impact of the current support instruments are largely missing.
- The new *Start-up Law* came into force in 2017. It can be regarded as a novel step as Latvia was the only country in the world adopting such a legal framework. The aim of the support measures encompassed in the law is to help technology-based start-ups to face one of their greatest initial challenges – employee salaries and taxes.

Annex: HGEs Indicator Framework details

Indicators	Details	Motivation
HGEs indicators		
HGE employment share	Percentage share of employees among HGEs in 50% 'most innovative' industries relative to total employment (EIS; 2018)	Measures contribution of HGEs to employment creation
HGE number share	Percentage share of HGEs of total enterprises with at least 10 employees (Eurostat; 2016)	Measures how many firms are HGEs
HGE average size	Average size of HGEs (employment definition); employees divided by number of HGEs (Eurostat; 2016)	Measures average size of HGEs, an indication for future job growth potential
SME innovators	Share of SMEs with product, process, marketing or organisational innovations or innovating in-house among all SMEs (EIS; 2018)	Existing SME innovativeness as predictor for future innovations
Financing HGEs indicators		
HGE availability of finance	Percentage of HGEs considering the availability of finance is not an investment barrier (EIBIS; 2016-2018)	HGEs access to finance is considered a precondition for the development of HGEs
Venture capital seed	Share of seed venture capital to GDP (Venture Source; 2017)	Venture capital is a relevant source of finance for potential HGEs
Venture capital start-up	Share of start-up venture capital to GDP (Venture Source; 2017)	Venture capital is a relevant source of finance for potential HGEs
Venture capital later stage	Share of later stage venture capital to GDP (Venture Source; 2017)	Venture capital is a relevant source of finance for potential HGEs
SME access to loans	EIF SME Access to Finance Sub-index for loans, comprising the use and cost of loans (EIF; 2018).	SME access to loans is an important framework condition indicating the access to loans for HGEs
SME access to equity	EIF SME Access to Finance Sub-index for equity, comprising use of equity and the sophistication of the equity market (EIF; 2018)	SME access to equity is an important framework condition indicating the access to equity for HGEs
HGEs framework conditions indicators		
HGE human capital	Percentage of HGEs considering the availability of staff with the right skills is not an investment barrier (EIBIS; 2016-2018)	HGEs access to human capital is essential for the development of HGEs
HGE labour market regulation	Percentage of HGEs considering the labour market regulation is not an investment barrier (EIBIS; 2016-2018)	HGEs may be constrained by existing labour market regulation
HGE business regulation and taxation	Percentage of HGEs considering the business regulation (e.g., licences, permits, bankruptcy) and taxation is not an investment barrier (EIBIS; 2016-2018)	HGEs may be constrained by existing business regulation
Entrepreneurial skills	Percentage of 18-64 population who believe to have the required skills and knowledge to start a business (GEM; 2018)	HGEs may require entrepreneurial spirit, skills and knowledge
Innovative entrepreneurship	Ratio between improvement-driven and necessity-driven entrepreneurship (EIS; 2018)	Countries with high relative prevalence of improvement-driven opportunity, and entrepreneurship tend to be primarily innovation-driven, thus conducive for HGEs
Linkages among SME innovators	Innovative SMEs collaborating with others, public-private co-publications and private co-funding of public R&D expenditures (EIS; 2018).	Quality of innovations increases with collaboration and provides information on sophistication of SME innovation ecosystem, thus related to HGEs.
Most innovative region	Relative performance of most advanced region in the Regional Innovation Scoreboard within each Member State vis-à-vis the best performing regions across all other Member States (RIS; 2017).	HGEs innovation ecosystems tend to be concentrated in most innovative regions/centres.

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