
**Small Innovative Business Promotion Network / SIB Net (EU 31398)**

# EARLY STAGE BUSINESS NEEDS ANALYSIS

# RESEARCH REPORT

Riga, 2011

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# Executive Summary

This survey is based on a desk research that is validated by six in-depth interviews of nascent entrepreneurs and early-stage technology content companies in Tartu and Riga. During the desk research different reports and surveys were reviewed at the European, national and regional level. Some valuable reports had been written before the economic downturn; therefore additional more recent data is used where possible. The largest problem in the present research is the fact that on a national, as well as regional scale no studies have been performed that would concentrate particularly on the nascent or new enterprises. The studies that analyze the entrepreneurs' needs are mainly based on the views of the entrepreneurs that already operate on the market; however, it is clear that the needs of the nascent and the new enterprises may be and are different from those of the enterprises that have been operating on a market for quite a long time. Therefore, in the future more attention should be paid on carrying out surveys about the new enterprises with a sufficient number of respondents.

Estonia and Latvia both have many similarities in the economy, society and innovation. However, in general Estonia is doing slightly better in many aspects. The statistics show that in Estonia the science and research is far more developed, there are fewer barriers for entrepreneurs in the conduct of the business activity, and, finally, there is a larger added value in the national export. The EU data show that in Estonia there is the largest number of high-growth companies among the newly-established enterprises, whereas in Latvia this number is one of the smallest.

When analyzing the entrepreneurs' needs in both countries, no essential differences can be observed. Entrepreneurs indicate as their major need the necessity for financing in addition to the implementation of instruments that facilitate business activity, reduction of the tax burden and of the bureaucratic processes.

In both countries entrepreneurs finance investments from their own resources, by attracting to a lesser extent the funds from other natural or legal persons. Bank loans are popular, yet the nascent entrepreneurs indicate that it is practically impossible to receive them due to unfavorable conditions. The EU support instruments are also popular. Entrepreneurs are poorly informed of the possibilities of attracting the financing from venture capital and business angels and are not practically using them. Generally, entrepreneurs consider that at the early stage there is no financing available in the country.

With regard to the investments in innovation entrepreneurs are rather inactive; a large number of entrepreneurs do not consider it as a perspective investment, whereas those who would like to do this indicate on the lack of information about the development of the research organizations and blame the researchers for their inactivity in technology transfer.

An essential drawback is the low awareness of the entrepreneurs of the existing support instruments, as well as the lack of awareness of such issues as venture capital, business angels, business incubators, technology transfer. The entrepreneurs indicate on the high degree of fragmentation of the information, which prevents finding the right solution to problems.

On the other hand, the present report indicates on the large number of various support providers, such as the direct support from the state (grants, subsidized loans, training),



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seed and pre-seed funds, business incubators, technology transfer centres, private advice organizations, etc.

On the EU level the issue of the support for high-growth companies (gazelles) is a current topic, yet this issue is sufficiently new for efficient and proven support instruments to have been created. The specifics of gazelles calls for an individual support policy for enterprises that would not be subordinated to the general SME support policies employed currently. The support to gazelles means a selective approach towards the selection of the support candidates where the largest role is played mainly by the entrepreneur's personality (proactive, able to manage a high-growth company), as well as the assessment of the idea. The support to gazelles cannot be related to the support for the nascent enterprises only, to the technological investments only or otherwise, since gazelles emerge from enterprises and sectors of various sizes and ages.

For the development of gazelles the concentration on a large market is essential. Unfortunately, the single EU market contains many internal barriers; therefore the emergence of gazelles is more complicated if compared, for example, to the USA. Similarly, it has to be noted that the Latvian and Estonian entrepreneurs are mainly willing to concentrate on the internal market that are very small, therefore it is essential to promote and support internationally oriented ideas and entrepreneurs.

At present there are no specific support instruments especially for gazelles in both countries; there are individual conditions within the existing support schemes, yet these schemes are subjected to the general SME support policies, as a result of which there is no appropriate selection of candidates, the candidates are selected by evaluating all the enterprises (not the personalities) according to the principles of equality. Still, there are enterprises where the selective approach exists which is done by the private market participants, for example, venture capitalists or business angels. If such an approach is implemented also in other support instruments, it is desirable to establish such instruments together with a private partner.

Still, the major problem in both countries is the small number of ideas and, to an even larger extent, of the potential high-growth ideas. One of the ways how to increase the number of such ideas is to endeavor to ensure that the educational system is able to provide creative people with a high potential and knowledge in business activity who are ready to work internationally. The second way is to train the existing nascent entrepreneurs and inventors. The third way is to increase the number of such ideas by using the ideas created in other countries (for example, the technology reactor organised by the LIDA which includes the ideas from the CIS countries).



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# 1. Overview of the region

## *1.1. General comparative description of the business environment*

Before proceeding to region specific statistics and the description of early stage businesses a brief overview of both countries is provided, just to get an overall impression of the business environment where new, growth oriented companies should be born and develop. The statistics were selected from the World Bank's statistics database. Particular indicators were selected intuitively – how a new to business, technology oriented nascent entrepreneur would evaluate the situation. Finland has been selected as the most likely country that is recognized as an outstanding place for birth of technological & innovative enterprises.

A better place to start-up in this context would be Estonia due to the ease of doing business, sound bureaucracy, good technology community and no worries on bribery or unfair competition. The strong point of Latvia would be – risk-taking women in the business community, reasonable taxation and employment system, favorable protection by law and prospects for future as improving climate. In Finland it is hard to establish something that is not related to a new technology.

This summary shows that in both countries it is possible to further reduce the obstacles in order to improve the business environment, specifically in the reduction of bureaucracy (especially in the real estate issues) and the reduction of the costs of starting up business. It can be seen also that almost in all the indicators related to the business environment there are improvements in both countries and in the right direction. However, with regard to the technology issues (R&D and applications) it is obvious how much both countries lag behind Finland. It is shown by the number of international scientific publications, which differs very substantially if compared to Latvia and Estonia, and also the resulting indicator of the export of high added-value products is much higher for Finland. Obviously, if we speak about the facilitation of emerging of technology-oriented enterprises, the most important factor is not the overall business conditions but the R&D base as such.



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**Selected indicators on start-up environment**

| | Latvia | | Estonia | | Finland | |
|---|---|---|---|---|---|---|
| Firms with female participation in ownership, 2008 (% of firms) | 46 | ↑ | 36 | ↑ | n/a | |
| Start-up procedures to register a business (number) | 5 | → | 5 | ↘ | 3 | → |
| Cost of business start-up procedures, 2009 (% of GNI per capita) | 2.1 | ↓ | 1.7 | ↓ | 1 | ↘ |
| Procedures to register property, 2009 (number) | 6 | ↓ | 3 | → | 3 | → |
| Procedures to build a warehouse, 2009 (number) | 25 | ↘ | 14 | ↗ | 18 | → |
| Ease of doing business index (1=most business-friendly regulations) | 27 | ↘ | 22 | ↗ | 16 | ↗ |
| Total tax rate (% of profit) | 33 | ↑ | 49 | ↘ | 48 | ↘ |
| Tax payments (number) | 7 | ↓ | 10 | → | 8 | ↓ |
| Management time dealing with officials, 2009 (% of management time) | 9.7 | ↑ | 5.5 | ↑ | n/a | |
| Informal payments to public officials, 2009 (% of firms) | 11.32 | ↓ | 1.6 | ↓ | n/a | |
| Rigidity of the employment index (0=less rigid to 100=more rigid) | 43 | → | 51 | → | 41 | → |
| Firms using banks to finance investment, 2009 (% of firms) | 37 | ↑ | 41 | ↑ | n/a | |
| Internet users (per 100 persons), 2009 (per 100 persons) | 60 | ↗ | 66 | ↗ | 63 | ↗ |
| Scientific and technical journal articles, 2005 (number) | 134 | ↘ | 439 | ↗ | 4811 | ↗ |
| High-technology exports, 2009 (% of manufactured exports) | 7 | ↗ | 10.5 | ↘ | 21.2 | → |
| Strength of legal rights index, 2009 (0=weak to 10=strong) | 9 | → | 6 | → | 7 | → |

*Source: World Bank, 2010*

Estonia and Latvia both has many similarities in the economy, society and innovation. However, in general Estonia in many aspects is doing slightly better. For instance, GDP per capita (GDP per capita in PPS) in 2009 in Estonia was 63%, in Latvia 49% as of the EU average. Estonia has a significantly better ground for technology based enterprises as its R&D system is performing very close to the average of the EU, while Latvia is lagging far behind in the field and is ranked among the poor performers. This can be explained by the consequent policy implementation towards innovation in Estonia. Up to recent time, Latvia actually did not have a particular policy at all. R&D spending and its development clearly illustrates this issue; i.e. in 2009 in Estonia the R&D spending was 1.42% from GDP, but in Latvia – 0.45%.

The main problems in the innovation systems of both countries are the poor connection between research institutions and the business, the researchers that become old and are small in number, the poor orientation of the research towards the needs. In the context of comparison to other countries, these problems are more topical in Latvia than in Estonia.



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### *1.2. Demographics of newly established enterprises*

Detailed, internationally comparable demographic data with a particular focus on innovative start-ups could give a good picture of the situation in the market. Unfortunately such data is not collected and is therefore unavailable for further research.
Some brief characteristics of early-stage businesses are given by Audretsch et al. (2009) who compiled a report based on the available Eurostat information. The following characteristics can be found:

- In the new EU member states, enterprise birth rates tend to be above the EU average; it can be explained by the "catching-up" process; in the meantime, the death rate is also higher than the EU average because a larger number of start-ups makes a larger number of companies that do not survive through the early stage of development; as a result, on average in the EU the SME's that have survived account for 1% of the increase of the number of enterprises,
- During the period of 2001-2005, on average 75% newly established enterprises "survived" (existed in the market for two years of operation),
- Newly established businesses mainly engage in R&D, computer related and real estate activities, in the services sector respectively.

In addition to the "catching-up" process the economic slowdown or growth affects largely the demographics of companies. The GEM report concludes that the positive factors of the economic slowdown (cheaper production, free time, unemployment and wage cuts) are likely dominating over the negative aspects like difficulties to raise financial resources and finding of customers. In the meantime, the report indicates on a large number of necessity-driven entrepreneurs that do not engage in the innovative business.

According to the European Commission survey (2009), Estonia was one of the front runners in terms of fast growing newly established companies; i.e. among companies that are younger than 5 years there are 12 companies with a growth higher than 20%, while Latvia had only 3, which is one of the worst performances in the EU.

Meta Group (2010) concludes that official statistics showing poor demographic numbers actually does not illustrate the situation, much more positive aspects lie in the sectors where companies operate, in innovativeness, education level and realistic ambitions of entrepreneurs.

Statistics Estonia provides data on company demographics starting from 2004; unfortunately there has been no particular focus on innovative companies so far. From the available data the following conclusions can be made:

- around one fifth of all the enterprises are founded in the Southern Estonia region,
- among the regions the main economic activity is in Tartu County followed by Viljandi County,
- the number of start-ups in the Southern Estonia per 1000 inhabitants is smaller (3.3) compared to the rest of Estonia (5.3) and particularly to Tallinn, Tartu start-ups per population are close to Tallinn's rate while in other regions the start-up activity is significantly lower,
- the survival rates in the Southern Estonia are surprisingly high; the total survival rate for a 3 year period is around 83%, while in the rest of Estonia it is 76%,



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- however, the manufacturing, ITC and R&D activities in the Southern Estonia are a less popular start-up profile (0.9 enterprises per 1000 inhabitants), especially if compared to the rest of Estonia where 1.5 companies per 1000 inhabitants in these areas.

The data available from Statistics Estonia allows conduct a more detailed analysis of demographics and is valuable information, as in other countries it is usually absent or publicly unavailable.

***Demographic characteristics of the Southern Estonia***

| | All sectors | | | | Manufacturing, ITC, R&D | | | |
|---|---|---|---|---|---|---|---|---|
| | New 2008[1] | 1st year start-ups[2] | 2nd year survivers[3] | 3rd year survivers[3] | New 2008 | 1st year start-ups | 2nd year survivers | 3rd year survivers |
| Jõgeva | 7% | 74 | 92% | 78% | 5% | 14 | 93% | 71% |
| Põlva | 5% | 63 | 94% | 89% | 2% | 14 | 100% | 93% |
| Tartu | 59% | 565 | 91% | 82% | 64% | 137 | 94% | 85% |
| Valga | 8% | 70 | 90% | 86% | 5% | 14 | 86% | 79% |
| Viljandi | 14% | 126 | 87% | 82% | 16% | 36 | 81% | 75% |
| Võru | 8% | 89 | 89% | 88% | 7% | 31 | 87% | 84% |
| **Luna Eesti** | 3,3 | 987 | 90% | 83% | 0,9 | 246 | 91% | 83% |
| Rest Estonia | 5,3 | 4579 | 86% | 76% | 1,5 | 1061 | 88% | 80% |
| Total | 4,8 | 5566 | 87% | 77% | 1,3 | 1307 | 89% | 81% |

*Source: Statistics Estonia, VL BALTIC calculations, 2010*

[1] *newly established companies in 2008 in the Southern Estonia regions altogether constitute 100%, aggregated regions are calculated as companies per 1000 inhabitants*

[2] *the number of companies is calculated as companies per 1000 inhabitants*

[3] *the survival rate*

Unfortunately, as for Latvia there is the lack of data similar to that provided by Statistics Estonia, therefore it is hard to compare the both countries. However there is a Global Entrepreneurship Monitor (GEM) survey made frequently on Latvia but, again, not on the Estonian market.

According to publicly available data from Lursoft (Commercial Register data), the regional spread of newly established enterprises remains quite the same as it was in the previous periods, i.e. in 2010, 48% of newly established companies were in Riga, 14% in the remaining Riga Planning region, and 11% in Kurzeme. The only slight change is a minor shift from Riga to the RPR.

Significant changes occurred in 2010 when statistics show a yearly increase of almost 25 times. While in 2005 the number of newly established enterprises in Riga was 9, in the RPR – 4, and in Kurzeme – 3 companies per 1000 inhabitants, at the end of 2010 the corresponding numbers were 173 for Riga, 92 for the RPR and 95 for Kurzeme. So far no research has been carried out on this matter and no special notes have been made regarding these numbers. Such an increase seems to be more like a misunderstanding than the reality. Still experts among the society believe that recently the start-up activity has increased significantly and it is due to a mix of factors including mainly the public initiative for microenterprises and economic slowdown (incl. necessity-driven entrepreneurs). Additional data is needed to explain this phenomenon.

Using a survey method, Rastrigina 2008 states in the GEM report that there are very low chances of survival for start-ups in Latvia. According to the report on early-stage entrepreneurial activity – 6.5% of the adult population were involved in early-stage

entrepreneurship in 2008, out of which 2/3 are nascent entrepreneurs and the remaining ones are new firm owners. At the same time the author points to the positive trend – despite the economic downturn, 9% of the adult population have intended to start-up the business in the next three years.

Te level of the necessity-driven entrepreneurship in Latvia was approximately on average in comparison with other GEM countries. However, over the recent years Latvia has experienced a sharp increase in necessity-driven entrepreneurial activity: from 15% in 2007 to 21% in 2008. The share of necessity-driven entrepreneurs among nascent entrepreneurs has almost doubled. Similarly, on a global scale the proportion of necessity-driven entrepreneurship has increased on average.



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## 2. General structures and actors involved in the development of entrepreneurial activities

In general, the range of stakeholders for entrepreneurial activities is broad, starting with public policy makers, like governments and ministries, EU policy makers, and only then it turns to regional players, e.g. public support providers (Enterprise Estonia, Estonian Development Fund, KredEx and – in Latvia – LIDA, LMLB, LGA), Universities (Tartu University, the University of Latvia, Riga Technical University, Ventspils University), local municipalities, training and advice providers, and ending up with local SMEs that provide the market with nascent entrepreneurs.

The main sources of advice for nascent entrepreneurs and start-ups are the following:

- family, friends, colleagues and other persons,
- educational establishments, like schools and universities, and their related institutes etc.
- professional and general training/advice provision organizations and companies,
- voluntary organizations of nascent entrepreneurs or the existing companies or organizations linking specific interest groups of people,
- state and municipal establishments,
- international support organizations,
- private capital providers (banks, VC, business angels),
- mixed-type operators that are founded in order to provide support to nascent entrepreneurs or startups, like business incubators, centers of competence, networks, etc.

The main financial support providers are:

- private (family, friends etc.),
- banks,
- business angels,
- venture capital and
- public support ,that can also be done by means of market players mentioned in the advice category.

In this report the focus is made on all sources of advice and financial support, except personal advice/support providers, i.e. family, friends, etc. The exception applies also to the schools and vocational schools, since they can not be recognized as direct sources of nascent entrepreneurs for high-growth companies.



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## 2.1. The Southern Estonia region

### 2.1.1. Early stage advice services

*Educational establishments*

Meta group (2010) states that entrepreneurial education provided in high-schools in Estonia is quite limited. The report mentions that 45% of non-economic study curricula at public universities do not have entrepreneurship subjects included; for higher vocational institutes this figure is only around 2%. The Tartu University as the major player in the Southern Estonia accounts for 63% of non-entrepreneurship curricula. The overall rate of students who acquire extensive student company programs is only about 1%. E. Kolber et al (2006) have done survey on graduates of Tallinn University of Technology with particular focus on their needs. They concluded that bachelor curricula merely provide knowledge but almost do not provide motivation to start business due to the poor or missing practical business experience. Further impediments are the lack of business ideas, shortage of capital and risk aversion, lack of awareness and capability to use entrepreneurship support programs. Regardless of the scope of survey (TUT graduates), it seems that the issue is universal among the universities here.

When speaking particularly of the Southern Estonia, the main players in education provision are Tartu University (TU), Mainor Business School (Tartu, Viljandi, Võru), Estonian University of Life Sciences (Tartu).

TU is the largest university in Estonia with 11 faculties. Apart from curricula TU has elaborated a quite comprehensive package of services oriented towards nascent and existing entrepreneurs; i.e. advices in starting up a company, advice & expertise to R&D of new products & technologies, transfer of TU R&D elaborations to businesses (incl. means of fundraising), training (incl. on-site), rental of premises. TU has 3 centres of competence (nanotechnologies, cancer and dairy biotechnologies) that contribute to these services. Transparency and variety of services offered is good. Unfortunately there is no information available on how many people and who use these services and what is the perception of the service quality; i.e. it is unclear what the capacity of TU is and which areas have to be improved and to what extent.

Mainor Business School is one of the best examples among Europe in terms of orientation towards entrepreneurship. Particular interest is raised by general business administration studies as well as software-related curricula. The University also maintains lifelong education when non-graduates can acquire courses and get credit points, possibly for a further grade. This is common in many Western countries; however in Estonia or Latvia it is rare. University of Tartu offers also seminars, trainings.

Estonian University of Life Sciences has 5 main R&D and education areas (environment, veterinary, forestry, energy and entrepreneurship). Public information is not transparent; at least there is not much information about the support for nascent entrepreneurs or start-ups except that the University has Open University courses and advisory, training services for nascent entrepreneurs – women (Interreg supported project).

*General training/advice provision organizations and companies*

Traditionally a number of intermediaries providing professional and general training/advice to organizations and companies operate in the market. Usually these are private and therefore operate exceptionally on a commercial basis. According to E. Kolber et al (2006), business training courses are provided by 36 entities, and the number of courses is around 240 in Estonia. Firstly, this data is already 4 years old, and secondly, there is no particular regional distinction. However, it is possible to assume that for the Southern Estonia this number is at least half as high and is mainly concentrated in Tartu and other centers of counties. An important conclusion made by E. Kolber et al is that there is a small number of courses dedicated especially to start-ups and that most of them are meant for the unemployed. As was concluded previously, the probability that unemployed persons could engage in high-growth entrepreneurship is small. In general, is possible to say that the offer from private training companies for nascent entrepreneur is poor. The only exception would be subsidized companies/organizations that are selected to carry out such trainings. At the time of drawing up the report there was no information available about how many subsidized companies there are. A part of them is related to the Enterprise Estonia support program for training.

*Voluntary organizations of nascent entrepreneurs or existing companies or organizations uniting specific interest groups of people*

Voluntary organizations of nascent entrepreneurs or existing companies or organizations uniting specific interest groups of people usually act as umbrella organizations for the provision of state or other funding supported services. Support is changing and depends on management's pro-activity or personal experience.

Also in the Southern Estonia the Chamber of Commerce and Industry operates quite actively on a national-scale, which provides general and specific training to early-stage entrepreneurs. Information about the available support is scattered and companies can not access it easily at some point.

ETNA Estonia is a nascent women-entrepreneur NGO and operates throughout Estonia and has two representations in the Southern Estonia (Võru and Tartu). The organization focuses mainly on encouraging means, but it provides also business training and mentoring. Microcredit program is also mentioned. The organization is supported by some EU funding.

The Estonian Startup Leaders Club (2009) unites some 40 entrepreneurs that have recently started the business and nascent entrepreneurs. The main services are experience sharing, business networking. Nowadays the ESLC prefers electronic communication among the community.

*State and municipal establishments*

In field of state and municipal establishments the main role is played Enterprise Estonia (EE) that organizes trainings, experience workshops/trips, seminars etc. for nascent entrepreneurs and existing entrepreneurs. There is a special mentoring program that has been maintained since 2004. To some extent, EE organizes training according to requests of different organizations representing entrepreneurs. EE also provides financing for in-service training of employees and purchase of consultations from a private advisor, training companies (training vouchers meant for micro and small companies). EE provides financing to intermediate organizations (associations,



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business incubators, counties) in such a way that these later provide relevant training to entrepreneurs.

So far there has been no information on the proportion of these services that goes to nascent entrepreneurs or early-stage companies. Up to 2007 around 3000 persons went under training of EE. However, the share of nascent entrepreneurs could be relatively small as there is no strong organization uniting nascent entrepreneurs and lobbying their interests. Until the first half of 2009 there were 280 applications for training voucher out of which only 30% were micro companies. Support for nascent entrepreneurs (physical persons) is not provided within this program. In the meantime, the representatives of EE indicate that the interest of micro companies is high; however EE has already been pushed once to change the rules for the program; i.e. by reducing the minimum grant amount in order to make the program more accessible for companies.

The 2010 budget for EE is 223 MEUR, the staff consists of 290 persons. EE has a regional representation in Tartu and has an established network of regional county development centers. EE also has representatives abroad, i.e. in Helsinki, Stockholm, London, Hamburg, Moscow, St. Petersburg, Kiev, California, Shanghai and Tokyo. All in all EE is considered to be one of the best practice examples in various reports.

As mentioned previously, Enterprises Estonia has appointed local counties to provide advisory services for nascent entrepreneurs and start-ups. In Southern Estonia all county centers provide these services. There is a preset list of questions to what a local authority officer should be capable answer – in practice, this includes the provision of information on almost all support providers in Estonia (EU funding, Interreg, consultants, etc.), as well to typical but comprehensive start-up questions, like idea evaluation, and ending up with taxation issues. The services are free of charge.

*International support organizations*

International support organizations usually operate through a local partner, in most cases through public institutions. Often these are not long-term establishments as they are intended to solve some issues identified by a host organization. Usually the services provided are very specific and do not provide for general training or the like. Information about the possible opportunities heavily relies on pro-activity of a local partner. Information is quite scattered over the country, and the central organization, Enterprise Estonia (at least at public for easy access), does not provide that.

The International Enterprise Europe Network is an establishment of the European Commission and is meant for the provision of support to early-stage businesses. In Estonia there are 5 local partners and two of them operate in the Southern Estonia, namely, Tartu, i.e. the Baltic Innovation Agency and Tartu Science Park. The Baltic Innovation Agency provides training, seminars and advisory services with regard to internationalization, technology transfer, fundraising, etc. More specific description of TSP is provided below.

Some other international projects (aimed at early-stage businesses) in the Southern Estonia are BENCH, Protolab Network, etc. Usually these international projects deal with specific advice or training more than in general.

*Private capital providers*

Private capital providers rarely engage in advisory or training services. More often they engage in seminars providing some basic information about the opportunities, the prerequisites to acquire financing, etc. Some more extensive advice is provided by VC funds, especially in the case of the state supported Estonian Development Fund. The scope of advice and consultations depends largely on an idea potential and, in the case of private VCs, on a personal attitude towards risk sharing issue. In Estonia there are some 3 early stage financing VC funds that operate.

*Mixed type operators*

Business incubators (BI) are one of the most popular types of mixed type operators that provide advisory services in the market. In the Southern Estonia 5 BI operate, i.e. Tartu Science Park, Tartu Biotechnology Park, Räpina Incubation Centre, Võrumaa Technology Incubator and Tartu Centre for Creative Industries.

Tartu Science Park is the oldest (founded in 1992) Science and Technology Park in Estonia. In parallel to rental, TSP provides business incubator services. There are 60 tenant companies (incl. 14 incubatees) in electronics and instrument building, biotechnology and gene technology, ICT and others.

Tartu Biotechnology Park (2001) provides early-stage companies with physical infrastructure (premises & equipment) and different consultations (preparation of business proposal/plan, co-operation partner search within R&D network, fundraising services, etc. Since 2009 it maintains the Competence Centre on Reproductive Medicine and Biotechnology. As of 2010, there are 8 tenants. Since 2005 TBP runs also the BioMed Incubator (Enterprise Estonia support) meant for early-stage companies in the field on biotechnology, medicine and veterinary medicine. As of 2010 there is one company (tenant) so far. Supporting services are the same. BI does have free capacity available for the companies.

Räpina Incubation Centre offers premises and services for a wide range of companies. Advisory, training services are provided free for early-stage businesses. Training is likely to be more general on how to start-up business like initial training, business partner search, business development, etc. The founders of BI are the local municipality and county. There is no information regarding the number of tenants and incubates.

Võrumaa Technology Incubator (2006) receives support from Enterprise Estonia. Currently it has 5 tenants. BI offers technology related consultations, including on new product development, technology transfer, as well business advisory and training services.

Tartu Centre for Creative Industries is funded by the City of Tartu and Enterprise Estonia and was founded in 2009. There were 20 businesses in the preliminary-incubation program in 2009 and due to popularity new premises are sought. The Centre prior to incubation provides business advice (business plans, legal etc.); later on businesses can apply for physical residence in the incubator.



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### *2.1.2. Pre-start finance*

Meta group (2010) assesses market failure for Estonia's financial supply system stating that there is inadequately low provision in all the categories of financial resources (state support, banking, VC and business angels). The main sources of financing for early-stage enterprise are own resources (incl. private loans) and state support in Estonia. Meta group (2010) provides some approximate estimation – 10 investments per year are made by VC and some 50 business angels.

*Banks*

There are 6 banks that offer loans for entrepreneurs in cooperation with KredEx; however, there are no special conditions for young enterprises. In the meantime, without KredEx guarantee support there are practically no opportunities for nascent entrepreneurs or early stage companies.

*Venture capital*

The Estonian Development Fund (EDF) should be recognized as the only early-stage financing fund. Unfortunately there is no particular data on how many subjects apply and what the estimation of the total idea pool in Estonia is. So far, the EDF states to continue investing in 7-8 promising companies per year by screening some 80-100 potential ideas. In the meantime, the report on Supply (within the Project) indicates 400 ideas for one VC fund required to operate. These numbers vary a lot; therefore a closer look would be necessary.

*Business angels*

In Estonia still no formal BAN organization has been established. Informally, in 2009 the Estonian Business Angels Group was established that currently carries out at last measures of informative character. Also the Estonian Private Equity and Venture Capital Association (EstVCA) and Connect Estonia perform BAN functions, yet to a lesser extent.

*Public support*

State support to nascent entrepreneurs and early start-ups is provided mainly by Enterprise Estonia (grants) and KredEx (loans and guarantees). In order to assess how this support meets the needs of entrepreneurs, the report will concentrate on the available data of acquisition.

The start-up grant (maximum 6 400 EUR at 80% intensity) to increase the motivation to start a business and to help start-up companies overcome financing difficulties in the beginning period of the business. Grants are provided for early-stage start-ups. During the years 2004-2006 (the previous period) EE issued start-up grants to 682 companies. According to Lukason et al (2010), out of all the companies 86% still existed on the market in 2007; however, the failure rate of those who got a grant in 2004 was 77% (the average grant – 7600 EUR). This death rate seems dramatic as normally the death rate for start-ups is around 75%. The author mentions as the source the Enterprise Estonia report (Popman (2008)). However, even if this is the actual survival rate, this indicates to some issues regarding the profile of start-ups. In their survey the authors note 39 companies and come out with the conclusion that there are some issues regarding who actually receives grants. The main issues are



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overestimation in business plans when applied and later approved, next, the actual need for a particular start-up grant is not essential for the number of companies as they do have good access to finance. These issues should be addressed to EE program design and assessment competency.

Development grant (maximum grant – 32 000 EUR at 65% intensity) is meant for the entrepreneurs who are ready to provide the product or service needed in the market but who have focused on fast growth or who have already proven their competitiveness and require support for growth acceleration. Eligible applicants can be either self-employed persons or companies only if less than 25% owned by other companies and if the company is operating outside the Capital area (Tallinn). An eligible applicant for a development grant has to be older than 24 months and must have the arithmetical average of estimated net sales income of the first three financial of more than 64 000 EUR.

So far both programs are newly introduced; therefore there is no information about how entrepreneurs use these grants and what their perception is.

Credit guarantees to provide SMEs with a better access to capital. No special approach is provided for young businesses.

Direct guarantee of small loans in order to improve the financing options of small loans. No special approach is provided for young businesses.

Investment support to improve the infrastructure for business if necessary. No special approach is provided for young businesses.



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## 2.2. Riga and Kurzeme planning region

### 2.2.1. Early stage advice services

The overall level of starting-up business education for adults has been indicated as good in the international context (Baltrušaitytė-Axelson et al 2008, Rastrigina 2008). Among 18 European countries the GEM survey ranks Latvia in the 4th place – in total, 28% of the adult population received some kind of business training. Out of them 20% acquired skills after the secondary school (formal, informal, and self-study). In relation to skills and involvement in business the GEM report shows 2 extreme irregularities for Latvia in the international context:

1) there are much more younger adults with business skills than adults in older age groups, while older adults still report a high preference of entrepreneurship,
2) women have business skills more often than men (25.6% versus 30.4%), while the practical engagement in business is opposite (14% versus 5%).

*Educational establishments, like schools and universities, and their related institutes*

The SIBiL survey on innovative SME's points to problems in higher education and concludes that in the long-long it does not support innovative enterprises in a form of business oriented curricula, skilled specialists, etc. A number of problems were indicated also by Dombrovskis (2009), like insufficient capacity of entrepreneurship staff (incl. the lack of internationalization) resulting in low quality education. The author suggests internationalization and financing system change as the basis for further improvements. In addition, Baltrušaitytė-Axelson et al 2008 indicate that there is a potential gap between academia and entrepreneurial activities, i.e. only few business ideas for nascent entrepreneurs come from academic, scientific or applied research.

There are 34 higher education establishments in Latvia; however, the most important one in terms of technology curricula and size in the region are:

- University of Latvia,
- Riga Technical University,
- Riga Stradins University.

University of Latvia (LU) is the largest university in Latvia. LU has made a significant progress towards closer co-operation with entrepreneurs. Particular interest is raised by the Innovation Centre that provides pre-seed capital (maximum 15 000 EUR) in co-operation with Imprimatur Latvia. LU includes also the Center of Competence providing different services related to technology transfer and validation. Nevertheless, there is an evident gap for facilitation of nascent entrepreneurship, i.e. apart from the curricula LU does not provide any support for students that might be nascent entrepreneurs.

Riga Technical University (RTU) is the largest applied science university in Latvia. Similarly as LU it has made progress towards entrepreneurship; however it is just in its starting phase. For the students - nascent entrepreneurs it provides free-of-charge business education program/training "Portfelis" and some minor financial support. Nascent entrepreneurs also have the possibility to use the services of Riga Innovation Incubator and Technology Park of Latvia. To some extent, also early stage companies can use the services from the Center of Innovation and Technology Transfer.



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Riga Stradins University (RSU) is the largest medicine oriented university in Latvia. Again, some recent developments have been made towards entrepreneurship. RSU provides business incubator services at the Medical Appliance Innovation Center (currently 2 incubates). In RSU there is also the Technology Transfer Point.

Institutions of regional importance are:

- Ventspils University College and
- Liepaja University.

Ventspils University College (VUC) provides a degree in ICT and business management. VUC has the Centre of Engineering Research that closely co-operates with Ventspils Technology Park and Ventspils Business Incubator where competencies of Centre can be used also by start-ups. Ventspils International Radio Astronomy Center is another sub-division of VUC; however, the contribution to nascent entrepreneurship is limited.

Liepaja University has a small portion of ITC studies as well as general business management studies. The University does not have any particular incentives for nascent entrepreneurs.

In all the above-mentioned universities there is a lack of orientation towards entrepreneurship. Most of the universities have their own business incubators and technology transfer means; however, it is clear that they do not discover the whole potential that could come from students. Also the services that are offered to nascent entrepreneurs apart from students are really minor and relate only to technology transfer. All in all, it is clear that there is a huge potential (number of students, infrastructure, technologies and research), but its transformation into entrepreneurship is underdeveloped.

In terms of business education, the most recognized institutions are:

- Stockholm School of Economics in Riga and
- Riga Business School.

Stockholm School of Economics in Riga (SSE) provides bachelor's and MBA degree. SSE also is well oriented towards entrepreneurship. At SSE, the Business Development Laboratory operates that is more like a business pre-incubator for students of recent graduates that start-up business. Another support for nascent entrepreneurs is provided by the Mentor Club of SSE (discussed later in this chapter). Also Telia Sonera Institute is a joint establishment of SSE that deals with research on nascent entrepreneurship. Altogether, this makes up a good set for nascent entrepreneurship facilitation.

Riga Business School (RBS) is one of the best examples of entrepreneurial education establishments around Europe (The European Commission Survey of Entrepreneurship in Higher Education in Europe, 2008.). RBS is an independent management – education institution within Riga Technical University (RTU). RBS provides MBA studies according to the US standards and have gained recognition of it. The second largest group from graduates are directors of companies.



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*Professional and general training/advice provision organizations and companies*

There is practically no applicable statistics about how many companies provide business and management consultations/training in Latvia. Still, one number is 87 companies and experts. It is the number of members of the Latvian Association of Business Consultants (LABC). More or less it represents the picture of companies that are able to provide advice/training for nascent entrepreneurs or start-ups. However, it is evident that the main customers for these companies are well established SME's or large corporate companies with the exemption of subsidized services that are mainly provided through 4 business incubators in the region (i.e. Ventspils High Technology Park, Kurzeme Business incubator, Riga Region Development incubator and HUB Riga).

In the field of training a part of the LABC members are engaged; however, there is also a large number of other companies that provide training. In the meantime, it should be noted that a great share of them can be distinguished as a "low cost – too general" category. They often engage in state subsidized training for the unemployed.

Currently the access to early-stage entrepreneurs is limited due to the fact that professional experts involve high costs and, if not subsidized, these cannot be accessed in most cases.

*Voluntary organizations of nascent entrepreneurs or existing companies or organizations uniting specific interest groups of people*

In the region a number of various organizations operate that provide advisory and training services, while some of them are focusing mainly on nascent entrepreneurship and other engage only occasionally. There is also a separate distinction of pro-activity and recognition in the market. In this report the most important ones shall be considered.

Junior Achievement Latvia can be recognized as the major player towards nascent entrepreneurship promotion in schools (present on the market since 1992). By 2009, around 26 000 pupils have engaged in school company projects and 42 000 business plans have been submitted.

Junior Chamber International (JCI Latvia) is an international nascent entrepreneurship-facilitating organization. JCI Latvia has 3 representations in the region – Riga, Liepaja and Saldus. The most recent project in the field of nascent entrepreneurship is the conference "Uzrāviens 2010" (Spurt 2010).

Connect Latvia (2003) is the local subsidiary of the California University initiative. It is aimed at young innovative companies that are in need of finding an investor, partner, expert advice and training. CL unites a good set of local experts, mainly from universities, banks, VC funds and advisory companies.

"Lidere" businesswoman organization proactively engages in different events (mostly as a co-operation partner) to promote the entrepreneurship environment, partially focusing on nascent entrepreneurship. The organization conducts frequently surveys of perceptions and needs of the Latvian women in entrepreneurship; however, it does not distinguish nascent entrepreneurs. On a permanent basis, the organization offers mentoring, and about 160 experience successors have undergone the program (by 2010) (about 25 companies have been established).



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The Mentor Club of Stockholm School of Economics in Riga is a proactive organization towards nascent entrepreneurship. Typically 6 month mentoring is provided for applicants (having at least 6 months' business experience). Around 50 enterprises have received the service so far.

Recently (2010) the Center of New Entrepreneurs (based on the Swedish "Jobs and Society – NyföretagarCentrum") was established that will provide advice to early stage businesses. It co-operates with the Mentor Club. No additional information on the services, prerequisites and results has been available so far.

*State and municipal establishments*

The major institutions in the field are the Latvian Investment and Development Agency (LIDA) and the Mortgage and Land Bank of Latvia (MLBL).

MLBL provides advice and training for nascent entrepreneurs and start-ups prior to receiving of financial support. According to the plan, until 2013 there will be 1300 trained persons; and 600 persons will have received the financial support.

LIDA has its own staff in order to provide advice and training for the companies. The only targeted service for nascent entrepreneurs and start-ups is advice on starting up the business; however, it includes only business plan elaboration advice and the provision of general information on the legal environment, available support, etc. More comprehensive support (training, information, matchmaking) is available for exports, and it can involve costs. LIDA engages more often as a partner for events or programs that are implemented by other nascent entrepreneurship facilitating organizations.

None of the municipalities in the region engages in early-stage entrepreneur training. In the largest cities (Riga, Liepaja and Ventspils) there are economic departments that formally provide advice for those who want to start business; however it is questionable how popular they are and what the contents of their advice is. However, there has been training for the unemployed organised by the local governments, of which the one that meets the aim of a high-growth enterprise is the training for the unemployed with the higher education in Ventspils. Since 2009, 26-30 persons have participated in this training of which 10 have established their own enterprise.

*International support organizations*

The International Enterprise Europe Network in Latvia operates through the Investment and Development Agency of Latvia and the Latvian Technological Center. The strongest areas of these centers are guidance in the EU legislation and maintenance of informative technology transfer network. Other services are likely to be more informative (e.g. the EC 7$^{th}$ Framework program), as the centers themselves do not provide financing. Centers rely on competency of their own staff. Occasionally these centers offer some seminars, training, etc. No public information is available on their efficiency or popularity. Some earlier interviews revealed gaps in technology transfer services, for example, they are too formal and do not reach the audience of private enterprises, VCF's or business angels; however, no recent survey is available.

Erasmus for Young Entrepreneurs provides 1-6 months' experience trips to the EU enterprises. The program was introduced in 2010 and is implemented by the Latvian Business Women Association and the School of business Administration Turība.



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*Private capital providers*

The situation in Latvia is quite the same as in Estonia, especially taking into account that the most of the players belong to the same groups of companies. Private capital providers rarely engage in advisory or training services. More often they engage in co-operation with entrepreneurship-facilitating organizations and companies in order to arrange seminars/courses providing knowledge on the idea transformation into a business company. Usually banks act as sponsors and practical implementation is carried out by partners. These events can be free of charge. The more recent examples are:

- Nordea's 6 month Business School,
- Swedbank support to: the School Enterprises initiative (run by Junior Achievement Latvia), the Enterprise Opportunities Forum (run by Connect Latvia) etc.
- SEB Bank support to "Courageous Idea Support program" (run by Ventspils High Technology Park and Kurzeme BI).

Some more extensive advice is provided by VC funds. Unlike Estonia, in Latvia all VC funds are private, therefore it is to be assumed that the advice provided is more market-oriented, but at the same time it can be limited by quality of the idea.

*Mixed type operators*

Business incubators are highly important supportive organizations usually founded by universities and municipalities or – to a less extent – by private founders (like HUB Riga). The operation of business incubators relies heavily on the scale of financial support. Usually the major portion of support comes from public support schemes while universities and municipalities participate mainly by providing premises, equipment, human resources and some minor financial support. Typical public support for one incubator is about 0.15-0.3 MEUR for 1 year operation.

Business incubators can be distinguished as the 1st generation (premises at lower cost) and the 2nd generation (premises, infrastructure and subsidized advice). The development of incubators in Latvia clearly shows high dependence particularly on public support. When the public support is suspended (due to expiry of the financing period), BI will most likely discontinue its activities or return to the 1st generation BI operations (the case of Ogre Business incubator). Such discontinuation or downgrade of BI can be perceived as a negative trend. The situation shows the need for increasing the role of municipalities and for ability of BI management to raise funds by using other means, mainly through PPP (e.g. Tartu Biotechnology Park).

It is possible to distinguish 2 periods for BI development – before and after 2009. The first business incubator was established in 1993 (the Latvia Technology Centre) with the financial support from the Ministry of Education. In 1996 the Latvia Technology Park was established that partly executes the functions of a BI. In 2003, using PHARE support means, 4 BIs were established in regions (2 of them in Ventspils and Ogre). The breakthrough in the development of BIs occurred in 2009 when 26 MEUR was allocated for BIs in the regions and technology BIs. In the meantime, a separate program (Entrepreneurship and knowledge based development) allocates financing for 11 BIs although the amount of funding is limited – around 0.2 MEUR yearly per BI. Out of these 11 BIs 6 operate in the RPR and Kurzeme region, i.e. Ventspils University BI, Riga Biomaterial Innovation & Development BI, RSU Medical Equipment Innovation Centre, Ventspils BI, Tukums BI and Ogre BI.

The offer from BIs subsidized in 2009 is very good and transparent. BIs establish links with the possible advice service providers taking into account the particular advice areas and costs. The offer covers practically all the areas needed for a nascent and newly-established company.

### *2.2.2. Pre-start finance*

*Banks*

Similarly as it is in Estonia, currently there is no support for early stage companies with the exemption of loans that are issued within the support of MLBL or LGA. In the meantime, corresponding MLBL or LGA support is not designed particularly for early stage companies; it is much broader, more likely designed for the category of SMEs.

*Venture capital*

Currently there are 3 VC funds providing capital for nascent or existing entrepreneurs. 2 of the funds are maintained by the Imprimatur Capital company and can be recognized as being more favorable to early-stage, i.e. the pre-seed and seed capital, while the remaining VC fund (BaltCap) is oriented towards the growth and expansion stage.

Similarly to the previously operating funds (2007-2009), the public support is involved. On the one hand, access to finance is much easier for early-stage companies; however, from the public perspective the efficiency is questionable. The real situation will appear when VC funds will start exits, i.e. about starting from 2014.

Other VC funds operating in the field are oriented mainly towards the expansion phase investments.

*Business angels*

There are two publicly functioning BANs in Latvia: the Latvian Private Investors Association (LPIA) and Connect Latvia. As has been recognized by the LPIA management, at present it is practically impossible to acquire the early-stage financing from BAs in Latvia; BAs help more with information and support for the existing business. This situation is certified also by interviews of various finance experts.

*Public support*

The main public actors are the same as for training, i.e. LIDA and MLBL. The Latvian Guarantee Agency (LGA) also can be identified as a support organization; however it does not distinguish nascent entrepreneurs or start-ups.

LIDA maintains a number of financial support schemes; however these are too general to be recognized as the means for nascent entrepreneurs and start-ups (no preferences). The list of these schemes is available in the Supply report within the Project.

Alongside the financial support instruments the LIDA offers also various consultancy, training and other types of support measures. The most important ones that would relate to early-stage entrepreneurs are:

- Commercialization Reactor. This is a matchmaking event organized jointly with a private partner (Virtual CEO Ltd) where the technologies developed by scientists from Latvia and the CIS are presented with the aim of attracting those entrepreneurs that would be willing to undertake the commercialization of these ideas. The purpose of the event is to create new high-growth enterprises and to increase the deal-flow by using the research resources from the CIS. During 2009-2010, three such events have been organized. In each event 10 technologies are presented on average and approximately 150 participants attend each event. At present, as a result of these events 3 enterprises have been established of which 1 has received a VC seed capital amounting to 0.1 MEUR.
- Support services for exporting enterprises. LIDA 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. LIDA also conducts trade missions during which different business forums, seminars and meetings with potential partners are organized. LIDA can also manage individual visits to the countries where it has representative offices.
- Business incubators. The LIDA finances the operation of several business incubators for the period until 2013. A more detailed description of these incubators is available on “Mixed type operators” section.
- Contact points of transfer of technologies. Under this programme there are contact persons appointed in eight major institutions of higher education in Latvia who are responsible for providing information on the research developments of their institution and promoting development of research findings into actual commercialized products or technologies. In Riga and Kurzeme planning region these centers are located in the University of Latvia, the Art Academy of Latvia, Riga Technical University, Ventspils University and Riga Stradiņš University. The activity of these centers has not been evaluated publicly, yet there are reports from individual centers available where commercialization activities that have already taken place are indicated, such as contractual research, patent registrations, etc.

MLBL provides seed capital for nascent entrepreneurs and start-ups. According to the plan, there will be 600 companies supported by 2013. As for now, it is too early to analyze the efficiency of the program; however, the prerequisites of applicants seem to be too broad to match a growth oriented company, i.e. the main criterion is the willingness to start business (and not involved previously) and/or a newly established legal entity.

State municipalities also should be aware of direct nascent entrepreneurship support; however, often this process can be recognized as re-active. The most common reasons are limited budgets, the lack of institutional capacity as well as the awareness of the necessity of support. So far, direct financial support in the region has been provided only by the Riga City Council.

The Riga City Council grant scheme “Atsperiens” (Take-Off) was launched in 2009. By 2010, about 50 enterprises received grant (maximum 8 600 EUR) at the total amount of 0.3 MEUR. The project is implemented in the PPP with Swedbank.

# 3. Situation in the region in the area of the demand of early stage advice services and pre-start finance

Currently a more serious problem in determining the needs of early-stage entrepreneurs in Latvia and Estonia is the lack of studies on this topic. Until now, the studies have mainly concentrated on the evaluation of the needs of SMEs or entrepreneurs in general; however, it is obvious that the needs of the existing companies are very different, incl. in relation to financing and advisory services. They are certainly even more different for high-growth early-stage companies. Individual studies have also been performed with regard to new companies, yet not comprehensively. Due to this reason this study summarizes surveys of various aspects that could indicate on the needs of new enterprises or at least allow making assumptions on the basis of the SMEs or the existing companies.

The other most essential problem is the self-assessment and the assessment of the needs of the companies themselves. The risk that the survey might not represent the actual situation in individual issues is large. For example, the need for training and mentoring, the need for independent R&D services may not be evaluated; instead, an entrepreneur might indicate the financial need as the only or almost the only need the meeting of which would solve the problems. Additional risk to gaining an objective overall view is posed by the fact that very often early-stage entrepreneurs are not aware of individual support forms thereby reducing their needs on the known providers of support.

After summarizing these various studies, it is, however, possible to point out the most obvious conclusions about the needs of entrepreneurs:

- Primarily, new entrepreneurs are interested in attraction of financing; more than a half are investing finances from their own resources. The most popular source is another natural or legal person, with a bank as the third most important source. The average necessary amount is EUR 6,000;
- After the economic recession banks as the source of financing for the new undertakings have become unpopular, because the conditions do not correspond to the needs of these entrepreneurs;
- EU Funds support for the new entrepreneurs is known, yet at present it is hard to evaluate to what extent new entrepreneurs are trying to acquire or have acquired this kind of support;
- VC as the source of financing might be known to some new entrepreneurs; whereas the form of business angel financing is, most probably, known very little, and the both forms are practically not used;
- The support from the local governments to the innovative activity is negligible and unpopular among the entrepreneurs;
- the need for R&D investments for new entrepreneurs might be low, with even less being the awareness of the organizations (competence, technology transfer, innovation centers; it might be assumed that the renown of business incubators might be higher) operating in this field; there is also a judgment that R&D institutions are too passive to receive any support from them;
- among the new entrepreneurs similarly as among the existing ones there might be the view prevailing that it is necessary to introduce additional public support for business activity, as well as to reduce the tax burden and, to a lesser extent, the bureaucratic obstacles;
- Personalized, experience based free or low-price training (for example, mentoring) and advice could be very demanded;



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- a single, structured information point regarding the possibilities of receiving support might be very topical; besides, this might, most probably, be one of the most popular existing portals, for example, the LIDA's and Enterprise Estonia web pages.

### *3.1. The Southern Estonia region*

The Meta Group (international, independent organization facilitating innovations) survey (2010) deals with selected intermediaries and nascent, newly established entrepreneurs to discover the actual needs. However, the number of respondents for the entrepreneur part is quite small (26 respondents to the questionnaire), therefore these findings might not be sufficient for the assessment of statistically proved priorities of needs. In the meantime, the survey shows that nascent, newly established entrepreneurs mainly await support for accessing the finance services and training. A detailed analysis showed that:

- about half of entrepreneurs do have a business plan, while in most of the cases it is not of appropriate quality for applying for financing,
- most entrepreneurs are aware of venture capital, while most of them are not interested in such a form of financing and only a few attempted to apply for investment; the typical amount requested is below 50 000 EUR,
- training subjects to be expected are raising capital, marketing, strategic planning, communication skills and business planning,
- few entrepreneurs had attended training and the overall evaluation of quality is positive; the preferred training method is on-site, practical, experience, know-how based.

In 2003, Tartu Science Park carried out a survey on the enterprises' needs and obstacles to implementation of innovations in Tartu and the Southern Estonia region. Unfortunately, the focus of the survey is on the existing enterprises; besides, the structure of the survey is dominated by larger enterprises (with the number of employees exceeding 28), i.e. of the 82 surveyed enterprises only 14 represent micro-enterprises having the number of employees less than 10. It has to be noted also that the survey is out-dated. The most important conclusion for this survey are:

- increase of bureaucracy, increase of the administrative burden (various additional requirements related to the EU, labor safety, requests from statistical bureaus, sec.),
- the public support measures are directed mainly towards the category of the SMEs, there is no support to the large enterprises;
- the small enterprises are not motivated to join informal (sectoral, professional interest) networks, because they see no benefit in them,
- In the region it is hard to find employees having appropriate qualification although there is unemployment (the unemployed are low-qualified, the work efficiency is low),
- in the preparation of new specialists the supply does not meet the demand (too little number of young people obtain professional education, in universities in the technical specialties the demand is less than in the social or IT field, the curriculum does not conform to the market requirements (modern production principles), and there is no cooperation between the enterprises and the educational establishments (traineeship, improvements in the curricula and infrastructure), the technological education is concentrated in Tallinn;
- the management of enterprises lacks knowledge about the business activity,



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- especially in the small enterprises there is a problem in attracting financial resources for implementation of innovations; the problem basically lies in receiving a loan from a bank (too strict requirements, the amounts of guarantees, etc.), whereas the guarantee support offered by Kredex is a too bureaucratic and long process,
- there is a rather low awareness of entrepreneurs of the support schemes and the various possibilities,
- the poor cooperation of the enterprises with research organizations, where to a large extent the entrepreneurs themselves indicate that they do not see this cooperation as a means of increasing competitiveness; if there is cooperation, it is usually with individual research sector participants (engineers) and students' papers on the issues of interest to the enterprises.

### *3.2. Riga and Kurzeme planning region*

In 2007, the Latvian Technological Center carried out on behalf of the Latvian Investment and Development Agency a study on the innovation needs of SMEs (Analysis of the innovation needs of the Latvian small and medium-sized enterprises). The study analyses also the changes compared to a similar study carried out in 2003. During the study 306 enterprises were sent questionnaires without marking out the category of new enterprises - only 2 of the enterprises covered by the study were to be considered as newly-established. The study is valuable since it contains a large number of various issues characterizing the problems of innovation processes in the Latvian enterprises. The most important conclusions that would be useful for the present report are:

- most of the enterprises are not to be considered as innovative (67%); 30% are the enterprises in which a certain innovation process is going on, and only 3% of the enterprises are to be considered as the innovation and technology leaders;
- the main obstacles to a more rapid growth indicated by the entrepreneurs are basically all the possible factors of internal and external environment; but the entrepreneurs are more concerned about the non-existence of tax reliefs, the lack of qualified workforce, unavailability of bank resources and the high level of competition;
- of the innovation support institutions the most popular ones that, from the entrepreneurs' point of view, ensure quality, are: sectoral professional associations, the LIDA, the Chamber of Commerce, the Innovation Relay Center, local governments and business consultants, to a lesser extent also the EU support programs, business incubators, the largest universities of Latvia are of interest; technology transfer centers and smaller regional universities are very unpopular;
- The entrepreneurs are expecting improvements mainly in the national macroeconomic policy (tax reliefs, profit-making at the 0% rate), to a lesser extent – the reduction of bureaucratic processes (VAT drawback, import-export procedures, law interpretations); the issues that are the last in the order of priority indicated by entrepreneurs are the issues related to R&D (technology transfer, cooperation with universities/institutes, etc.),
- With regard to information the entrepreneurs would give preference to direct e-mails or to information summarized on one homepage (by indicating actually that it should be the LIDA's homepage) and would basically like to receive cooperation offers, procurement notices, technology offers and market study information;



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- The main obstacles to cooperation with such research organizations, as indicated by the entrepreneurs, are the lack of information, inactivity in the field of research and the fact that such cooperation is not necessary;
- The use of external experts, as compared to 2003, has increased; in 2003 such experts were used by 54% of entrepreneurs, whereas in 2007 – by 70%; also the satisfaction with the expert work has increased. The services of external experts are used mainly in business development, attraction of financing, technology development, to a lesser extent also in research and market study; The least satisfaction was observed with regard to the work of financing attractors and business development services;
- In the field of availability of finances enterprises are rather well aware of the possible sources of financing (banks, national support programs, venture capital), except for business angels (or networks) and research-oriented national and EU support programs; only the bank and public support schemes are mainly used and are hoped to attract financing in the future; the other sources are practically not used, and neither are planned to be used in the future.

However, it has to be noted that the above conclusions have been derived from the enterprises that have been operating on the market for quite a long time. It can be assumed that most of the conclusions are attributable also to the early-stage enterprises, except for the issue of financing and consultancy services (renown, possibilities of use and attractiveness).

The Laboratory of Analytical and Strategic Studies has carried out the JOSEFIN Regional Market Study (2010), where the entrepreneurs' needs and the support instruments offered to SMEs were evaluated. During the study it was found that:

- entrepreneurs are underinformed of the different types of non-financial support,
- entrepreneurs, especially the new ones, need both general training programs and consultations on the business management and project elaboration issues in order to be able to sell or commercialize their ideas. This problem applies also to scientists and inventors,
- entrepreneurs are basically skeptical about the work of consultants and advisers, especially in relation to helping in receiving the public support; i.e. the support programs need not be so complicated or the consultants' support should take the form of an additional support,
- the entrepreneurs that are positive about the consultations indicate on the necessity for competent consultants who could help in justifying the financial, marketing and organizational component of the entrepreneurs' ideas;
- entrepreneurs are of the same opinion that at present there is no cooperation between the research institutions and the entrepreneurs;
- often entrepreneurs indicate on the controlling activity of public institutions; they consider that for the cooperation to be successful it should take the form in which the state would act as a partner;
- entrepreneurs have appreciated the activity of the LIDA's foreign representatives.

In 2009, the private consulting company "Laika Stars" carried out a study on the entrepreneurs' opinion regarding the existing economic situation and the planned changes. In the study 300 enterprises were surveyed of which 11% were enterprises with more than 100 employees. The study did not have a special focus on the category of early-stage companies. The main problems identified by the entrepreneurs were inappropriate tax policy (29%), the drop in consumption and, accordingly, turnover (27%) and the difficulties in obtaining a loan from a bank. As compared to an identical survey in 2008, in 2009 the entrepreneurs have identified the problem of receiving a loan as a lesser problem, yet the study indicates that the reason for this is not

improvements in the availability of loans but the fact that many entrepreneurs are no trying to receive a loan since they are sure that they would not get it. The desirable changes identified by the entrepreneurs (both the large and the small ones) are, first, the changes in the national fiscal and macroeconomic policy towards a lesser burden, and, second, the development of public support mechanisms and the choice of priority sectors (small enterprises).

In 2011, the public opinion research center SKDS and Citadele Index carried out a research on the entrepreneurs' needs for bank loans. 750 enterprises were surveyed in the research. The research indicates that only 13% of entrepreneurs had applied for a loan; besides, only 10% of them were micro-enterprises or enterprises with a small turnover. Unfortunately, the research does not separate the category of early-stage companies; yet it is clear that the number of these enterprises is less than 10% of those that have applied for a loan.

In 2008, a study by SEB banka and SKDS (202 new entrepreneurs were interviewed) on the commencement of business activity, however, indicated that 51% had used private funds, 17% had used the funds of other legal or natural persons, and only 16% had obtained the necessary resources from banks. The average necessary amount for the commencement of business activity is EUR 6,000; for 17% the necessary amount is EUR 7,000-14,000, but 10% need more than EUR 14,00 for commencement of business activity. In the field of improvement of the relations between the banks and the entrepreneurs the majority (38% of the respondents) admitted that they expect more favorable conditions from the banks' side for new enterprises, as well as lower interest rates. The study indicates also on the need of the new entrepreneurs to receive additional support from the state or local government for the commencement of business activity. In the study 58% of the new entrepreneurs had indicated that they are arranging or are planning to arrange in the nearest future payments to abroad, by mentioning basically the Baltic countries, Germany and Russia. The Retail Manager of SEB banka indicated in a personal interview in the context of the study that, compared to other countries where she had worked, in Latvia she was surprised by the high activity of the new entrepreneurs and the fact that the managers of these enterprises were young persons.

Another survey carried out by Nekrize.lv (Latvia – 2010) showed that the majority of the respondents (44%) think that there is no support available for nascent entrepreneurs, 27% admit that support exists, while the outcome and expectations are unclear, 19% realize that information is too scattered to find an appropriate solution, and only 10% admit that there is a number of good opportunities.

One of the most experienced mentoring companies in Latvia, "Līdere", has carried out provisional surveys in which one third of the entrepreneurs (that had established their own enterprise during the mentoring program) recognized that they would not have established an enterprise without this mentoring. According to the estimates of the company, in 2009 there were around 30 actively practicing mentors in Latvia. The company provides mentoring services free of charge, and the demand for this kind of support has exceeded significantly the possibilities; 20 experience take-overs are admitted a year, but the number of interested parties that had applied was 60 (2009).

In 2007, the State Regional Development Agency, within the INTERREG IIIB project, carried out survey of the local governments "Innovations in the Latvian Local Governments". The main results of the survey are:

- at present the introduction of innovations is hindered most by the unavailability of resources (95% in Riga planning region, 59% in Kurzeme region), the lack of human resources (74% and 93% respectively), the lack of information (42%

and 48%), improper infrastructure (42% and 52%), and the insufficient product sales market (16% and 31%),

- the local governments see as the most important support instruments the start-up capital (68% in Riga planning region, 45% in Kurzeme region), incentives in the use of premises and land, (58% and 45%), tax incentives (47% and 69%), business incubators (42% and 24%), seminars and training (37% and 38%), and experience exchange (26% and 28%),
- the level of innovation in the activity of the local governments is ranked as low, which indicates on the necessity for finding solutions to improve the activity of the local governments and take over the innovative practice;
- entrepreneurs rarely turn to the local governments for the support to business activity.

Information about the demand for business incubator services is contradictory. The Kurzeme Business Incubator indicates that it examines 300-400 ideas per years and that at the beginning of 2011 there were 42 enterprises operating in the incubator. Whereas the specialists working in the business incubators of Kurzeme region indicate on the difficulties in finding incubees, as well as the large concentration of the business activity in Riga. At the end of 2010, the Ventspils High Technology Park (VATP) Business Incubator, the Kurzeme Business Incubator and SEB banka organized the Brave Idea Support Program the aim of which was to facilitate the embodiment of ideas into new enterprises in Kurzeme region. 33 ideas were received in total of which 18 ideas were supported (12 were admitted to the business incubator and 5 receive pre-incubator services).

Formally, the operational results of the business indicators is to be evaluated positively, yet at present there is no sufficient information about the operational results of the incubees by the evaluation of which the operational effectiveness (selection of enterprises) of these incubators could be established.



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# 4. International experiences

## *4.1. Portrait of a nascent entrepreneur*

The first surveys regarding nascent entrepreneurs around the world emerged only since nineties; systematic data gathering started in about 1998. So far, official statistics, including Eurostat, have not covered this topic, therefore it is hard to find good sources of information and further rely on them in the international context. So far, the most cited internationally comparable surveys are the U.S. Panel Study of Entrepreneurial Dynamics (PSED) and Global the Entrepreneurship Monitor (GEM).

Surveys on the number of nascent entrepreneurs reveal very different levels (number of newly established companies, number of companies per capita etc.) among the countries and they do not reflect the level of development of the country (Wagner, 2004) or some other indicators that are often used to highlight the best performing countries. Some good attempts were made to explain cross-country differences but this question is open so far. Thus the number of nascent entrepreneurs can not be used to identify good policies or practices among countries.

Personal risk taking attitude is one of the actors that increase the probability that a person will become an entrepreneur; however, this does not apply to the persons that are unemployed (Caliendo et al 2006), while risk attitude is an individual trait that is constant throughout the life-time (Cramer et al 2001). Risk adversity explains also why women engage in business less than men. This might suggest a way of how to select the most promising nascent entrepreneurs when speaking about support, or, in other words, differentiated support measures have to be designed according to persons' previous employment status, while the gender can not be used for legislative issues. Caliendo et al (2006) suggests also that previously unemployed entrepreneurs are more likely to establish smaller businesses with limited growth while both groups, un-employed and employed entrepreneurs, have the same risk taking attitude.

Regarding start-up skills and previous experience, Baltrušaitytė-Axelson et al 2008 survey supports this suggestion, i.e. the previous entrepreneurial experiences, serial and portfolio entrepreneurship significantly increase the chances of survival for newly established companies.

The profile of a manager of a nascent high-growth company can be described as follows: (Caliendo et al 2006, Muller 2005, Cramer et al 2001):

- risk taking personal attitude,
- previously employed in small company (manager position preferably),
- comes from a region where a large number of young and small companies operate, also a high rate of company birth,
- secondary education or bachelor's degree,
- parents are self-employed.

Recently, the first Global Entrepreneurship Monitor (GEM) report on "high-expectation entrepreneurship" showed that high-aspiration entrepreneurs representing less than 10% of the population of nascent and new entrepreneurs were responsible for up to 80% of the total expected job creation by all entrepreneurs.

The GEM report reveals also the sources of learning where self-directed learning and formal university education is the most popular, while public, business and trade organizations were found to be extremely unpopular. However, in the international context there is no causal link in relation to the spread of learning sources; it varies a



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lot, while still in such countries like Finland and Ireland learning sources are more evenly spread outlining the role of informal University, business and public education.

The GEM report identifies 5 types of advisors: family and friends, work acquaintances, experienced individuals, experts and market participants. The survey concludes that family and friends are one of the most popular sources of advice for both nascent entrepreneurs and company owners in Latvia as well as in other countries. Experts are not often turned to for advice. Experts by the GEM classification include researchers, investors, banks, lawyers, accountants, and public advice agencies.

The GEM report reveals that nascent entrepreneurs in Latvia use advice services more often than owners of already established young companies, suggesting that this is common evidence throughout the entrepreneurship environments. In Latvia (in 2008) on average, nascent entrepreneurs use advice of 6-7 advisors, while the owners of young companies - only 3.

One of the suggestions with regard to advice topics could be to find out the opinion of nascent entrepreneurs or newly established companies with regard to the factors that are crucial. Baltrušaitytė-Axelson et al 2008 survey reveals these perceptions as follows (in order of significance):

- high quality of products and services (around 90% of the respondents),
- expertise of start-up team (70%),
- better marketing (65%),
- first to market (60%),
- new/advanced product technology (56%),
- serving missed by others (54%),
- superior location (52%),
- enforcing IP rights (46%),
- lower price (46%).

When asked to indicate one factor that is essential for their survival, the majority of respondents named a high quality product, followed by “serving missed by others”, lower price, etc. that was indicated by less than 10%.



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## 4.2. Good practices

### 4.2.1. Support to fast-growing companies ("Gazelles")

PRO INNO Europe is an initiative of the Directorate General for Enterprise and Industry which aims to become the focal point for innovation policy analysis. In 2007, PRO INNO organized a workshop in Tallinn where a discussion on support for rapidly-growing companies (the so-called "gazelles") took place. The most important conclusion reached at the meeting was that the potential "gazelles" are not to be related only to high-tech sectors, but throughout the economy, including the traditional sectors and services. The most important forms of support mentioned were:

- Management support: for new management approaches, coaching and skills development reflecting the individual needs of companies;
- Support for networking with co-operation partners, customers, suppliers etc., also with a view to internationalization;
- Motivation: awareness raising, networking and exchange of experiences, e.g. by setting up "clubs" of (potential) gazelles;
- Further support measures may address intermediaries or aim to create a "fertile" environment (including regulation, taxation etc.) for gazelles. The existing support measures at the European, national and regional level have to be reviewed and used more efficiently and more effectively.

Information about the PRO INNO best practice projects can be found on (http://www.proinno-europe.eu/best).

In 2008, in the summary of discussions at Europe INNOVA Gazelles Innovation Panel it was concluded that:

- Selective support for the potential rapidly-growing companies ensures a larger national benefit than generalized support, therefore it should be viewed as a priority measure; however, at the same time it was indicated that it is complicated to choose appropriate candidates and therefore it would be safer to make a policy aims towards an economic framework within which gazelles emerge (at the same time, it does not exclude firm-specific support initiatives),
- The empirical data show that the emergence of gazelles is not attributable to investments into R&D, age or size of the enterprise; from the sectoral perspective, gazelles are most often found in the services sector (including ICT), whereas especially high-growth companies emerge from large undertakings (with the number of employees exceeding 500); taking this into account, it would be incorrectly to direct the gazelles support policy to the R&D intensive sectors and/or towards the small and new enterprises;
- The reason for increase in the number of gazelles is the different way of adding the value, which may include the R&D, product, business process, business model, market diversification, etc.;
- The increase in the number of gazelles is rarely steady (turnover, number of employees, etc.), and often the rapid growth of gazelles turns into slow development or downturn;
- In making support, one should concentrate not on the number of recipients of the support but on the precise evaluation that should be based on the assessment of the manager (and the team) him/herself (whether s/he can manage a rapidly-growing, challenging company).

The most important recommendations in the Europe INNOVA discussion summary regarding the support to gazelles are:

- Not to subordinate the support policy to SME programs, as these have various tasks, and not to make this policy through one organization but through the many players involved;
- In the EU context, elimination of all the barriers (of the national policies) should be continued in order to establish a uniform market that is actually functioning;
- Taking into account the novel character of the problem, not to evade from using experimental approaches (including the development of financial instruments as the most important factor of support);
- During the pre-start-up phase obstacles should be eliminated so that more enterprises start operation (the general SME policy); but in addition to this the emergence of strong personalities should be facilitated for these personalities to involve later in the business activity (employee policy, fiscal incentives) and the general innovation policy should be encouraged to ensure a sufficient movement;

During the start-up phase one should focus on the concentration of resources (financial, human, business services) and strengthening the IP rights; The most important differences from the SME policy would be selectivity (for example, the most appropriate managers), use of mixed (public and private) financial instruments (for example, R&D loans, business angel/VC and IPOs), Experience-based advice for venture finance; strategic planning; internationalization; organizational growth, etc.

PRO INNO (2006) suggests “Generic good practice” measures in order to assist high-growth companies. These measures can be adapted a little if region specific conditions exist; however, PRO INNO points out that high customization or elaboration of new programmes is not appropriate. However, it has to be noted that this Generic Good Practice is not applied specifically to nascent entrepreneurs but to all the target enterprises.

*Generic Good Practice*

| Initiatives | Generic Good practices |
|---|---|
| 1. Identification and selection of high-growth enterprises | Diagnostic tools<br>Innovation scorecards |
| 2. Public source information | Analysis of company accounts (eg Fast Track 100/Dun & Bradstreet) |
| 3. Service package tailored to meet the needs of high-growth ventures | Innovation advisory services<br>Innovation management toolkits<br>Virtual incubators (eg Enterprise Hubs)<br>Leadership development<br>Funding – R&D grants<br>Proof of Concept funds<br>Regional Equity co-funds<br>Enterprise capital funds<br>Business angel networks<br>Fiscal incentives |
| 4. Qualification/Accreditation of professional intermediaries | Business advisors (e.g. SFEDI accreditation www.sfedi.co.uk) |
| 5. Evaluation process / Fast response | Regulatory environment |
| 6. Multi-level training | Investment readiness<br>Mentoring<br>Business Angel |
| 7. Helping high-growth companies in their internationalisation process | Gate2Growth networks (eg Proton, Incubator Forum, InvestorNet) |

| | |
|---|---|
| | PAXIS initiatives (BioLink, EuroOffice)<br>National programmes (eg UKTI, Enterprise Ireland,<br>Scottish Enterprise, Maltese Enterprise) |

*Source: PRO INNO*

Apart from the suggested generic practices, a valuable source for practice investigation is the Finnish Ministry of Trade and Industry report (2007) where a number of high-growth support examples among the countries of the world are described (High-Growth SME Support Initiatives in Nine Countries: Analysis, Categorization, and Recommendations", MTI Publications1/2007 Industries Department).

Europe INNOVA concluded in the study "Regulatory And Policy Issues Influencing Innovation For Gazelles" (2008) that for gazelles, R&D Allowances, Tax credits as well as grants and subsidies are of equal importance as fiscal incentives for innovation, overall of medium relevance. The European Tax Analyzer shows that above the average tax refunds can be obtained in various countries like Portugal, Slovenia and Spain. Particularly high refunds are shown for the Czech Republic with 37 percent of R&D expenditure. Taxes have hardly any impact on the innovativeness of the Gazelles. In addition, regulation is also hardly relevant. Norms are the dominating regulations affecting Gazelles. Regulation as a barrier seems to be of less importance for gazelles. Keeping to formalities has an effect for the innovation activities of about one third of the Gazelles.

### *4.2.2. Educational system as a source of nascent entrepreneurs*

Higher education is really an important origin for nascent entrepreneurs. Some ambiguous country policies (like Finland) estimate that up to 40% of nascent entrepreneurs will come directly from universities in the next 5 years. The main concern regarding universities among the EU countries is the lack of orientation towards entrepreneurship. Among different documents, the most comprehensive document dealing with this issue is the European Commission's "Survey of Entrepreneurship in Higher Education in Europe" (2008). The document consists of an integrated approach analysis thus suggesting numerous valuable suggestions on how to improve educational institutions; the document includes also best practice examples and is nascent entrepreneur issue oriented.

Another document of the European Commission dealing with best practices in the field of entrepreneurship in universities is Entrepreneurship in higher education, especially in non-business studies (2008).

A number of good international examples regarding raising of entrepreneurship awareness in secondary schools is provided in the European Commission's publication "Mini-Companies in Secondary Education Best Procedure Project: Final Report of the Expert Group" (2005). Although the report is quite outdated, it deals mainly with the methodology of implementation and can be used as a source for best practices.

# 5. System failures and challenges identified

1. **The general level of business activity** In this context, the level of business activity is not the number of enterprises or the self-employed persons (as compared to that of the EU or the USA), but the quality contents thereof (competitiveness, internationalization, competency of company managers, prestige of business activity). In both countries, but more markedly in Latvia (see Paragraph 5 "High-growth companies"), from this point of view the level of business activity is lower than in the EU and much lower if compared to the USA. This is actually the problem of the whole EU, if compared to the USA. As a result of this problem, no motivated, creative and knowing people are prepared for business activity; many people with a high potential choose an occupation other than business activity, and finally, the existing business environment does not encourage competitiveness and growth in the global market conditions. As a result, there is a small deal-flow and a relatively small number of high-growth companies emerging.
2. **Early-stage financing gap.** Nascent entrepreneurs, start-ups and even the existing companies encounter problems in acquiring financing for their projects; besides financing is the most urgent need for entrepreneurs at present. One the one hand, early-stage companies are insufficiently informed/aware of the possible sources of financing (except for banks, the LIDA and Enterprise Estonia support instruments), but on the other hand, on the demand-side such resources are practically not offered (with very rare exceptions) to early-stage companies. Potentially a very perspective source of financing, namely, the business angels, is a very little known and at the same time also an underdeveloped form of investment. In both countries there are no significant differences in the field of financing.
3. **Public fiscal aid instruments.** Entrepreneurs (incl. the early stage) in both countries indicate on the inappropriate (or even burdensome) character of the tax system. On the one hand, there are individual tax incentive programs in both countries (the micro-enterprise set in Latvia, 0% profit re-investment in Estonia), but on the other hand, in both countries no specific set of instruments is provided for in the fiscal policy to allow the entry into market of as many new enterprises as possible. Of the EU-25, countries 9 have no fiscal incentives for R&D (including Latvia, Estonia, Sweden, Denmark, Germany, etc.). The largest fiscal incentives are in Portugal, the Czech Republic and Spain. There is no uniformity in views about this issue also in the international studies.
4. **R&D and innovations.** The use of R&D processes in enterprises is insufficient or even very low. This problem has been known for a long time on a national level; however, these processes are still rare in enterprises. The problem can be divided into two parts; first, most of the enterprises are not motivated to invest resources in these activities (there is no such need) and, accordingly, they do not show interest in these possibilities. Second, the enterprises that would like to invest encounter the lack of information/awareness and passiveness from the part of the R&D sector. As a result the deal-flow is very low, which, in its turn, prevents valuable involvement of the potential investors (VC, business angels, state support schemes). In both countries there is a different national R&D policy and activity of R&D authorities (in general, in Estonia it is developed better), yet the resulting deal-flow in both countries still remains low, even from the point of view of the financers existing in the market.



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5. **High-growth companies (“gazelles”)** This is a current problem in both countries and also in the EU-context, since up to now the whole SME segment had been traditionally encouraged; i.e. the purpose is to support/create as many enterprises as possible. In Latvia and Estonia the needs of these particular enterprises have not identified, yet it can be assumed that they are similar to those in the rest of the world. The main need of these enterprises is flexible availability of finances, whereas the main approach in supporting these enterprises is the special selectivity. At present there is no such individual policy neither in Latvia nor in Estonia; there are individual players existing in the market that pursue such an approach by definition, for example, banks, VCs and business angels, but the rest support providers do not take this approach (or take it occasionally or unintentionally). The necessity for the support of these bodies is based on the fact that the invested support provides much more return than in other cases. The largest problem of this “selectivity” is the ability to evaluate who will be the "winners" (which manager, what kind of innovation, and from which sector) and how to reduce the possibility of failure. If the problem of gazelles is viewed especially in the early-stage context, the availability of finances is very low. The circumstances existing in Latvia and Estonia (market conditions, support effectiveness, etc.) in relation to gazelles are, most probably, different, since in the European Commission survey (2009) Estonia was assessed as one of the leading EU countries where the number of gazelles against the newly-established enterprises is the largest, whereas in Latvia this number is one of the smallest.



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# 6. Conclusions, Lessons and Recommendations

## 1. The general level of business activity

a. In the EU context, it is necessary to solve the issues related to the practical implementation of the single market, since at present the single market in practice is a market with sufficiently essential limits for business, as a result of which the actual market size for the high-growth companies is the market size of the given country. In case of Latvia and Estonia it is quite small. This applies particularly to the commodity market. In such a situation circumstances are better for the companies that operate in the markets of large countries, such as the USA.

b. Studies show that the majority of the nascent Latvian and Estonian companies concentrate towards the internal markets of the countries; therefore the establishment of high-growth companies is even more complicated. It is important to increase the knowledge of the entrepreneurs about the benefits arising from internationally-oriented companies and to provide knowledge about how to establish and manage such enterprises. At present such knowledge is practically not provided, since these countries have little experience and, even more, this experience is not transferred to training of entrepreneurs or nascent entrepreneurs.

c. Currently in Estonia and Latvia there is a very limited number of ideas and deal-flows, therefore many of the support mechanisms are unable to function qualitatively as there is a little choice of candidates. Therefore it is important to increase this number of ideas in the countries. At the same time, it is possible to increase this number by using foreign markets. A good example is the technology reactor organized by the LIDA, where the Latvian entrepreneurs are offered technologies and ideas from the CIS market.

d. The educational establishments should work on creating strong personalities with good knowledge in economy and company management who would be willing to engage in business activity. In order to achieve this and to approach the business activity level of the USA, it is necessary to create awareness of business activity and to facilitate the creation of personalities already at the secondary-school. Whereas universities should transform from bodies that are intensively state-financed into company-type establishments where the financial results of universities would depend on proactive activity in the attraction of various sources of financing and on the quality of results. No doubt, it is necessary to achieve the acquisition of the basics of the practical business activity (traineeship, experience education, business simulation, etc.), as well as to ensure, as far as possible, the support from the university in commencing business activity (premises, advisors, etc). At present, study subjects related to the business activity are rarely included in the curricula; besides, they are more directed towards the start-up knowledge, not the company management in the conditions of the global economy.

e. Also the orientation of the other market participants financed by the state or a local government should take the form of a model (for example, own financing, co-financing from other financing support instruments, financing from the private sector), where a recipient of



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financing is forced to think and act as an entrepreneur as far as possible; thereby an appropriate service would be provided also to the nascent entrepreneurs themselves.

f. At present in the Latvian and Estonian markets the business angels form of financing is not developed at all. Formally, there are 3 newly-established BANs; however, entrepreneurs have no information and understanding about them, as well as such BANs are actually not functioning. Taking into account the situation, it is possible that the functions of these BANs could be performed by any of the experienced intermediaries existing on the market. Functionally, this can be done by business incubators or technology transfer centers, if they are able to attract (and represent) such business angels.

**2. Gazelles support policy**

a. On a national scale, it should be understood that the support to gazelles provides greater return in relation to the support provided, yet at the same time this policy cannot be combined with the general programs for promoting the SMEs or innovations, and it is also not reasonable to concentrate it in the form of a single organization. The support for gazelles in the case of public financing is in conflict with the existing approach (objectively transparent, foreseeable and equal allocation of resources) in the selection of candidates. It is not reasonable to make the policy of gazelles by concentrating on, for example, to the nascent entrepreneurs only or the sectors that use the R&D intensively.

b. The gazelles support policy affects all the market participants – the country and local governments, sponsors (banks, VCs, business angels and networks thereof), intermediates (business incubators, competence centers, technology transfer centers, innovation centers etc.), advisory service providers, knowledge centers (educational establishments and R&D bodies). This approach by definition is implemented basically by all the private sector participants; however, when the state establishes a private-public partnership in order to provide support, usually this high-growth aspect is reduced or disappears in cases where this support in inadequately large. As less successful examples one should mention the state-funded venture funds (the case of Latvia, when financial resources not corresponding to the deal-flow are available on very favorable conditions to fund managers and are invested in a less choosey manner), business incubators and other market participants. In the case of public support it is important to decide on to what extent the policy of SMEs is to be supported and how much support should be provided for the development of gazelles, and to separate these approaches accordingly.

c. In the case of the support to gazelles the greatest importance is given to a selective approach which is largely based on the entrepreneur's personality (proactive, creative and knowing), as well as the ability to evaluate/guess whether the business idea would be a high-growth idea, taking into account the manner in which the enterprise is intending to add the value. This kind of evaluation allows a very large number of uncommon situations; therefore it is not likely that the country would be able to perform these functions properly. The most efficient form of cooperation is a public-private partnership with an adequate public contribution, for example, the VCs, where experienced venture managers carry out evaluation and contribution, technology centers,



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business incubators, business angel networks, and other forms of cooperation. These supported market participants (with adequate competence) would be able to assess each case individually and to provide in a flexible manner support according to the current needs.

3. **Support provided by the state and the local governments**

   a. Entrepreneurs often indicate on the lack of tax incentives and the overall tax burden; besides, in Latvia and Estonia the tax burdens are different, but the demand for their reductions is approximately the same. It has to be noted that there are countries in the EU where tax incentives for investments in R&D exist (Spain, the Czech Republic, Portugal); however, there are no such incentives in a large number of countries (for example, Sweden, Denmark, Germany, as well as Latvia and Estonia). At present there is no common view among the researchers about the use of these instruments, especially if speaking about the support for gazelles.

   b. If speaking about public service providers at one-stop-shops or likely to be ones, then typically entrepreneurs face bureaucratic mentality of officers. They can be warm and welcoming; however, when giving advice they usually are looking from the public perspective. It would be advisable for these particular officers that deal with the initial face-to-face assistance to have very good knowledge of the practical operation of SMEs and start-ups, maybe even with previous work experience being mandatory. Thus they could direct the entrepreneur on the track already at the first meeting. This issue is particularly topical with regard to the Latvian organizations to a much higher extent than in Estonia.

   c. Training/skills of policy makers and intermediaries are important. No doubt, this is an ongoing process in both countries; however, in the real market situation criticism towards the above mentioned players is quite often. This report did not assess particular evaluations of the stakeholders; however it is obvious that some of them are lagging behind the expectations. Improvements based on assessment should be made.

   d. Employment of the PPP is recommended where it is possible. Often, the provision of the right kind of support requires in-depth understanding and widely established contacts in the relevant business sector, which is something that the public sector support organizations can rarely offer. In the both countries the PPP approach already exists (like business incubators, VC funds, advice services etc.). Still, it seems that in Estonia the PPP approach is used to a lesser extent. This approach is very sensitive as it can cause crowding, market distortion. Very much depends on the particular situation and the capability of management.

   e. Another opportunity is introduction of a “targeted service package” for identified high-growth companies. Today there are a number of different support vehicles in the market, and usually nascent entrepreneurs or early stage businesses are in need of a bunch of them. Information among the players is scattered, if aggregated it is hard to understand and, finally, there is the need for number of separate applications that cover quite the same questions and documents. All of this is irritating and - more importantly – time consuming for an applicant. Partly the problem can be solved through the one-stop shop principle; however, bureaucracy remains for the applications. Therefore it would be efficient to pick up services that have been evaluated previously and put them



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into one package, if possible thereby creating one application format. Unused services are simply omitted. Definitely such an introduction will face such issues like current norms for application, evaluation and supervision of support; nevertheless the possible effect could be worth it. Such an approach also excludes need for creation of a new, specially designed program that is needed to be approved in different levels of governance, thus it can be flexible, which is again essential for the new entrepreneurs.

4. **Advisory services and training**

   a. The advisory and training services are, most probably, most required among the business start-ups and are objectively necessary. Basically, these affect the issues of the development of ideas, attraction of financing, company management and product internationalization. At present, mentoring is demanded on the market. In Latvia, Estonia and foreign countries creativity seminars, investment readiness training, etc. are implemented successfully.

   b. It has to be noted that there are consulting companies and experts operating on the market, yet the actual demand is for the services that are provided free of charge or for a low charge. Paid services are used by the existing SMEs or the large enterprises that have available financial resources for such measures.

5. **Recognizability of the support instruments**

   a. Almost all the studies that are related to the entrepreneurs' needs indicate that many available support instruments are not known to the entrepreneurs and/or the entrepreneurs lack the knowledge thereof. Entrepreneurs are less aware of such support instruments as venture capitals, business incubators, business angels (business angel networks), technology transfer centers, etc.

   b. Information about the various support possibilities is very scattered. In Latvia, most information is compiled on the LIDA's web pages, whereas in Estonia – by Enterprise Estonia, and enterprises indicate on the necessity to concentrate the information in these pages. However, currently very many support instruments that exist on the market cannot be found on these pages, and the information about them shows only on the pages of the given providers or in various press releases. It is very hard for a beginner to orientate oneself in the diversity of the supply, therefore structuring of the various interested parties is necessary - nascent entrepreneurs, start-ups, SMEs, inventors, etc. The option of receiving the latest news is provided also by the entrepreneurs' wish-lists.



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