



# Inclusive Entrepreneurship Policies: Country Assessment Notes

Latvia, 2018



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## FOREWORD

Inclusive entrepreneurship policies aim to offer all people an equal opportunity to create a sustainable business, whatever their social group. This is an important requirement for achieving the goal of smart, sustainable and inclusive growth set out in the Europe 2020 strategy. It is also a means to respond to new economic challenges, to create jobs and to fight social and financial exclusion. Among the key targets of inclusive entrepreneurship policies and programmes are women, youth, older people, the unemployed, migrants and people with disabilities, who all continue to face challenges in the labour market and are under-represented or disadvantaged in entrepreneurship activities. ‘The Missing Entrepreneurs’ series of publications of the Organisation for Economic Co-operation and Development (OECD) and the European Union discuss how public policies and programmes can support inclusive entrepreneurship. This includes refining regulatory and welfare institutions, facilitating access to finance, building entrepreneurship skills through training, coaching and mentoring, strengthening entrepreneurial culture and networks for target groups, and putting strategies and actions together for inclusive entrepreneurship in a co-ordinated and targeted way. Governments are increasingly recognising the challenge of inclusive entrepreneurship, but there is still much to do to spread good practice.

Although self-employment rates in Latvia are below the European Union (EU) average, business creation rates are relatively high, including for women, youth and seniors. Youth, in particular, are very active in business creation and managing new businesses that are less than 42 months old (19.8% over the 2013-17 period vs. 7.7% for the EU) and more than 40% expect to create a business in the next three years. This is double the average for the European Union. There are two important policies providing support for the unemployed and unemployed youth to start businesses. However, there are few other dedicated supports of inclusive entrepreneurship policy target groups such as youth, women, migrants and seniors. Inclusive entrepreneurship policy in Latvia could be strengthened both by scaling-up the current business start-up programmes for the unemployed and developing dedicated programmes for other target populations.

This note is the third country assessment note prepared by the OECD in collaboration with the Directorate-General for Employment, Social Affairs and Inclusion of the European Commission on the state of inclusive entrepreneurship policies and programmes in each European Union Member State. Each note provides an overview and assessment of policies and programmes that support people from under-represented and disadvantaged groups in business creation and self-employment and suggests policy actions to address gaps in the support system and to improve the quality of available support offers. The notes cover national-level policies and programmes and, where relevant, sub-national initiatives and actions by the non-governmental sector. The 2018 notes include an additional section on female entrepreneurship support, which provides an overview of the entrepreneurship activity levels, obstacles faced and policy responses.

The notes are part of a wider programme of work by the OECD and the European Commission that includes ‘The Missing Entrepreneurs’ publications, the Better Entrepreneurship Policy Tool ([www.betterentrepreneurship.eu](http://www.betterentrepreneurship.eu)), a series of Policy Briefs on specific target groups, policies and issues, and country reviews of youth entrepreneurship and women entrepreneurship. For more information please refer to: [www.oecd.org/employment/leed/inclusive-entrepreneurship.htm](http://www.oecd.org/employment/leed/inclusive-entrepreneurship.htm).

## **ACKNOWLEDGEMENTS**

This note is part of a series of notes on country-level inclusive entrepreneurship policies and programmes prepared by the Organisation for Economic Co-operation and Development (OECD) for the European Commission. These notes were prepared as part of the programme of work of the OECD Local Economic and Employment Development (LEED) Programme of the Centre for Entrepreneurship, SMEs, Regions and Cities (CFE) led by Lamia Kamal-Chaoui, Director. They provide an overview of current and planned policy actions and identify some actions that could be implemented to address gaps in the current support offering, or improve current offerings.

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## KEY MESSAGES

- Inclusive entrepreneurship policies in Latvia are focussed on assisting the unemployed in business creation. The objectives of these policies and programmes are well-defined, although the actions are very small-scale. Strategies and objectives for supporting other target groups such as youth, women, migrants or older people in entrepreneurship have not been developed and tailored support schemes (e.g. training, coaching and mentoring, loan guarantees) are not available. These social target groups, however, can access mainstream entrepreneurship support programmes.
- Although self-employment rates are lower for all social target groups (e.g. women, youth, older people) than the European Union averages, the proportion of the population involved in setting up a business or managing a new business is much higher. Youth, in particular, are very active in early-stage entrepreneurial activities (19.1% over the 2013-17 period vs. 7.8% for the European Union) and more than 40% expect to create a business in the next 3 years. This was double the average for the European Union. The self-employment rate was also relatively high for older people in 2017 (13.4%), and considerably higher for men as compared to women (14.7% vs 9.0%).
- To further strengthen inclusive entrepreneurship policies and programmes, the following actions are recommended: (i) scale-up support offered under the “Measure for Commencing Commercial Activity or Self-employment in Latvia”; (ii) work with private sector financial institutions to increase the availability of microcredit with the support of the European Union’s EaSI Programme; (iii) boost actions that create entrepreneurship networks for entrepreneurs from under-represented and disadvantaged groups; and (iv) improve dissemination and tailoring of information on business start-up to people from under-represented and disadvantaged groups who are interested in business creation.

## 1. INCLUSIVE ENTREPRENEURSHIP OBJECTIVES AND TARGETS

Objectives and targets for business creation and self-employment by the unemployed and other key social target groups are outlined in the employment framework “Inclusive employment strategy 2015-2020”,<sup>1</sup> which was approved by the Cabinet of Ministers in May 2015 (order Mmb. 244). This framework was established to foster development of an inclusive labour market and includes two key policy objectives related to inclusive entrepreneurship: (i) to increase self-employment and business start-up opportunities for registered unemployed; and (ii) to promote social entrepreneurship, both as a labour market activity for various social target groups and also as a vehicle for supporting these groups in the labour market and society more generally. While tailored support for key social target groups (e.g. women, youth, seniors) are not identified in this high-level policy paper, the regulation on its implementation defines target groups for each particular measure. In addition to self-employment measures, there are some measures to support social entrepreneurship that aim to support the vulnerable unemployed (i.e. those over 54 years old, those with caring responsibilities, those with a disability or mental health challenge).

More broadly, labour market policies have been defined to reach the targets defined in the Europe 2020 strategy,<sup>2</sup> notably:

1. *To increase total employment to 73% (for people 20-64 years old) by 2020 (the employment rate was 74.8% in 2017).*

Already in 2016, the employment target set for 2020 had been achieved.<sup>3</sup> Economic growth is expected to further boost the employment increase, however, the growth rate might slow down as it is forecasted that the growth will be mainly determined by the increase in productivity.

The main elements of the employment policy in Latvia are as follows:

- supporting the labour demand – fostering of economic activities and entrepreneurship, including reduction of the labour taxes, the fight against undeclared employment, indirect and direct support measures for businesses ensured by the government, measures to reduce administrative barriers, business incubators;
- strengthening the labour supply – increasing the competitiveness of the unemployed and people at risk of unemployment in the labour market, including skills development according to the labour market needs (vocational continuous education, non-formal education for the unemployed, consultations and professional mobility), lifelong learning measures, advice for starting a business;
- facilitating the matching process of the labour supply and demand,<sup>4</sup> including the strengthening the education system by involving of employers’ organisations in

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<sup>1</sup> In Latvian: *Iekļaujošas nodarbinātības pamatnostādnes 2015.-2020.gadam*

<sup>2</sup> *National Reform Programme of Latvia for the Implementation of the “Europe 2020” strategy* was approved by the Cabinet of Ministers on 26 April 2011, and submitted to the European Commission on 29 April 2011. Annually Progress Report on the Implementation of the National Reform Programme of Latvia is being prepared where also the progress on the achievement of the quantitative targets of Latvia within the Europe 2020 strategy is described.

<sup>3</sup> Employment level in Latvia reached 73.2% in 2016 for people aged 20-64 years

development of curricula, forecasting the compliance of the labour market supply with the labour market demand, educating the labour market participants, including pupils and students on labour market and career issues.

2. *To reduce the number of people at risk of poverty or social exclusion by 121 000 people.*

The target is to reduce the number of persons at risk of poverty and/or of those living in households with low work intensity by 121 000 people or 21% by 2020. This objective is expected to be achieved through an increase in employment and income from wages for households. Progress towards this target was steady until 2013, when many measures related to living conditions and poverty started to decline. Nonetheless, the target has been reached.

The share of population exposed to a severe material deprivation has decreased in recent years – from 16.4% in 2015 to 12.8% in 2016. In addition, the share of children exposed to the risk of poverty continued to decrease reaching 18.4% in 2016.

The key measures implemented in 2017 remained the same as in 2016. They aimed to reduce the tax burden on labour,<sup>5</sup> increase of income for employed persons with low income and families with children, improve support for persons of retirement age, improve services for population groups exposed to poverty and social exclusion, and improve of support for persons with disability and working ability assessment system. Entrepreneurship offers one method of helping people enter and remain attached to the labour market.

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<sup>4</sup> The Ministry of Economics has been preparing and updating medium- and long-term labour market forecasts. Labour market forecasts are one of the tools that allow for an early anticipation of formation of labour market mismatches in the future and a more efficient distribution of labour resources in the economy. They show possible trends in the labour market development and the possible risks, taking into account the anticipated changes in the education supply structure. These forecasts are quantitative basis for further discussions among employment, education and structural policy makers, social partners, researchers and other stakeholders, in order to prepare and adapt to the expected structural changes in the national economy in a timely manner.

<sup>5</sup> In July 2017, the Saeima approved an extensive tax, including labour taxes, reform, where one of priorities was to reduce income inequality of the population



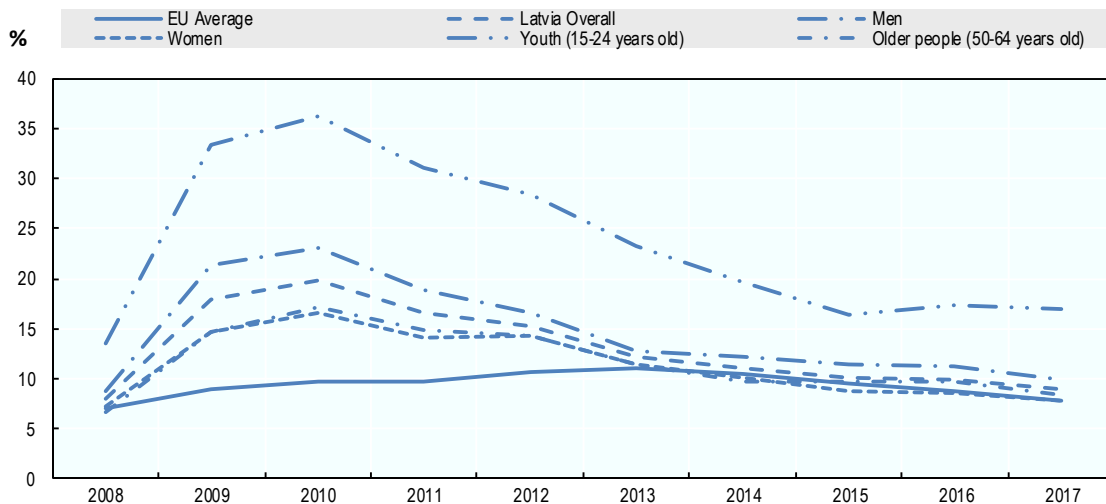
## 2. KEY INCLUSIVE ENTREPRENEURSHIP INDICATORS

### 2.1. Labour market context

The unemployment rate has decreased considerably since 2010, but remained slightly above the European Union (EU) average in 2017 (8.9% vs. 7.8%) (Figure 1). At the regional level, unemployment rates varied greatly, with the highest rate in Latgale region (15.8%) and lowest in the capital city of Riga (4.0%) (SEA, 2018).

The youth unemployment rate in Latvia was among the highest in the EU following the economic crisis after 2008. However, it has fallen substantially in recent years, from 36.2% in 2010 to 17.0% in 2017 (Figure 1a). At the end of 2017, 55.3% of all registered unemployed were women, while 44.7% were men (SEA, 2018). The overall unemployment rate for women, however, was lower than for men in Latvia (7.9% and 9.9%).

Figure 1. Unemployment rates, 2008-17



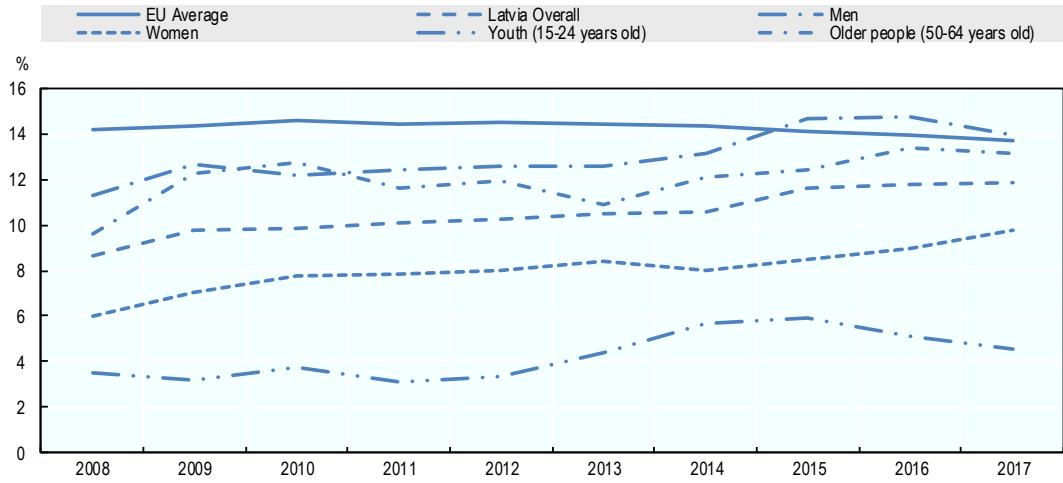
Source: Eurostat (2018), Labour Force Survey.

### 2.2. Self-employment and entrepreneurship rates

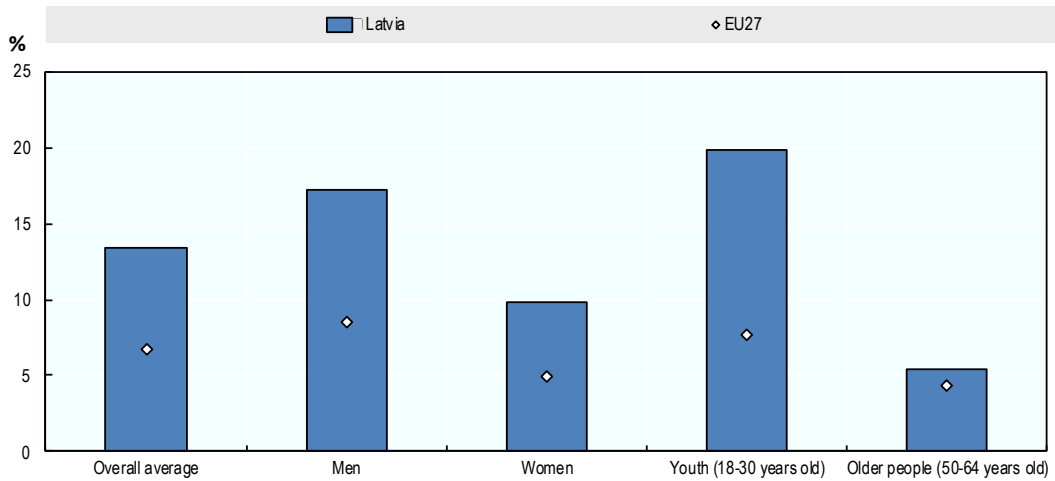
The self-employment rate in Latvia was slightly below the average rate for the EU in 2017 (11.8% vs. 13.7%) (Figure 2a). The rate has increased over the last decade in Latvia, whereas it was essentially constant at the EU level. The increase of the self-employment rate was especially visible for youth in Latvia – the self-employment has increased from 2.2% in 2006 to 5.1% in 2016 (followed by a slight decrease to 4.6% in 2017). The proportion of men active in self-employment remains considerably higher than for women (13.9% vs 9.8% in 2017) and was also relatively high for older people (13.2%).

**Figure 2. Entrepreneurship rates by target group**

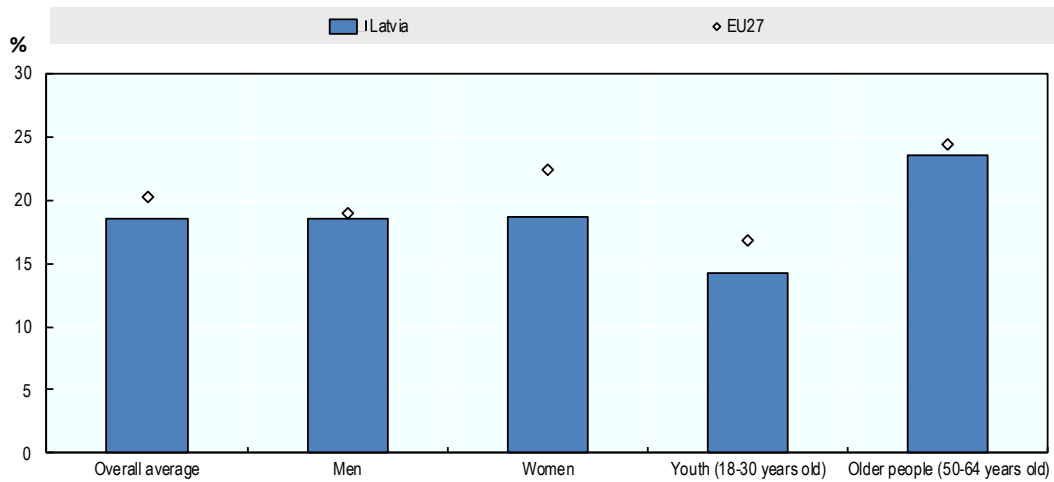
a. Self-employment rate, 2008-17



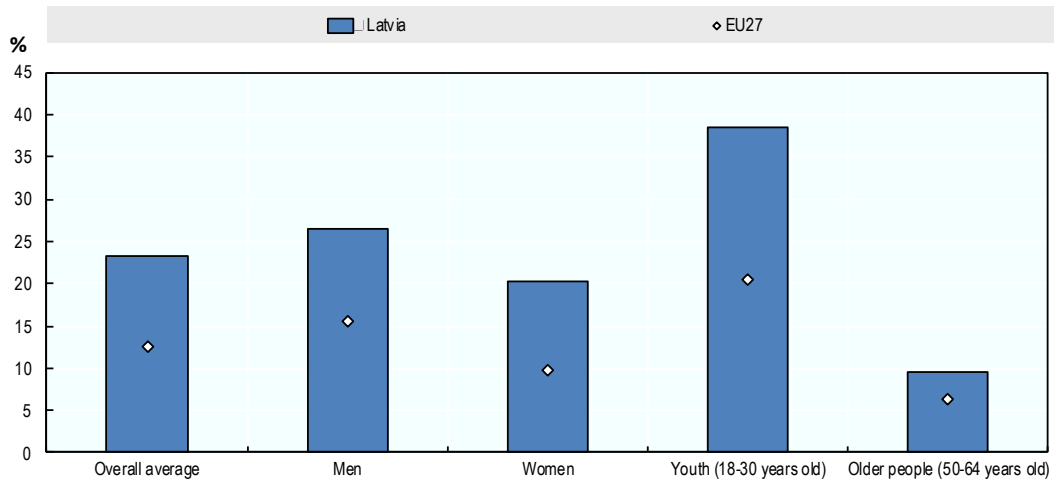
b. TEA-Rate, 2013-17



c. Proportion of TEA that is necessity entrepreneurship, 2013-17



d. Proportion who expect to start a business in the next 3 years, 2013-17



Note: The self-employment rate is defined as the proportion of those in employment who are self-employed. The TEA rate is the Total early-stage Entrepreneurial Activity rate, which is defined as the proportion of the population actively involved in pre-start-up activities and those who have started a new business within the last 42 months. The proportion of TEA that is necessity entrepreneurship is the proportion of entrepreneurs involved in setting-up a new business or operating a business that is less than 42 months old, who were motivated to start their business because they had no better options for work. Data for panels b, c, and d were pooled for the period 2013-17, producing an unweighted average. The EU27 average in panels b, c, and d covers all EU Member States except Malta because it is not covered by the GEM survey.

Source: Panel a contains data from Eurostat (2018), Labour Force Survey; Panels b, c, and d contain data from the 2013 to 2017 Global Entrepreneurship Monitor household surveys that were tabulated for the OECD (2018).

This upswing in self-employment activity is also reflected in another measure of entrepreneurship activities – the Total early-stage Entrepreneurial Activity (TEA) rate, which measures the proportion of adults involved in starting a business or managing a new business. The TEA rate is approximately double the EU average (13.4% vs. 6.7% over the 2013-17 period) (Figure 2b). There is a gender gap in the rate: 17.2% of men were involved in business creation and new start-ups over this period whereas 9.8% of women were. The TEA rate for youth was the highest among EU countries for this period, but the rate for older people was approximately equal to the EU average (5.4% vs. 4.3%). Still, the TEA rates for older people are similar to the rates in neighbouring countries such as Lithuania (5.1%) and Estonia (6.5%).

Despite this high level of early-stage entrepreneurship activities, these activities are not all making a positive contribution to the economy. One-fifth of new entrepreneurs report that they are active in entrepreneurship because they do not have any other opportunities in the labour market, i.e. “necessity entrepreneurs” (Figure 2c). Over the 2013-17 period, older people were the most likely to report that they entrepreneurs out of necessity (23.6%). The share of early-stage entrepreneurship activities that were done out of “necessity” increased sharply following the onset of the financial crisis in 2009 and declined in following years. However, the GEM data show necessity-driven entrepreneurship activities accounted for most of the growth of nascent entrepreneurship activity up until 2016. In 2017 necessity-driven entrepreneurship once again increased substantially as compared to 2016 (22.7% vs. 13.9%) despite economic growth in 2017 (approximately 4.5%).

The proportion of Latvians who expect to create a business is approximately double the proportion across the EU (Figure 2d). The same is true also for women (20.9% vs. 10.0% EU average) and older people (10.4% vs. 6.4% EU average). A very high proportion of youth in Latvia expected to create a business in the next three years during the 2013-17 period (nearly 40%).

### **2.3. A profile of the self-employed**

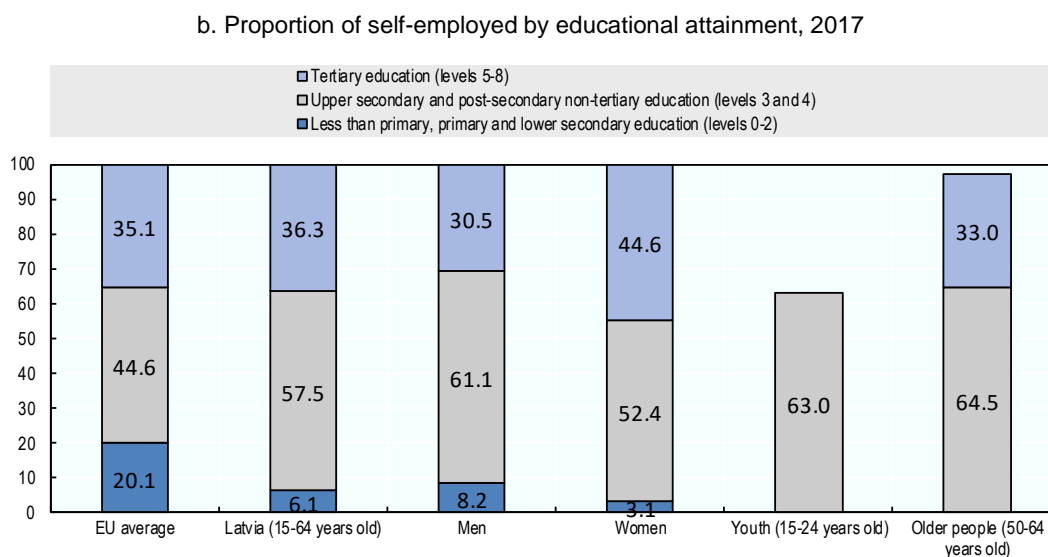
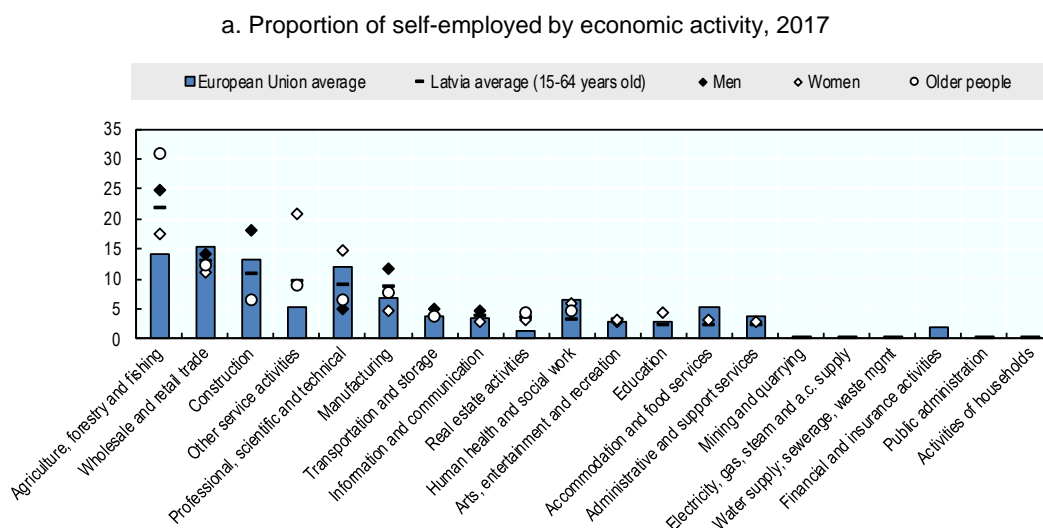
Self-employment in Latvia by sector for 2017 is presented in Figure 3a. It shows that majority of self-employed work in Agriculture, forestry and fishing as well as Wholesale and retail, construction industries and Professional, scientific and technical activities. There has been an increase in activities in Professional, scientific and technical services up to 2016, as well as Other services. A smaller increase can also be observed in Arts and entertainment. Some gender differences are observed. For example, self-employed women were much more likely to be working in Professional, scientific and technical sectors relative to men in 2017 (14.6% vs. 4.9%). Conversely, self-employed men were much more likely to be working in manufacturing (11.7% vs. 4.7%). Self-employed older people were over-represented in Agriculture, forestry and fishing relative to younger age groups – 31.0% of older self-employed people worked in this sector.

Overall, more than one-third of the self-employed at a tertiary level education in 2017 (36.3%), while 57.5% had an upper secondary and post-secondary non-tertiary level education (Figure 3b). Relative to the EU average, the self-employed in Latvia were more likely to have higher education levels. Self-employed women were more likely than self-employed men to have a tertiary education (44.6% vs 30.5%). The proportion of self-employed with high levels of educational attainment has increased for both men and women.

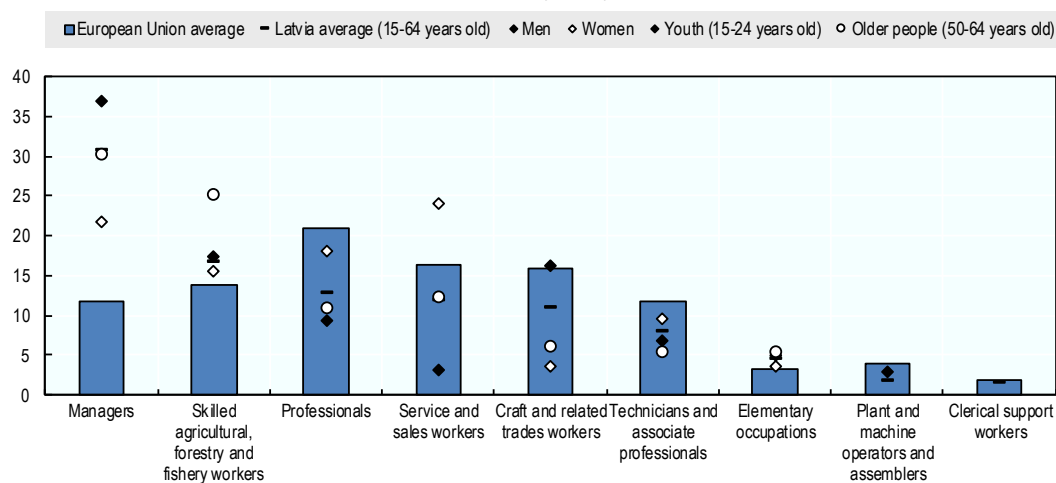
The self-employed were much more likely to be working as Managers in 2017 relative to the EU average (30.8% vs. 11.8%) but less likely to be as Professionals (13.0% vs. 21.0%) (Figure 3c). As suggested by the high educational attainments of the self-employed, the majority are working as Managers, Skilled agriculture, forestry and fishery workers, and Professionals – 60.6% combined, which was substantially above the EU average of 46.6%. Self-employed women were almost half as

likely as men to Managers (21.9% vs. 37.0%) but were twice as likely to be Professionals (18.2% vs. 9.5%). There were also gender differences among self-employed Service and sales workers (24.3% of self-employed women were working in this occupation relative to 3.4% of men) and Craft and related trades workers (3.8% of self-employed women were working in this occupation relative to 16.4% of men).

**Figure 3. Characteristics of self-employed workers by target group**



c. Proportion of self-employed by occupation, 2017



Note: The self-employment rate is defined as the proportion of those in employment who are self-employed.

Source: Eurostat (2018), Labour Force Survey.

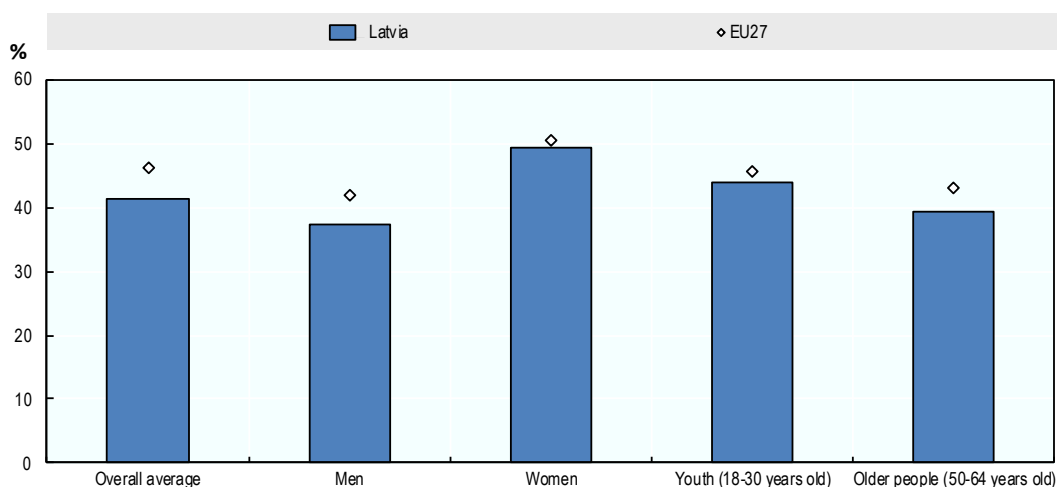
## 2.4. Barriers to business creation

Some of the key barriers to entrepreneurship for under-represented and disadvantaged groups (but also for entrepreneurship in general) include a fear of failure and lack of entrepreneurship skills. Latvians were less likely than the EU average to report that a fear of failure is a barrier to business start-up (Figure 4a). This is especially true for men: 37.2% men reported fear of failure prevented them from starting a business during the period 2013-17, relative to an EU average of 41.9%. About half of women reported this barrier (49.4%), which was the same as the EU average (50.5%). Youth and older people were also about as likely as the EU average to report this barrier.

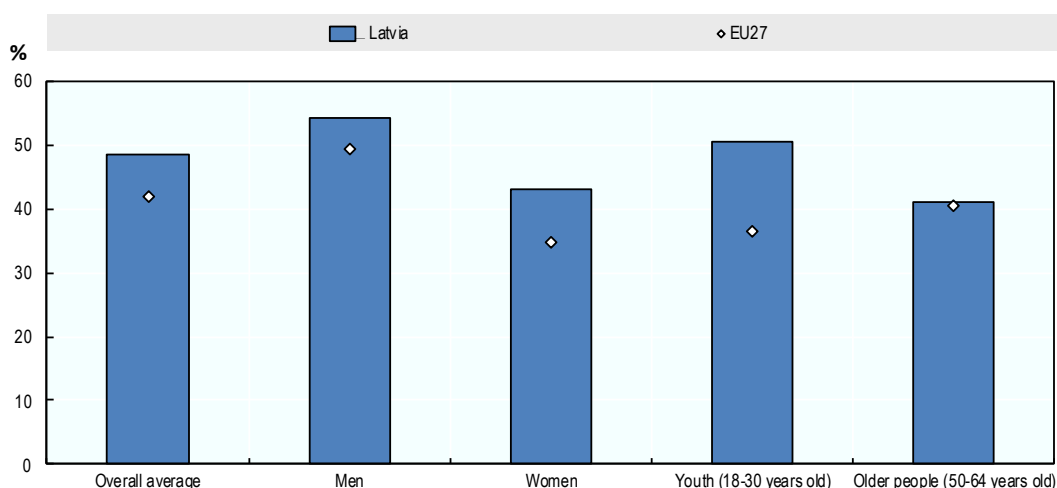
Latvians were also more likely to report that they had appropriate skills for self-employment relative to the EU average – 48.4% of people report that they had the skills needed relative to 41.9% across the EU (Figure 4b). Men were the most likely group to self-report that they had the skills, which women were the least likely (54.3% for men, and 43.0% for women). Less difference was observable by age (50.4% for youth, and 41.1% for older people).

**Figure 4. Barriers to entrepreneurship by target group**

a. Proportion who report that a fear of failure prevents them from starting a business, 2013-17



b. Proportion who perceive that they have the skills to start a business, 2013-17



Note: Data were pooled for the period 2013-17. Responses were weighted to reflect the population in each year, but no weighting was used when pooling the time series data, i.e. all years have the same weight regardless of the sample size in each year. The EU27 average covers all EU Member States except Malta because it is not covered by the GEM survey.

Source: GEM (2018), special tabulations of the Global Entrepreneurship Monitor's household surveys from the 2013 to 2017.

## 2.5. Entrepreneurship performance

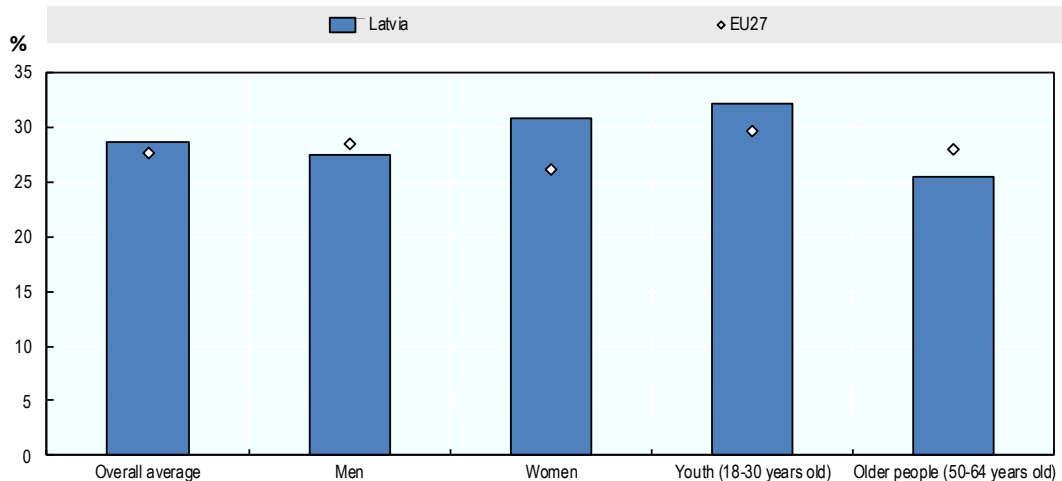
Overall, new entrepreneurs in Latvia were as likely as the EU average to offer new products or services over the 2013-17 period (Figure 5a). There is little difference across various groups in Latvia for the period 2013-17 (i.e. approximately 30% for all groups in Latvia as well as EU average). However, older people were less likely than other groups to introduce new products and services. This is a different picture relative to what was observed for the period 2010-2014 when there was substantial variation across the different social target groups.

New entrepreneurs in Latvia, however, were more likely to sell to customers in other countries than the EU average (61.1% vs. 57.4%) (Figure 5b). There was little different between the proportion of men, women and youth entrepreneurs that sold to customers in other countries. Older people, however were much less likely than other groups to export. It is also noteworthy that women entrepreneurs were the only group that was more likely than the EU average to sell to customers in another country (60.6% vs. 53.6%).

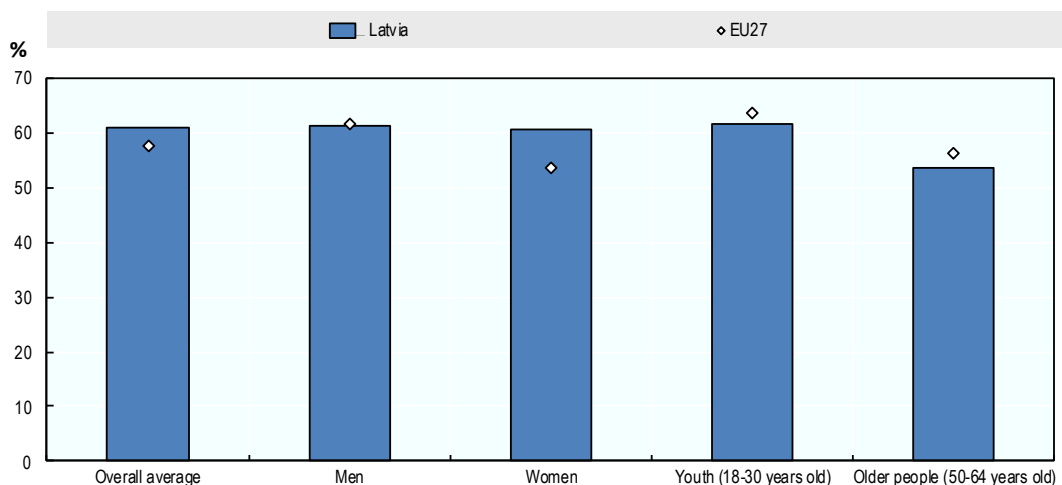
New entrepreneurs were also more likely to expect to create a large number of jobs. Over the period 2013-17, 14.3% of new entrepreneurs expected to create at least 19 jobs over the next five years (Figure 5c). This was above the EU average for this period (9.7%). Men (16.2%) and youth (16.3%) were the most likely groups to expect to create at least 19 jobs, while women (11.3%) and older people (8.8%) were less likely. Women, however, were twice as likely to expect this level of job creation as the EU average (5.9%).

**Figure 5. Self-employment and entrepreneurship activities by target group**

a. Proportion of new entrepreneurs whose products or services are new to all or some customers, 2013-17

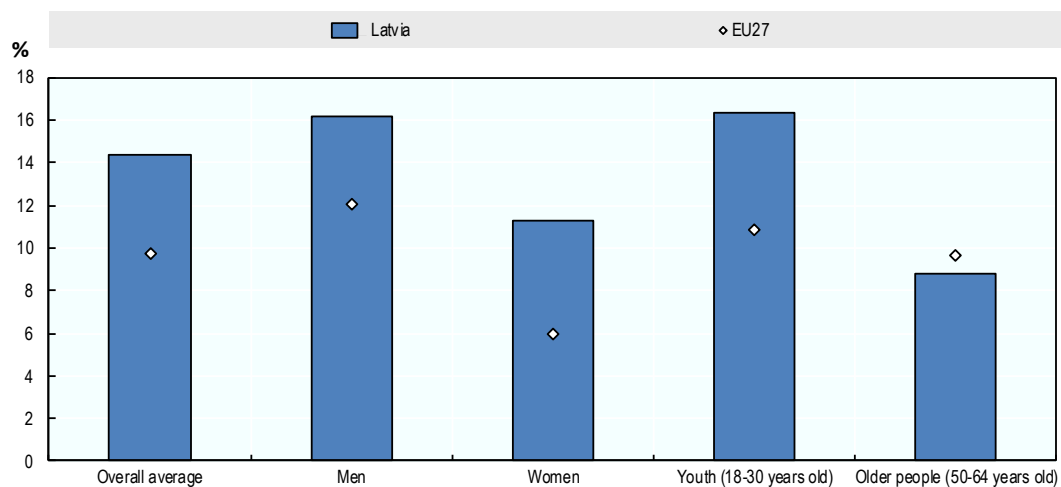


b. Proportion who sell to customers in another country, 2013-17





c. Proportion of early-stage entrepreneurs who expect to create more than 19 jobs in 5 years, 2013-17



Note: Data were pooled for the period 2013-17. Responses were weighted to reflect the population in each year, but no weighting was used when pooling the time series data, i.e. all years have the same weight regardless of the sample size in each year. The EU27 average covers all EU Member States except Malta because it is not covered by the GEM survey.

Source: GEM (2018), special tabulations of the Global Entrepreneurship Monitor's household surveys from the 2013 to 2017.

### **3. ASSESSMENT OF CURRENT AND PLANNED INCLUSIVE ENTREPRENEURSHIP POLICIES AND PROGRAMMES**

#### **3.1. Policy framework**

Policies and programmes that promote and support business creation and self-employment, including those targeted for unemployed and key social target groups (such as women, youth, older people, immigrants, people with disabilities, ethnic minority groups and others), are under the responsibility of three ministries: the Ministry of Economics, the Ministry of Welfare and the Ministry of Environmental Protection and Regional Development.

The Ministry of Economics seeks to develop a business-friendly environment that encourages and supports business creation and industrial development. It is also responsible for coordinating medium-term and long-term labour market policies. Recent initiatives include actions to reduce the costs associated with creating a business. The Ministry of Economics is also focused on ensuring that new business start-ups and small companies are not disadvantaged in the tax system. Key schemes include the “Innovation motivation programme”, “Business incubator programme”, and it also manages some micro credit schemes.

The Ministry of Welfare has responsibility for reducing unemployment, developing labour market policy and improving the career development support system. It also manages and coordinates active labour market measures, including support measures for business creation. However, nearly all of these programmes are general programmes that are not tailored specifically to the needs of entrepreneurs from under-represented or disadvantaged groups. Furthermore, although these schemes are open to all, there is a lack of monitoring data, which makes it difficult to know whether people from under-represented or disadvantaged groups accessing these offers.

In addition to these general programmes, the Ministry of Welfare offers a small number of tailored schemes for specific social target groups, notably the (registered) unemployed and unemployed youth. Two key programmes are supported within the framework of “Inclusive employment guidelines for 2015 – 2020”:

- “Support to enter self-employment and start a business” for the unemployed, which is outlined in the Law of the Support to the Unemployed and Job Seekers and funded by a special State-funded budget that is dedicated to fostering employment;
- “Support to enter self-employment and start business” for young unemployed people, which is funded by the National Youth Guarantee Programme and implemented within the Youth Employment Initiative 2014-18, co-funded by the EU.

The State Employment Agency is a State administration institution under the supervision of the Minister for Welfare. It has a range of responsibilities related to collecting labour market information and providing skills training and career counselling. The agency manages support programmes for unemployed people who are interested in starting a business.

The Ministry of Environmental Protection and Regional Development is responsible for implementing policy in three areas – environment protection, regional development as well as information and communication technologies. In the area of regional development, the Ministry of Environmental Protection and Regional Development implements and evaluates regional policy at

state level, provides methodological guidelines and supervises the territorial development planning process, as well as ensures the development and supervision of local governments with overall goal to achieve well-balanced and sustainable development of the country. It is responsible for implementing objective 3.3.1. “To increase the amount of private investment in centres of national and regional significance, by making investment in the infrastructure important for entrepreneurship”. It develops and maintains the infrastructure corresponding to the needs of manufacturing industry enterprises, including appropriate premises, thus facilitating the extension of the activity of enterprises, the growth of the volumes of manufacturing industry output will be stimulated, while promoting the attraction of investment and creation of new jobs.

The Ministry of Environmental Protection and Regional Development suggested the creation of Latgale Special Economic Zone (SEZ), with the aim of promoting regional development, by attracting investments in production industry and infrastructure development, as well as for new job creation – by adopting special Law and regulation, Latgales SEZ started to work on 1<sup>st</sup> January of 2017. Latgale SEZ is attractive to entrepreneurs not only for tax deductions and preferential customs rules, but also with a particularly favourable attitude towards the business environment, guaranteed by the SEZ status. SEZ benefits are for both local entrepreneurs, who are planning to expand and diversify its production capacity and products, as well as for foreign investors, who intend to start a business. Latgale SEZ is an adequate solution for the improvement of the economic situation of the region. Up to 5% of the territory of the Latgale region can be given the status of SEZ. The companies that will receive the status of Latgale SEZ company have the right to the following direct tax relief – 80% relief for company income tax and 80% relief for property tax.

The Ministry of Environmental Protection and Regional Development has further proposed changes in regulatory framework for Latgale Special Economic Zone and Rezekne Special Economic zone to extend available support in SEZ. Proposal about estimated wage costs as investment will be discussed during 2018.

To expand available support for entrepreneurs, not only in territories with SEZ status, but in all municipalities of Latvia, The Ministry of Environmental Protection and Regional Development has developed several proposals for improvement of regulatory framework:

- Right to the lessee (entrepreneur) as the first pretender to buy leased real estate from the municipality;
- Aid as reduced sale price for the purchase of municipality property (lease object);
- Establishment of a co-operation model between JSC “Development Finance Institution ALTUM” and municipalities of Latvia, in order to issue guarantees for entrepreneurship projects.

### **3.2. Government regulations**

Regulatory measures and actions that support inclusive entrepreneurship are confined to efforts that reduce administrative burdens for business start-up. While such measures do not target under-represented or disadvantaged groups, entrepreneurs from these social groups stand to benefit since they often face greater challenges in navigating the institutional environment.

On 12 October, 2017, the Parliament adopted Social Enterprise Law which came into force on 1 April 2018. The aim of the Social Enterprise Law is to promote the quality of life of society and to foster the employability of people at risk of social exclusion. The law ensures the legal framework by providing both the criteria for obtaining the status of a social enterprise and the procedure for state support for this type of entrepreneurship. The status of a social enterprise will be granted to limited liability companies that engage in creative economic activities with beneficial social impact, for

example, provide social services, contribute to shaping more inclusive civil society, promote education, support science, work toward environmental protection and conservation, provide animal protection, or foster cultural diversity.

With an aim to provide additional support for disadvantaged unemployed persons and persons with disabilities, including older workers, European Social Fund Project 9.1.1.3. “Support to social enterprise” is being implemented by the Ministry of Welfare. The main objective of the project is to identify and verify the optimal solutions for creation and development of social enterprises, including the support to work integration. The planned activities include awareness raising measures about social entrepreneurship, their meaning and possible contribution for economic growth and society. Activities also include the development of a support system for social enterprises and the promotion of start-ups. Financial grants for social enterprise start-up and already operating companies ranges from EUR 5 000 to EUR 200 000 plus wage subsidies for employing people from vulnerable groups.

There are also regulatory measures in place to minimise the shadow economy and informal entrepreneurship. The Ministry of Finance has created a Special Council and a National Plan for Fighting the Shadow Economy. The National Plan includes a range of measures that aim to simplify tax and business registration procedures to encourage more people to formalise their businesses. There are also penalties for non-compliance.

However, there is a wide range of regulatory instruments that are not used to encourage and support entrepreneurship by under-represented groups that are commonly found in other countries. Examples include “welfare bridges”,<sup>6</sup> reduced social security contributions for specific groups of under-represented and disadvantaged entrepreneurs (e.g. youth) or training to help entrepreneurs understand their administrative responsibilities. This gap is likely justified to some extent since the size of most of the social target groups is very small given the country’s small population.

### **3.3. Financing entrepreneurship**

Tailored measures for financing business creation by people from under-represented and disadvantaged groups are almost exclusively focused on supporting the unemployed. The main measure is the “Measure for Commencing Commercial Activity or Self-employment in Latvia”, which is managed by the State Employment Agency of Latvia (SEA) under the auspices of the Ministry of Welfare of Latvia. This measure provides a grant of up to EUR 3 000 and up to 20 professional business counselling sessions to support the implementation of the business plan, as well as individual counselling to help applicants their business idea. In addition, it provides an allowance equal to the minimum wage for six months.

The programme is mainly promoted through the SEA website. To be eligible for support, applicants must have their business plan positively assessed by business start-up experts, who are contracted by the SEA through a public procurement process. Criteria for a positive assessment include that the product or service provided has some innovative features and that there is a potential market for the product or service. In addition, applicants must meet one of the following qualifications:

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<sup>6</sup> A welfare bridge scheme allows an unemployed person to convert their entitled unemployment benefits into an allowance to cover living expenses (i.e. personal subsistence) during the early stages of self-employment. In some cases this may also include a lump sum grant to support the creation of a business. These schemes frequently also include entrepreneurship training and/or other business development services. and allowance to support them in business.

- Has acquired a vocational secondary education or higher education in entrepreneurship, business management or in a similar field, or in the field, which is planned to start commercial activity or self-employment;
- Has completed a vocational training programme that provides the required business management knowledge in the field, or in the field which is planned to start commercial activity or self-employment;
- Has acquired vocational secondary education or higher education, and informal education programme (not less than 120 academic hours) in a business management-related field.

The number of participants since 2013 and allocated funding are displayed in Table 1.

**Table 1. Participants in the “Measure for Commencing Commercial Activity or Self-employment in Latvia”**

	Total number of unemployed	Long term unemployed	Youth unemployed (18-24 years old)	Unemployed with a disability	Unemployed who are ex-offenders	Unemployed after parental leave	Unemployed pre-retirement age
2013	173	64	6	12	1	7	8
2014	198	55	18	10	1	11	7
2015	244	65	22	11	0	6	7
2016	298	57	31	16	0	14	7
2017	<b>211</b>	84	11	14	0	5	6
<b>Total</b>	<b>1124</b>	<b>325</b>	<b>88</b>	<b>63</b>	<b>2</b>	<b>43</b>	<b>35</b>

Source: SEA, 2018.

This measure has achieved some very positive results. Only 10% of projects that were supported are considered to be unsuccessful by evaluations and 71% of participants who launched a project were still involved in their start-up after two years. This is in line with international good practice examples, including the Start-up Grant in Finland and the Welfare Bridge programmes in Germany. The keys to its success are the strong vetting process and staged approach to providing support. However, there is room to improve awareness about the programme since few people know about it and it is not actively promoted by the SEA.

Results of measure for Commencing Commercial Activity or Self-employment in Latvia by regions are presented in Table 2. Approximately 40% of support has been targeted to the capital city of Riga and Riga region, which can be explained with the fact that Riga in general has highest economic activity. Support provided within Riga region, however, is followed by Latgale region (20% of implemented activities), which has highest unemployment rate in Latvia. Indicator of activity for other regions is approximately 13%.

**Table 2. Participants in the “Measure for Commencing Commercial Activity or Self-employment” in Latvia by regions**

Year	Kurzeme region	Latgale region	Riga region	Vidzeme region	Zemgale region	Total
2013	28	30	71	24	20	173
2014	32	45	78	20	23	198
2015	36	48	101	37	22	244
2016	43	60	118	33	44	298
2017	29	41	87	24	30	211
<b>Total</b>	<b>168</b>	<b>224</b>	<b>455</b>	<b>138</b>	<b>139</b>	<b>1124</b>

Source: SEA, 2018.

In addition to this measure for the unemployed, there is a start-up financing scheme for unemployed youth as part of the Youth Guarantee programme (“Support for self-employed and starting business”) that has been implemented during 2014-16. This scheme is similar to the measure for the unemployed in that it provides assistance with the preparation of business plans and a grant of up to EUR 3 000. In addition, it provides an allowance equal to the minimum wage for six months. Youth between the ages of 18 and 29 years old are eligible for support under this measure. Results of Youth Guarantee programme to support unemployed youth in starting business are integrated within Table 2.

Entrepreneurs from under-represented and disadvantaged groups can also access a number of mainstream start-up financing supports. These include a microcredit programme that is operated by ALTUM, which is the government’s development finance institution.<sup>7</sup> It provides loans of up to EUR 25 000 with a 50% subsidised interest rate and a SME growth loan. Also, ALTUM has recently signed an agreement with the European Investment Fund (EIF) to improve access to finance to innovative small and medium-sized enterprises (SMEs) in Latvia.<sup>8</sup> ALTUM also offers an SME micro-credit programme that. However, it is unlikely that unemployed people would access these financial supports.

Although microcredit is also available from private sector lending institutions, there are currently no financial intermediaries that make use of the European Union’s Programme for Employment and Social Innovation (EaSI).<sup>9</sup> This represents a missed opportunity.

<sup>7</sup> ALTUM is the successor to the Latvian Guarantee Agency.

<sup>8</sup> [https://ec.europa.eu/commission/commissioners/2014-2019/katainen/announcements/investment-plan-europe-eif-and-altum-sign-agreement-benefit-innovative-businesses-latvia\\_en](https://ec.europa.eu/commission/commissioners/2014-2019/katainen/announcements/investment-plan-europe-eif-and-altum-sign-agreement-benefit-innovative-businesses-latvia_en)

<sup>9</sup> This programme seeks to facilitate microcredit for entrepreneurs from under-represented and disadvantaged groups.

### 3.4. Entrepreneurship skills

Support for acquiring business start-up skills and competences for registered unemployed, job-seekers and people at risk of unemployment is provided by the SEA within the framework of the ALMP “Basic competencies for Increasing Competitiveness in the Labour Market”, which includes short courses, seminars and lectures. Several entrepreneurship related courses are provided in this measure, including “Basics of Business”, “Basics of Project Management”, “Basics of creating a Business Plan” etc.

Vocational training, qualification improvement and upskilling courses and programmes, which are organised in co-operation with education institutions and employers and implemented with voucher method. Upskilling programmes are in line with labour market demand, including short- and long term forecasts and are open to registered unemployed.

The list of training programmes for the unemployed and job-seekers in Latvia at least once a year is determined by Training Commission, which was established by the Minister of Welfare. It involves representatives of relevant ministries (Ministry of Education and Science, Ministry of Welfare, Ministry of Economics), sectoral expert councils, municipalities, social partners, non-governmental organizations, associations etc. The list of the training programmes is also approved, improved and changed according to the numbers of unemployed and vacancies in the respective sectors, as well as views of the sectoral expert councils etc.

Several training programmes devoted to the development of a sense of initiative and entrepreneurship can be found under the list of advanced vocational training to reach vocational proficiency, those are “Accounting”, “Organization of small business” as well as “Project management”. All of them are the most demanded training programmes among SEA clients, ranking as the top 10 in participation as well as in training completion and job placement rates (see Table 3). In 2017, 893 unemployed participated in previous mentioned training programmes which is 50.8% of all unemployed involved in advanced vocational training for reaching vocational proficiency.

**Table 3. Unemployed participation in SEA-organised advanced vocational training to reach vocational proficiency in 2017**

With entrepreneurship skills developing related training programme	No of participants in 2017	No of person who completed training from July 1, 2016 till June 31, 2017	No of persons who found a job 6 months after completion of the training (till 31.12.2017.)	Employment rate 6 months after training completion
Accounting	103	122	117	53%
Organization of small business	340	321	144	44%
Project management	450	408	187	46%

Since 2011, all employment training programmes offered by the SEA are implemented with a voucher system that provides individuals with a voucher to “purchase” the training that they need.

The length of training programmes may vary:

- from 60 to 160 hours for upskilling training programmes (the value of a voucher does not exceed EUR 360 or EUR 670-1070 for specific driving courses);

- from 160 to 320 hours for advanced vocational training to reach vocational proficiency (the value of a voucher does not exceed EUR 360);
- from 480 to 1280 hours for vocational training programmes (the value of a voucher does not exceed EUR 540 for programmes with 480 hours, EUR 720 for programmes with 640 hours, EUR 1 100 for programmes with 960 to 1 200 hours).

Training is usually provided in full-day sessions and they may last up to six months. Simple or low-skilled occupations are excluded from the list of training programmes. An unemployed person may participate in vocational training programmes once in a two-year period and in upskilling programmes not more often than twice a year, except State language courses where person may be involved in the acquisition of no more than three education programmes.

Participants also receive financial support while participating in training with a daily stipend of EUR 5 (approximately 100 EUR a month). The following additional expenses are also covered by the SEA: training place adaptation for persons with disabilities, and involvement of care personnel for persons with disabilities, such as assistants, sign language experts, etc.

Taking into account demographic characteristics, self-esteem and motivation to look for a job and cooperate with the SEA, the profiling system developed by SEA helps:

- provide the most appropriate measures and intensity;
- better satisfy the needs of unemployed and help them return to employment faster;
- improve matching of unemployed and vacant jobs.

The SEA provides job search assistance and (career) guidance (CV and vacancy portal) and offers measures to help the unemployed develop basic skills and competencies. Since 2017, SEA provides financial literacy courses to all unemployed. Assessment and evaluation on training measures are also undertaken regularly to follow-up on individual's labour market status six months after training, assess participants satisfaction through surveys, and estimate the impact of the support measures.

The Ministry of Economics also offers a number of general entrepreneurship training but these offers are not tailored or targeted to people from under-represented or disadvantaged groups. One activity that is supported by Ministry of Economics and has gained major popularity in regions of Latvia is business incubators, implemented within programme to support business start-ups in regions. 15 incubators have been established all across the Latvia since October 2016, offering both pre-incubation and incubation services. Pre-incubation is targeted to those with potential entrepreneurs with business idea or entrepreneurs who have registered business but are in very early stage of business idea development. Pre-incubation programme is available for the period up to six months, offers mentorship in idea development and development of knowledge and skills that are crucial to implement the idea (consultations, seminars, courses- free of charge), access to open office including office equipment. Participants are admitted on the regular basis. Incubation programme targets entrepreneurs that have not been in business for more than three years. This programme is available for four years and includes access to office space, free training and seminars including mentorship, 50% co-funding for number of services such expert support in IT, finance, marketing as well as implementation of quality standards, certification, prototyping, testing, etc. Admission to the programme is done quarterly. In addition, number of support mechanisms are developed by



ALTUM.<sup>10</sup> However, there is no data with regards to involvement of under-represented or disadvantaged groups in business incubation programmes.

The Ministry of Education and Science has developed a strategy for entrepreneurship education for the period 2014-20. It aims to promote development of individual's professional and social skills based on values such as education for life and competitiveness in the work environment.

### **3.5. Entrepreneurial culture and social capital**

There do not appear to be many public policy actions to promote entrepreneurship to people from under-represented and disadvantaged groups, aside from the active labour market measure "Commencing Commercial Activity or Self-employment" and small actions under the Youth Guarantee programme. There was no evidence of media campaigns, role models, awards or ambassador networks. Moreover, the presence of entrepreneurship in the school system is at an early stage of development so children and teens are not yet receiving a lot of exposure to entrepreneurship.

There was also little evidence that the government is trying to build up social capital related to inclusive entrepreneurship. No networking programmes were identified for any of the social target groups.

However, there are a number of non-governmental organisations active in this area. For example, the *Radām Novadam* operates business competitions for youth.<sup>11</sup>

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<sup>10</sup> For more information on various support mechanisms please see <https://www.altum.lv/en/>

<sup>11</sup> <http://radamnovadam.delfi.lv/>

#### 4. OVERVIEW OF WOMEN'S ENTREPRENEURSHIP

Interest in women's entrepreneurship has been growing in Latvia. Several studies have been undertaken recently, which provide insights on the profile of women entrepreneurs. One study by NGO LĪDERE draws on telephone survey with 200 randomly selected female entrepreneurs (owner-managers), conducted in December, 2017. The key aim of the study is to provide with more in-depth picture on why females choose to start business and what are the key challenges those women face during their daily routine while implementing this aim. Study also deals with an issue of how female entrepreneurs evaluate business climate in Latvia.

One of the key findings is that 95% of those women that choose to become entrepreneurs do not regret such decision. According to the findings of LĪDERE study, 88% of respondents choose entrepreneurship because it provides an opportunity to do what they truly want, 85% pursue it for independence and 82% noted that it would allow them to "realize herself", including development as a professional and as a person. About half (51%) self-reported that working as an entrepreneur does not take all their free time anymore (i.e. as it used to be before starting business). These opinions are generally much more positive than those identified by a similar study from 2006 that was conducted by LĪDERE. It found that only about one-third of women entrepreneurs reported such positive benefits. One of the explanations for such tendency might be choice of sectors women choose to enter the business. Not least importantly, findings of this study show that in 95% cases families do understand or support the choice of females to start business. In this light, it would be interesting to further explore whether females that do not choose to start business mainly do not make this step because of the lack of the family support.

When asked to evaluate business climate in Latvia, 82% of female entrepreneurs noted high taxes as a major concern, 49% reported problems with legal framework, and 32% indicated challenges with a lack of available labour. Those studies are in line with findings of Putnins and Sauka (2018) that provide with an overview of main challenges faced by entrepreneurs in Latvia (regardless of gender). 40% of interviewed female entrepreneurs aim that development of their business over the period of two years can be evaluated as positive. 72% of respondents, however, admit that their business competitiveness is negatively influenced by businesses that avoid paying taxes, highlighting the issues of high shadow economy in Latvia, that reached 22% of GDP in Latvia (as compared to 18.2% of GDP in Lithuania and Estonia in 2017, 25% of GDP in Poland in 2016, 33.3% in Romania and 29.7% in Moldova in 2016) (Putnins and Sauka, 2018). As much as 62% of respondents negatively evaluates business climate of Latvia in 2017 study by LĪDERE.

Another recent study by Amway (2018) was based on phone interviews with the representative sample of 1000 men and women aged from 15 years old and older. The study was conducted from June 2016 to July 2017. Key findings of the study with regards to the gender dimension are summarised in Table 4.

**Table 4. Key findings of Amway 2018 study, gender dimension, Latvia, 2017**

		<b>AESI</b>	<b>Desire</b>	<b>Feasibility</b>	<b>Stability</b>
<b>Women</b>	<b>2017</b>	<b>47</b>	<b>47%</b>	<b>35%</b>	<b>60%</b>
	2016	42	43%	33%	50%
	2015	41	49%	40%	35%
<b>Men</b>	<b>2017</b>	<b>54</b>	<b>54%</b>	<b>45%</b>	<b>63%</b>
	2016	52	55%	49%	53%
	2015	50	60%	48%	42%

Note: AESI: Amway Entrepreneurial Spirit Index, builds on the theory of planned behavior (Ajzen, 1991; Krueger and Brazeal, 1994). It incorporates three dimensions:

- Desirability: whether respondents perceive starting a business as desirable
- Feasibility: whether respondents feel prepared to start a business
- Stability against social pressure: whether respondents would let their social environment, such as family and friends, dissuade them from starting a business. (Amway, 2018: 2)

Source: Amway, 2018

The key finding of Amway 2018 study is that men are somewhat more willing to start business in Latvia than women. Yet, the gap between men and women expressing desire to start business is decreasing. Namely, 2017 data study shows that 54% of males vs. 47% of females expressed interest to start business as compared to 55% and 43% in 2016, and 60% and 49% in 2015 (Table 4, column “Desire”). In this context, it is, of course, important to note that not always interest to start business correlates with actual start ups, yet also such indicator provide with some insight into potential start-up rates (e.g. Baltrusaityte-Axelsson, et al, 2008).

In addition, there has been an increase in the overall Amway Entrepreneurial Spirit Index (AESI) index (Table 4, “AESI”) over the past two years, indicating that the gender gap in terms of interest in starting business amongst men and women is decreasing. Compared to previous years, the total AESI index in Latvia has increased, reaching 50 points from 100 points, thus suggesting that overall entrepreneurship spirit has grown in within the population of Latvia. According to Amway 2018 study, the indicator is slightly higher in Latvia as compared to the World average (47 percentage points) and also exceeds the EU average (42 points).

The study (in line with study by LĪDERE) also shows that the key challenges for females in Latvia associated with starting their business are unstable economic situation, unpredictable national policies and unclear legislation. Namely, only 19% of women (as compared to 26% males) that participated in Amway 2018 study believe that it is currently a favorable economic situation to start a business. Female respondents most commonly mentioned that they would require support with accounting, reporting to authorities and tax calculation in the initial stages of business start-up. Even though profit orientation of females are even higher than for males, interviewed females at the same time also expressed more interest to enter into socially oriented business activity as compared to men (34% of the women vs 18% of men respondents). According to the Amway study, women are also more likely to start their business in the urban areas and in the service sector.

Despite the growing openness to women's entrepreneurship and growing numbers of women starting businesses, there are few policies and programmes that are tailored and targeted to support women in entrepreneurship. This is due in large part to the small size of the country. However, there may be scope for undertaking more targeted promotion of existing public support programmes (e.g. Measure for Commencing Commercial Activity or Self-employment in Latvia) to ensure that women have appropriate representation among participants.

## 5. POLICY RECOMMENDATIONS

There are three ministries that are active in implementing various activities to support entrepreneurship and self-employment in Latvia: the Ministry of Economics, the Ministry of Welfare (through the State Employment Agency) and the Ministry of Agriculture. Many of these policy actions are mainstream approaches aimed at the whole population, including entrepreneurs from under-represented and disadvantaged groups. However, these approaches are not typically designed to account for the different needs of the different target groups. There are a two principal number of tailored entrepreneurship programmes offered by the Ministry of Welfare for the unemployed and unemployed youth. These schemes are generally supported by appropriate policy frameworks and are well-planned, and, according to available data, also appropriately implemented. However, there is scope to make some improvements in the inclusive entrepreneurship support system and the following actions are recommended:

1. *Scale-up support offered under the “Measure for Commencing Commercial Activity or Self-employment in Latvia.”* Across the European Union, approximately 5% of the unemployed return to work through self-employment. Using this as a benchmark, it would be expected that between 2 000 and 3 000 people would potentially be interested in participating in this programme. However, there are only 150-250 participants per year, suggesting that there is likely room to increase the scale of support offered.
2. *Tailor entrepreneurship training provided through the State Employment Agency to the needs of different target groups.* Training modules on entrepreneurship and developing a sense of initiative are offered as part of the suite of training and upskilling programmes for the unemployed. However, little consideration appears to be given for the different needs of different types of participants.
3. *Work with private sector financial institutions to increase the availability of microcredit with the support of the European Union’s EaSI Programme.* Although many private sector programmes offer microcredit programmes, the take-up appears to be low among those who come from under-represented and disadvantaged groups. The European Union EaSI offers support to private sector financial intermediaries but none are currently taking advantage of this support. The government could increase awareness about this opportunity and support the financial institutions in signing agreements.
4. *Improve dissemination and tailoring of information on business start-up to people from under-represented and disadvantaged groups who are interested in business creation.* Unless people from these target groups are involved in a government programme such as “Measure for Commencing Commercial Activity or Self-employment in Latvia”, it is difficult for them to access tailored information on business start-up. Websites and business start-up information packages should be adjusted to point people from different groups to tailored support offers to help them overcome their obstacles.

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## ANNEX: METHODOLOGY

Each note was prepared by a national expert in co-operation with the OECD Secretariat. Information was collected through desk research and interviews (i.e. telephone, face-to-face, email) with key stakeholders and government representatives. The information was then verified by government partners, programme managers and other inclusive entrepreneurship stakeholder groups through email exchanges and one-day seminars in selected countries.

The notes are based on an assessment framework that was developed by the OECD Secretariat. The assessment framework provided a common analytical framework and report structure for the 28 notes that are in this series.

The framework contains five pillars:

### 1. Policy framework

- Is there an entrepreneurship strategy or action plan that explicitly covers the promotion and support of entrepreneurship for people in under-represented and disadvantaged groups?
- Is there a mechanism for co-ordinating inclusive entrepreneurship policy actions across relevant national ministries, and with regional and local governments and civil society organisations?
- Is there a systematic monitoring and evaluation process for the policies, programmes and schemes that promote and support entrepreneurship for people in under-represented and disadvantaged groups?

### 2. Government regulations

- To what extent are entrepreneurs from under-represented and disadvantaged groups treated equally with employees by social security schemes?
- Do measures exist that temporarily cover the loss of state income supports (e.g. unemployment benefits, disability allowances) for entrepreneurs amongst under-represented and disadvantaged groups when they start a business?
- Do measures exist to support under-represented and disadvantaged entrepreneurs in dealing with administrative procedures for entrepreneurship amongst under-represented and disadvantaged groups (e.g. information provision, support with administrative requirements)?
- Are there any entrepreneurship policy initiatives or schemes to address group-specific institutional challenges related to dependents (e.g. childcare, eldercare)?

### 3. Financing entrepreneurship

- Are there grants for business creation offered to support entrepreneurs from under-represented and disadvantaged groups?
- Is microcredit for business creation available to support entrepreneurs from under-represented and disadvantaged groups?
- Are there loan guarantee schemes for business creation to support entrepreneurs from under-represented and disadvantaged groups?
- Are there self-financing groups for business creation to support entrepreneurs from under-represented and disadvantaged groups?

- Are there public policy schemes that encourage and support business angel networks to support entrepreneurs from under-represented and disadvantaged groups?
  - Are there schemes that encourage and support crowdfunding and peer-to-peer lending to support entrepreneurs from under-represented and disadvantaged groups?
  - Is financial literacy training offered to support entrepreneurs from under-represented and disadvantaged groups?
- 4. Entrepreneurship skills**
- Are there entrepreneurship training initiatives for entrepreneurs from under-represented and disadvantaged groups?
  - Do high potential entrepreneurs from under-represented and disadvantaged groups have access to one-to-one or group coaching and mentoring?
  - Are there public initiatives that provide information on available support programmes or on business start-up procedures for entrepreneurs from under-represented and disadvantaged groups?
  - Are there business consultancy and advisory services for entrepreneurs from under-represented and disadvantaged groups?
  - Are there business incubators for entrepreneurs from under-represented and disadvantaged groups?
- 5. Entrepreneurial culture and social capital**
- Is entrepreneurship actively promoted as an employment opportunity amongst under-represented and disadvantaged groups through the education system, media, role models, etc.?
  - Are there public policy actions that attempt to build specific business networks for entrepreneurs amongst under-represented and disadvantaged groups?



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