

ENTREPRENEURSHIP IN THE TIME OF COVID-19: CHALLENGES, OPPORTUNITIES AND GOVERNMENT ASSISTANCE IN LATVIA

 **Anzelika Berke-Berga**¹, Dr.oec.,  **Inna Dovladbekova**², Dr.oec., Prof. and **Marta Urbane**³, Dr.iur.

^{1, 2, 3}Riga Stradins University, Department of International Business and Economics

Abstract. The aim of this article is to analyse the government assistance provided to entrepreneurs in Latvia and its efficiency and appropriateness to the economic conditions encountered by entrepreneurs during the COVID-19 crisis. An insight into international experience creates the framework of this study. The empirical analysis is based on secondary data analysis and entrepreneur's survey data on business response to COVID-19 related pandemic restrictions and government assistance in Latvia. The observed business areas are financial and risk management, international trade, communication, employment, innovations, strategic change and legal issues. The paper finds that the crisis affected the most such industries as accommodation and food services; arts, entertainment and recreation. The result provides support to justification for a national long-term crisis management strategy for business sustainability.

Key words: government assistance; entrepreneurship; Latvia; COVID.

JEL code: H54; H81; M21

Introduction

The crisis had a significant impact on start-ups, created briefly before the COVID-19 pandemic. Most of these companies invested resources in business development without creating savings for a crisis. Some of them, due to their short life, were not eligible for government support because they did not meet the eligibility criteria. However, the crisis also gave a push to business development: some start-ups continued to grow successfully, many companies have changed their business models through cost-cutting measures, and new lines of business have emerged as well as new ways of delivering products or services to customers.

The aim of this paper is to analyse and evaluate the government assistance provided to entrepreneurs in Latvia and its efficiency and appropriateness to the economic conditions encountered by entrepreneurs during the COVID-19 crisis. Thus, the main tasks of the research are literature and current research analysis; gathering and analysing secondary data regarding the research subject; conducting the empirical study (enterprise survey); and processing the data, drawing conclusions and proposing recommendations for both government and enterprises.

This paper discusses the challenges and opportunities of Latvian companies during COVID-19 pandemic in context of government support and its evaluation. The main hypothesis, tested by Chi-square test, is that there is linkage between the severity of crisis impact on Latvian enterprises and government support use and evaluation.

Theoretical framework

There are several ways the coronavirus pandemic affects the economy and business, on both the supply and demand sides. On the supply side - reduction of turnover and revenue, non-fulfilment of supply contracts, etc. On the demand side, loss of demand and revenue for enterprises severely affects their ability to function and causes severe liquidity shortages. Consumers experience loss of income and heightened uncertainty, which in turn reduces spending and consumption. Accommodation, food service and transport sectors, are particularly affected (OECD, 2020).

1 Anzelika.Berke-Berga@rsu.lv

2 Inna.Dovladbekova@rsu.lv

3 Marta.Urbane@rsu.lv

Given the circumstances faced by companies in many sectors, countries have put in place a number of measures to support them and reduce the economic impact of the coronavirus outbreak. Countries are implementing large-scale fiscal stimulus programs to support business and stabilize the economic situation. The size of these programs was significant and depended on the amount of government debt, which determines the country's borrowing capacity in the international financial market.

In contrast to previous financial and other crises, government intervention has been much greater than any crisis in recent memory (OECD, 2020).

Many countries have introduced policy measures specific to entrepreneurship.

- Several countries have introduced measures related to working time shortening, temporary lay-offs and sick leave. Similarly, governments provide wage and income support for employees temporarily laid off, or for companies to safeguard employment.
- Measures towards deferrals of tax, social security payments, debt payments and rent and utility payments. In some cases, tax relief or a moratorium on debt repayments has been implemented.
- Tax policy instruments as a temporary measure to increase consumer spending and to support the sectors particularly affected (Deloitte, 2021).
- Provision of loan guarantees, to enable commercial banks to expand lending to enterprises. To mitigate the effects of the crisis, banks have developed various solutions for determining bank loan holidays, deferrals of capital payments, and temporarily postponing other liabilities.
- In some cases, direct lending to enterprises was increased through public institutions.
- Grants and subsidies to companies to bridge the drop in revenues.
- Increasing use of non-banking financial support intermediaries in the policy support mix.
- Structural policies to help companies adopt new working methods and digital technologies and to find new markets and sales channels (OECD, 2020).

In the wake of the COVID-19 pandemic, entrepreneurs in many parts of the world are making far-reaching changes with the main goal of increasing the speed of **strategic direction adjustment** and resource use.

Such changes result in higher profitability, sustainability and growth. These changes are being achieved mainly through three directions:

- a faster decision-making mechanism,
- improved internal communication and cooperation, and
- increased use of technology (McKinsey & Company, Jul. 28, 2020).

The main obstacles to these improvements are weak internal cooperation within the company, slow decision-making process and uncertainty about strategic direction.

International experience shows that building the **skills of employees** during and after a pandemic will be crucial to strengthening the long-term stability of companies. Skills development ensures that employees have the information and skills they need to adapt to change and do things differently.

To improve the development of these skills, entrepreneurs are encouraged to train employees and promote the exchange of experience in various fields (McKinsey & Company, Sep. 9, 2020). It must be borne in mind that the COVID-19 pandemic has made digital transformation a priority at individual, company and government level.

In order to be able to focus on the development of the most important skills from the perspective of the future, it is first necessary to determine which set of skills will have the most significant impact on the direction and development of the company.

When developing employee skills that are critical to the business model of companies, it is important to start with qualifying a critical group of the workforce that will create added value in the crisis and post-crisis business model. It is important to focus on the development of four types of skills:

- digital (ability to operate in a digital environment),
- cognitive (to ensure the ability of critical employees to respond to change, reorient and innovate),
- social and emotional skills (to ensure effective collaboration); and
- adaptability and resilience (to be able to evolve in changing business conditions) (McKinsey & Company, May 7, 2020).

Although recommendations based on international practice may initially seem difficult to implement in Latvia's economic conditions, research (McKinsey & Company, May 7, 2020) shows that small companies are the ones that are able to gain more from the improvement of employees' skills.

This is due to the ability to reorient more quickly and make the necessary changes, most often due to less internal bureaucracy, as well as a clearer awareness of the specific skills required.

With the change in shopping habits, the crisis caused by the COVID-19 pandemic has led to a gradual **restructuring of supply chains** on a global scale, moving plants closer to points of sale. As companies become more local, the location of the required skills will also change. If a company's activities are relocated geographically, it is also possible to relocate talent (skills) geographically, including through the use of local talent and skills.

In the long run, companies will have to adapt to the risk of global trade and supply chain disruptions, making their supply chains more resilient. This is possible, for example, by reducing the number of unique units, eliminating redundant delivery stages, and bringing delivery partners closer and regionalised (McKinsey & Company, Nov. 30, 2020).

During the COVID-19 crisis, a large part of the world's governments carried out an unprecedented economic response, allocating more than USD 16 trillion by the end of September 2020 (McKinsey & Company, Nov. 30, 2020). Governments have used both fast-track and innovative mechanisms to support household well-being and help businesses survive the crisis. Potential future government practices include driving incentives in specific areas that achieve wider goals of promoting a more resilient society, such as expanding green energy and energy efficiency; accelerating the digitalisation of government, as well as incentives for companies to introduce new technologies, create a future workforce to increase the viability and competitiveness of companies.

Research results and discussion

1. Research methodology

In our data analysis, we use both the enterprise survey data and secondary data.

In September-October 2020, the Research Centre SKDS conducted a CAWI/CATI survey of Latvian entrepreneurs. The data were weighted according to the Central Statistical Bureau's 2017 statistics on the distribution of enterprises by characteristics: industry, enterprise size and location. Statistical data on the distribution of enterprises were used to determine the weights:

- by company's field of activity (production, trade, construction, services) and industry,

- by the number of employees of the company (1-9 employees, 10-49 employees, 50-249 employees, 250 and more employees), so that the obtained data can be compared to statistics on the contribution of companies to Latvia's gross domestic product (GDP) depending on the number of employees;
- by company location (Riga, outside Riga).

In the multi-level quota sample, 750 respondents were selected from the enterprise database, broken down by industries according to NACE code. The size of the target group of the survey is proportional to the industry's (according to NACE code) contribution to Latvia's gross domestic product.

To reach the target group, the internet survey method was used first and then the telephone interview method was used to collect the number of missing responses. The interviews were conducted in Latvian and Russian language, offering each respondent the choice of the most convenient interview language.

The survey included a total of 55 questions. The set included basic information questions about firm characteristics (industry, number of employees, origin of capital, region, export status, revenue group). The specific questions about pandemic's impact and response to the crisis contained such themes as enterprise financials, international trade, liability and receivables management, communication, employment, client service, innovations, strategic changes, legal issues and risk management.

As secondary data, we used official statistics and government institutions' data.

For data processing and analysis, we used Microsoft Excel and SPSS software.

2. Results

There are differing views on the effectiveness of the business support instruments. European experts think that emergency liquidity assistance to small businesses, temporary tax deferrals for businesses and short-term work are the most appropriate forms of support (EconPol, 2020).

In the United States, researchers have found mass layoffs and closures had occurred, the risk of closure was negatively associated with the expected length of the crisis, and many small businesses are financially fragile (Bartik et.al., 2020). Other study reveals that firms that received the relief funds were less likely to report revenue decrease and employee hours decline, providing preliminary support to the social insurance value of the relief programs in boosting small businesses' economic activities during the COVID-19 crisis (Li, 2020).

During the COVID-19 pandemic, Latvian government implemented a very extensive support program for residents and entrepreneurs, which was aimed at maintaining employment, compensating for lost income and solving the most pressing business problems. The programs that were used for business support are shown in Table 1.

Table 1

Support programs to reduce the effects of COVID-19 in Latvia

Program	Implementation time	Source of funding	Funding provided (million euro)	Funding used (million euro)*
Downtime support	14.03.2020 -30.06.2020 09.11.2020 -30.06.2021	State budget	206.2	107.8
Wage subsidies	09.11.2020 -30.06.2021	State budget	75.6	11
Grant for the working capital	01.11.2020 - 30.06.2021	State budget	70.8	62
Extension of the deadline for the payment of taxes or a division of the taxes into several payment periods for a period of up to three years	Up to 30.06.2021.	Total amount of extensions	386.5	
Working capital loan	25.03.2020 - 30.06.2021	State budget	60	
		ALTUM**	150	97
Loan holidays guarantee	25.03.2020 - 30.06.2021	State budget	47.5	41
Export loan guaranties	15.04.2020 - 30.06.2021	EU funds	2.5	10.3 (total amount of guaranties)
Guaranties to large companies	24.08.2020 - 30.06.2021	State budget	20.0	
Investment fund for large companies	31.07.2020 - 30.06.2021	State budget	50	2.9
Loans for large and medium-sized businesses	10.11.2020 - 31.12.2021	State budget	50	
Support for hotels	04.12.2020 - 18.12.2020	State budget	4.7	2,17
https://www.liaa.gov.lv/lv/programmas/skv-uznemejdarbiba Promoting international competitiveness and exports	05.08.2020 - 31.07.2023	European Regional Development Fund (ERDF)	69.3	37.9
Support for export companies	05.08.2020 - 30.10.2020	State budget	31	30.39
Support for tourism companies	29.07.2020 - 30.09.2020	State budget	14.6	14.6
Training to improve the skills of employees	2021-2023	ERDF	19.7	
Other forms of support	2020 -2021	State budget	1.04	

* As of March 26, 2021

** ALTUM is a state-owned development finance institution, which offers state aid for various target groups with the help of financial tools (loans, credit guarantees, investments in venture capital funds, etc.). ALTUM develops and implements state aid programs to compensate for the market's shortcomings that can't be solved by private financial institutions.

Source: authors' summary based on Ministry of Economics of the Republic of Latvia, 2021 data

Companies in Latvia are also offered support for business rent payments and extension of real estate tax payment terms.

The results of the enterprise survey regarding the impact of COVID-19 are grouped into two categories. First, the consequences of the crises on business financial results are described. They are captured by revenue and profit change, pricing policy, debt and receivables management. Second, the approaches to business economic survival and development are analysed by various type of changes implemented and/or planned.

Table 2

**Frequency table of financial variables change due to COVID-19
 pandemics, %, N=750**

Change	Revenue	Profit	Demand	Prices	Inven-tory	Recei- vables	Loans	Export
Decreased	52.6	54.5	47.3	20.3	26.8	1.8	3.6	7.3
No change	33.2	35.0	38.6	72.6	54.8	58.0	46.5	35.5
Increased	12.9	9.2	12.1	4.4	6.4	20.4	4.5	2.2
Hard to say	1.3	1.4	2.0	2.7	12.0	1.8	1.6	2.4
Not relevant						18.0	43.7	52.7

Source: authors' calculations based on enterprise survey data

Table 2 presents the frequency data of the main financial variables that changed during the pandemics. In total, 73.3 % of the companies participating in the survey reported at least one negative overall effect from the pandemics in Latvia. On average, 3-4 variables worsened due to the crises.

The data show that due to government restrictions and decrease in consumption, 47.3 % of the companies experienced decrease in demand of their goods and/or services and 20.3 % lowered the price level of their production. This significantly worsened their profitability. In 20.4 % cases, the level of receivables increased, which may indicate lower solvency of companies' clients that, as a domino effect, worsened their own liquidity as well. The most severe situation was in accommodation and food services, and arts, entertainment and recreation industries.

Across the sample, 12.7 % reported they had to close at least one business activity because of COVID-19 restrictions and consequences of the pandemics.

In Table 3, there are frequency values of the main implemented or planned changes and improvements companies did as a response to COVID-19 crises. 82.2 % of the companies reported at least one implemented or planned change. On average, 3 changes were mentioned.

The most significant improvements are made or planned by companies in the arts, entertainment and recreation sector; wholesale and retail trade, repair of motor vehicles and motorcycles; and administrative and support service activities. Most companies – 52.5 % - optimized work organization; the most in: administrative and support service activities (83.3 %); arts, entertainment and recreation (63.6 %) and construction (71.2 %).

26.7 % of the survey participants introduced a new management approach. 20.8 % of the surveyed companies plan to expand their operations in Latvia, including the most significant wholesale and retail trade, repair of motor vehicles and motorcycles (33.3 %); in construction (25.8); in the arts, entertainment and recreation sector (27.3 %). In turn, 12.9 % of companies plan to expand their operations outside Latvia.

Table 3

Frequency table of implemented or planned change due to COVID-19 pandemics, %, N=750

Response	Optimised		New management approaches	Digitalized	Restructured business	Cooperated	Expand (LV)	Expand (abroad)	Attract EU funds
	number of employees	work organisation							
Yes	16.1	52.5	26.9	45.9	12.7	17.0	20.8	12.9	6.9
No	80.9	44.3	69.1	50.4	78.0	74.1	73.6	84.1	89.1
Hard to say	3.0	3.2	4.0	3.7	9.3	8.9	5.6	2.9	4.0

Source: authors' calculations based on enterprise survey data

Overall, 20.5 % of surveyed enterprises have received or been eligible to receive some kind of support from government institutions in forms of downtime allowances for employees (14.0 %); tax payment extension (16.0 %); possibility to submit the 2019 report later (18.1 %); and other. On average, these companies received 2 kinds of support.

Statistically significant relation (approved by Chi-square test) was between company profit change and tax payment extension and later report submitting. 15.9% and 16.1% of enterprises with lower profit used these opportunities, accordingly.

Overall, 34.6 % of companies are very critical of the support measures developed and proposed by the government. 28.3 % evaluate it as average, but 25.0 % - as good and 2.9 % - as excellent. The most critical attitude towards the support comes from companies whose financial situation worsened due to the pandemic restrictions (43.8 %).

Conclusions, proposals, recommendations

- 1) It should be noted that the government's actions were reactive to the negative impact of the pandemic on business and the economy. No proactive action was taken to anticipate developments and develop a medium-term crisis management strategy. The criteria for participation in the support program were not always well thought out, and its management was criticized by the representatives of professional business associations.
- 2) The speed of economic recovery in the current situation depends very much on how strong and effective the support that governments can provide to entrepreneurs will be. It is up to the public policy makers to create a favourable environment for the creation of new businesses by supporting new business types and ways of providing goods and services, encouraging entrepreneurs to innovate in a way that addresses current societal challenges. The combination of R&D investment, with general support for entrepreneurship during a downturn, can later lead to more positive economic results. In times of crisis and, more importantly, in the recovery phase, innovation must be at the heart of business strategy. An important aspect is the creation of a favourable business ecosystem that is able to adapt to shocks and new challenges. Policy makers need not only to respond to the challenges of COVID-19, but also to offer long-term development perspectives and support.
- 3) During the COVID-19 pandemic, government support programmes were aimed for residents and entrepreneurs to maintain employment, compensating for lost income and solving the most pressing business problems. The support was in forms of subsidies, grants, loans, extension of tax payments, guaranties, training, and other.

- 4) A number of mechanisms are in place to support companies and employees in the COVID-19 affected sectors. However, it should be noted that currently, in response to the current situation, short-term support is mainly offered, without a longer-term vision. Long-term recovery planning and proactive crisis management are needed.
- 5) Tax policy instruments, such as lowering the VAT rate on socially important goods, medical equipment, etc., can be used as a temporary mechanism to increase consumer spending and support the sectors particularly affected by the crisis (accommodation, catering services, and other). Of course, such a support mechanism could only be part of a long-term reform strategy.
- 6) The impact of the crisis on business manifested itself in form of revenue and profit reduction because of sharp drop in consumption caused by government restrictions and more prudent spending. The hardest hit were accommodation and food services; arts, entertainment and recreation industries.
- 7) Recommendations for employers from the point of view of business development are: (1) Strategic: development of telework policy; strategic workforce planning in the context of the company's business plans and the skills required for their implementation; diversification of areas of activity; rationalization; flexibility and adaptability to change and new circumstances; moving towards digital transformation; (2) Additional skills acquisition, skills development programs for employee training, such as digital skills acquisition; cognitive skills (critical thinking, creativity, problem solving, etc.); socio-emotional skills (for maintaining professional ties also in remote work); adaptability and flexibility skills; training on personal data protection, confidentiality in the context of teleworking; (3) Introduction of new forms of employment in addition to teleworking, such as rolling schedules; "hiring" of employees; shortened working week; flexible work schedule; multiple workplaces etc.; (4) Experience exchange activities (e.g. within the framework of professional association members).
- 8) 20.5 % of surveyed enterprises have received or been eligible to receive at least one kind of support from government institutions. About one third of the enterprises are critical regarding the support measures developed and proposed by the government.
- 9) The hypothesis that there is linkage between the severity of crisis impact on Latvian enterprises and government support use and evaluation, is approved.
- 10) our paper contributes to the research of economic impact of COVID-19 on entrepreneurship in Latvia.

Acknowledgements

This research is funded by the Ministry of Education and Science, Republic of Latvia, project "Life with COVID-19: Evaluation of overcoming the coronavirus crisis in Latvia and recommendations for societal resilience in the future," project No. VPP-COVID-2020/1-0013

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