

REGIONAL DEVELOPMENT PROBLEMS OF SMALL AND MEDIUM-SIZED ENTERPRISES IN LATVIA

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Abstract

Despite the achievements attained in recent years in the economic development of Latvia, until now Latvia's regions demonstrate uneven development, which negatively impacts the development of small business. The development of the regional innovation environment will contribute to the enhancement of competitiveness of regional economies.

Key words

Regional development, small and medium-sized enterprises, innovation environment

INTRODUCTION

Owing to the rapid economic development over recent years, in 2005 Latvian economy reached the level of GDP equal to the level recorded before the start of the economic reforms (1990). At the same time, the level of economic and social development is still one of the lowest among the European Union member states. The economic growth in Latvia has highlighted also a number of relevant macroeconomic and social problems, solution of which requires further structural changes in the Latvian economy.

An indicator characterising the development of the Latvian business environment is the situation in the sphere of small and medium-sized business, since this is the most sensitive sector with regard to changes in the economic and legislative environment as well as the policy implemented by state institutions. The situation of this sector shows how favourable or unfavourable is the economic and taxation policy of the state, what is the situation in the capital market like, what is the level of development of infrastructure and education, how effective is the state support policy, to what degree the legislation governing business activity is brought into line and how stable it is.

According to the information of the Ministry of Economics, in the 1st quarter of 2006 there were 55 621 economically active enterprises in Latvia (excluding agricultural and fishery farms and self-employed persons performing economic activity), more than 99% of which fall within the SME category (taking into account only the number of employees). The distribution of economically active SMEs based on their size in Latvia is like elsewhere in Europe: micro enterprises account for 76%, small enterprises – 20%, and medium-sized enterprises – 4%. 69.9% of employees employed by the private sector work in SMEs creating 63.2% of GDP [1].

Despite a sufficiently active policy implemented in the recent years and aimed at improvement of the business environment and small and medium-size business support activities, there are several problems hampering the development of this sector in Latvia [1]:

1. Business environment. This comprises such components as the national tax policy, capital market, infrastructure, educational system, state support, business legislation etc. Currently many of these components are unfavourable for developing small business in Latvia.
2. Availability of external financing. Recently opportunities to receive external financing have to a considerable extent increased, however certain problems still remain. Guarantee and investment funds are still insufficiently developed. Problems in the field of availability of external financing are more pronounced outside Riga – the capital city of Latvia.
3. Human resources. SMEs often face staff selection related problems – insufficient business management skills and inadequate management, business and technical knowledge demonstrated by applicants to vacancies. Shortage of highly skilled labour force is observed in most sectors of national economy.

4. Competitiveness of SMEs. A topical issue for Latvian enterprises having to comply with the EU directives on quality is insufficient information about product standards and new production methods. Product quality assessment instruments are not available in Latvia.

5. Regional differences. In the last decade, certain negative trends can be observed in Latvia's socio-economic development, namely, rapid economic development of centres and, at the same time, stagnation or even regress of the development of the rest of the territory.

6. Currently, administrative capacity of public and non-governmental organisations for development and implementation of the SME policy and utilization of EU Structural Funds are still insufficient.

The article focuses on the impact of the unequal development of Latvia's regions on the activity of small business, since, despite the growth of the development rates of the state, there is also a tendency of growing disparity of development of some regions.

Characteristics of regional distribution of the territory of Latvia

The LR law "On regional development" [2] envisages formation of five planning regions for planning and coordinating regional development and ensuring co-operation of local authorities. These planning regions are Kurzeme, Latgale, Riga, Vidzeme and Zemgale.

The territories of statistical regions do not coincide with the territories of planning regions. By the LR Cabinet of Ministers Instruction "On statistical regions of the Republic of Latvia and administrative units included in them", Latvia is divided into six statistical regions, i.e. the Riga planning region is divided into two statistical regions: Riga and "Pieriga" (Riga neighbourhoods).

The Riga statistical region is located in the central part along the Riga Gulf. On the national scale the region has a strategically favourable location to unite all other Latvian regional economic centres both in terms of the distances between the regions and road networks. Historically the location of the Riga region has determined its location in the West European and East European and North European and Central European zone of influence with regard to transit, commercial and financial flows. Also nowadays the region has easy access to the resources and consumer markets of Russia, other CIS countries as well as EU member states.

The favourable location is a prerequisite for further development of the region. Thus the geographical location of the statistical Riga region and its historical status creates advantages to be exploited for its integrated development as compared with other statistical regions in Latvia.

The "Pieriga" statistical region is located in the central part of Latvia, on the coastal areas and Central Latvia areas positioned by the Riga Gulf. The "Pieriga" statistical region takes up a central location in the Baltic States region. The central Baltic location on the crossroads of interchange and interconnection of West European and East European cultures creates favourable preconditions for the "Pieriga" statistical region to perform the connecting role between different countries and their inhabitants. The territory of the "Pieriga" statistical region is formed by one town and four regions.

The Vidzeme region is located in the North-West of Latvia. In the North it borders on Estonia, in the East – on Russia. In the West of the Vidzeme region there is the economically developed "Pieriga" region. In the South and the South-West the region borders on the Latgale and Zemgale regions. The developed national transportation network allows the region to use the Riga Port and other advantages provided by the City of Riga and the vicinity of its agglomeration. At the same time, the impact of big cities (especially that of Riga) is constantly growing and residents are more frequently attracted by the labour market in Riga and are leaving the region choosing the capital city as their place of residence.

The Kurzeme region is located in the Western part of Latvia and in the West, North and North-East borders on the Baltic Sea and the Riga Gulf, in the East and South on the Zemgale and "Pieriga" statistical region bordering on Lithuania. The region has the longest Baltic Sea and

Riga Gulf coast line in Latvia. The most remote inland district is located 100 km from the sea coast.

The Zemgale region is located in the central part of Latvia to the South from Riga and has a long land border with Lithuania.

The Latgale region is located in the East of Latvia and borders on two Latvian regions in the West: in the North-East – on the Vidzeme region, in the South-West – on the Zemgale region, but in the East and South – on three countries: in the North-East – on Russia, in the South-East – on Belarus, but in the South – on Lithuania. The Latgale region is the most distant region located from the developed Riga and “Pieriga” regions. The location of the Latgale region is considered to be one of the main problems hampering more rapid development of innovation and modernisation in the region.

State support to regional development

A significant step in the formation of the regional development policy was the elaboration of the Regional Development Policy Conception by the LR Ministry of Environment and Regional Development and the Project for Promotion of Regional Economic Development elaborated by the LR Ministry of Economics (1996), as a result of which, in May 1997, the LR law “On regions requiring special support” was adopted aimed at creating possibilities for faster economic development of the regions requiring special support and promoting formation of equal socio-economic conditions on the whole territory of the state. In 1997, 84 territories (incl. 5 weaker developed regions in Latgale) for three years were granted the status of especially supported regions.

According to the LR law “On regions requiring special support”, incl. territories with negative economic and social development trends, provision of support is continued [3]. Presently, the aim of the effective LR law “On regional development” is to promote and ensure balanced and sustainable national development, considering specifics and possibilities of all national territories and their parts, to reduce unfavourable disparities between them, as well as to maintain and develop the specific natural and cultural environment of each particular territory, and to develop their potential. A relevant state support for the development of the territories is investments within the framework of the National Investment Program and development programs of particular branches.

Indicators characterising the differences in the level of socio-economic development of regions

The planning regions in Latvia are comparatively uniform as to their size, but they considerably differ in the number of inhabitants, e.g., the Riga region (Riga and “Pieriga”) accounts for 48% of the total number of the population of Latvia. The distribution structure of inhabitants is uneven, Riga being a markedly dominant centre. There are also essential differences among the regions as to indicators characterising the socio-economic development level of the region. The indicators, which characterize the differences in the socio-economic development level of statistical regions, are presented in the table below.

Table 1: Indicators of economic development of Latvia by statistical regions

Indicators	Riga	“Pieriga”	Vidzeme	Kurzeme	Zemgale	Latgale
1. Area, % of the total	0.5	15.7	23.6	21.1	16.6	22.5
2. Population, % of the total	31.7	16.1	10.6	13.4	12.5	15.7
3. Number of inhabitants per km ²	2368.4	36.4	15.9	22.7	26.7	24.7
4. Per capita GDP, EUR	8411	2832	2735	4056	2372	2131
5. Share in GDP,%	57.7	9.8	6.5	12.1	6.4	7.5
6. Economically active statistical units of the market sector per 1000 Inhabitants	56	41	54	43	44	40

7. Unemployment rate, % according to the data of random survey of labour force	7.7	7.9	8.2	10.8	6.1	12.8
8. Average monthly gross wages and salaries at the main job, EUR	500	416	340	360	348	307

Notes to the table:

1. Indicators in the table are presented or established based on the information collected [1].
2. The first 3 indicators are calculated at the start of 2006.
3. Indicator 4 is presented for 2004, 1 EUR = 0.6992 LVL.
4. Indicator 5 has been established for 2004, taking into account the amounts for the second and fourth indicator and the data on the total number of inhabitants in Latvia.
5. Indicator 6 presents the situation for 2005. Statistical units of the market sector are: self-employed persons, sole proprietors, commercial companies, agricultural and fishermen's farms.
6. Indicator 7 represents the situation for 2005 showing the number of labour seekers against total economically active population (persons aged 15 – 74).
7. Indicator 8 is presented for the 3rd quarter of 2006, 1 EUR = 0.6992 LVL.
8. It is impossible to present the latest data on GDP, since calculations of regional GDPs are made by the Latvian Central Statistical Board with a two years delay.

One of the most relevant complex indicators characterising the level of regional economic development is gross domestic product (GDP). GDP stands for the aggregate value of end use products and services produced in the territory of a state in the course of a year.

In 2004, the per capita GDP in the Riga region is 183.25% against the average indicator for the state (national average – 4590 EUR/number of population 100%), “Pieriga” region – 61.7%, Kurzeme region – 88.37%, Latgale region – 46.43%, Zemgale region – 51.68% and Vidzeme region – 59.58%.

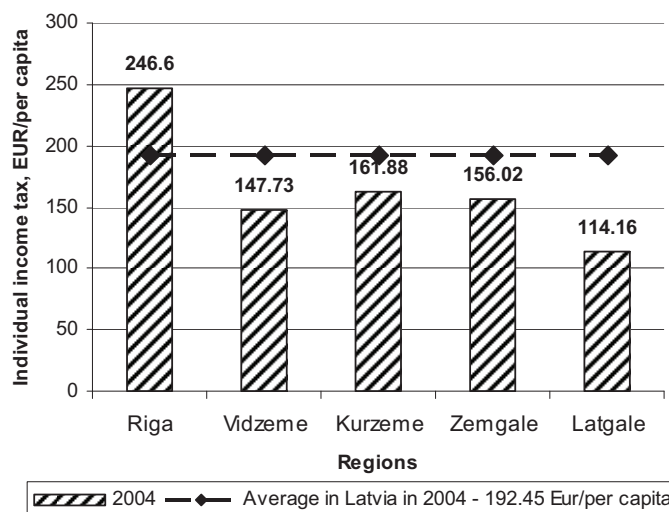
The Riga region considerably surpasses other regions by the number of economically active enterprises and companies per 1000 of the population. In 2005, there were 56 economically active enterprises per 1000 of the population in Riga and 41 in “Pieriga”. The runner-up is the Vidzeme region with 54 enterprises. Other regions by the number of economically active enterprises per 1000 of the population can be ranked as follows: the Zemgale region (44), Kurzeme region (43) and Latgale region (40).

In recent years the stable growth of the number of newly established companies testifies to the improvement of starting conditions and efficiency of the activities aimed at promoting commercial activity. Publicly available statistics [4] show that in 2006 on the whole 13 500 start-ups were registered, which is the greatest number of newly-established business entities registered over the previous 12-year period and is by 22.63% more than in 2005 (11 009). However, it is essential to retain further operation ability of these businesses and ensure their growth possibilities. For ensuring sustainable development it is not enough to promote only establishment of new businesses. In order to ensure enhanced competitiveness these new start-ups must be viable. However, the statistics shows that total number of businesses grows by about a half of the number of newly established enterprises, thus indirectly indicating to their viability problems. There are also regional differences in terms of the number of businesses, and this gap, instead of reducing, shows a tendency to increase. In 2006, 70.7% of all new enterprises registered in Latvia were established in Riga and the Riga region accounting for 52.2% of the total number of registered enterprises in Latvia. Until 1 January 2007, the enterprises in Riga and Riga region in total have attracted also 87.8% from direct foreign investments in companies share capital, as well as 77.6% from all share capital of enterprises registered in Latvia.

Unemployment is one of the hardest socio-economic problems in the state. Therefore an essential indicator characterising the situation in the region is the unemployment rate. Having analysed the unemployment rate, it can be concluded that the Latgale region retains the highest unemployment rate in comparison with other regions. In 2005, in the Latgale region it was 12.8%, the lowest rate was in the Zemgale region – 6.1%.

Regional differences are also observed with regard to remuneration rates. The highest wage rate is paid in Riga – 142% in relation to the national average indicator (national average indicator – 352 EUR =100%), but the lowest rate – in Latgale (87% in relation to the national average indicator).

The income level and living standard of the population are indirectly characterised by the indicator which is established as an average per capita individual income tax paid.



Graph 1: Per capita Individual income tax in the planning regions in 2004, LVL [5]

The Riga region is the leader as to the amount of per capita individual income tax paid. In 2004, one resident of the Riga region on average paid 246.60 EUR (172.6 LVL) in individual income tax. Residents of the Latgale region paid 2.2 times less or by 114.16 EUR (79.9 LVL) less, which is substantially lower than the average level in the state.

Summary of factors promoting and hampering business activity by regions

Table 2 presents a summary of the factors promoting and hampering business activity by regions based on the published results of the research conducted in Latvia [6].

Table 2: Basic factors promoting and hampering business activity by regions

Regions	Factors promoting business	Factors hampering business
Riga	<ul style="list-style-type: none"> - Proximity of entrepreneurs to major state institutions and strategic sources of information. - Favourable geographical location. - High level of development of infrastructure. - Multinational structure of population and versatility of human resources. - High demand for many goods and services. 	<ul style="list-style-type: none"> - Much higher prices for real estate than in other regions, as well as limited industrial/commercial space for locating enterprises. - Unfair competition due to high concentration of enterprises in Riga and impossibility of full control on the part of state controlling authorities. - Outflow of qualified labour force to other countries.
“Pieriga”	<ul style="list-style-type: none"> - Proximity to Riga and thus to all administrative institutions and sources of information. - Proximity to markets. - Proximity to the Riga market. - Good infrastructure. - Several mineral resources. - Lower labour costs and real estate prices in comparison with Riga. 	<ul style="list-style-type: none"> - Lack of integrated transport system. - Technical and technological resources are obsolete and inappropriate for development of hi-tech branches. - Outflow of qualified labour force to other countries.

Vidzeme	<ul style="list-style-type: none"> - Long-standing experience in traditional agricultural production. - Many especially protected natural territories which create favourable conditions for the development of the region as a cultural and recreation centre. 	<ul style="list-style-type: none"> - Low economic activity of SMEs and dependence of the region on several big companies. - Big share of trade in the economy of the region and a low value added and development of innovations.
Kurzeme	<ul style="list-style-type: none"> - Versatile economic activity (2 ice-free ports of international significance, transit, metalworking, ship-building, agriculture, forestry etc.). - Balanced spatial distribution of centres in the region, and interconnection of regional centres, which is very relevant for the development of SMEs. - Varied nature and versatile cultural heritage both in rural areas and towns, which favourably influences development of tourism. 	<ul style="list-style-type: none"> - Obsolete infrastructure and a considerably big distance between developed centres, taking into account the quality of infrastructure. - Low level of co-operation among entrepreneurs, this being explaining with high mutual competition. - Migration of young people from rural areas to regional centres and from the region to Riga and abroad.
Zemgale	<ul style="list-style-type: none"> - Industrial traditions and related human resources potential. - Sufficient natural resources: forests, sand, water, gravel, dolomite, clay – raw materials that are used in several industrial sectors. - Sufficiently good infrastructure. - Picturesque, versatile landscape and ecologically clean environment offering good potential for development of rural tourism. 	<ul style="list-style-type: none"> - Qualification of labour force does not meet contemporary requirements of the labour market. - Rather low education level of rural population in comparison with urban inhabitants, which reduces business possibilities in the countryside, where SMEs are typically established. - The supply of appropriate premises for accommodating and developing businesses considerably lags behind the demand. - Migration of labour force to the Riga region.
Latgale	<ul style="list-style-type: none"> - Sufficiently well developed road network in terms of length and accommodation of traffic density. - Mineral resources (sand, gravel, clay, dolomite), as well as resources of peat and sapropels. - Big variety of flora and fauna, rare species and biotopes of national and European significance. 	<ul style="list-style-type: none"> - For a longer time period the the region has received the smallest support from the state. - In the early 90s, as a result of cardinal changes, a big number of residents formerly engaged in industry, were made redundant and now require retraining. - Insufficient number of educational establishments. - Obsolescence of industrial plant and equipment and lack of knowledge about contemporary industrial technologies and methods.

The analysis of the information presented in the table allows making conclusions about basic common factors promoting and hampering the development of business activity in the regions. They are: lack of qualified labour force; inadequate education system to meet the requirements of the various branches; insufficiently rapid introduction of up-to-date technologies.

Solution of these problems coincides with the main priorities of the Latvian National Development Plan for 2007-2013 [7] envisaging a transition to the innovative (knowledge-based) economy model. Implementation of this plan is based on technological excellence and flexibility of educated and creative persons and entrepreneurs, as well as development of science and research.

Development of the regional innovation environment – basis for regional development

The innovation policy cannot be implemented separately from appropriate education, science, business and regional development focused policies. In Latvia's situation it is useful to draw on the experience amassed by Finland [8] with regard to regional economic development,

investments in education and innovation systems. This means substantial investments in education, research and development, as well as close co-operation of businesses and research institutions at the regional level, which allowed Finland to be successful and competitive internationally.

In the past four decades, Finland has built the basis for a regional innovation system by establishing universities in larger towns throughout the country. Besides universities, a great number of science parks and technology centres were created in the past two decades. Moreover, universities have now adopted their proper role in serving regional economies. This has not traditionally been a self-evident task for universities. Now this is required from them by law. The Finnish experience proves that it is worth investing in the innovation environment.

The number of students in Latvian education establishments (2005/2006), whose mission is to integrate higher education and research in the region – the Rezekne Higher School (RHS), the Daugavpils University (DU) – in Latgale, the Liepaja Pedagogical Academy (LPA), the Ventspils Higher School (VeHS) – in Kurzeme, the Vidzeme Higher School (ViHS) – in Vidzeme, the Latvian University of Agriculture (LUA) – in Zemgale, as compared with – the Riga Technical University (RTU) and the University of Latvia (LU) is given in Table 3 below [9].

Table3 :Number of students and academic staff in regional higher schools in academic year 2005/2006 (as full-time equivalent)

Higher school	Number of students	
	Persons	%
Rezekne Higher School, (RHS)	2656	2.73
Daugavpils University (DU)	3967	4.08
Liepaja Pedagogical Academy (LPA)	2757	2.83
Higher School (VHS)	826	0.85
Vidzeme Higher School (ViHS)	1034	1.06
Latvian University of Agriculture (LUA)	7001	7.19
Riga Technical University (RTU)	13500	13.87
University of Latvia (LU)	22036	22.64
Total	53777	
Total in state higher schools and higher schools established by juridical entities*	97311	100

* Other tertiary education establishments are basically located in the Riga region.

Table 3 shows that regional higher schools account for ~1/2 of the number of students studying at the biggest Latvian universities – LU and RTU. At the same time Latgale higher schools (RHS and DU) account for 18.6%, Kurzeme higher schools (LPHS and VHS) – 10% of the number of students studying at LU and RTU. It has to be taken into account that statistical data on the students' number at RTU also include students studying at regional affiliations in Liepaja, Ventspils and Daugavpils. Of course, when compared with the total number of students in Latvia, which in 2005/2006 was 97311, the number of students in the regions seems rather small. But it should be remembered that these students will be those who will contribute to the economic growth of the region and will basically continue their careers locally. This is also proved by the fact that students of regional higher schools prefer to choose professional study programmes.

An important indicator in the analysis of the research potential of higher schools is their academic staff. Distribution of academic staff by regional higher schools is given in Table 4 [9].

Table 4: Academic staff of regional higher schools in 2005/2006 (basic occupation)

Higher school	Total	Incl.								
		Professors		Assoc.prof.		Docents		Lecturers	Assistants	Rese-archers
		Number	%	Number	%	Number	%	Number	Number	Number
RHS	115	9	1.76	9	1.57	32	3.04	65	0	0
DU	181	12	2.35	20	3.49	41	3.89	85	19	4
LPHS	101	5	0.98	7	1.22	28	2.66	43	18	0
VeHS	42	1	0.20	9	1.57	4	0.38	20	0	8
ViHS	50	0	0.00	4	0.70	26	2.47	19	1	0
LAU	405	43	8.41	55	9.60	83	7.87	149	69	6
RTU	735	107	20.94	85	14.83	206	19.54	170	51	116
LU	854	141	27.59	145	25.31	130	12.33	275	110	53
Total	2483	318	62.23	334	58.29	550	52.18	826	268	187
Total*	4257	511	100	573	100	1054	100	1487	419	213

*Total in state higher schools and higher schools established by juridical entities

Table 4 shows that academic staffs of regional higher schools account for a small number of professors; having the highest share of lecturers and assistants. Regional higher schools practically do not have any researchers or the number of researchers is very negligent.

A big problem at major state higher schools is aging of staff. At RTU 65.31% and at LU – 49.88% of academic staff are older than 50. Thus after 10-15 years these universities will face serious problems with ensuring academic staff. The situation in regional higher schools, except the Ventspils Higher School (VeHS), is quite the opposite. This to a certain extent explains the small share of professors among academic staff in these higher schools, but it is likely that in the close future the number of professors in these schools will increase, considering also the fact that the number of associated professors and assistant professors is sufficiently high and part of them may become professors in the years to come.

The development of regional tertiary education establishments must contribute to the development of the competitiveness of regional economies focused on science-intensive enterprises. In accordance with the new requirements posed to specialists, study programmes have to envisage gradual development of competences required for building a successful career in the future, such as communication competence, literacy in mathematics and competences in research and technologies; computer skills, ability to undertake self-education, social competences, spirit of enterprise, and cultural awareness. Besides, it is also necessary to create conditions for implementation of programs in the sphere of engineering. Despite the fact that presently education establishments in Latvia implement only 175 engineering programmes out of 746 accredited programmes, or mere 23% of the total number of accredited programmes [10].

The innovative environment implies also the presence of innovative enterprises. In the time period from 2002-2004 there were 880 enterprises in Latvia: 439 manufacturing and 441 service enterprises, which were active in the field of innovation [11]. Basically, these were small enterprises employing up to 250 persons.

Specialists list many reasons hampering the development of innovative enterprises. One of them is the lack of adequate financing of innovations. Venture capitalists are interested in financing innovative enterprises. Currently the venture capital market in Latvia is still in the development stage. The analysis of the activity of venture capital is presented in Table 5 [12].

Table 5: Dynamics of investments by Latvian venture capital funds in different project stages in 2000-2006

		2000	2001	2002	2003	2004	2005	2006	Total
Seed Stage	Investments								0
	ths. LVL								0
Start-up Stage	Investments	1	1				2	1	5
	ths. LVL	250	100				4100	3900	8350
Expansion	Investments	1			1	1	2		5
	ths. LVL	500			450	700	139		1789
Replacement	Investments							2	2
	ths. LVL							2100	2100
Total, number of investments		2	1	0	1	1	4	3	12
Total, thousand LVL		750	100	0	450	700	4239	6000	12239

There are different reasons why new start-ups are not appealing to venture capitalists in Latvia, the main reasons being the following:

- existing business environment and current finance support schemes do not create motivation for business idea holders to commercialize their knowledge;
- there is a lack of feasible and worthwhile ideas, which could be offered by the newly-established enterprises;
- lack of SMEs with a rapid growth potential;
- lack of knowledge and management skills which prevents businesses from active and purposeful co-operation with risk capitalists;
- unwillingness of managers/owners to share certain technology nuances even when investment agreements are signed;
- fear of existing owners to lose control;
- incomplete bookkeeping and data in SMEs, difficulties to acquire reliable information, which is a crucial prerequisite for establishing the value of a company;
- low stock market liquidity;
- uncertainty about the existence of the national long-term tax policy.

The risk capital funds operating in Latvia are currently interested only in stable enterprises with a large turnover and prefer to invest in expansion, buy-outs or takeovers of enterprises that have already proved themselves; therefore this mode of investment is not suitable for newly-established SMEs.

It must be concluded that venture capital, which focuses on investments in hi-tech in Europe and the USA, currently is only in its development stage in Latvia.

CONCLUSION

For reducing the impact of the factors hampering stable development of small enterprises in regions, such as the shortage of qualified labour force, inadequate education system failing to meet the requirements of particular branches and insufficiently fast introduction of up-to-date technologies, it is necessary to invest in the development of the regional innovative environment. The experience of Finland – Latvia's neighbouring country, shows that it is worth investing in the innovative environment. The development of regional tertiary education establishments should contribute to the enhancement of the competitiveness of regional economies focused on science-intensive enterprises. Besides, it is necessary to create conditions for implementing programmes in the field of engineering. Insufficient financing of innovations is one of the factors hampering introduction of up-to-date technologies. Presently the venture capital market in Latvia is still in its development stage. It is necessary to increase state support for the development of venture capital and for creating risk capital of regional funds for financing small and medium-sized businesses.

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REGIONAL DEVELOPMENT PROBLEMS OF SMALL AND MEDIUM-SIZED ENTERPRISES IN LATVIA

Summary

Despite the achievements attained in recent years in the economic development of Latvia, until now Latvia's regions demonstrate uneven development, which negatively impacts the development of small business. The authors of the article, based on the results of the research conducted by the staff of the National Regional Development Agency, the Ministry of Economics, as well as the results of research conducted with the participation of the authors of this article, present an analysis of the causes hampering the development of small enterprises in the regions of Latvia. The main factors hampering their development are: lack of qualified staff, inability of the educational system to adequately meet the requirements of particular branches, and insufficiently rapid introduction of up-to-date technologies. Solution of these problems has to contribute to the development of the regional innovative environment. The development of regional higher educational establishments in Latvia will contribute to the enhancement of competitiveness of regional economies with a focus on science-intensive enterprises. In addition to this it is essential to increase state support to the development of venture capital and creation of regional risk capital funds for financing small and medium-sized entrepreneurs.

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