

Global Emergency Impact to Latvian Micro and Small Enterprises

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Abstract.

Research background: 2020 will always remain a pandemic year in the world. A year that shook everyone including business. After the end of the emergency, many countries are planning business recovery measures. Many programs are planned for micro and small businesses. Due to the large number of micro-enterprises that the authors decided to conduct a study on the preparedness of micro and small enterprises for emergencies. About the areas in which small businesses operate, how and whether they are only able to operate in the domestic market or are ready for globalization. 65% of Latvian micro and small enterprises in surveys conducted by credit institutions showed that the impact of COVID19 on operations is noticeable and will be necessary for business recovery. At the same time, 47% of them confirmed that they plan to change their business model according to the new situation.

Purpose of the article: The aim of the research is to identify the interaction of the activity structure of Latvian micro and small enterprises with emergency situations. To analyze the operating environment and the intensity of its impact on business.

Methods: Quantitative research is based on official business data from several sources - Enterprise Register, Ministry of Economics, Re-Identifier of the Register of Enterprises Ltd. "Lursoft", Central Statistical Bureau. The study will review data on the last 5 years by analyzing data for 2013-2017. The following research methods have been used for the research: quantitative data research approach, analytical study comparing data for five years and graphical method - visualization and analysis of visual information.

Findings & Value added: As a result of the article, it is planned to group the directions of activities of micro and small enterprises based on the impact of the emergency situation on them. Thus, performing an analysis of the readiness of Latvian micro and small enterprises for emergency situations and the impact on operations.

Keywords: *small business; microenterprise; emergency impact to MSE; globalization; MSE crisis.*

JEL Classification: *F61; M21; D02*

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1 Introduction

Based on the criteria set out in Annex 1 of the European Commission (EC) Regulation No.800 / 2008 and official data, about 99% would be in the category of small and medium-sized enterprises (SMEs). In Latvia, the breakdown of economically active SMEs by the Ministry of Economics is: micro enterprises - 90%, small enterprises - 9%, medium enterprises - 1%. The European Commission believes that it is SMEs and entrepreneurship that are key to ensuring economic growth, innovation, job creation and social inclusion in the European Union. In 2008, Latvian entrepreneurs experienced the first serious financial crisis since Latvia regained its independence. The 2008 Latvian financial crisis, which stemmed from the global financial crisis of 2008–2009, was a major economic and political crisis in Latvia. The crisis affected companies of all sizes, the largest ability to survive the crisis, but many micro and small companies closed down. On MSME Day 2020, results of an ILO SCORE Programme survey [8-9] indicate that small and medium-sized enterprises are struggling to survive the effects of COVID-19. In many countries, the emergency or quarantine orders for preventing the spread of coronavirus has not only led to psychological impact like depression, anxiety and stress [5] but also has an effect on economic activities such as the closure of retail premises and disruption of product delivery chains [3]. Many of MSE highlighted that continuity of business operations and uncertainty are amongst the main short-term challenges for their business operations [12]. PwC Global survey 2020 identifies 6 main areas that could be affected by a pandemic[14]:

- 1) Crisis management and response
- 2) Workforce
- 3) Operations and supply chain
- 4) Finance and liquidity
- 5) Tax, trade and regulatory
- 6) Strategy and brand

For the most part, the outcome of micro and small businesses depends on the ability to adapt to conditions. The focus of this study is specifically on the globalization crisis of micro and small enterprises. In this emergency, globalization was the one that suffered the most. Unexpectedly, even the borders were physically closed, the free movement of people was completely stopped. The activities of Latvian micro and small enterprises have been completely suspended. Globalization is nothing new and its consequences have long been recognized by businesses. Globalization simply is. The consequences can be both positive and negative. Every business should think about producing and selling goods and services for consumers in different countries to regions [1]. Latvia is a small state and micro and small businesses are already at the core offers goods and services all over Latvia, so the research question is whether the companies' spheres of production are suitable for international trade.

The purpose of the research is to identify the interaction of the activity structure of Latvian micro and small enterprises with emergency situations. To analyze the operating environment and the intensity of its impact on business.

The tasks of the research are:

- To analyse the sphere of activity (by NACE) of micro and small enterprises (2013-2018) and the impact of globalization;
- Assess the impact of the emergency on these areas of activity;
- To look at the emergency situation in Latvia, how it was felt by Latvian micro and small enterprises.
- Analyze the continuation of micro and small business after the pandemic, support, programs, consequences.

The authors hypothesize that an emergency situation (COVID-19), as we experienced in 2020, completely threatens the viability of micro and small enterprises.

2 Methods

This quantitative study is based on primary data sources - official variable data for micro and small enterprises in Latvia. The study will look at data and trends for the last six years, analysing data for 2013-2018. According to Article no.5 of the Law "Law on the Annual Financial Statements and Consolidated Financial Statements", all companies are divided into micro, small, medium and large. The criteria set out in the law are different from the ones set out in Annex 1 to the European Commission (EC) Regulation No. 800/2008. The study was carried out according to the criteria set out in the Regulation for the classification of enterprises. One of the factors is the number of employees. Microenterprises include companies employing less than 10 employees and those employing small businesses employing between 11 and 49 employees. Turnover for micro-enterprises should not exceed EUR 2 million and for small businesses EUR 10 million. Balance sheet total, net turnover and average number of employees are indicators that merge merchants into a specific category - micro or small business.

The following research methods have been used for the research: quantitative data research approach, analytical study comparing data for five years and graphical method - visualization and analysis of visual information.

3. Results and Discussion

Stability in areas of activity

Dynamics of Latvian micro and small enterprises in the last 6 years shows stability. Stability that allows the assumption of 2020 business areas. Micro and small businesses are very important for the Latvian economy in quantitative terms. Between 2013 and 2018, these companies account for an average of 86.74% of the total number of annual reporting companies. In its turn, the annual report prepared by the enterprise is an indication of its economic activity or intention to be economically active in the future. The calculation is based on the data analysed below.

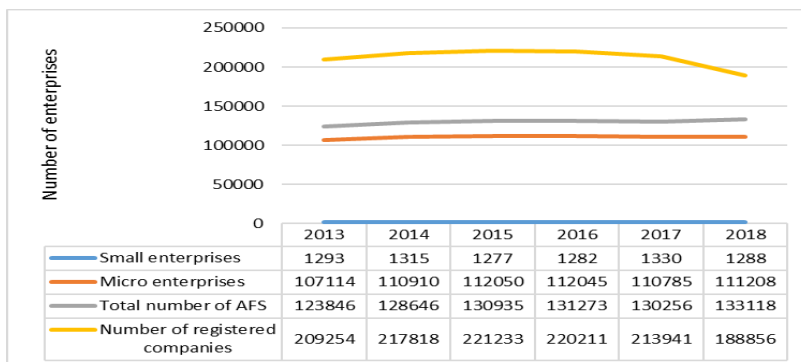


Fig. 1. Number of MSe for six years

Figure 2 shows that the number of Latvian micro and small enterprises is stable and easily predictable in the future. There is a slight decrease in the number of total enterprises,

but this is more related to the activities of the Register of Enterprises - exclusion of long-term inactive enterprises from the register. On the basis of these data it is possible to model the development of micro and small enterprises under similar conditions - as economic, political and social. Spigel [7] defines entrepreneurial ecosystems as a “combination of social, political and cultural elements within a region that support the development and growth of innovative startups and encourage nascent entrepreneurs and other actors to take the risks of starting, funding, and otherwise assisting high-risk ventures.”

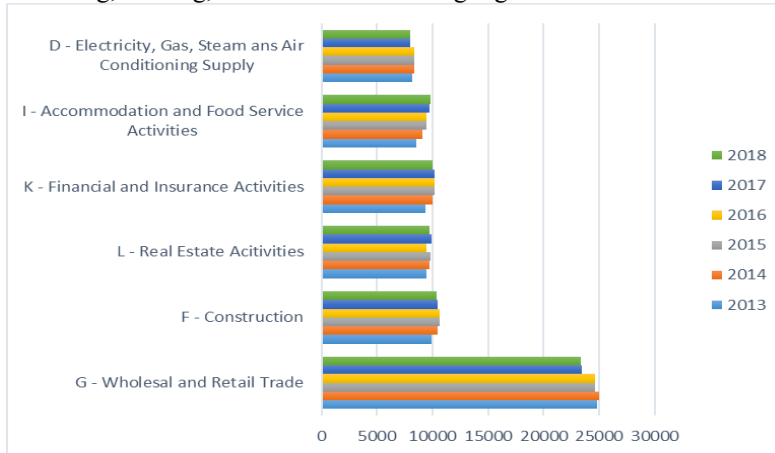


Fig. 2. TOP 6 MSE economic activities for six years

In the study in 2019, the authors analysed all 19 areas of activity by NACE 2.0 classification. Data for 2018 were added to this year's study. And it was confirmed that the authors can claim that there are no changes in the areas of activity of Latvian micro and small enterprises. The TOP 6 areas remain unchanged. The data analysed show that almost one fifth or 20.9% of all micro and small enterprises in Latvia associate their core business with retail or wholesale (except cars and motorcycles). Other areas of activity are TOP 6. Each of them operates from 7% to 9% of all micro and small businesses. TOP 6 is the second most popular field of activity - construction (10426 companies on average), followed by real estate activities (9657 companies). Among the most widespread industries in which Latvian micro and small companies are most likely to operate, accounting and legal services, accommodation and promotion services and activities in the areas of electricity, gas, heat and air conditioning are also mentioned. And this analysis of data also shows a stabilization in the scope and a slight change in their structure over the last six years.

Areas of activity from the TOP 6 MSE most affected by the emergency.

The work of many industries has been significantly affected by the spread of the new coronavirus disease, Covid-19. An emergency situation has been declared in Latvia until April 14 to limit it. Many people are currently suffering - tourism, catering, transport, sports and culture, etc. c. Already in March, entrepreneurs called for a declaration of a state of emergency in the tourism sector, as economic activity has fallen by 90% in both host and outbound tourism companies. The authors of the study [15] chose the sectors that could feel the most direct impact in Latvia – Real estate company, Retail trade and service company, Consultancy and ICT company, Shared service centre, Service company, Wholesale and retail company, Professional assurance and advisory service company, Manufacturing and production company and Finance and banking company. Here, the authors point out that three of the areas are those that make up the TOP 6 areas of activity of micro and small

enterprises. Thus, the side study only confirms the influence of companies in Latvia. Study which was conducted by the Foreign Investors Council in Latvia in cooperation with the Stockholm School of Economics in Riga [15] shows that 58% felt the impact on business as early as mid-March. The data from the online survey of 45 companies, foreign investors in Latvia, collected from 20 to 23 March, 2020.



Fig. 3. Answers to the question “Whether there been a change in demand for your products or services as a consequence of COVID-19?” [15]

In contrast, a Swedbank study [16] of more than 700 Latvian companies, mostly small and medium-sized, most often (80%) identifies uncertainty about the future as the main risk of Covid-19 measures, which makes it difficult to plan the company's operations. Looking at the sectors, those working in the wholesale and retail sectors also find that Covid-19 will review the company's priorities and focus on the most important (22%) due to its situation. This is followed by manufacturing and industry (18%), construction (17%) and IT and communications (15%). According to the survey, entrepreneurs also point out that a real lesson at the moment is learning the possibilities of teleworking, which is most valued by IT and communication workers (15%), followed by wholesale and retail companies (12%), industry and industry (11%) and the construction sector (9%). This study confirms that among the TOP 6 sectors of Latvian micro and small enterprises, there are those that are directly and significantly affected by the Covid-19 crisis. It affects the most 4 from TOP 6 :

- Real Estate Activities
- Construction
- Wholesale and Retail Trade
- Financial and Insurance Activities

The tourism sector or accommodation and food services activities, on the other hand, was not included in these two studies because it was a sector that had come to a complete standstill.

As can be seen in Figure 4, the number of affected companies is large and covers a total of 56.8% of all Latvian micro and small enterprises. The total number is average 63758 per year from numbers 111983 (average per year during 6 years) all MSE in Latvia average per year (2012-2018).

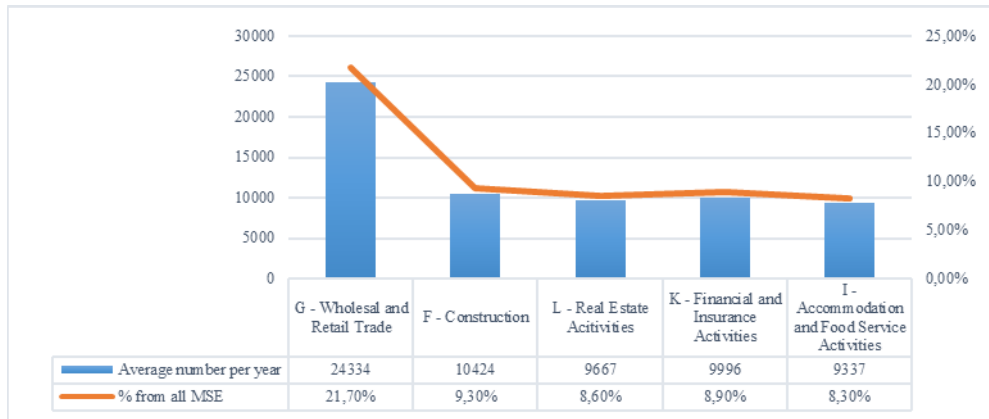


Fig. 4. Latvian MSE Covid-19 affected business sectors

Therefore, the authors will further look at the five sectors from TOP 6 MSE activity, the impact of these sectors on Covid-19, support and the possible scenario after the pandemic.

Emergency situation impact on five areas of MSE in Latvia.

Latvia was one of the countries that reacted quickly to the situation and decided to act in the most cautious scenario. From March 12 to June 10, a state of emergency was declared in Latvia and Cabinet Regulation no. 103 "On the declaration of a state of emergency". The specific regulations of the Cabinet of Ministers made many prohibitive requirements that severely affected business. Because the state of emergency was very long, but the authors of the 2020 study [4] have identified that the financial fragility of many small businesses. The median firm with expenses over \$ 10,000 per month had only enough cash on hand to last approximately two weeks. Three-quarters of respondents reported that they only had enough cash on hand to cover two months of expenses or less.

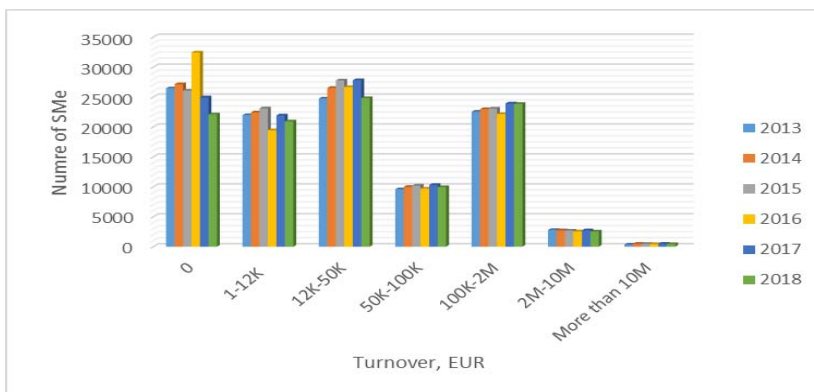


Fig. 5. number of MSE broken down by turnover

Analyzing the data shown in the figure no. 5, the authors conclude that most micro and small enterprises in Latvia felt the effects of the crisis. As it is in figure 5 from all micro and small enterprises in Latvia, only about 25 thousand turnover exceeds 10,000 EUR per month. There are about 25 thousand companies with an annual turnover exceeding 100,000 EUR per year.

In Latvia, at the macroeconomic level, research by commercial institutions and the Bank of Latvia was conducted. The authors summarized the conclusions of several studies [10, 11, 12, 13, 16, 17, 18, 19, 20, 21, 22] and created Table no. 1. The table summarizes the aspects most affected by globalization, global market demand and the impact of pandemic constraints. The 2020 study by Bank of Latvia [17] by sectors affected by the Covid-19 situation showed mixed effects. The table 1 below summarizes the activities and impacts of micro and small enterprises. Impacts are assessed at 3 levels – 1.green - minor impact or action, 2.orange - felt impact / action and 3.red - significant impact / action.

Table 1. The interaction of the company's activities and impact during emergency situation

Activities/Impact	Decrease in turnover 1.<30% 2.>30%<50% 3.>50%	Change of form of activity 1. can be done 2. possible but takes time 3. almost impossible	Remote operation options 1. can be done 2. possible but takes time 3. almost impossible	Supply chain impact 1.low impact 2.significantly affect deliveries 3.operation dependent on supplies	Ability to react quickly 1.can react quickly 2. possible but takes time 3.almost impossible	Temporary closings and Employment 1.no changes 2. minor changes 3. significant change or closed operation
Real Estate Activities						
Construction						
Wholesale and Retail Trade						
Financial and Insurance Activities						
Accommodation and food services activities						

Here, too, the authors emphasize that in Latvia, Covid-19 was affected by both the internal market and globalization. The decrease in turnover is already a consequence of several reasons - the interruption of supply chains. Ability to reorganize the way the company operates, ability to react quickly at all. Globalization and the global market require companies to be able to offer their goods and services without geographical borders. As can be seen in the study, the five areas where micro and small enterprises in Latvia are most able to do so. The activity is limited to the local market and the geographic market, which is only logical for the accommodation business. On the other hand, the transition to other types of operations (remote customer service, change of delivery of goods, digitization of own goods and services) is not sufficient funds for micro and small enterprises, as the monthly turnover of most enterprises does not exceed 10,000 EUR. Globalization and economic crisis would be to pull the alarm and at the same time, require more attention from the international system and national decision-makers on the causes and effects of economic crisis in each country that can enhance the phenomenon of contagion [6]. Regarding study about Romanian enterprise situation [6], globalization has positive effects. As a country with business opportunities in tourism, agriculture, industry, needing foreign capital, it is unable to fund only from domestic sources. And the same

situation in Latvia but it should be noted that in the event of an emergency what was Covid-19 affected, the impact of the global situation is even more noticeable. Both the internal market and the external market and flows are being stopped.

Support programs for MSe operating in 5 areas of activity in Latvia, their amounts for elimination of the consequences of the pandemic.

To stabilize the economic situation during and after the Covid-19 crisis, a range of state aid schemes were developed to support entrepreneurs, from downtime benefits and tax holidays, which provided support and a stepping stone to entrepreneurs during the crisis, to working capital and new product development. promoting international competitiveness and exports. Based on the activities of micro and small enterprises and the severity of the consequences of the pandemic, the Latvian government decided on support mechanisms. The authors summarize the types of support that will be most targeted at micro and small enterprises.

Real estate activities are also one of the areas on the list of areas for which there is no specific support program.

The **construction** sector is one of the areas for which no specific support programs have been allocated. Because, as Table no. 1, as well as the information compiled by the Ministry of Economics of Latvia [20], the construction sector was the one that also showed increasing indicators in the crisis. And this is due to the fact that those working in this field work on long-term projects where the impact is felt in the long term (more than 6 months).

In general, in the field of **retail trade** and logically also in the **wholesale** trade sector, there is an increase in turnover, which was related to the change of buyers' habits. From April, there has been an increase in retail trade in food products. Taking into account the fluctuating dynamics of retail trade development, in the seven months of 2020, the total retail trade turnover in Latvia has remained close to the level of the previous year, increasing by only 0.7%. This was facilitated by an increase in sales in grocery stores - by 2.7%, while total retail sales of non-food products decreased by 0.5%. At the same time, retail sales at stalls and markets continued to decline and in July were 9.3% lower than a year ago. This is most likely due to COVID-19 and its limitations, with the cancellation of many events, open-air concerts, etc. this summer, as well as a significantly lower flow of tourists from abroad than during the usual tourist season. In July, the retail trade of clothing and footwear also decreased - by 3.2% year-on-year. Retail sales in grocery stores, on the other hand, grew moderately, by only 1.7% compared to July 2019, which was three times weaker than in June[21]. Based on these songs, there are no specific support programs for this area.

Financial and insurance companies, as well as other employees and the self-employed, will be able to pay the State Revenue Service a downtime allowance (up to EUR 700 per employee) for Covid-19-induced downtime, which lasted until 30 June. There are no other specific support programs for companies operating in this field.

As it was concluded above, it was the **tourism** industry that felt the most and the fastest. Therefore, by Cabinet Regulation No. 455 of 14 July 2020 "Procedure for Granting Support to Economic Operators in the Tourism Sector Affected by Covid-19" were issued directly to support tourism, guest accommodation and catering companies. Support program for tourism companies to overcome the effects of the Covid-19 virus crisis and promote employment. Companies in the tourism sector that meet the criteria mentioned in the regulations will be able to receive support in the amount of 30% of the mandatory state social insurance contributions made in 2019. The maximum support for one company or group of companies will be able to reach 800 thousand euros. The payment of this state aid will be administered by the Latvian Investment and Development Agency (LIAA). The

total funding of the support program to support companies in the tourism sector is 19.2 million euros [18]. Until 21 August 2020, the Latvian Investment and Development Agency (LIAA) has provided support to 51 exporting companies in the amount of 6,554,413 euros and 171 tourism companies in the amount of 4,322,804 euros[19].

4 Conclusions, proposals

1. The study is based on the conclusion confirmed by the authors in previous studies. Quantitative number of micro and small enterprises (there are about 60 thousand economically active micro and small enterprises in Latvia), financial indicators are **stable** and do not show significant changes / growth in the last six years (data 2012-2018).
2. As a result of the research, 5 business areas of activity were **selected** for analysis, in which 56.8% of companies from all micro and small enterprises in Latvia operate.
3. As a result of the research, group into **three** groups based on the impact of the emergency. The study **confirmed** that all 5 areas of activity were affected, but various - retail and wholesale - positively, construction and finance and insurance activities did not have a significant impact, areas, real estate activities - significantly decreased turnover, accommodation and food service activities (tourism) completely stopped.
4. The authors of the study concluded that by **performing** an analysis of the readiness of Latvian micro and small enterprises for emergencies and the impact on operations, there is a **different** possibility for companies to survive short-term emergencies. Most micro and small companies are able to cover expenses up to one month's turnover, which for the most part is 10 thousand euros.
5. The support programs planned by the state also depend on the areas of activity. In **all** areas, there are downtime benefits for employees up to 700 EUR. The largest support is planned for the **tourism** (accommodation and food services activities) sector, allocating more than 4 million euros to the sector.

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