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FINANCING OF NEW SMES IN LATVIA – OPPORTUNITIES AND OBSTACLES

Keywords: new enterprises, small and medium-sized enterprises (SMEs), financing, access to finance, financial institution.

J E L Classification: G20, G32, L25, L26, O16.

Abstract: The relevance of the study is related to the fact that the predominant factor for the development of economic activity for newly established enterprises is the possibility of business financing. However, despite the availability of alternative sources of financing for new small and medium-sized enterprises (SMEs), there are various obstacles to obtaining them.

The aim of the study is to analyse the opportunities for raising finance from various financial sources and the related obstacles for new SMEs in Latvia.

The study used quantitative and qualitative methods of analysis, a survey of SME entrepreneurs, structured interviews with experts, data processing methods and the method of analysis and synthesis.

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This paper determines for what purpose and what financial sources entrepreneurs will use if necessary, as well as what obstacles exist to obtaining financing.

The results of this study may be beneficial for both financial organizations that finance companies and new SMEs in the financial decision-making process.

■■■ INTRODUCTION

The relevance of the research topic is determined by several reasons: first, the availability of business finance is the most important condition for newly established enterprises that allows them to develop their economic activity processes. Second, small and medium-sized enterprises (SMEs) play a very important role in the economy of most countries, including Latvia. According to the Ministry of Economics of the Republic of Latvia, approximately 99% of the operating enterprises are categorised as SMEs. Third, under the influence of geopolitical situation and economic uncertainty, banks' tolerance to the risk of lending to new companies has significantly decreased, which makes it necessary for enterprises to search for alternative sources of financing. Fourth, according to the European Commission 2021 survey, only 16% of companies in Latvia state that there are no obstacles to obtaining financing, while in the EU on average 47% of companies believe that there are no obstacles to obtaining financing (Kwaak, Clarke, Kok, Snijders, Tollenaar, Galesloot & Sadilek, 2021).

The availability and accessibility of financial resources is a fundamental condition for starting and growing a new business (Ou & Haynes, 2006; Yang, Kuntchev, Ramalho & Rodriguez-Meza, 2013; Chavis, Klapper & Love, 2011; Beck, Demirguc-Kunt & Maksimovic, 2008). Financing is particularly important for new SMEs as they are not able to finance themselves from retained earnings or equity financing (Pandula, 2011).

There are different approaches in the scientific literature that define the financial decisions and behaviour of SMEs. The life cycle model and the pecking order theory can be studied to characterise the financial decisions of new SMEs.

Proponents of the lifecycle model believe that the financing needs and financing options available to SMEs change at different stages of the firm's life cycle. In other words, different financing strategies are required at different stages of the firm's growth cycle (Abdulsaleh & Worthington, 2013). A number of studies (Wu, Song & Zeng, 2008; La Rocca, La Rocca & Cariola, 2011; Jonikas, 2017) support the business life cycle model. However, there are researchers

who criticise or partially agree with this model (Gregory, Rutherford, Oswald & Gardiner, 2005; López-Gracia & Sogorb-Mira, 2008).

Proponents of the pecking order theory (POT) argue that when deciding financing, firms follow a hierarchy of financing sources and favour internal financing when it is available. There are a number of studies that recognise it is the pecking order theory that holds true (Ou & Haynes, 2006; Wu et al., 2008; Ramalho & Vidigal da Silva, 2009; Sbeti & Moosa, 2012; Agyei, Sun & Abrokwah, 2020).

Currently, there is a dominance of the pecking order theory in explaining a firm's financing choices both theoretically and statistically (Kumar, Colombage & Rao, 2017). Although the pecking-order theory does not provide a complete understanding of how capital structure choices are made in SMEs, (Newman, Borgia & Deng, 2013) it suggests that a firm's capital structure decisions do depend on its age (Abdulsaleh, & Worthington, 2013). A study by La Rocca, La Rocca and Cariola (2011) suggests that the pecking-order theory shows a high degree of application at the maturity stage of the firm, whereas at the early stages the firm's first choice may be to take on debt in order to sustain its operations.

The authors of the study also believe that not only the sources but also the possibilities of financing differ depending on the stage of business development. New SMEs at the initial stage, at the „pre-seed stage”, can only rely on their own financing or crowdfunding. Financiers are only willing to finance ideas that are already in the development stage, whose potential is visible (LR EM, 2019), i.e. at the „seed stage”.

Although debt capital is not a prioritised source of finance for new businesses, a study by Klein, Neitzert, Hartmann-Wendels & Kraus (2019) showed the importance of credit for them. However, enterprises that do not yet have a credit history have rather limited opportunities to obtain bank loan (Black, 2009; Aggarwal & Acharya, 2019).

According to the authors of this study, it is more difficult for enterprises at early stages of the life cycle, when they do not yet receive stable income from the sale of goods or services, to attract the interest of banks, investment companies and venture capital funds to provide financing.

To improve the understanding of the financial behaviour of small businesses it is important to understand what factors influence the financial decisions and sourcing choices of new SMEs.

The analysis of SME finance studies indicates a variety of factors that influence financing decisions and the availability of debt capital for SMEs. However, it should be noted that mainly the internal factors are investigated. Abdulsaleh and Worthington (2013) highlight: firm size and age, ownership type and legal form, geographical location, industry sector and asset structure (reflecting the ability to provide loan collateral). A number of authors who have studied what determines SMEs' access to bank loans complement these factors with firm performance and the availability of audited financial statements (Pandula, 2011), while the owner's education level, age, work experience (Tefera, 2019) and networking skills (Pandula, 2011) are also considered important for obtaining finance.

Although, a new SME can only qualify for the choice of bank loan at later stages of development, the above-mentioned characteristics influence the possibilities of obtaining financing at any stage of business development. Furthermore, according to the authors of the study, the factors influencing the financial behaviour of new SMEs should be complemented by external factors such as the level of social and technological development, as well as political and economic stability. The factors in this group may influence the supply price of financial resources or act as a constraint in the financial decision-making of new SMEs.

The aim of the study is to analyse the opportunities for raising finance from various financial sources and the related obstacles for new SMEs in Latvia. To achieve this objective, it is necessary to review the main possible sources of financing for new enterprises in Latvia, to identify the factors influencing the possibility of obtaining financing and to identify the obstacles for new SMEs in Latvia to obtain financing.

This study contributes to exploring the opportunities and obstacles inherent in financing new SMEs in Latvia, and the findings contribute to understanding the challenges in this area and provide information to address them.

THE RESEARCH METHODOLOGY AND THE COURSE OF THE RESEARCH PROCESS

The research methodology for analysing the opportunities and obstacles for financing Latvia's new SMEs includes a combination of a survey of Latvian SMEs, interviews with experts, as well as analysis of statistical data and internet sources.

To review the existing sources of financing for new SMEs in Latvia, the websites of the institutions that offer potential sources of financing and provide information on enterprise financing were analysed. In this study we used data from the websites of four popular commercial banks in Latvia (SEB Banka, Swedbank, Luminor, Citadele), the Latvian Private and Venture Capital Association (LVCA), and the LatBAN network of Latvian business angels. The websites of the Latvian Investment and Development Agency (LIAA) and the financial institution ALTUM were studied among the institutions representing state support instruments. Important sources of information on available support and financial sources for enterprises were the Ministry of Economy of the Republic of Latvia and the Labsof Latvia information website, operating under the auspices of LIAA.

Political, economic, social and technological factors were analysed to analyse the external factors affecting the ability of new SMEs to attract sources of finance. The analysis was based on structured interviews with experts. The experts were 3 qualified specialists with higher education, experience (>3 years) in the financial sector, working in both financial and manufacturing companies, currently engaged in financial management of the company.

To assess internal factors affecting the possibility of attracting financial sources, as well as obstacles to financing by new Latvian enterprises, a survey of new SME entrepreneurs was conducted. The target group of the survey was new SMEs doing business in Riga city, as more than 40% of all Latvian businesses, according to the Official statistics of Latvia, are located in Riga (Official statistics portal, 2023).

In Latvia, SMEs are defined as companies that fulfil at least two of the following three criteria: a company will be considered small if it employs less than 50 people, has a balance sheet amount of less than EUR 4 million and a net turnover of less than EUR 8 million and a medium-sized company if it employs up to 250 people, has a balance sheet amount of up to EUR 20 million and a net turnover of up to EUR 40 million (Law on Annual Statements and Consolidated Annual Statements, 2015).

It should be noted that, according to the information from the Lursoft enterprise database, there are 546 types of activities in Riga, divided by sectors (Lursoft, 2023). The survey presents the industries with the largest number of enterprises. The age of new enterprises is limited to 10 years.

Simple random sampling was used to select respondents. In this survey, out of the total number of respondents (78), 28% were new companies with the age

of up to 2 years; 39% - companies with the age of 3-5 years; 18% - companies with the age of 6-10 years, which is 85% in total. 15% of respondents indicated the age of the company more than 10 years.

Taking into account the sample size, and choosing a confidence level of 95%, the margin of error (or marginal error) was calculated using Formula 1 (Moore & McCabe, 2009).

$$\Delta = z * \sqrt{\frac{p(1-p)}{n}} \quad (1)$$

Where: p - sample proportion,
 n - sample size,
 z - z-score

The z-scores for the 95% confidence interval is 1.96; $p = 0.85$, as 85% of the sample fulfils the criteria of the new SMEs, $n = 78$, $\Delta = 0.079$. Thus, the margin of error in this study at the 95% confidence level is 7.9%.

Primary data were collected using structured questionnaires containing 19 multiple-choice questions. The questionnaire also included two open-ended questions. The survey website visidati.lv, where the survey questionnaire was developed, was used to collect respondents' answers.

RESULTS AND CONCLUSIONS OF THE RESEARCH PROCESS

Opportunities and experience in financing new SMEs in Latvia

Having identified the available sources of financial support for new enterprises in Latvia and assessed their targeting, the authors grouped possible external sources of financing depending on the stage of development of new enterprises (see Table 1).

Table 1. Opportunities for financial support of new enterprises in Latvia

| The stage of development of new enterprises | Source of financing (potential investor) | Financial support |
|----------------------------------------------|---------------------------------------------------------------------------------------------------|--------------------------------------------------------|
| 1. Idea and the minimum viable product (MVP) | Educational incubators | Small grants |
| | Latvian incubators | 50% of co-financing, small grants |
| | LIAA Technology Business Center prototyping program PROTOTECH | up to 15 000 EUR |
| | 3 acceleration programs - Buildit Latvia - Commercialization Reactor - Overkill Ventures | 10 000 - 300 000 EUR |
| 2. Pre-Seed and Seed | State financial institution ALTUM | 2 000 - 150 000 EUR |
| | Association “Latvian Business Angels Network” (LatBAN) | on average up to 100 000 EUR |
| | Latvian Private Equity and Venture Capital association (LVCA) | up to 2 100 000 EUR |
| | Leasing of commercial bank | 75-95% of the value of the equipment, up to 25 000 EUR |
| 3. Growth | Factoring of commercial bank | from 35 000 EUR |
| | Loan of commercial bank | 1 000 - 70 000 EUR with ALTUM guarantee |

Source: own study based on: data from the websites of the institutions, 2023.

As shown in Table 1, new SMEs in Latvia are offered a wide range of financial sources, but financial sources are not always easily accessible, especially in the early stages of company development. This is due to the fact that: many alternative sources of financing are not regularly available, applications are considered in a tender procedure (e.g. incubators of newly established companies hold tenders twice a year); the prototype of the company’s product must correspond to a certain specialisation (educational incubators, LIAA Technology Business Center PROTOTECH prototyping programme); the idea proposed by the company must be promising, with a high earning potential (LVCA).

It should be noted that along with the existing sources of financing for new SMEs, such type of alternative financing as crowdfunding has recently been actively developed in Latvia. This method of financing can be useful for new early-stage businesses looking for seed funding. Also, Latvia, as a member of the

European Union, also has access to funding programmes aimed at supporting the development of new enterprises that meet certain criteria.

But in general, despite the existing difficulties in obtaining financing for new SMEs, the availability of various funding sources and programs helps to ensure that new SMEs in Latvia are supported at different stages of their development.

As the survey results showed, 50% of respondents had already had experience in attracting financing, of which 65% turned to classical sources of financing: some kind of leasing - 37%, commercial banks loan - 19% and factoring - 9%. Other sources of financing were used in small amounts.

Respondents are more diverse in their thinking about possible sources of financing in the future. While commercial banks retain their priority (see Table 2), more attention is given to other types of financing. Table 2 also shows the breakdown of planned sources of financing according to the age of the enterprise.

Table 2. Potential future funding sources

| No. | Type of financing | Age of the enterprise | | | Not disaggregated by age |
|-----|---------------------------------------------------|-----------------------|-------------|-------------|--------------------------|
| | | < 2 years | 3 - 5 years | 6 -10 years | |
| 1 | Commercial bank loan | 11% | 16% | 22% | 18% |
| 2 | One of the types of financing offered by ALTUM | 11% | 14% | 8% | 17% |
| 3 | Financing offered by other financial institutions | 4% | 10% | 8% | 12% |
| 4 | EU funds | 0% | 4% | 0% | 12% |
| 5 | Subsidies, grants | 11% | 13% | 14% | 11% |
| 6 | Business angels - local capital | 23% | 18% | 11% | 10% |
| 7 | Any type of leasing | 4% | 11% | 22% | 7% |
| 8 | Business angels - foreign capital | 17% | 9% | 8% | 6% |
| 9 | Factoring | 9% | 4% | 6% | 3% |
| 10 | Other | 4% | 1% | 0% | 2% |
| 11 | Venture capital | 2% | 0% | 0% | 1% |
| 12 | Corporate capital | 4% | 0% | 0% | 1% |
| | <i>Total %</i> | 100% | 100% | 100% | 100% |

Source: own study based on: the survey of SME.

As the data of Table 2 show, traditional sources of financing (credit, leasing) are more actively planned to be used by enterprises at later stages of development, while enterprises with the age of up to 2 years are more interested in financing provided by business angels, venture capital funds, relatives or capital of the enterprise.

The assessment of the priority in choosing possible financial sources showed that entrepreneurs consider the following as the most likely potential sources: financing offered by commercial banks, non-repayable financing (grants, subsidies) and types of financing offered by ALTUM.

ASSESSMENT OF EXTERNAL AND INTERNAL FACTORS ON THE FINANCING OF NEW LATVIAN SMES

As a result of interviews with experts, estimates of the influence of external factors on the possibility of attracting financing by new enterprises were obtained.

In particular, assessing political factors, all experts noted their negative impact on the possibility of attracting financial sources. Most negatively, the experts spoke about the legislation and its regular changes. Particular attention was drawn to the complexity of legislative acts and the introduction of amendments in unthinkable short terms, which significantly complicates financial decisions. It was also stated that the LR policy affecting the business environment is inconsistent and difficult to predict in the long term. The availability of state support for SMEs and the administrative burden in absorbing these programmes was also assessed negatively by all experts.

According to the experts, the impact of EU regulations is generally moderate, but the impact of the factor related to labour migration was assessed negatively. At the same time, it was noted that migration depends on the company's field of activity, but in general there is a shortage of labour resources throughout Latvia.

Among the policy factors that have a positive impact on SME financing opportunities, all experts highlighted two indicators - EU funds and mutual competition between EU member states in creating an ecosystem favourable to new businesses.

Assessing economic factors, experts pointed to current trends in the economy, which are difficult to predict at the moment. It was noted that when inter-

est rates on borrowed capital increase, costs increase and the cash flow of the enterprise becomes more difficult. Experts expressed the opinion that rising energy prices and inflation are a negative influencing factor, as they increase production costs and reduce the ability of the enterprise to attract financing.

It was also pointed out that political and economic instability in Europe and the world is forcing entrepreneurs to be more cautious when making financial decisions.

Factors affecting the social environment are assessed by experts as neutral, but demographic trends are assessed negatively, which is associated with population decline, lack of qualified personnel and market downturn.

Experts differently assessed the impact of technological factors. The expert who pointed out the positive impact of the factor emphasized that new technologies help to optimize all work processes and reduce production costs. Other experts pointed out that digitalization opens borders, increases the number of customers, increases transparency of processes, which has a positive impact on cash flow and increases the possibility of obtaining financing. But technology can have a negative impact on the decision to source finance, as new technologies are costly to acquire, implement and maintain. And this can be difficult for new SMEs, especially at the initial stage of development.

The results of the survey of new SMEs allowed to identify internal factors influencing the possibility of obtaining financing. Thus, according to respondents, the main reasons for refusal to provide financing are historical data about the enterprise (tax discipline, reputation), age, indicators of financial reports, unproven business idea, insufficient equity capital of the enterprise (see Table 3).

Table 3. Main reasons for refusal to provide financing to new SMEs (internal factors)

| Reasons for refusal to provide funding | Age of the enterprise | | | Not disaggregated by age |
|-----------------------------------------------|-----------------------|-------------|-------------|--------------------------|
| | < 2 years | 3 - 5 years | 6 -10 years | |
| Company history (tax discipline, reputation) | 8% | 9% | 21% | 13% |
| Indicators reflected in the company's reports | 11% | 11% | 13% | 12% |
| Company is new (up to 3 years old) | 15% | 13% | 11% | 12% |
| New, unproven business idea | 12% | 14% | 11% | 12% |

Table 3. Main...

| Reasons for refusal to provide funding | Age of the enterprise | | | Not disaggregated by age |
|-------------------------------------------------------------------------------------|-----------------------|-------------|-------------|--------------------------|
| | < 2 years | 3 - 5 years | 6 -10 years | |
| Insufficient equity capital of the company and investments of the owners themselves | 8% | 10% | 14% | 12% |
| Improperly executed documentation | 11% | 12% | 4% | 9% |
| Lack of financial skills of the company's management | 12% | 9% | 9% | 9% |
| Unwillingness to take risks | 12% | 7% | 5% | 8% |
| Insufficient number of easily realizable assets | 5% | 8% | 9% | 7% |
| Failure to provide necessary guarantees | 5% | 7% | 4% | 6% |
| <i>Total %</i> | 100% | 100% | 100% | 100% |

S o u r c e : own study based on: the survey of SME.

The assessment of the reasons for refusal taking into account the age of enterprises showed that different factors have a negative impact on obtaining financing depending on the stage of life of enterprises. Thus, for new enterprises with the age of less than 2 years, age is the main reason for refusal in financing, followed by: lack of financial skills of the management, unwillingness to take risks, improper documentation and the fact that the business idea is new and untested.

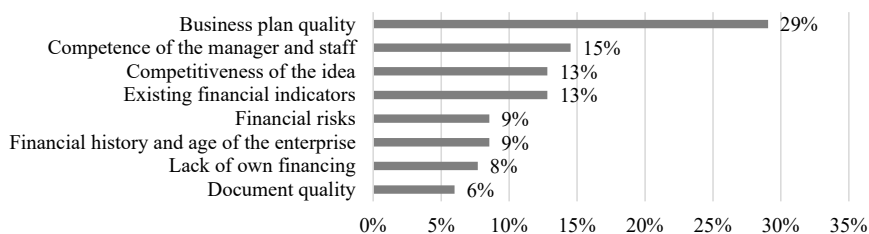
In turn, for enterprises at later stages of development (age 6 -10 years) the reasons for refusal of financing are related to the history of the enterprise's activity (tax discipline, reputation), indicators reflected in the company's reports and insufficiency of equity capital of the enterprise and investments of the owners themselves (see Table 3).

Obstacles to financing for new SMEs

The results of the survey show what respondents believe are the main obstacles to obtaining funding. An open-ended question was asked, and the answers received were categorised into 9 groups of obstacles (see Graph 1).

The first group – “Quality of the business plan” contains 29% of the total number of obstacles assessed and includes answer options related to the quality of the business plan idea, accuracy and reliability of financial calculations, and presentation of the business plan.

Graph 1. The main obstacles to financing for new SMEs



Source: own elaboration based on: the survey of SME.

The next most mentioned obstacle is “Competence of manager and staff” (15% of the total number of assessments). It is mainly related to managerial competence, insufficient level of knowledge, insufficient competence of employees in the field of finance is also mentioned. Equally important (13% of all assessments each) are unsatisfactory financial performance of the enterprise and competitiveness of the idea. The history and age of the business (9%) plays a smaller role in this question compared to the responses given in the question on reasons for refusing to provide funding. 9% of answers are related to financial risks - financiers are afraid to take risks because they do not see the potential of the business idea, do not believe in the return of money and the possibility of profit.

There are answers that do not belong to any of the above 9 groups of obstacles. These are obstacles related to location, insufficiently fast growth of the enterprise, current situation in the world, situation in the industry and other obstacles.

A number of obstacles to obtaining financing that arise on the part of entrepreneurs themselves should be highlighted. Thus, to the question: “Are you ready to lose some control in your company by transferring a share of the company’s capital to an investor in exchange for the necessary financing?”, only

17% of respondents answered in the affirmative, 54% categorically answered no, and 30% indicated that as a last resort.

Also, the majority of entrepreneurs demonstrated a negative attitude even to the possibility of transferring a share of their enterprise's capital to an investor in return for financing. 26% of respondents are not satisfied with the loss of influence, 23% are not sure that the investor's actions will really be beneficial to the interests of the enterprise, 19% expressed the idea that a stranger will interfere with the work of their enterprises. Only 32% of respondents agree to give the investor a stake in their company, of which 17% say they will share not only the profits but also the risks, and 15% are sure that the investor's finances will allow the company to grow faster.

The analysis showed that 96% of respondents admit that they do not have the necessary knowledge and competences required to attract the planned source of funding, only 4% are confident in their knowledge. At the same time, 64% will try to prepare all documentation on their own (search for information, read laws, call consultants, etc.), while the remaining 36% plan to entrust the whole process to qualified specialists.

Generalization of research results

This study investigated the existing financing opportunities for new SMEs in Latvia, the factors affecting these opportunities and the barriers associated with raising finance.

It should be noted that securing finance is a common problem faced by new SMEs not only in Latvia, but also in the whole euro area (Vasilescu, 2019; EBRD, 2022; ECB, 2023).

When it comes to possible sources of financing, in all EU countries, including the Baltic States, SMEs have access to EU funds and support programs designed to promote small business growth. Some authors (Vasilescu & Tudor, 2015) consider external traditional sources (bank loans, leasing, etc.) as the most important sources of financing for SMEs in European countries. Moreover, bank loans are the dominant source of external finance for SMEs in the EU (Roman & Rusu, 2015), although Baltic firms' reliance on banks as a source of external finance is below the EU average (EBRD, 2022).

Alternative sources of finance are becoming increasingly relevant, especially for new SMEs (Rupeika-Apoga, 2014).

In the group of Baltic countries, Estonia leads in the use of alternative sources, with more local venture capitalists, business angels and investments than in other Baltic countries (Rupeika-Apoga & Saksonova, 2018). SMEs operating in Lithuania are mostly inclined to use traditional sources of finance (OECD, 2022). And Latvia has the opportunity to use a variety of financial instruments that facilitate the availability of financial resources at all stages of business development, especially for starting a business (OECD, 2022), information about them is summarised in Table 1.

The analysis of the survey results in this study showed that the choice of potential sources of financing depends on the age of the enterprise and is determined by the existing opportunities for the given stage of business development (see Table 1 and Table 2).

The financing decisions of most EU SMEs are also influenced by the macroeconomic environment (Doacă, 2022). As the main factors hindering the availability of external financing for SMEs in the Eurozone, including Latvia, entrepreneurs consider the deterioration of the overall economic prospects and the prospects of specific companies due to the shortage of skilled labour and increased production costs (ECB, 2023). In addition, the study identified a negative impact of political factors on the access to finance for Latvian SMEs, which is caused by inconsistent Latvian Republic policies that create an unfavourable and difficult to predict business environment.

It should be noted that EU businesses expect the availability of all sources of external financing, and especially bank loans, to decrease in the future (ECB, 2023).

In addition to external factors, the paper analysed the internal factors affecting the possibility of financing new SMEs in Latvia. It was found that the reasons for refusal to provide financing differ depending on the age of the enterprise (see Table 3). Saksonova and Papiashvili (2021) identify the low level of financial literacy of SME owners/managers in Latvia and Estonia as an obstacle. In this study, the significance of this factor is found to decrease as the age of the enterprise increases (see Table 3). Conversely, the significance of such factors as reputation, performance in financial statements and equity capital increases with the age of the enterprise (see Table 3). Several other studies by Abbasi and Wang (2017), Finnegan and Kapoor (2023) refer to the factors that contribute to limiting access to finance as: age, size and property of the enterprise. Latvian entrepreneurs consider factors related to the quality of the business plan as a more significant barrier to obtaining finance (see Graph 1).

Overall, this study has provided a comprehensive insight into the SME finance landscape in Latvia. It highlights both the available SMEs finance opportunities that exist for Latvian SMEs to start and grow their businesses and the obstacles that enterprises face. This study provides a framework for understanding the challenges of financing new SMEs in Latvia and can inform future research in this area.

■■■ CONCLUSIONS

Despite the existing difficulties in obtaining financing for new SMEs, the availability of various financing sources and programs helps to ensure that new SMEs in Latvia are supported at different stages of their development. The survey results show that the choice of potential sources of financing depends on the age of the enterprise and is determined by the financing opportunities for a given stage of business development. Thus, traditional sources of financing (credit, leasing) are more actively planned to be used by enterprises at later stages of development, while enterprises with the age of up to 2 years are more interested in financing provided by business angels, venture capital funds, relatives or the capital of the enterprise. Entrepreneurs consider bank loans, grants, subsidies and financing offered by the state financial institution ALTUM as the most likely potential sources of funds.

Currently, political and economic factors are the most pronounced external factors influencing the decision of entrepreneurs to raise finance. In addition to general political factors, financing opportunities for new SMEs are negatively affected by inconsistent local policies and regular changes in legislation, which do not contribute to the positive development of Latvia's business environment. The bureaucracy associated with state support programmes for enterprises and the administrative burden of implementing these programmes discourage the application for state support. EU funds and mutual competition of EU member states in creating an ecosystem favourable for new businesses have a positive impact on the possibility of financing Latvia's new SMEs.

Among the economic factors negatively affecting the decision-making on attraction of financing, it should be noted the growth of interest rates for the use of borrowed capital, the growth of prices for energy resources and the inflation rate.

The assessment of the reasons for refusal depending on the age of the enterprise showed that at different stages of enterprise development the internal factors that led to the refusal of financing are different. Thus, for new enterprises with the age of less than 2 years, age is the main reason for refusal of financing, followed by: lack of financial skills of the management, unwillingness to take risks, improperly submitted documentation and the fact that the business idea is new and untested. In turn, for enterprises at later stages of development (6-10 years old), the reasons for refusal of financing are related to the history of the enterprise's activity (tax discipline, reputation), indicators reflected in the company's reports and insufficient equity capital of the enterprise and investments of the owners themselves.

The main obstacles to obtaining financing are considered by respondents to be: the quality of the business plan, competence of the manager and staff, unsatisfactory financial performance of the enterprise and competitiveness of the idea, financial risks, historical data and age of the company. The reasons cited as lesser obstacles are the lack of own funds for co-financing and the possibility of providing guarantees.

There are also a number of obstacles to obtaining financing that arise from the entrepreneurs themselves. It turned out that the majority of entrepreneurs are not ready and have a negative attitude to the possibility of transferring a share of the company's capital to an investor in return for financing and do not have the necessary knowledge to attract the planned financing (96%).

Overall, the study confirmed the existence of multiple factors affecting access to capital for new SMEs and clarified which factors create barriers to this. The research material reveals the existing opportunities and obstacles related to the financing of new SMEs in Latvia, identifies external and internal factors affecting the possibility of obtaining financing and provides information for solving the identified problems. The results of this study may be of interest to both new entrepreneurs and organisations involved in the provision of finance.

Further research could focus on identifying and investigating the barriers to obtaining a particular type of financing for new enterprises from the viewpoint of potential investors.

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