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A light gray world map is centered on the page, showing the outlines of continents and major islands. The map is used as a background for the article title.

### The EU Investment into Latvian SME's

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Latvia is a small Baltic country with 2 340 000 inhabitants. However, Latvia's participation in globalization processes, i.e. the EU accession and taking part in many other international organizations (e.g. World Trade organization), provides an opportunity for Latvian entrepreneurs to deal with various investment projects.

According to statistical data, in 2004 Latvia's foreign trade turnover with the EU countries accounted for almost 80%.

**Table 1. Latvian exports' structure by commodity groups (2004 I-X)**

|  | Mln lats      | Structure (%) | Year-on-year changes (%) |
|--|---------------|---------------|--------------------------|
| <b>Total:</b>  | <b>1368.6</b> | <b>100</b>    | <b>16.9</b>              |
| Wood and products of wood                              | 490.3         | 35.8          | 25.2                     |
| Metalworking, machine building and transport equipment | 294.8         | 21.5          | 17.4                     |
| Light industry goods                                   | 187.7         | 13.7          | 17.5                     |
| Chemical goods and articles of plastics                | 102.6         | 7.5           | 19.0                     |
| Agricultural and food products                         | 118.5         | 8.7           | -0.8                     |
| Other goods  | 174.7         | 12.8          | 7.2                      |

The most active countries-exporters were: **the United Kingdom (12,9 % from total amount of country's export)** Germany (12,3 %), Sweden (10,3 %), Lithuania (9,5 %) and Estonia (8,2 %). The sixth place was occupied by Russia where Latvia had sold goods for 137 million lats (6,5 %).

### *Imports*

From January to September 2003 the imports continued its upward trend as in 2002 - by 20 % (tab. 2). During the same period imports from CIS countries went up by 36 %. They were dominated by mineral products which (tab. 2) made more than a half of all imports from CIS.

**Table 2. Latvian imports' structure by commodity groups**

|  | Mln lats      | Structure (%) | Year-on-year changes (%) |
|--|---------------|---------------|--------------------------|
| <b>Total:</b>  | <b>2451.7</b> | <b>100</b>    | <b>20.0</b>              |
| Wood and products of wood                              | 56.3          | 2.3           | 61.8                     |
| Metalworking, machine building and transport equipment | 732.0         | 29.9          | 22.3                     |
| Light industry goods                                   | 190.6         | 7.8           | 17.2                     |
| Chemical goods and articles of plastics                | 375.4         | 15.3          | 17.0                     |
| Agricultural and food products                         | 292.3         | 11.9          | 5.6                      |
| Other goods  | 805.1         | 32.8          | 16.3                     |

The UK is Latvia's strategic partner because among the countries - importers Great Britain occupies the 2nd place (464 million lats). The first place takes Germany (542 million lats) and the third place - Russia with 332 million lats.

**Table 3. Latvia's foreign trade 2004**

| States' groups, countries               | 2004           |            |
|---|----------------|------------|
|   | '000 lats      | Share, %   |
| <b>Exports' total</b>                   | 2114534        | 100        |
| EU-25                                   | 1625308        | 76,9       |
| EU-15                                   | 1146549        | 54,2       |
| CIS                                     | 242799         | 11,5       |
| other                                   | 246427         | 11,6       |
| <b>Imports' total</b>                   | <b>3743801</b> | <b>100</b> |
| EU-25                                   | 2809869        | 75,1       |
| EU-15                                   | 1739234        | 46,5       |
| CIS                                     | 623604         | 16,7       |
| other                                   | 310328         | 8,2        |
| <b>Most important export partners:</b>  |                |            |
| UK                                      | 272473         | 12,9       |
| Germany                                 | 261065         | 12,3       |
| Sweden                                  | 218061         | 10,3       |
| <b>Most important import partners:</b>  |                |            |
| Germany                                 | 542820         | 14,5       |
| Lithuania                               | 464211         | 12,4       |
| Russia                                  | 332034         | 8,9        |
| <b>Source of information: CSB of LR</b> |                |            |

Latvian wood and its articles are most demanded abroad. In 2004 its foreign trade made up 644 million lats. Then goes metalworking (300 million lats), light industry (227 million lats), food products (203 million lats). And finally machine building and electro devices (165 million lats) follow. Concerning the list of goods imported to Latvia electrical equipment and vehicles take the first place with 737 million lats turnover. The basis of Latvian business environment makes small and medium-sized enterprises (SME's). Small enterprises, under the legislation of the Latvian Republic, are firms with up to 25 workers, 200 000 lats net turnover and 70 000 lats tangible assets. Latvia uses financing from the European Union funds actively. So, 1999-2005

PHARE fund channeled 143 million euro to Latvian economy. ISPA, which purpose is transport system's strengthening and infrastructure's development allocated 346 970 000 euro for the period 2000 - 2006.

This financing can be compared only to costs on administration strengthening. After the EU accession costs on state's administration makes:

- 2004 – 11,4 mln euro
- 2005 – 7,5 mln euro
- 2006 – 3,7 mln euro
- **Total: 22,7**

Finally, this figure starting with 1991 till 2001 rounded to 405 503 359 euro (!).

Within the small state's limits this figure is really huge. Though, probably, without an investment to government's reorganization, it would be rather complex to distribute the allocated money. Latvian small and medium enterprises are actively supported by Sapard, the EU's financial tool that regulates agriculture's development in Eastern and Central Europe. As well as ISPA it started Latvia's financing in 2000.

In order to participate in the EU funds the firm should prepare various documentation on suggested project's financial and economic activity. After considering an application and its positive estimation, structural funds make a decision on participant's expenses indemnification, i.e. payment is made when all the work is terminated. From the fund's means only some part of expenses is covered, which is usually stated during applicant's project discussion. The means of the fund can be spent on purchasing equipment and its repair, buildings' and internal networks' construction and repair.

The grant's maximal volume is 1 000 000 lats, minimal volume - 10 000 lats. Co-financing from the EU funds is up to 65 % of an amount of work and 50 % for big projects.

Among actively used investment funds is the European Regional Development Fund (ERDF), which purpose is new products' and technologies' development. This fund allocates financing to the projects connected with a new product's and its samples creation and also on product's technical test.

Maximal volume - 150 000 lats  
Minimal volume - 5 000 lats

Co-financing - up to 45 % of costs and up to 35 % for large projects, up to 50 % - payment for test works. The European Regional Development Fund provides consulting firms, exhibitions' organization and fairs.

Firms can take part in financing only if their type of activity deals with:

- Consulting services, preparing information materials, fairs' and exhibitions' organization, transport charges.
- Maximal volume - 10 000 lats
- Minimal volume - 1 000 lats
- Co-financing up to 50% of works' costs.

Another investment fund is the European Review of Agricultural Economics (ERAE). Project's participants can be presented by: farmers, lenders, agribusiness firms, small enterprises on wood and products processing.

Co-financing rate - up to 50% (for small firms)  
Others - 50% form project's cost

It is necessary to note, that the European Review of Agricultural Economics has approved the following charges for the period from 2004 to 2006:

Agribusiness investments - 0,8 million euro  
Products processing and marketing improvement - 6,0 million euro  
Agricultural tourism, workmanship - 0,54 million euro  
Offering services to village inhabitants - 0,8 million euro  
Wood processing improvement - 0,1 million euro  
Agricultural landscape preservation - 0,05 million euro.

Concerning the prospects of Latvia's small and average business development, it would be necessary to note the following. In long-term planning, that is what EU investment projects are connected with, not enough attention was paid to firms' solvency questions.

As a condition of the applicants participation in EU structural funds, they should be registered in the commercial register of the Republic of Latvia;

- the fixed capital should make more than 75 % from own capital;
- the firm should be solvent (the factor of current liquidity is equal 1.0);
- Last year's profit results should be presented
- The firm can take part in not more than three projects.

As it is shown in requirements for participation in EU funds, the general or current liquidity factor should make 1.0, though for firm's financial stability this factor should be within the limits of 2. As a rule, it is certainly connected with a high level of firm's short-term debts. Generally in Latvia's national economy the liquidity factor makes 1.05.

Latvia plans to access euro in state's territory in 2008. This means if businessmen invest lats, they are obliged to return this in euro. What will this rate be? How will its introduction be reflected in country's business environment? Today it is rather difficult to comment on this. Considering our country's last year inflation rate (7.8 %), it was the highest one in the EU countries in 2004. On 2005 half-year results the rate of inflation in this country made 6.4 %. Probably if Latvia does not follow the Maastricht criteria the introduction of euro will not be possible in 2008. The question for businessmen still remains to be open: when euro will be accessed and what its rate at the moment of introduction will be.

For small Latvian firms that make the majority of Latvia's business environment, globalization, economic development's instability, low factor of current liquidity and firms' financial position in particular, makes their activity's long-term planning rather complicated.