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**SUSTAINABLE DEVELOPMENT OF SMALL BUSINESS IN**  
**MODERN ECONOMIC CONDITIONS**

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### Abstract

Research purpose. The study considers factors, features and problems of sustainable development of small business in the context of the digitalization of the economy. The authors identified key problems in the implementation of entrepreneurial activity in countries with developing economies. The study considers measures to ensure the sustainable economic development of small businesses. Design / Methodology / Approach. The methodological basis of the article are general scientific research methods such as the method of statistical analysis, quantitative and qualitative analysis, interpretation of results, the method of orientation on the final result, the method of expert estimations and forecasting. Findings. The results of the study indicate the presence of institutional conditions and factors restraining the sustainable development of small businesses in Latvia and Lithuania, which necessitates the improvement of regional economic policies in the field of development and protection of small business interests, as well as the development of human capital. Originality / Value / Practical implications. The economic policy of sustainable development of small businesses in the Baltic States should include the following support measures: focusing tax policy on attracting foreign investors, preferential tax treatment for promising start-ups, increasing long-term lending to small businesses. Non-financial public policy should be focused on protecting the rights and legitimate interests of small businesses, the development of technology parks and technopolises, the allocation of special zones at the regional level and areas of priority development, the creation of value-added industrial sectors and the development of exports in this industry.

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## 1. Introduction

The development of small business depends on the achieved level of concentration and industrialization of the economy, as well as on the goals facing this sector in the new socio-economic conditions. The effectiveness of the state policy for the development of small and medium-sized businesses is influenced by various factors: the conditions of the ongoing globalization, the political situation in the world, the macroeconomic situation in a particular country, internal and external trade relations between countries, ongoing economic reforms, cultural features, the level of protection and promotion of national interests, the level of development of the national innovation system. The past experience of the USSR, the countries of Eastern Europe, North Korea and Cuba showed that ideological installations directed against business and a market economy, namely the “free market”, which implies the minimum role of the state, freedom of competition and the absence of monopolies, lead to impoverishment of the country and total shortage of goods.

Today, in the context of a global slowdown in economic growth (“slowbolization”), the issue of sustainable development of small business is acquiring special economic and social significance. Thus, according to a World Bank study, in 2020 the growth of the world economy will accelerate slightly and reach 2.5% (Global economic prospects, 2020) against the background of a gradual recovery of investment and trade after a significant decline in the previous year, but the risks of a decrease in these indicators remain.

It is expected that growth in the group of advanced economies will slow down in 2020 to 1.4%, which will be partially due to the continued sluggish situation in the manufacturing industry. In emerging and developing countries, economic growth is projected to increase this year to 4.1% (Global economic prospects, 2020). However, this rise will not be widespread: on the contrary, it is due to the expected improvement in a small number of large countries, some of which are overcoming the significant recession in the recent past. It is expected that in about a third of emerging and developing economies, economic growth will slow this year due to lower than expected export and investment performance.

Measures to improve the business climate, strengthen the rule of law, improve debt management and increase productivity can help ensure sustainable economic growth. At the international level, the development of small business directly solves the problems of sustainable development of the country's economy as a whole, and the regions in particular, plays a paramount role in the development of the country's national competitiveness, economic growth and economic security in the long term.

## 2. Methods

Sustainable national economies are characterized by the fact that the small business sector produces more than 50% of the country's GDP (UK, New Zealand, Netherlands, Sweden, Denmark, Switzerland, Norway, etc.). The share of small businesses in the USA, Japan and Germany is more than 90% of their total number, the share of small businesses in total employment exceeds 50%. In the Americas and in most European countries, small and medium-sized companies account for more than half of all labor demand. Small businesses in countries with developed economies occur in an environment characterized by an intensive type of economic development, developed economic policies based on the banking system, the

largest stock exchange, and advanced IT technologies; a high share in world gross product - more than 54%, a share in world exports - more than 70%; a reproduced process uniform in socio-economic terms within the framework of national economies; high level of development of productive forces; legal culture and a developed judicial system ensuring the protection of the rights of the entrepreneur and consumer; a high level of state non-interference in the production, distribution and consumption process, with the exception of situations when it is necessary to protect citizens; high index of prosperity; effective credit and financial system (credit and financial ratings - measures of creditworthiness of a private individual (credit scoring), company, region or country.); high index of social progress, which measures the achievements of the countries of the world in terms of their social development, in particular, the level of protection of civil and political rights and self-realization. The analysis shows that in countries with a stable national economy, the process of specialization of production went largely to the separation of small and large businesses while maintaining their cooperation.

In the first one and a half decades after the collapse of the USSR, the Baltic countries (Latvia, Lithuania, Estonia) showed high growth and integration into the global economy. The inflow of direct capital and various assistance from the West were successfully combined with the presence of a highly skilled workforce and a high level of infrastructure quality. Market reforms contributed to a significant increase in the welfare of the Baltic countries by 2008. In 1995-2007, the Baltic countries were an example of a very successful economic transformation: the average annual economic growth rate of all three countries was 6–7%. In the decade preceding the crisis of 1998-2007, the GDP of Estonia and Lithuania grew 1.9 times, and that of Latvia 2.1 times.

The global crisis of 2008-2009 was exacerbated by the rigidity of monetary policy in all three countries, so according to the IMF, as a result of the Great Recession, Latvia had the third deepest drop in GDP in the world (after San Marino and Greece). The decline in the region was accompanied by a gradual loss of load on transit capacities (ports) due to increased competition with Finnish and Russian ports. The turn to recovery in the economy of the Baltic countries came with the beginning of this process in the EU as a whole. But serious problems remain: the aging of the population, the significant emigration of able-bodied residents, the difficult search for new development factors.

In Estonia, Latvia and Lithuania, small and medium-sized enterprises, which form the basis of the economy, according to the annual SEB survey “Baltic Entrepreneurship Barometer” (4,200 respondents) expect stable development, 83% of SMEs are concentrated in Latvia. However, Estonians are much more actively creating new enterprises, as the main reasons for this, experts note the attractive business environment, a developed ecosystem of startups and the suspension of emigration (Estoney otkryvayut v dva raza bol'she predpriyatij..., 2019). The most optimistic view is on the prospects for increasing the turnover of SMEs in Lithuania and Estonia - 13%, while in Latvia the corresponding figure is 9%. The proportion of pessimists, that is, enterprises predicting a decrease in turnover, is highest in Estonia (28%). Approximately 80% of SMEs are planning investments in all Baltic countries, and investments in the amount of more than EUR 30,000 are mainly made by Lithuanian enterprises - 20% of respondents, while in Estonia this indicator remained at the level of 2018, 13-14%. It is interesting that in Latvia the share of enterprises refraining from investments has noticeably decreased - from 40% to 19%. The expansion of the market and the growth of the level of digitalization necessary for the growth of enterprises in Estonia and

Lithuania are of great importance to 60% of small and medium-sized enterprises, while in Latvia this indicator is at the level of 30%.

According to expert estimates, the share of small and medium-sized businesses in the GDP of various EU countries ranges from 45 to 80%, and on average in the Baltic countries it is 67%. The contribution of small business to Latvian GDP is 77%, the share of small enterprises in Estonia's GDP reaches 60% (Report Doing Business 2019, 2019).

According to the analysis of GDP dynamics in the Baltic countries, the Lithuanian economy overcame the pre-crisis level in 2013, and in general for 2008–2019, its GDP growth rates are close to those of Germany and the UK. According to the results of 2019, the GDP of Latvia and Estonia is higher than the level of 2008 and have a further growth trend (table 1, 2).

**Table 1.** Gross domestic product, constant prices (Billions)

Country	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	16.87	14.39	14.71	15.83	16.51	16.83	17.32	17.65	18.26	19.15	19.89	20.49
Estonia	6	1	7	5	7	6	3	2	8	5	6	2
Latvia	21.81	18.67	17.93	19.08	19.85	20.33	20.71	21.32	21.76	22.77	23.86	24.62
Lithuania	6	4	8	3	2	5	3	8	8	8	4	0
	32.37	27.57	28.02	29.72	30.85	31.93	33.06	33.73	34.53	35.96	37.19	38.28
	1	6	8	1	9	9	8	7	0	0	9	4

\* Compiled by the author based on World Economic Outlook (WEO) data

**Table 2.** Gross domestic product, constant prices (Percent change)

Country	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	-	-		7.59	4.30	1.93	2.88	1.90	3.48	4.85	3.86	3.00
Estonia	5.419	14.724	2.259	7	7	6	9	0	9	7	6	0
Latvia	-	-	-	6.38	4.03	2.43	1.85	2.97	2.06	4.63	4.77	3.16
Lithuania	3.548	14.402	3.941	1	5	0	8	2	4	6	0	6
				6.04	3.82	3.49	3.53	2.02	2.35	4.14	3.44	2.91
	2.628	14.814	1.639	3	7	9	7	1	3	0	6	8

\* Compiled by the author based on World Economic Outlook (WEO) data

The data of the Association of European Businesses shows that small business in the EU is developing rapidly and is at a higher level than in the Russian Federation. In the Doing Business 2019 ranking, Russia is 31st (out of 190 countries), Estonia - 16, Latvia - 19, Lithuania - 14.

A number of Latvian researchers and experts have identified the following internal factors for the development of small business: the ability to initiate and implement something new within the framework of the adopted legislation, the ability to find creative solutions in order to create and sell products for profit; motivation, independence (Biruta & Avotins, 2016; Bobiņ et al., 2018; Stradinya, 2015).

Of the total number of small and medium-sized enterprises in Estonia, Latvia and Lithuania, 83% of small enterprises are concentrated in Latvia. However, Estonian citizens are much more active in creating new enterprises, as the main reasons for this, experts note an attractive business environment, a developed ecosystem of startups and the suspension of emigration. Table 3 shows the number of small businesses in the Baltic States from 2010 to 2018. Small enterprises in the Baltic countries average 90%. In recent years, the growth dynamics of small enterprises is positive. The total number of small businesses in the Baltic States in 2018 increased by 40% compared to 2010.

**Table 3.** The number of small enterprises in the Baltic countries (2010-2019)

Country	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Estonia	81309	79233	91939	97122	100491	109642	115477	112400	123060	125662
Latvia	61546	64955	61063	63886	66386	74478	77880	81291	81464	82924
Lithuania	100067	103668	108711	112578	113574	117203	120254	127428	131464	133600
Total	242922	247856	261713	273586	280451	301323	313611	321119	335988	342186

Source: Central Statistical Bureau of Latvia (<http://www.csb.gov.lv/>); Lietuvos statistikos departamentas (<http://www.stat.gov.lt/>); Official Statistics Estonia (<http://www.stat.ee/>)

### 3. Results

Small and medium-sized businesses in Lithuania, Latvia and Estonia operate and develop according to different laws. In the Baltic countries, the status of “microenterprise” exists only in Latvia, and it differs significantly from the criteria established by the European Union. Up to 5 employees can work at the Latvian microenterprise, with an annual turnover not exceeding 100 thousand euros and not more than 8 thousand euros per month (Barometr predprinimatel'stva stran Baltii, 2019). In Lithuania, a microenterprise is formally recognized provided that there are up to 10 employees in the state and annual income is up to 290 thousand euros. In Latvia, microenterprise status is prohibited for certain types of activities. According to Christians Rosenvalds, a micro-enterprise system was created in order to combat the shadow economy, however, due to the imperfect tax system on the part of the state, entrepreneurs have to abandon micro-enterprises (Kak zhivetsya malym predprinimatel'nyam v kazhdoj iz trekh baltijskih respublik, 2016).

However, according to the generalized statistics of the Lursoft database, in January and February 2018, the number of liquidated enterprises in Latvia doubled the number of new ones. In the first two months of 2018, 1 thousand 852 enterprises were registered, and 3 thousand 574 were liquidated. In 2017, 16 thousand 480 enterprises were closed and only 10 thousand 210 were opened. The negative dynamics of the beginning first appeared only in 2016, when 11 206 enterprises, and liquidated - 12 thousand 228 companies. Experts predict that the rate of reduction in the number of enterprises in Latvia will continue to grow. One reason for this is an aggressive tax policy, excessive bureaucracy and an unfavorable business environment. Not only young companies leave Latvia, but also those that have been working on the market for a long time, often entrepreneurs transfer the company's activities to neighboring countries: Lithuania and Estonia (Biruta & Avotins, 2016).

It is worth noting that Estonia is the leader in the number of small businesses throughout the entire study period. The business environment in Estonia contributes to the accelerated digitalization of Estonian society, as a large number of small enterprises are involved in this process. The economic potential of small business and the development of entrepreneurship in Estonia are formed in two interrelated areas: creating favorable conditions for activities, i.e. creation of a favorable external environment; improvement of the control system by ensuring the effective adjustment of environmental factors in accordance with changes in the external environment (Opyt razvitiya i podderzhki social'nogo predprinimatel'stva v Estonii, 2019).

The key sectors that made the largest positive contribution to the dynamics of Estonian GDP in 2014–2016, according to the Euromonitor (estimates of the Analytical Center), real estate and rental transactions, business services, public administration, healthcare, education, woodworking; Lithuania: real estate and rental operations, business services, transport and logistics complex, public administration,

construction; Latvia: financial services, metal product manufacturing, wholesale, real estate and rental transactions, business services, healthcare (Official portal of statistics of the Republic of Latvia, 2019; Official Website of the Ministry of Economy of Latvia, 2019; Official website of the Latvian Chamber of Commerce and Industry, 2019).

Statistical data of the Central Statistical Bureau of Latvia (<http://www.csb.gov.lv/>); Lietuvos statistikos departamentas (<http://www.stat.gov.lt>); Official Statistics Estonia (<http://www.stat.ee/>) indicates that Estonia is significantly ahead of Latvia and Lithuania in terms of the number of employees in small businesses. In addition, in terms of types of enterprises in Estonia, the largest preponderance of the number of microenterprises is observed with the number of employees less than 10 people (table 4 and table 5).

**Table 4.** Small businesses in the statistical profile by the number of employees (Estonia), 2010-2019

The number of employees	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
50-249	1 088	1 114	1 115	1 126	1 162	1 200	1 184	1 150	1 172	1 159
10-49	5 551	5 533	5 705	5 793	5 874	6 281	6 293	6 391	6 548	6 779
Less than 10	93 428	97 021	101 891	105 659	106 538	109 722	112 777	119 887	123 744	125 662
Total	100 216	103 833	108 884	112 760	113 765	117 398	120 450	127 622	131 650	133 600

Source: Official Statistics Estonia (<http://www.stat.ee/>)

**Table 5.** The number of operating enterprises at the beginning of the year (Lithuania), 2010-2019

The number of employees	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
0-4	32972	38402	35145	36870	38659	45743	48593	51458	51436	53249
5-9	13886	13868	13772	14164	14666	15287	15591	16040	16316	15974
10-19	8227	7368	7041	7479	7618	7912	8084	8107	7910	7965
20-49	5431	4524	4358	4562	4643	4715	4766	4826	4934	4888
100-149	596	480	473	493	486	492	507	510	509	503
150-249	434	313	274	318	314	329	339	350	359	345
Total	61546	64955	61063	63886	66386	74478	77880	81291	81464	82924

Source: Lietuvos statistikos departamentas (<http://www.stat.gov.lt>)

It is important to note that small and medium enterprises in the Baltic countries direct their goods and services to the domestic market more than before - 79% in Latvia, 76% in Estonia and 71% in Lithuania. In the innovation sphere, preference is given to updating in terms of goods and services - 35% of Estonian enterprises, 32% - Lithuania and 21% - Latvia, although in all countries interest in innovation in this area has decreased. In 2017, the innovation of the business model in Lithuania increased slightly (from 7% to 11%) and the innovation aimed at the development of employees in Latvia (from 12% to 16%). Almost two thirds of entrepreneurs forecast a decrease in turnover, every fifth company plans to reduce the number of employees, and 40% of small and medium enterprises in Latvia are not ready to invest in the development of their business (Barometr predprinimatel'stva stran Baltii, 2019).

The procedure for registering an enterprise in Latvia is 1 day, in Lithuania 2 days, in Estonia - 13.5 hours. The average registration fee for a start-up entrepreneur in Estonia is 183 EUR, an additional fee of 190 EUR for an expedited service. In Latvia, expedited services are services for registration of changes, registration of branches, liquidation of a company, the time period is 1 day. To the question “How has the new technology influenced / will affect business registration processes”, Estonian respondents answered that blockchain is currently being used, it is planned to use chatbot in the future; Latvian respondents noted that artificial intelligence has already been used since June 2018 in the form of a chat bot on the Facebook page and the official website of the enterprise registry (The International Business Registers Report 2018, 2019). According to Rolands Petersons, the development of small business in Latvia is hindered by tax policy and bureaucracy. S.A. Stradina identifies the following limiting factors for the further development and expansion of production of small enterprises: narrow sales markets, insufficient demand for Latvian goods (Petersons, 2018; Stradina, 2015).

According to experts, the barriers to starting a business in the Baltic countries are: low-skilled employees, an intricate tax system, a high level of government intervention / bureaucracy, a weak economy, and the availability of financial capital. According to the results of the study, entrepreneurs starting entrepreneurship indicated the existence of the following problems: strong competition, lack of marketing training and short-term capital, a complex process of registering an enterprise. At the same time, entrepreneurs with no work experience assess the importance of the “weak economy” barrier as very important than entrepreneurs with an experience of 1-5 years. The main obstacles to starting a business are: infrastructure and an unfavorable business environment; lack of knowledge and skills in the field of management; lack of financial sources (Biruta & Avotins, 2016; Bobiř, 2018; Caurkubule & Mahmudova, 2017; Golubkova et al., 2019; Stecenko, 2019; Stecenko & Lin, 2018).

Among the main problems that representatives of Estonian small and medium-sized businesses have to deal with every day, Petra Holm calls the high workload in the field of salaries. Katarina Holm considers the problem that a significant part of small and medium-sized enterprises are subcontractors for large enterprises, in her opinion, to abandon this business model. Raivo Altmets, points out the problems of high taxes, limited access to financial loans at banks and bureaucracy for small enterprises (Kak zhivetsya malym predprinimatel'nyam v kazhdoj iz trekh baltijskih respublik, 2016). A number of Estonian experts consider the factors hindering the development of entrepreneurship: a rather high tax burden - 56%; search for a niche for goods and services - 43%; unpaid bills, delay on the part of customers when paying bills - 39%; encumbrance with legal acts and excessive bureaucracy - 38%; cash availability problems - 34% (Opyt razvitiya i podderzhki social'nogo predprinimatel'stva v Estonii, 2019). Tsaurkubule Zh.L., Makhmudova Yu.A. conclude that there are imbalances between the professional structure of labor demand and labor supply in the national economy (Caurkubule & Mahmudova, 2017), and Inna Stecenko, Chien Fu Jeff Lin recommend that small businesses focus on innovation (Stecenko, 2019; Stecenko & Lin, 2018). In addition, the priority direction of ensuring the effectiveness of public services provided to business entities is monitoring and evaluating the quality of public services for entrepreneurs (Averin & Grigorieva, 2019; Kamaev & Grigor'eva, 2016).

## 4. Discussion

The results of the study indicate the presence of institutional conditions and factors restraining the sustainable development of small businesses in Latvia and Lithuania, which necessitates the improvement of regional economic policies in the field of development and protection of small business interests, as well as the development of human capital. The Baltic government should take the opportunity to carry out structural reforms that stimulate the acceleration of comprehensive economic growth, which is essential for poverty alleviation.

The economic policy of the Baltic countries should include the following support measures: focusing tax policy on attracting foreign investors, preferential tax treatment for promising start-ups, increasing long-term lending to small businesses, including soft loans with state support, soft loans to social entrepreneurship, insurance loans, subsidies, capability vouchers, research and development grants, crowdfunding platform.

Non-financial public policy should be focused on protecting the rights and legitimate interests of small businesses, the development of technology parks and technopolises, the allocation of special zones at the regional level and areas of priority development, the creation of value-added industrial sectors and the development of exports in this industry.

State control over the implementation of areas and programs for the development of small business is recommended to be carried out in two directions:

- government agencies conduct annual monitoring of the small business sector in order to identify which enterprises need equipment modernization, computer software upgrades, staff retraining, etc. ;
- representatives of various regulatory bodies, monitor compliance with small and medium-sized enterprises with all the rules and regulations necessary for a particular industry.

Particular attention should be paid to the development of feedback mechanisms and public monitoring of government management decisions in the field of small business development. In this aspect, the state should act as the only institution for interaction with enterprises to create opportunities and expand their access to local and global markets.

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