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Venture Capital as a Support Instrument for Start-Ups in Latvia

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Abstract

Venture capital has become a hot topic in every economy today, as it has focused on companies with excellent growth potential and a need for large financial resources. Also in Latvia, 13 new venture capital funds have been registered for 2020, with a total fund capital of €294 million, while €172 million were uninvested. Financial resources are available in Latvia, but the question is why are there so many uninvested funds? Is it because new companies did not choose this support instrument, or because venture capital funds cannot find suitable companies to invest in? The aim of the study is to investigate the functioning of venture capital and its support for start-ups in Latvia and to develop directions for the improvement of venture capital as a support instrument. The monographic and computational methods, qualitative and quantitative analysis were used. The results of the study indicate that venture capital in Latvia provides only financial support and is difficult to access for start-ups due to the lack of technology experts who are able to understand the business model and invest in start-ups, as well as the low level of risk for venture capital investors in Latvia, which affects start-ups' access to venture capital funds. Moreover, the venture capital industry in Latvia is still in a nascent stage, with no privately funded venture capital funds and 46% of venture capital fund funding still coming from public funds.

Subject Areas

Business Management, Finance

Keywords

Venture Capital, Start-Ups, Support Instruments, Smart Money

1. Introduction

Venture capital has become an essential part of the business world. Global venture capital funding increased by 4% in 2020, or around €248 billion, compared to 2019 [1]. This growth was fueled by the shift to online services in several sectors during the global pandemic, such as healthcare, education, entertainment, etc. [2]. This in turn led to a boom in technology infrastructure. The demand for technology (computers, tablets, etc.) increased as people needed to learn, study and work using computers. Online shops, online services and programs that can be used remotely on a computer became popular.

Venture capital is focused on companies with excellent growth potential that need large amounts of financial capital to survive and grow rapidly. One of the best-known companies, Facebook, received €10.5 million in venture capital funding from Accel Partners back in 2005 at its seed stage [3]. This shows that raising venture capital can help start-ups to become viable in the long term. Venture capital offers not only funding, but also valuable intangible assets based on the experience and network of venture capitalists [4]. This aspect of venture capital investment is important because young companies often lack both financial and intangible resources (experience, knowledge and contacts).

The number of start-ups registered in Latvia is also increasing. In July 2020, 487 start-ups were registered, an increase of 16.51% compared to 2019 [5]. These are companies with ambitions and a drive to grow quickly and maximize their profits. To be viable and profitable, start-ups need funding to compete in the market as quickly as possible. Startups can bootstrap and grow without external funding, but there will come a time when the company needs external funding or smart money [6]. There are different types of support available at different stages of a start-up's development. At the start of the process, you can work with incubators, followed by accelerators, sharing platforms, business angels and venture capital.

Latvia also saw an increase in funding from the venture capital industry. In 2020, 13 new venture capital funds have been registered in Latvia with a total fund capital of €294 million, while funds in the amount of €172 million remained uninvested [7]. Funding is also available from foreign registered venture capital funds. Financial resources are available in Latvia, but the question is why is there so much uninvested funding? Is it because start-ups will not choose this support instrument, or because venture capital funds cannot find suitable companies to invest in? Choosing venture capital for a start-up can help you get smart money—large amounts of funding and knowledgeable professionals with experience and a wide range of contacts [8]. Similarly, venture capital-funded start-ups contribute to a country's economy by creating jobs as they grow. The aim of this research is to investigate the functioning of venture capital and its support for start-ups in Latvia and to develop directions for the improvement of venture capital as a support instrument. The general conclusions of the expert interviews allowed the authors to put forward 3 hypotheses, which are derived from the information obtained during the expert interviews and would allow exploring in more depth the attitudes of start-ups towards the venture capital financing model and are mentioned in the introduction.

The authors of the study propose the following hypothesis:

Hypothesis 1—Venture capital in Latvia mainly provides financial support to start-ups, not the so-called smart money.

Hypothesis 2—Start-ups avoid venture capital support because they find it difficult to access it in Latvia.

Hypothesis 3—Early-stage financing is hardly available for start-ups in Latvia.

2. Methods

The methods used in the study are:

1) The monographic or descriptive method was used to conduct a detailed study of the concept of risk capital and its nature.

2) Contingency analysis is applied to analyze the scientific content of documents related to venture capital activities.

3) Qualitative research (expert interviews) to understand the impact of venture capital support on the development of start-ups.

4) The quantitative method will be used to survey start-ups on the choice of financing options.

5) The constructive method of calculation was used to calculate the % of GDP contribution of venture capital as well as the compound annual growth rate (CAGR).

3. Results and Discussion

In Latvia, the overwhelming majority of companies are private sector players (69.7%) [8], which meet their capital needs through internal financing or a bank loan. For fast-growing and innovative start-ups, these sources of finance are not suitable, as start-ups are highly risk-prone and often do not have adequate cash flow for banks to offer loans [9]. In such cases, venture capital is one of the suitable support instruments. Venture capital as a research object has attracted increasing attention among researchers and academics because it is a multifaceted financing instrument, on the one hand linked to intellectual entrepreneurship, but on the other hand one of the financing support tools characterized by high risk and high return on investment [10].

Based on all the information gathered, it can be concluded that the venture capital industry in Latvia is still at a developing stage. By European averages for venture capital investment, it could be described as relatively poor. The venture capital industry is largely funded by public institutions and pension funds and business angels, so a major problem in this sector is the massive shortage of money from Latvian private investors. Often these investors refuse to invest in high-risk companies, so the sector needs foreign investors, which are sadly lacking. Similarly, a survey of venture capital organizations shows that more investment is taking place in Estonian and Lithuanian start-ups. Perhaps the ideas and products of start-ups in these countries are more attractive than in Latvia. If there is no quality demand for venture capital, it is impossible to develop the sector because start-ups cannot attract investment. Conversely, if there is a qualitative demand from start-ups for venture capital funding, then there needs to be an adequate supply of venture capital. In addition, venture capital organizations in Latvia focus on seed or late-stage ventures, which shows that mid-stage funding for start-ups is very poor, as there is a lack of venture capital funds focusing on later-stage start-ups.

3.1. Latvian Venture Capital Industry from an Expert Perspective

A study, based on expert interviews, is necessary to describe the venture capital industry in Latvia, the main criteria and its availability. The selected experts are able to identify the positive and negative sides of the venture capital industry and the opportunities for its improvement in Latvia.

The authors selected the experts they interviewed on the basis of the principle of receiving comprehensive answers, *i.e.* from experts in venture capital and start-ups who are knowledgeable and experienced in these fields. 6 industry experts participated in this investigation. Therefore, the following were selected for expert interviews: Pāvels Kovaļēvičs—co-founder of Juro startup and co-founder of Idea Port Riga; Kristaps Boša—Head of Operations at MolPort and Gints Sloks—CFO and co-founder of Giraffe 360. In order to get the opinion of experts in the venture capital industry, the authors interviewed Jānis Skutelis, Chairman of the Board of FlyCap Venture Capital; Ēriks Fricsons, Chairman of the Board of Expansion Capital; and Anita Matisone, Executive Director of the Latvian Venture Capital and Private Equity Association.

The interview with the representatives of the start-ups consisted of 6 questions, which were asked in order to understand the experts' views on how the support provided by venture capital has influenced the development of a particular start-up and what difficulties it faced in attracting investment. The experts were also asked about how venture capital available in Latvia is valued and what their recommendations would be. The interview with venture capital representatives consists of 5 questions to understand: the experts' opinion on the current situation of venture capital in Latvia; and how it has helped startups; what are the main criteria for selecting startups for venture capital support; and what are the most important types available in Latvia. Each interview was 40 minutes long.

The views of the experts are diverse, but there are also common aspects that unite them. Experts differ somewhat in their description of the current situation and prospects in the Latvian venture capital market. Based on the information presented by expert Skutelis, the authors believe that the venture capital industry in Latvia is at an early stage, it is not yet fully saturated, and it currently has enough weaknesses to be able to rebut the strengths of venture capital. On the other hand, the information provided by Fricsons and Matisone suggests that the venture capital industry is favorable for new projects, and thanks to the support provided by the EU Structural Funds, the venture capital industry has contributed to significant development.

Venture capital experts additionally pointed to the main criteria for evaluating start-ups. According to Skutelis, the most important criteria for venture capital to consider a start-up application are a strong team with a global mindset and a potential idea that can survive. Expert Fricsons adds to the above by pointing out the need for experience and a sound business plan. However, expert Matisone said that the main criterion that venture capital organizations will be guided by will be a company's high growth potential. The authors conclude that it is important for a start-up to build a strong team that does not give up at the first hurdle. It needs to have a multi-perspective mindset to compete successfully not only in the domestic market, but also globally. Similarly, a compelling business model, a strong team and a global mindset will be key criteria for early development. Later, as the start-up moves into a different stage of development, the criteria for venture capital support become stricter.

Each of the experts was asked how venture capital can influence the development of a start-up in Latvia. The experts' answers to this question were relatively similar. Based on the answers given by experts Kovaļēvičs, Bošs and Skutelis, it follows that venture capital gives companies the freedom to take actions that help them maximize their profits as quickly as possible, thereby increasing and strengthening their competitiveness. A. Matisone also reveals that venture capital activity in Latvia is essential for the formation of start-ups, as they will most often initially attract local investors. According to G. Sloka, without the support of venture capital, many start-ups would probably not exist today. This information is complemented by expert Fricsons's point that IT/technology start-ups could not exist today without the presence of venture capital. This indicates that start-ups would not be created without venture capital support because of the high cost of producing products.

Based on what expert Kovaļevičs has said, it follows that venture capital financing is not easily available in Latvia, as there are enough factors that make it a complex and difficult procedure. This information could be complemented by G. Sloka's opinion that venture capital is not easily available in Latvia, as there are hardly any real venture capital funds providing investments to early-stage start-ups in Latvia. However, experts Boša and Skutelis also point out that venture capital is available, but you have to know how to attract it. This information is complemented by Fricsons and Matisone that venture capital is available in Latvia. This is also supported by a list of available risk funds.

According to EY, there are 13 funds registered in Latvia with a total capital of €294 million in 2020 [7]. This is complemented by the fact that €172 million is available for new investment. This raises the question of the availability of the free amount. Expert Skutelis, partner at FlyCap, explained that venture capital funds have stopped investing for the moment and are assessing the situation. And they don't really see the start-ups they want to invest in yet. Expert Fricsons, chairman of the board of Expansion Capital, said that the presence of the pandemic has shaken the financial market, so investors are more cautious in case they miss a good opportunity. However, LVCA executive director Matisone believes that Latvia is now perceived a little differently and has attracted funding from foreign investors, which allows increasing the amount of funds, but start-ups are afraid or unable to justify the need for financial support.

The representatives of the start-up were also asked about the difficulty of raising venture capital and the challenges they faced. According to expert`s Kovaļēvičs opinion, the process of raising venture capital is time-consuming. The expert said that at least 30 investment meetings have been held in each funding round. This view can be complemented by the experience of G. Sloka, who describes raising venture capital as an ongoing process. According to expert Bošs, there have been very few attempts to raise venture capital and the biggest difficulty is to convince investors that the start-up will be able to survive and be competitive. The authors of the paper consider that raising venture capital support is a relatively lengthy process that will not be achieved overnight. Startups that are at the development stage might have the hardest time convincing investors that the idea has potential.

All experts were asked about opportunities for improving the venture capital industry. Expert Matisone outlined the objectives and the activities planned. The expert said that a change in the name of the sector would be a good place to start to make it more palatable to ecosystem actors. It follows that the strategic objectives are clearly justified, but it would take several years to achieve them all. It also follows from what Bošs has said that it would be desirable to provide more information to entrepreneurs. It follows from what Skutelis has said that LVCA should try to generate more interest from foreign investors and put more emphasis on the sciences. Giraffe360 CFO, G. Sloka, believes that the first "unicorn" is needed to encourage more people to create start-ups, thereby creating new millionaires who could become potential investors. On the other hand, Fricsons would recommend the development of the stock exchange so that investors have more opportunities to sell their investments. The authors consider that this would be a potential for improvement to increase the interest of foreign investors.

The study shows that the venture capital industry is at an early stage of development. This means that a number of processes are needed to take it forward, but this does not negate the fact that it is possible to attract a venture capital financing instrument for a start-up in Latvia. At the moment, the venture capital support instrument is seen as weak because it mainly only provides finance, so it is only one of a wide range of options. According to venture capital experts, they are keen to work with start-ups that have stabilized and have already tested their product in the market. This means that these start-ups have a lower risk profile and venture capital funds are more confident about investing in them. This is confirmed by the fact that the main evaluation criteria identified by the experts are a strong team and business plan, as well as competitiveness and a global view of the market. The authors also explain that venture capital has helped start-ups in Latvia more in financial terms, as only one of the start-up representatives mentioned that venture capital fund representatives are involved in the operational process through their advice and participation in monthly meetings.

The authors argue that few start-ups will get venture capital support first time, as it is not readily available to everyone. Start-ups are likely to need several visits, during which they will also gain the necessary experience. It cannot be said that venture capital is not available in Latvia. It is relatively difficult to identify the right direction for the venture capital industry to take in order to make it more attractive, as it is at an early stage and not sufficiently well researched.

3.2. Venture Capital Support Opportunities for Latvian Start-Ups

The venture capital financing model is one of the most effective models of support a start-up can attract, but not all countries offer the same level of venture capital support. Therefore, in order to clarify and identify the opportunities for venture capital support for start-ups in Latvia, it is important to identify views on the process of attracting venture capital.

This type of study is essential to identify and improve the financing options for start-ups through venture capital. The questionnaire helps to understand the views of senior representatives of start-up management. Therefore, the use of questionnaires in this study aims at obtaining responses on the stage of development of the start-ups at which funding was raised, the presence of smart money and the likelihood of raising venture capital.

In order for the created questionnaire to be representative, it is necessary to determine its general population. Determining the general population was complicated by the fact that there are no detailed statistics on how many startups have received venture capital support, therefore the author based it on the available number of startups in Latvia. Thus, when creating the general group according to the 2020. Statistical data on the number of start-ups—487 participants, but it should be taken into account that there is no available database where all start-ups would be collected and where all these companies could be contacted. Respectively, in order to specify a specific general group, the authors choose to survey startups who are the members of the Latvian start-ups association, because there is a specific number and it will be possible to get answers from startups that have not received venture capital support. There are 68 start-up companies in the Association of Latvian Start-ups, but not all of these start-up companies were ready to cooperate, so the questionnaire sample was formed from 56 representatives of start-up companies who were ready to form cooperation. The authors performed the calculation of the required number of respondents, after which it was obtained that 49 respondents are required at a 5% level of error, at a 95% level of confidence [11].

The questionnaire consists of 12 questions. After the survey, the authors summarized the data in charts and tables to make it easier to analyze and draw conclusions based on the information gathered earlier. These conclusions will determine whether the hypotheses put forward at the beginning of the subsection are true or false.

Of the 49 respondents to the questionnaire, 49% of the startups surveyed were in working various types of technology such as fintech, deeptech, and tech, 17% were in the software solutions sector offering a licensing business model, 15% were in the medical sector, and 13% of the startups indicated the e-commerce sector as their main activity. In contrast, 6% of start-ups listed their sector as "other", adding industries such as verification, mobile app and robotics.

Respondents were also grouped according to the age of the start-up and the number of employees.

69% of respondents indicated that the age of the start-up is between 1 - 5 years, with 53% of start-ups employing 6 - 10 employees and 26% of start-ups employing only 1 - 5 employees at this stage, but 21% of start-ups indicated that they are able to employ 11 - 20 employees or even more at this stage. In contrast, 23% of start-ups are between 6 and 10 years old and indicated that 36% have a team of more than 30 employees, while 27% of start-ups in this age group have 21 - 30 employees. The survey found that 6% of start-ups under 1 year old with an average of 1 - 5 employees and 2% of start-ups over 10 years old but with 21 - 30 employees participated in the survey. Results are seen in **Table 1**.

To start with, in order to learn about venture capital support, the percentage of funding support instruments a start-up relies on or the type or types of funding it relies on was established.

The results indicate that on average 50% of the financing of a start-up is venture capital. 18% of startup funding is referred to as accelerator. However, respondents say that 12% of the funding will come from business angels. By contrast, 11% of funding for start-ups comes from 3F support. The authors of the paper argue that often a start-up is fully financed by venture capital support, which explains the different distribution. In addition, other funding support instruments do not have the level of investment available to fully support the growth of a start-up, so the start-up chooses to raise additional funds. Results can be found in **Figure 1**.

Similarly, not all start-ups have used venture capital support—30.6% of start-ups have not used this support instrument, so the authors asked respondents to give reasons why they have not chosen this financing model. The most common concerns were that the start-up did not have sufficient turnover, because the venture capital was more interested in seeing a positive balance sheet and paying

Table 1. Distribution of respondents by age of start-up and number of employees.

Workers/y	>1 year	1 - 5 years	6 - 10 years	<10 years
1 to 5	3	8	-	-
6 to 10	-	18	2	-
11 to 20	-	5	2	-
21 to 30	-	1	3	1
> 31	-	1	4	-

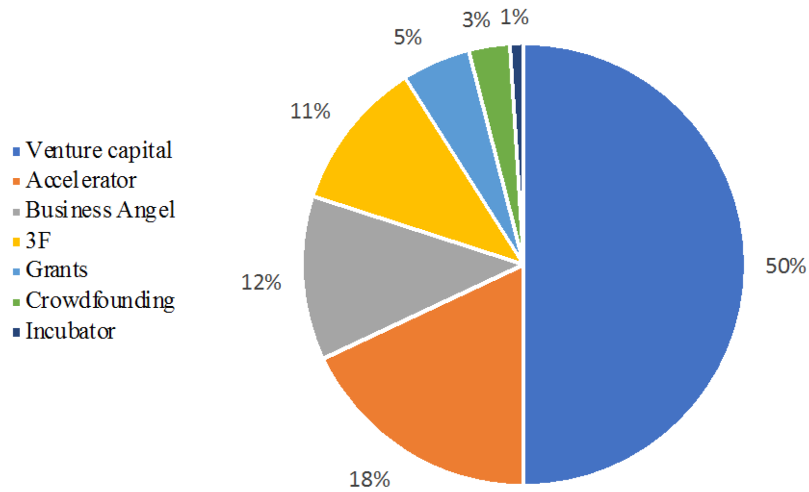

Figure 1. Distribution of respondents by type/s of financing start-ups.

customers, or the sector in which the start-up was operating was very specific, or the financial support provided here had no added value. These reasons, according to the authors, are also related to the fact that Latvian venture capital organizations are not able to provide expertise in certain areas, thus avoiding new ventures whose business model they do not understand.

Consequently, the authors wanted to find out how many Latvian start-ups have been rejected by venture capital organizations. It turns out that 91% of respondents have been refused by a venture capitalist and only 9% have not been refused. The authors make the point that even the most brilliant ideas may be rejected by an organization at some point, but that doesn't mean that's the end of the story. Venture capitalists may want to observe a start-up's activities, which is how they evaluate it. To find out approximately how many rejections a start-up has to deal with, the authors asked respondents to indicate the approximate number of rejections. The responses indicate that on average a start-up receives 15 - 20 rejections. According to the authors, the number of rejections does not indicate how successful or unsuccessful an idea is. This rejection could be an incentive to work harder on an idea, rethink a business model or change a favorite tactic.

The number of rejections suggests that the venture capital industry is relatively inaccessible, so the authors wanted to find out how respondents felt about the availability of venture capital.

According to the rating obtained, 49% of respondents rated the availability of venture capital for start-ups in Latvia as 2 out of 5, *i.e.* it is difficult to access for start-ups in Latvia. However, 47% rated the sector as 3 out of 5, *i.e.* venture capital is moderately easy or moderately difficult to access, while 4% of respondents rated the venture capital sector as 1 out of 5, in other words, as very difficult to access for start-ups in Latvia. According to the authors, Latvian venture capital organizations are very selective about which start-ups to invest in, giving the impression that companies that are already somewhat established and have crystallized their market on their own are eligible for support. In the light of this assessment, it was important to find out where venture capital support comes from. 53% of respondents said they had raised venture capital from abroad, but 47% had raised it from organizations operating in Latvia. Results can be found in Figure 2.

The authors of the paper argue that start-ups are more inclined to raise foreign venture capital because it is important for them to find mentors who are competent in the start-up sector and are able to help with knowledge, as well as opening up a wider range of contacts, which is very valuable for start-ups at the development stage. However, the venture capital on offer will be more likely to be chosen by those who focus on more proximate markets and do not intend to go global right away.

The authors of the paper believe that the most support is needed for seed-stage start-ups, as it is at this stage that start-ups lay the foundations for building the start-up image and business model. If these foundations are not strong, the start-up is likely to fail.

According to the respondents' answers, venture capital support was mainly attracted to seed-stage start-ups in 59.6% of cases. 21.2% of start-ups are at the pre-seed stage when they raise venture capital, but 17.3% said they raised support at a later stage of development. Only 1.9% of venture capital was raised at the growth stage. Given that the survey participants were start-ups with an average age of 1 - 5 years, these start-ups are well established in terms of early-stage funding, *i.e.* they can be profitable and cover their future costs. Results can be found in Figure 3.

Consequently, it was important for the authors to find out how the start-ups communicated with the investors of the venture capital organizations with which they were partnering. Respondents indicated that they contacted venture capitalists in person about once a month (66%), while 22% indicated that they communicate more than once a month. Contrary to the previous answers, 7% said that there is no communication between investors and the company.

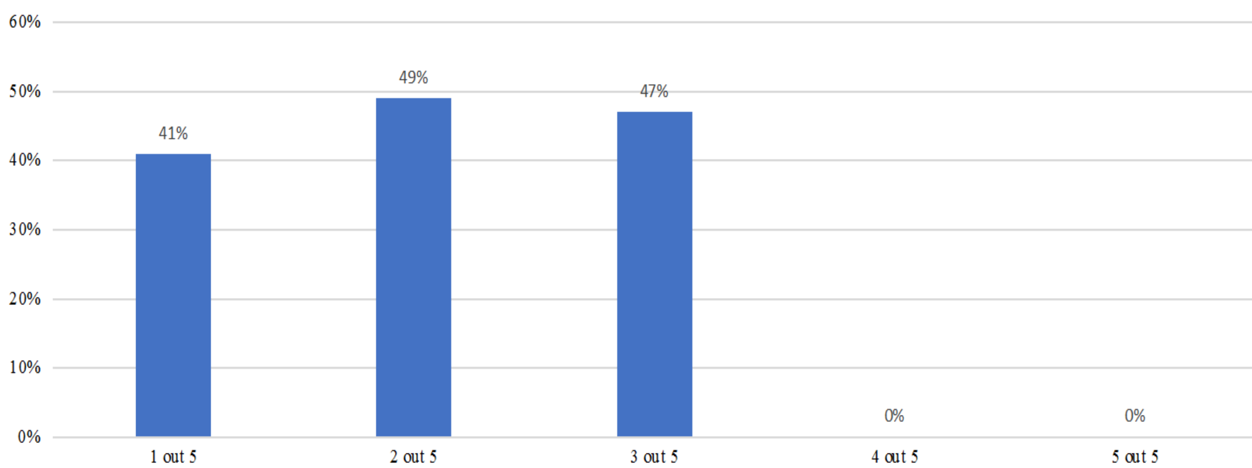

Figure 2. Respondents' assessment of the availability of risk capital in Latvia.

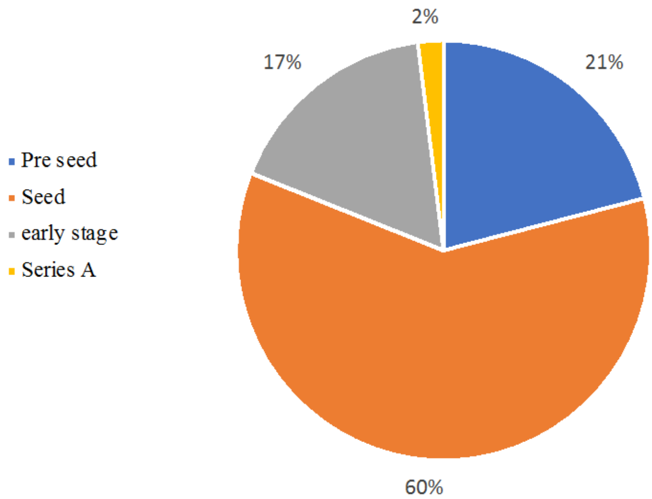

Figure 3. Distribution of respondents in stages in attracting venture capital.

As to sending publications and emails remotely, 38% said that communication took place about once a month, but 27% said that it happened less than once a month. Again, 9% of respondents indicated that there was no remote communication between the start-up and investors. The authors asked the representatives to indicate the stage of the start-up at which this communication took place. From the responses, the authors were able to conclude that later stage and growth stage start-ups communicate significantly less than early-stage start-ups, but also recorded responses where the seed stage start-up had not experienced remote communication with investors.

Based on a review of the theory, venture capital should be able to provide not only financial support but also intellectual resources in the form of mentoring and a range of contacts. Therefore, the company's representatives were only asked about the expectations (support, advice, recommendations) it had in raising a venture capital support instrument. Respondents answered confidently that expectations were somewhat met. This indicates that advice was given, but due to a possible lack of expertise, this was not really what the start-up wanted to gain. The second most popular answer for start-ups was that expectations were significantly met. The authors believe that this is due to the fact that some start-ups raised venture capital directly from abroad, where it is more developed. This gave them the opportunity not only to receive investment, but also to get advice and listen to suggestions from experts in the field. Then again, another share of start-ups said that they had not had their expectations met or had not expected any kind of intellectual support tools at all, which leads the authors to the conclusion that most start-ups had much higher expectations.

Based on the analyzed responses, the authors of the paper can conclude that venture capital is one of the most common forms of financing a start-up. This type of financing allows you to get large amounts of cash funding more quickly, because as we know from studying theory, time is of the essence when it comes to start-ups. Similarly, not all start-ups have access to venture capital. The Latvian venture capital industry lacks experts who understand the specific start-up model or specialize in technology sectors where start-ups are highly developed. Therefore, the hypothesis that venture capital in Latvia only provides financial support, not smart money, has been confirmed.

Based on the answers of the respondents, the authors conclude that venture capital for start-ups in Latvia is difficult to access, but that there are several factors that influence the possibility of attracting it. There will be start-ups that have much easier access to venture capital and start-ups for which it will be a complex and lengthy process. Moreover, investors in Latvia do not want to be exposed to high risks, which makes it more difficult for start-ups to access them. If a start-up wants to raise venture capital in Latvia, it needs to be strong, with a strong and globally minded team that is not only focused on how to develop the idea, but can think several steps ahead and see the start-up in 3 or 5 years.

It should be said that the answers of the respondents show that most venture capital for start-ups in Latvia is provided at the seed stage. The authors explain this conclusion by the fact that when assessing venture capital organizations, the majority of them are specialized in this stage, so at the moment there are about 2 - 3 funds available in the Latvian venture capital industry that could provide support to the later stages of start-ups. It should also be borne in mind that the next stages of start-ups require larger investments, so funds need to be able to invest. However, in Latvia, these funds do not have the funding to support multiple start-ups, so venture capitalists have stricter criteria when choosing which start-ups to back.

Initially, the authors of the paper had 2 more hypotheses, which they wanted to verify at the end of the survey. One of the hypotheses was that start-ups in Latvia would not choose venture capital support because they found it difficult to access. This hypothesis is partially supported, as the venture capital sector is perceived by start-up representatives as difficult to access or moderately difficult/easy to access, but the reasons why they would not choose this support model are characterized as not meeting the criteria set by venture capital organizations. Conversely, the hypothesis that early-stage finance is hardly available to start-ups in Latvia is wrong, as venture capital organizations in Latvia offer early-stage start-ups significantly more choices than later-stage and growth-stage start-ups in terms of access to venture capital support. And the start-ups that participated in this survey have received the most venture capital support at the seed or early stage.

3.3. Latvian Venture Capital Industry Outlook

The authors of the study have come across views on the shortcomings of existing venture capital financing, how to promote the development of this sector. Therefore, the authors created a SWOT analysis model concerning the opportunities and prospects for venture capital financing in Latvia. The authors chose to use the SWOT analysis model because it helps to identify the strengths, weaknesses,

Table 2. Venture capital financing opportunities and perspectives in Latvia: SWOT analysis.

Strengths	Weaknesses
• Access to subsidized EU and national resources; • Potential start-ups to achieve *unicorn* status; • Employee stock option law—one of the most innovative in the EU; • Relatively cheap labor in the technology sectors;	• Startups don't have a global mindset (hard to sell afterwards) • Venture capital organizations in Latvia mostly only provide financial support; • Lack of research involvement—few studies with analytical data on the venture capital industry • There are no privately funded venture capital funds;
Opportunities	**Threats**
• The early-stage venture capital industry is an opportunity for growth and higher returns from investors; • Private equity accounts for a higher percentage of venture capital funding—64% • The sale of successful start-ups can bring large inflows of investment into the local economy;	• Difficult access to venture capital for later and growth stage start-ups; • Low investor risk—reluctance of investors to invest in small-scale projects (too high costs and risks); • Lack of developed financial and stock markets; • Too much interference by *Altum*—wants to tell investors where to invest • Higher taxes than in Lithuania and Estonia;

opportunities and threats of the venture capital industry. This analysis model is easy to follow and focuses on key aspects of the situation and outlook for the venture capital industry provided in Table 2.

Based on the SWOT analysis of the financing opportunities and prospects for the venture capital industry, it can be concluded that the industry has the potential to grow, but that this growth depends on a number of components, including the start-ups. The authors find that the main factors affecting capital raising in venture capital funds in Latvia are investors' lack of confidence in the fund management team, influenced by the lack of positive experience and track record, as well as funds' difficulties in finding good projects and foreign investors' clear understanding that Latvia is a relatively small market. Latvian venture capitalists also prefer to invest in existing fast-growing companies rather than start-ups because they do not want to take on high risk liabilities. This is a distinctive feature of Latvian venture capital. Thus, the results indicate that the Latvian venture capital investment mechanism is not sufficiently developed, there is no consensus on the nature and purpose of venture capital, which also indicates that the venture capital industry is in its infancy.

4. Conclusions

Venture capital is a financing support model suitable for the changing environment of a start-up company, which has a high probability of risk, and within the framework of which start-up companies are provided not only with financial support, but also with intellectual assistance, thus promoting the possibility of developing the company idea and conquering global markets. The activity of start-ups is based on innovative ideas, the main purpose of which is to solve a social problem or satisfy people's needs, therefore these companies are characterized by a fast growth rate, a global view and the attraction of large investments, but in addition to all this, there is a high-risk possibility that even which may fail, therefore they need the financial means, knowledge and range of contacts that the relevant funding support models can provide. Startups in the 3rd stage of development are more suitable for venture capital investors, because these startups are profitable and considering that venture capital investors get a part of the company, they also get a part of the existing profit and reduce the possibility of risk.

The results of the study indicate that venture capital in Latvia provides only financial support and is difficult to access for start-ups due to the lack of technology experts who are able to understand the business model and invest in start-ups, as well as the low level of risk for venture capital investors in Latvia, which affects start-ups' access to venture capital funds. Moreover, the venture capital industry in Latvia is still in a nascent stage, with no privately funded venture capital funds and 46% of venture capital fund funding still coming from public funds.

The opinion of experts indicates that the demand for risk capital occurs outside of Latvia due to the lack of smart money, that is, risk capital investors are unable to attract non-financial investments, such as management competence and involvement in the daily operations of the invested start-up, so the lack of smart money can have a negative impact on risk capital market development in Latvia. The analysis of the opinion of experts indicates that the Latvian venture capital market needs additional investors who would be able to invest, especially since there is a lack of technology investors with competence, who would understand the business model and could provide not only financial support, but also additional knowledge in the field of technology.

Conflicts of Interest

The authors declare no conflicts of interest.

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