



Design of information sources to identify and resolve financial distress in Latvia

Output 2: Assessment Report (“As Is Report”)

Final version, 16 June 2022



Ministry of Justice
Republic of Latvia



European Bank
for Reconstruction and Development



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Language Disclaimer

This document was originally drafted in Latvian, therefore in case of uncertainty, the decisive document is in Latvian.

Abbreviations with explanations

| Abbreviation | Explanations |
|---|--|
| Altum | The Latvian Development Finance Institution ALTUM |
| Assessment Report (“As Is Report”) | Deliverable of the second stage of the Project |
| BoL | The Bank of Latvia |
| BSR | Baltic Sea Region from the programme “Interreg Baltic Sea Region” |
| CA | The Court Administration |
| Cabinet | The Cabinet (of Ministers) |
| CATI | Computer Assisted Telephone Interviewing |
| CFCA | Central Finance and Contracts Agency |
| COVID-19 | 2019 coronavirus disease |
| CRPC | The Consumer Rights Protection Centre |
| CSB | The Central Statistical Bureau |
| EBRD | The European Bank for Reconstruction and Development |
| EC | The European Commission |
| EDS | Electronic declaration system |
| EU | The European Union |
| EUR | Euro |
| FCMC | The Financial and Capital Markets Commission |
| Financial Distress | <p>For individuals: such circumstances, where an individual is defaulting on or has difficulty making certain payments (e.g., mortgage or rent payments, utility or credit card bills, etc.) and is unable to meet those obligations from existing income or savings.</p> <p>For SMEs and entrepreneurs: such circumstances, in which the entrepreneur or self-employed person defaults on or has difficulty making certain payments related to their business (e.g., loan, lease, line of credit payments, etc.) and is unable to meet those obligations from existing income or savings from the business.</p> |
| FIA | The Financial Industry Association |
| ICS | The Insolvency Control Service |
| Information channels | <p>On-site information channels - on-site consultation, on-site information events (e.g. seminars), printed handouts available on-site, etc.</p> <p>Off-site information channels - consultations by phone or e-mail, website, information sent to the phone by text message, e-mail or post, information events remotely (e.g. webinars), etc.).</p> |
| LAIA | The Latvian Association of Insolvency Administrators |
| LALRG | The Latvian Association of Local and Regional Governments |
| LBA | The Latvian Borrowers Association |
| LCCI | The Latvian Chamber of Commerce and Industry |
| LEC | The Latvian Employers’ Confederation |

| Abbreviation | Explanations |
|-------------------------------|--|
| LIDA | The Latvian Investment and Development Agency |
| LPP | Legal protection process |
| MoE | The Ministry of Economics |
| MoF | The Ministry of Finance |
| MoJ | The Ministry of Justice |
| MoW | The Ministry of Welfare |
| NGO | Non-governmental organisation |
| NSIMC | National social insurance mandatory contributions |
| OOCDR | Out-of-court debt restructuring |
| OOCLPP | Out-of-court legal protection process |
| PIT | Personal income tax |
| Project | Design of information sources to identify and resolve financial distress in Latvia |
| RoE | The Register of Enterprises of the Republic of Latvia |
| RoL | The Republic of Latvia |
| RSS | The Rural Support Service |
| SEA | The State Employment Agency |
| SIA | Limited liability company |
| SLGUCSC | The State and Local Government Uniform Customer Service Centre |
| SME | Small and medium-sized enterprises |
| Sources of information | Methodological and informational materials and tools to help SMEs, entrepreneurs, and consumers identify and resolve financial distress situations. |
| SRS | State Revenue Service |
| SSIA | The State Social Insurance Agency |
| Target group | <p>Applies to SMEs, entrepreneurs, or consumers for whom the Project scope includes the development of information sources related to financial distress, or, if used in the plural, for all of these groups.</p> <p>Target group definitions:</p> <p>SME (Small and medium-sized enterprises) – limited liability company, joint-stock company, general partnership, limited partnership that meets the SME definition, where the number of employees is fewer than 250, and the turnover is below EUR 50 million or total assets are below EUR 43 million.</p> <p>Entrepreneurs – individual merchants, sole traders, individual (family) enterprises, farming/fishing businesses, and rural artisan enterprises /farmsteads.</p> <p>Consumers – natural persons who express their desire to buy, acquire or use goods or a service for a purpose unrelated to their business or professional activity (Section 1, Clause 3 of the Consumer Rights Protection Law).</p> |
| Target group segment | A subset of the target group that refers to a specific group of participants of the target group with a specific set of characteristics. |
| USA | United States of America |
| Working Group | The working group established by the Ministry of Justice to design information sources to identify and resolve financial distress in Latvia. |

Summary



Purpose of the report

The purpose of this report is to assess the current situation regarding the availability of information for SMEs, entrepreneurs, and consumers regarding legal, administrative and financial support and solutions available to address financial distress.



Message structure

This report has been prepared within the framework of the Project performed by SIA “PricewaterhouseCoopers” and commissioned by the EBRD in cooperation with the European Commission and funded by the European Union in accordance with the agreement No. 2021.003577/15278/105676, signed on 13 September 2021. The report and the tasks performed in it comply with the Detailed Project Description agreed between the EBRD and the European Commission’s DG Reform (see Table 1).

Table 1. Compliance of the Report structure to EC/EBRD Detailed Project Description

| No. | Structure of the report | Detailed Project Description |
|-----|--|--|
| | Introduction | N/A |
| 1. | Communication on identification and management of financial distress | “The Assessment Report shall identify the existing sources of information regarding identification and management of financial distress” |
| 2. | Obtaining information from the perspective of the target groups 2A. SMEs 2B. Entrepreneurs 2C. Consumers | The Assessment Report shall identify the SME, entrepreneur, and consumer group profiles and usual channels used for obtaining financial information, such as financial distress-related information and business-related rights and responsibilities in Latvia”. The Assessment Report should have at least three clear and distinctive sections for separate analysis of SMEs, entrepreneurs and consumers. “In-depth data analysis to map all the existing sources containing information regarding identification and addressing issues deriving from financial distress for SMEs, entrepreneurs, and consumers, identifying the characteristics of the audience, evaluating their gender, age, socio-economic profile, geographic location and the channels used for obtaining information, including the importance of any networks such as chambers of commerce or consumer advice centres. This analysis shall include relevant in-depth research and interviews conducted within the scope of the project with SMEs, entrepreneurs, and consumers.” |
| 3. | Skills of the target groups in managing financial distress | The assessment report shall identify those areas where the target audience lacks skills/expertise in the context of financial literacy and distress.” “A gap analysis should be conducted to detect areas or topics, where SMEs, entrepreneurs and consumers lack skills/expertise. The analysis should include, where relevant, references to any successful examples in other countries to identify ideas and approaches that Latvia may wish to follow” |



1. Communication on identification and management of financial distress

There is a lack of joint strategic communication within the country on financial difficulties. Issues related to the identification and management of financial distress directly or indirectly fall within the competence of various institutions and organisations (8 direct public administration institutions, 2 derived public entities (FCMC and BoL), and 4 non-public sector organisations have been identified). However, there has not been identified centralised institution that manages and coordinates the cooperation of stakeholders in providing information and advice to all target groups (one institution or different institutions depending on the target group - SMEs, entrepreneurs and consumers - specifics). The results of the sociological survey of target groups conducted as part of the Project also indicate general support for the creation of a central source of information (website).

There is a lack of horizontal coordination in the dissemination of information. Given the large number of institutions and organisations involved, there is a lack of coordination, and some elements of the messages are rarely supplemented with references to the information developed by other institutions or organisations relevant to the target audience or with embedded links. Interviews (organised between 26 October 2021 and 4 March 2022) with the institutions and organisations revealed that they had limited information about the activities carried out and/or contemplated by other institutions about overcoming financial distress. Consequently, there is great unrealized potential for synergies.

The overall informational content available to the target groups is sufficient but fragmented. The range of information sources available to the target groups is wide and covers various aspects related to financial distress. Institutions' or organisation's websites are used as the primary source, but it is difficult to find information because the information is spread across different websites depending on the competencies of the institutions and organisations, and there is no consistent approach to keyword selection. In addition, communication channels such as the media (national, regional), social networks, websites, electronic or traditional mail, telephone or face-to-face counselling, and information or training are used. Interviews with institutions show a tendency that digital channels are primarily used for communication of information, as well as non-digital channels are used for communication of information by institutions when necessary.

Mainly, one-way (asymmetric) communication is used. For all three target groups, there is a characteristic tendency to try to use communication to convince people of the right financial life models and to teach them the legal rules, both by recounting the legal framework and by giving detailed instructions on how to behave in each legal situation, for example, before changes in the relevant laws and regulations and after they have been changed on a certain date. Communication is usually aimed at influencing beliefs or changing knowledge. The didactic tone used in addressing the target audience often leads to information recipients having a reserved attitude towards the information provider and the content of the message. Achieving the goal of persuasion requires a more resource-intensive dialogue that considers the actual problems of the target audience by regularly collecting data on current financial difficulties in the opinion survey and then adjusting the type of support communicated to the target audience to address current problems.

2. Obtaining information from the perspective of the target groups

The life cycle and points of contact of the target groups

From the point of view of communication, institutions with which communication is mandatory have the greatest potential to reach the largest number of target group representatives. These institutions have a significant potential to carry out preventive information activities, informing them about the proposed solutions to the identification and resolution of financial difficulties. These findings are also substantiated by the sociological survey conducted.

- **SMEs and entrepreneurs:** Mandatory contact is with the SRS, RoE and SSIA.

| Life cycle stage | Points of contact | SMEs | Entrepreneurs | |
|--------------------------------------|--|------|---|---------------------------|
| | | | Entrepreneurs registered with the Commercial Register | Sole traders ¹ |
| Foundation/ registration | Registration of business: with the RoE (SMEs and individual merchants) or the SRS (sole traders) | ✓ | ✓ | ✓ |
| | Registration in the VAT register: SRS | ✓ | ✓ | ✓ |
| Carrying on trade | Applying for pre-incubation and incubation support: LIDA, Altum, CFCA, SEA, local governments, business incubators | ✓ | ✓ | ✓ |
| | Filing annual reports: with SRS | ✓ | ✓ | ✓ |
| | Filing PIT and NSIMC reports: with SRS and SSIA | | ✓ | |
| | Assuming financial obligations: credit information bureaux, creditors | ✓ | ✓ | ✓ |
| The occurrence of financial distress | Creditors | ✓ | ✓ | ✓ |
| Stagnation and decline | Informal restructuring (OOC DR): SMEs: MoE, Altum, local governments, Creditors Entrepreneurs: Creditors, credit information bureaux, Court | ✓ | ✓ | ✓ |
| | Formal restructuring (LPP/OOCLPP): Creditors, Credit information bureaux, the person supervising LPP/OOCLPP, Court | ✓ | ✓ | |
| | Insolvency of a natural person: Notary public, Creditors, SEA, Social Service, administrator of insolvency proceedings | | ✓ | ✓ |
| | | | | |

Points of contact for all activities that **must be carried out by all** are marked in yellow (text colour)

Points of contact for activities that **must be carried out depending on the circumstances** are marked in black (the text colour)

- **Consumers:** Unlike for SMEs and entrepreneurs, the regulatory framework does not specify mandatory points of contact with the institutions. As a result, consumers need a different approach. In the event of a dispute between the consumer and a seller or service provider, the consumer has the right to contact the CRPC for help.

| Stage of the life cycle | Points of contact | Consumers |
|---|--|-----------|
| Implementation of an idea - a person borrows to buy goods or services | Seller or service provider, creditor, CRPC | ✓ |
| The occurrence of financial distress | Creditor | ✓ |
| Financial distress situation | Release of a natural person from debts - sworn notary, creditor, SEA, social service In the insolvency proceedings of a natural person - court, | ✓ |

¹ Natural persons

administrator of the insolvency proceedings, creditors

Points of contact for activities that **must be carried out depending on the situation** are marked in black (the text colour)

Habits in obtaining information

Approximately 1/3 of SMEs and 1/4 of entrepreneurs and consumers have had experience in searching for information on support for managing financial distress. This highlights the urgency of this issue among all the three target groups, especially in the context of borrowing. Every second SME or entrepreneur has borrowed funds for business needs at some point of time. In the consumer group, 2/3 of the respondents in the consumer group had an experience with borrowing.

| | SMEs | Entrepreneurs | Consumers |
|--|-------------|---------------|-------------|
| Those who have searched for information that could help them manage financial distress in the last 5 years | 36% | 23% | 23% |
| Have not searched for such information in the last 5 years | 59% | 75% | 72% |
| Don't know/ N/A | 5% | 2% | 5% |
| Total: | 100% | 100% | 100% |

Among respondents who **had sought information** about support options for managing financial distress, the information sources used are mainly digital. The websites of public institutions are recognised as the most popular source of information in all target groups (SRS and Altum are the most popular sources among the target groups in general). Other sources of public institutions, such as the websites of local governments and their institutions and Latvija.lv, also rank relatively high.

| Sources ² | SMEs | Entrepreneurs | Consumers |
|--|--|---|--|
| | 60% | 52% | 52% |
| Websites of public authorities | SRS (44%) Altum (33%) LIDA (16%) MoF (15%) MoE (11%) | RSS (28%) SRS (28%) Altum (10%) SEA (9%) MoE (7%) | SRS (17%) SEA (16%) CRPC (10%) Altum (6%) |
| Websites of local governments and their institutions | 34% | 16% | 42% |
| Credit institutions (banks) | 25% | 12% | 12% |
| Non-bank lenders | 3% | 1% | 11% |
| Latvija.lv | 16% | 12% | 30% |
| Internet search engine | 34% | 33% | 52% |

The respondents who **have not sought** information on support options for managing a financial distress, say that they would prefer to reach out to their personal networks. Recognised as the most popular sources of information in all the target groups: friends/acquaintances, credit institutions (banks), personal financial advisor/lawyer, Internet search engines. SRS and Altum are also popular sources of information among SMEs and entrepreneurs. Other popular sources of information (indicated by more than 10% of the target group of respondents who have not searched for such information before) are specific to each target group:

- **SMEs** – private investors, LIDA
- **Entrepreneurs** – RSS, The Latvian Rural Consultation and Education Centre, local governments

² As part of the sociological study, the respondents had the option to choose several answers.

- **Consumers** – employers, social service, ICS

| Sources ³ | SMEs | Entrepreneurs | Consumers |
|---|------|---------------|-----------|
| Friends/acquaintances | 43% | 54% | 72% |
| Credit institutions (banks) | 40% | 32% | 62% |
| A personally known financial advisor | 29% | 18% | 26% |
| A personally known lawyer | 25% | 19% | 24% |
| Internet search engines (Google, Yahoo, etc.) | 20% | 13% | 14% |

Both on-site and off-site channels have been identified as the most convenient channels for receiving information in all the target groups, regardless of whether respondents have previously searched for information related to financial difficulties. Receiving information by email sent centrally to everyone was recognised as the most convenient channel. Counselling in various formats (face-to-face, by phone, email) is also considered convenient.

| Channels ⁴ | SMEs | Entrepreneurs | Consumers |
|--|------|---------------|------------------|
| Information in an email sent to all companies/individuals (e.g., EDS) | 62% | 58% | 52% |
| Possibility to get a private consultation (sending an email and receiving a personalised response via email) | 28% | 29% | 31% |
| A uniform website that aggregates information on the solutions offered by various institutions and organisations | 31% | 21% | N/A ⁵ |
| Possibility to get a private consultation, visit a consultant in person | 22% | 22% | 33% |
| Possibility to get a private consultation by phone | 21% | 21% | 24% |
| Internet news portals | 15% | 13% | 26% |

The attitude across all target groups towards the creation of a unified website is generally positive, particularly for consumers. This means that the target groups are interested in a website that would aggregate information, recommendations, and solutions for managing financial distress that are offered by various institutions and organisations. There are differences between the target groups – consumers felt the most positive about it, while in the SMEs and entrepreneur groups the idea was supported by a relatively lower percentage of respondents. These results can be explained by the fact that entrepreneurs are more inclined and can use personal support (accountants, lawyers, etc.).

| | SMEs | Entrepreneurs | Consumers |
|----------------------------------|------------------|---------------|-------------|
| Supports creating a site | 60% ⁶ | 53% | 91% |
| Does not support creating a site | 36% | 38% | 9% |
| Difficult to answer/NA | 4% | 9% | - |
| Total: | 100% | 100% | 100% |

³ As part of the sociological study, the respondents had the option to choose several answers.

⁴ As part of the sociological study, the respondents had the option to choose several answers.

⁵ The answer was not included in the consumer survey.

⁶ There is a trend in the SMEs group - the higher the turnover of the surveyed companies, the more there are entrepreneurs who support the creation of a single website.

3. Skills, knowledge, and attitude of the target groups towards financial literacy and managing financial distress

Assessment of knowledge, skills and attitude

The results of a sociological research show that all the target groups rate their knowledge of financial management/corporate budgeting as better than their knowledge about managing financial distress (see the table below). In general, respondents rated their knowledge quite positively. At the same time, some respondents did not hide their lack of interest and scepticism to follow the recommendations that are consistent with best practices.

- **SMEs and entrepreneurs:** The analysis of the results by demographic groups showed a trend – the higher the turnover of the surveyed companies, the more there are entrepreneurs who evaluate their knowledge in financial management as sufficient.
- **Consumers:** The analysis of results by groups of respondents based on various sociodemographic characteristics did not reveal any significant trends.

| | SMEs | Entrepreneurs | Consumers |
|--|------|---------------|-----------|
| Respondents who rated their knowledge as generally sufficient for corporate financial management (SMEs and entrepreneurs)/budget planning and management (consumers) | 72% | 61% | 84% |
| Percentage of respondents who rated their knowledge of how to manage financial distress as generally sufficient | 59% | 55% | 50% |

All three target groups are interested in receiving further information on various issues related to the identification and resolution of financial literacy and financial difficulties. The matters of interest (see the table below) include resolving legal, financial, and accounting issues, applying financial planning principles, negotiating with creditors, using various tools, etc. A detailed examination of the developed information sources revealed that a wide and comprehensive range of information sources is available, and that the problem tends to be related to various aspects of communication with information sources.

| Questions ⁷ | SMEs | Entrepreneurs | Consumers |
|--|------|---------------|-----------|
| Addressing legal matters | 34% | 31% | 36% |
| Addressing financial and accounting matters | 34% | 44% | N/A |
| Application of financial planning principles (cost optimisation - for SMEs and entrepreneurs) | 36% | 24% | 29% |
| Negotiations with creditors (and debtors - SMEs and entrepreneurs) | 11% | 8% | 22% |
| Use of tools (early warning for SMEs and entrepreneurs, budget planning and control for consumers) | 10% | 6% | 22% |
| Various other aspects related to financial risks and their prevention ⁸ | 18% | 10-13% | N/A |
| About the credit rating and the possibilities to influence it | 9% | 6% | 16% |

Best practice examples

Strategically managed communication with the target group through both on-site and off-site channels is essential. The common feature in most examples identified in foreign experience is that

⁷ As part of the sociological study, the respondents had the option to choose several answers.

⁸ Includes several answers (see the subsections on SMEs and entrepreneurs below).

communication is managed strategically, i.e., a coordinating institution (process owner) and/or a single digital platform as the main communication channel that aggregates information about the support provided by various institutions and organisations for each target group. Regardless of whether a website is used as the main communication channel, foreign experience (e.g. USA) has shown that there is a need for a wide range of on-site and off-site communication channels in order to reach the target groups comprehensively. Differences between the target groups can be observed in the content of the communication.

Poor understanding of financial management is considered one of the causes of financial distress. Improving financial literacy is considered particularly important to ensure that target groups can identify difficulties, reduce the potential causes of difficulties, and eliminate them. For example, the unified websites established for consumers in the U.S. and Canada provide a wide range of materials to help preventively minimise financial distress through improving general financial literacy. Improving financial literacy must go hand in hand with improving information sources.

| Country | Organising communication | Communication channel ⁹ | | | | | |
|-------------------------------|---|------------------------------------|--------------------------------|-----------------------|-------------------|--------------------------------|-------------------------------|
| | | On-site | | | Off-site (remote) | | |
| | | Printed materials | Informational events (on-site) | Counselling (on-site) | Website | Informational events (webinar) | Counselling (by phone, email) |
| Consumers | | | | | | | |
| USA | A uniform source of general information (The Consumer Financial Protection Bureau website) | ✓ | - | ✓ | ✓ | ✓ | ✓ |
| Australia | An NGO umbrella organisation manages the main consumer counselling service. (Financial Counselling Australia) | - | - | ✓ | ✓ | ✓ | ✓ |
| Canada | A uniform source of general information (The official website of the Government of Canada) | - | - | ✓ | ✓ | ✓ | ✓ |
| SMEs and entrepreneurs | | | | | | | |
| Germany | An NGO manages the main counselling service (Team U) | - | ✓ | ✓ | ✓ | ✓ | ✓ |
| France | The NGO manages the main counselling service (6000 rebonds) | - | ✓ | ✓ | ✓ | ✓ | ✓ |
| | The Chamber of Commerce and Industry offers support to entrepreneurs in various regions of the country. | - | ✓ | ✓ | ✓ | ✓ | ✓ |
| Denmark | The main counselling service is managed by a public entity (Early Warning Denmark) | - | - | ✓ | ✓ | ✓ | ✓ |

Elements of foreign experience can be useful for Latvian policymakers in several ways:

- Creating a strategically managed process and selection of the most appropriate cooperation model;
- Ensuring full use of on-site and off-site channels;
- Creating content that is appropriate for the target group.

The Recommendation report will include a detailed overview of the specific knowledge gained from foreign experiences.

⁹ The table summarises information from the publicly available sources. The true range of channels used may well be wider.

Application of the results of the report and next steps

- The expected long-term effect of this Project is to develop financial distress-related sources of information, by which methodological and informative materials and tools that help SMEs, entrepreneurs and consumers (target groups) to identify and manage financial distress are understood. The actual implementation of the results (i.e., dissemination of information) remains outside the scope of the Project.
- The Project is organised in seven phases. This is the second phase of the Project. As part of the second phase, this assessment report of the current situation has been prepared. Within the third phase, based on the assessment report of the current situation, the following activities will be carried out:
 - Workshops will be organised with representatives of the Working group set up by the MoJ and the target groups, to better understand the needs of the three target groups (SMEs, entrepreneurs, and consumers) and to develop solutions for communication to identify and manage financial distress.
 - The recommendation report will be developed with recommendations for each target group on how to disseminate the information on financial distress that is missing in the Latvian public space, as well as a workshop with key stakeholders (covering all target groups) to ensure that key findings are effectively communicated, and feedback is received.

Further stages of the Project include:

- development of a recommendation report (Phase 3, until 13.07.2022);
- development of an action plan for the dissemination of information (Phase 4, until 13.09.2022);
- development of the communication content (Phase 5, until 13.11.2022);
- organisation of informational events (Phase 6, until 13.01.2023);
- Preparation of the final report (Phase 7, until 13.02.2023).

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Introduction

Project scope

Purpose of the Project

To provide support to the MoJ to develop sources of information to help target groups to identify and manage the cases of financial distress.

Project and report scope

The Project is organised in seven phases. As part of Phase 2, an assessment report of the current situation was prepared, which will serve as a basis for the development of the deliverables of the next phases.

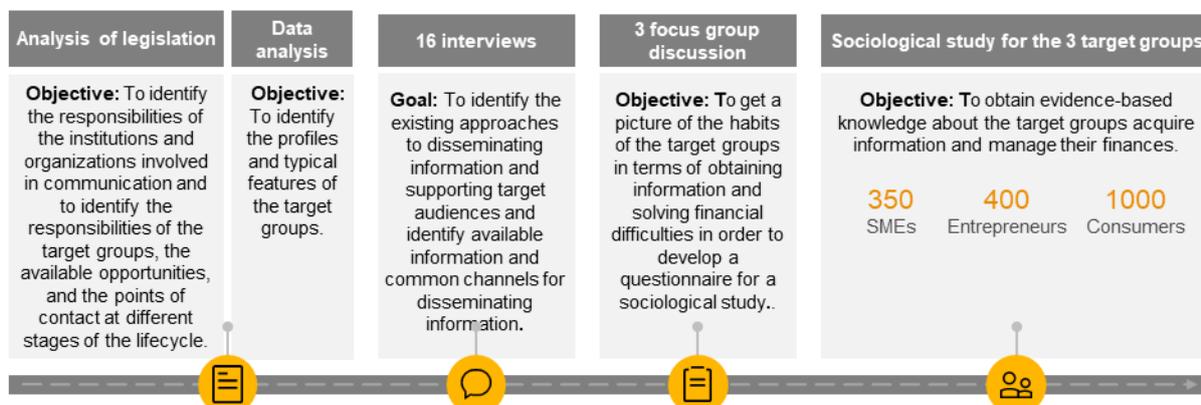
Figure 1. Scope of the report

| Stage 1 | Stage 2 | Stage 3 | Stage 4 | Stage 5 | Stage 6 | Stage 7 |
|---|---|---|---|--|---|---|
| Initial report | Report on the current situation | Recommendation report | Action plan | Content | Informational measures | Final report |
| Develop a Project Implementation Plan and summarize the decisions made in the initial phase of the Project. | Assess the current situation regarding the availability of information on the available support and solutions for addressing financial distress. | Develop recommendations on how each target group would disseminated the missing information on the available support and solutions for addressing financial distress. | Develop an action plan for the dissemination of information according to the selected strategy. | Develop communication content (including templates, control lists, etc.) according to the recommendation report and action plan. | Organise informational measures for the target groups to inform them about the results of the Project. | Prepare a final report summarising the results achieved and lessons learned during the Project. |
| Stage 2 scope of the report | | | | | | |
| ✓ | Identify the profiles and habits of the target groups when obtaining financial information | ✓ | Identify available sources of information | ✓ | Identify areas where the target groups lack skills and knowledge related to financial literacy and financial distress | |
| Target groups analysed in the report | | | | | | |
| Consumers | A natural person, aged 18-74, who wants to purchase, acquire, or use a product (goods) or service for a purpose unrelated to their economic or professional activity. | | | | | |
| SMEs | Limited liability company, joint-stock company, general partnership, or limited partnership that meets the definition of an SME: | | | | | |
| | | Number of employees | | Turnover | | Total assets |
| | | Micro | < 10 and | ≤ EUR 2 million or | | ≤ EUR 2 million |
| | | Small | < 50 and | ≤ EUR 10 million or | | ≤ EUR 10 million |
| | | Medium | < 250 and | ≤ EUR 50 million or | | ≤ EUR 43 million |
| Entrepreneurs | Individual merchants, sole traders, individual (family) enterprises, agricultural farms and fisheries, rural artisan enterprises/farmsteads. | | | | | |

Methodology

The quantitative and qualitative methods of analysis used.

Figure 2. Methodology



Limitations

An analysis of legislation was carried out to identify the responsibilities of the institutions and organisations involved in communication and the stages of the life cycle of the target groups (including the most typical activities, points of contact with institutions and organisations, and opportunities offered by state and local government institutions). The reasons for financial distress and the nature of certain target group segments (e.g., business segments) are not analysed in detail within the scope of this report.

For data analysis, the latest available data from publicly available data sources as of February 2022 was used. The period of the latest available data differs in the various data sources (years 2020 and 2021).

Interviews were conducted with the stakeholders who, according to the mapping carried out during the start-up phase of the Project, have a high impact and interest in the Project, i.e., with the members of the Working Group (MoE, MoF, MoW, ICS, CRPC, SRS, SEA, FCMC, BoL, LALRG, LEC, FIA, LALRG, LBA and LAIA¹⁰) and one non-bank lender (4finance). The interviews were conducted between October 2021 and February 2022.

Focus group discussions were conducted with representatives of three target groups (three discussions in total), with the total number of participants in each discussion not more than ten participants. The interviews took place between October and December 2021. The results of the interviews give an impression of the habits and views of the representatives of the target groups but cannot be extrapolated to the entire target group.

Sociological study: the accuracy range of the study is with probability of 95 %, with the distribution of responses at 50%: 50%, the level of the statistical error is 3.1%.

¹⁰ LAIA submitted information in writing.

1. Communication on identification and managing financial distress

1.1. Stakeholders in communication

Purpose of the sub-section: to identify institutions and organisations that inform the public about the identification and management of financial distress.

Methods used: analysing the laws and regulations governing the activities of institutions and organisations and interviews with the representatives of the institutions and organisations.

Findings:

- **There is a lack of joint strategic communication within the country on financial difficulties and the competence of the institutions involved is fragmented.** Issues related to the identification and resolution of financial difficulties directly or indirectly fall within the competence of various institutions and organisations. However, there is no institution(s) that currently manages and coordinates stakeholder cooperation in informing or advising target groups.
- **The competencies of the institutions and organisations included in the working group cover a number of different aspects of financial difficulties - both the elimination of possible causes of financial difficulties and the mitigation of their consequences.** The institutions and organisations included in the working group shall, in accordance with their respective competencies, carry out tasks relating to the development and implementation of new policies, the provision of information to target groups, the development of information and guidance material and advice in areas such as social policy, economic development and consumer protection, financial literacy, etc. For a large part (5 out of 17 institutions and organisations), the competences cover all three target groups.

It was learned as part of the assessment that communication is provided by a wide range of the parties involved:

| | |
|---|--|
|  | Direct public administration institutions (ministries and subordinate institutions). |
|  | Derived public entities (independent institutions, local governments, educational establishments). |
|  | Credit institutions |
|  | Non-bank lenders |
|  | Non-governmental sector (industry trade associations) |
|  | International organisations |

As part of the stakeholder mapping conducted during the launch phase of the Project, a detailed study was conducted on the institutions and organisations that have an influence and interest in the topics covered by the Project. The said institutions and organisations are represented in the Working group in order to develop information sources that identify and manage financial distress and they will participate in the co-creation activities organised as part of the Project and will actively participate in the development of recommendations, action plans, and communication content.

Figure 3 and Table 2 include an assessment of the institutions and organisations involved in informing the public and their target groups. The list is based on the evaluation of the laws and regulations and the articles of association of the organisations¹¹ and interviews conducted with the representatives of the institutions and organisations.

Figure 3. Summary: Institutions and organisations involved in communication

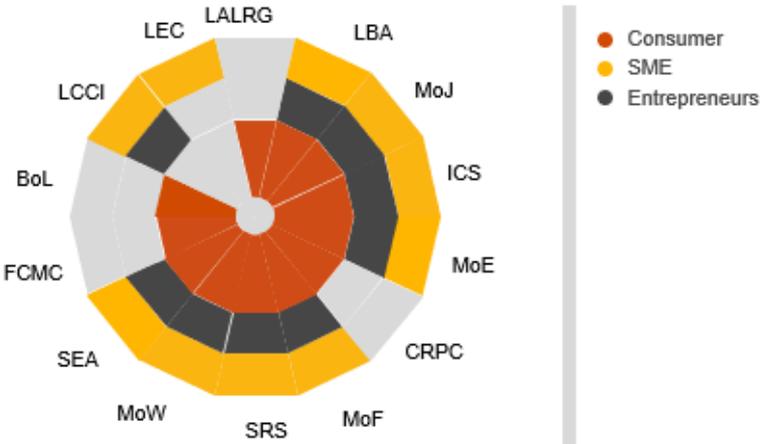


Table 2. A detailed overview: Institutions and organisations involved in communication

Abbreviations used in the table: 1 – Consumers 2 – SMEs 3 – Entrepreneurs

| Institution or organisation | | 1 | 2 | 3 |
|---|---|---|---|---|
| Direct public administration institutions (ministries and the institutions subordinated to them) | | | | |
| MoJ | MoJ – under its rules of procedure, is responsible for the insolvency policy of legal entities (except credit institutions) and natural persons and informs the public about sector policy. | ✓ | ✓ | ✓ |
| | ICS – under its rules of procedure implements the national policy on LPP and insolvency procedures. One of the tasks of the ICS is to organise the development and publication of methodological and informative materials in the field of insolvency. <i>In the interview, the ICS representatives pointed out that their field of competence is relatively narrow and covers only the end of the life cycle of financial distress, when the target group is no longer able to meet its obligations.</i> | ✓ | ✓ | ✓ |

¹¹ An overview of the laws and regulations analysed is included in the “List of information used”, see the section “The laws and regulations governing the activities of institutions and organisations.”

| Institution or organisation | | 1 | 2 | 3 |
|-----------------------------|---|---|---|---|
| | <p>CA – under its rules of procedure, it organises and ensures the administrative work of judicial authorities. The CA is the owner of the Court Information System and E-Case Portal systems.</p> | | | |
| | <p>MoE – under its rules of procedure, it is responsible for developing trade and consumer protection policies and informing the public (including entrepreneurs) about sector policies, and the tools available to help businesses during COVID -19 and during the rise in energy prices..</p> <p><i>In the interview, MoE representatives pointed out that, regarding financial distress, the MoE also focuses on prevention by introducing early warning system tools. MoE is a project partner in the Interreg BSR program "RESTART BSR", which deals with supporting companies in financial distress and providing a second chance (restart) for entrepreneurs in the Baltic States and Poland.¹²</i></p> | ✓ | ✓ | ✓ |
| MoE | <p>CRPC – under its rules of procedure, it carries out the functions in the field of protection of consumer rights and interests, which include the review of the compliance with the guarantees during the term of the obligations, the procedure for indicating the prices of services, the offers made to the consumer, and compliance with the laws and regulations of draft contracts, concluded contracts and settlement of obligations.</p> <p><i>In an interview, the CRPC representatives pointed out that they advise consumers on such issues, which have recently become urgent, such as fraudulent transactions, credit vacations, and payment deferrals (during COVID -19), and the bankruptcy proceedings of a natural person.</i></p> | ✓ | | |
| MoF | <p>MoF – under its rules of procedure is responsible for the financial policy, and develops and implements policy in commercial support control policy, EU Cohesion policy, and other foreign aid audit policy fields, as well as for informing the public about sectoral policy.</p> <p><i>In the interview, the representatives of the Ministry of Finance pointed out that they did not develop sector policies directly related to the identification and elimination of financial distress.</i></p> | ✓ | ✓ | ✓ |
| | <p>SRS – under its rules of procedure, takes part in the development and implementation of tax and fee administration policies, informs the public about the importance of paying taxes, organises information events and competitions, and advises taxpayers on the application of tax laws.</p> | ✓ | ✓ | ✓ |
| MoW | <p>MoW – under its rules of procedure, is responsible for the policies of employment, social protection and equal opportunity for people with disabilities, for the development of national policy to reduce unemployment, participates in the development of employment policy and the system of support for professional development, for the development of national policy to set minimum wages, social security and in the area of national social benefits and social assistance.</p> <p><i>In the interview, the representatives of the MoW pointed out that in developing the national policy in the field of social protection, the MoW had directed the establishment and operation of the social assistance system, with the aim of helping people whose financial distress is not due to economic activity, but to a low level of prosperity. The social support measures are available for anyone who is entitled to them, without analysing, for example, the reasons for a person's financial literacy problems or the reason for their debt.</i></p> | ✓ | ✓ | ✓ |

¹² Interreg BSR, "About"

| Institution or organisation | 1 | 2 | 3 |
|---|---|---|---|
| <p>SEA – under the rules of procedure, it implements the national policy in the field of reducing unemployment and assistance to the unemployed, job seekers and persons at risk of unemployment, and provide them with prompt and quality assistance to promote their competitiveness in the labour market and organise or implement active employment and prevention measures to reduce unemployment.</p> <p><i>In the interview, the representatives of the SEA emphasised that their tasks were closely related to resolving financial distress by improving the competence of people in financial planning issues.</i></p> | ✓ | ✓ | ✓ |
| Derived public entities | | | |
| <p>FCMC – under the law, it regulates and supervises the activities of the financial and capital markets and their participants and ensures the development and stability of the market. The responsibilities of the FCMC in relation to improving the financial literacy of the population and the role of the national coordinator in the field of financial literacy, , were taken over by the BoL as of 1 January 2022¹³.</p> | ✓ | | |
| <p>BoL – under the law, assists the competent authorities to successfully implement measures related to the supervision of credit institutions and the stability of the financial system. From 1 January 2022,¹⁴ the BoL has taken over the mission of the FCMC - to promote the acquisition of financial and economic literacy in the population.</p> <p><i>In the interview, the BoL representatives pointed out that the law and ethical standards prevent the BoL from providing financial advice or advising on these matters. Therefore, the Bank of Latvia plans to pursue the previously developed approach to improve people's financial literacy, for example, by providing authoritative information in the communication channels managed by the BoL.</i></p> | ✓ | | |
| Non - governmental organisations | | | |
| <p>LCCI – under the Articles of Association, it promotes the development of entrepreneurship in the regions of Latvia, participates in the development of state economic policy, supports Latvian entrepreneurs in Latvia and abroad, and provides information and counselling services on entrepreneurship in Latvia and abroad. It organises events in business-related areas and publishes and distributes informational materials.</p> | | ✓ | ✓ |
| <p>LEC – under the Articles of Association, it promotes an economic, employment, educational, and social environment which contributes to the creation and development of enterprises. The LEC informs members about draft policy planning documents and laws, summarises the opinions provided by its members and forwards them to the relevant public administration and foreign institutions. It also advises the members on the matters that fall within the competence of the LEC.</p> | | ✓ | |
| <p>LALRG – under its Articles of Association, it advocates for broader representation of the local and regional interests of the Latvian population, promotes the participation of the population in public administration, and strengthens the capacity of local government democracy and the performance of local government institutions. The LALRG participates in the legislative initiative process. One of the tasks of the LALRG is to provide local governments with the required information and services. The main target audience of the LALRG is therefore local</p> | ✓ | | |

¹³Clause 12 of the Law "On the Bank of Latvia" of the Supreme Council of 19 May 1992. From 1 January 2022, the BoL will take over from the FCMC the task of promoting the acquisition of financial and economic knowledge among the population. (9/23/2021 the wording of the law, which came into force on 20.10.2021.)

¹⁴Law "On the Bank of Latvia" of the Supreme Council of 19 May 1992.

| Institution or organisation | 1 | 2 | 3 |
|--|---|---|---|
| <p>governments, which in turn provide information on the matters that fall within the competence of the local government.</p> <p><i>In the interview, it was emphasised that one of the tasks of the local governments is to inform the local population. The head of a parish or a city government is responsible for the availability and quality of municipal services and information provided by the local government. However, assisting in the identification or resolution of financial distress, in the sense of the term used in the Project, does not correspond to the functions of a local government. The function¹⁵ of the local government is to provide social support (social welfare) to the population. Such services include social assistance to low-income families and socially vulnerable persons, provision of places for the elderly in nursing homes, provision of places in educational establishments for orphans and children who lack parental care, and provision of accommodation for the homeless, etc..</i></p> | | | |
| <p>LBA – The Association states on its website¹⁶ that its objectives are to provide legal assistance to taxpayers in financial difficulty in meeting their obligations, to restore their solvency, to educate them about their rights in relation to financial obligations, and to make proposals to the relevant institutions for the development of relevant regulations.</p> | ✓ | ✓ | ✓ |
| <p>FNA – under its Articles of Association, it improves the business and financial services environment in Latvia in cooperation with governmental and non-governmental partners and provides methodological, legal, advisory, etc., support to its members. The Association participates in the development of relevant legislation and public opinions, and collects, compiles and regularly publishes information on the key performance indicators of the industries related to its members (banks). Members agree on and follow FNA guidelines and other cooperation documents that affect the approach of banks to their customers in financial distress. There are plans to develop a publicly available credit scoring model.</p> | | | |
| <p>LMPAA – under its Articles of Association¹⁷, the purpose of the activity of the Association is to increase the qualification of insolvency administrators as well as to perform the tasks assigned to it to promote the quality of LPP and insolvency proceedings. Its functions include promoting the professional development of administrators, providing methodological support to members, analysing legislation regulating the activities of administrators, making proposals for their improvement and giving the Association's opinion in the drafting of new legislation.</p> | | | |

¹⁵ Section 15 (7) of the Law "On Local Governments" adopted by the Saeima on 19 May 1994.

¹⁶ LBA, About us.

¹⁷ LMPAA, 2021. Statutes of the Association "Latvian Association of Insolvency Process Administrators"

1.2. Communication practice

Purpose of the sub-section: to identify the information sources available to the target groups, providers of information, messages, and information dissemination channels, including the popularity of the official websites of the institutions and experience about communication regarding how to identify and resolve financial distress.

Methods used:

- Examination of the available sources of information that can be considered primary sources based on the publicly available information.
- Data analysis of visits (traffic) to the websites of the institutions.
- Interviews with the representatives of the institutions and organisations that are relevant

Findings:

Sources of information available for the target groups

- **Institutions and organisations offer a large amount of quality information on identifying and managing financial distress.** The analysis of the information materials prepared by the institutions and organisations represented in the Working group identified a total of eleven institutional websites, four thematic websites, four tools, four sets of methodological materials, and guidelines that contain information on various matters related to identifying and resolving financial distress. Information exchange activities (informational events, seminars, etc.) are also organised with the aim of disseminating information and achieving changes in attitudes and behaviour.
- **The overall informational content available to the target groups is sufficient but fragmented across different resources.** The range of information sources available to target audiences is wide and covers various aspects of the general topic of financial distress. The websites of the institution or organisation are used as a primary source, but finding information is difficult because the information is fragmented and spread across various sites according to the area of competence of the institutions and organisations further there is no uniform approach to keyword selection. In addition, communication channels such as the media (national, regional), social networks, websites, electronic or traditional mail, telephone or face-to-face counselling, information or training events are used.
- **The information sources are mostly available in Latvian and intended for the Latvian-speaking audience, which risks not reaching the non-Latvian-speaking audience.** With regard to public administration institutions, all sources are available in English and Latvian, while in the case of certain subordinate institutions (e.g., the SRS and the SEA) information sources are available in both English and Russian. The availability of information in English is more common than in Russian.
- **One-way (asymmetric) communication is mainly used.** There is a trend to try to persuade users about the right financial life models through communication and teach the provisions of the law by both recounting the legal framework and providing instructions, detailed to the degree as provided for in the laws and regulations, on how to behave in each legal situation. For example, before amendments to the relevant laws and regulations and after the change thereto on a certain date. Communication is mostly aimed at influencing beliefs or changing knowledge. The didactic tone used in addressing the target audience usually leads to users having a reserved attitude toward the provider of the information and the content of the message. To be persuasive, a more resource-intensive dialogue is needed that considers the real problems of the target audience, regularly obtaining data on the current financial distress of a particular segment as part of a survey of public opinion, and then adapting the type of support which is communicated about resolving of the problems that are most important to the target audience.
- **There is a lack of horizontal coordination in the dissemination of information.** Given the wide range of institutions and organisations involved in the development and dissemination of informational materials, coordination is lacking, and some elements of the news are rarely

supplemented by references to other useful sources of information. Interviews with institutions and organisations suggested that they had limited information about activities undertaken and planned by other institutions that also provide information about overcoming financial distress. The practice of publishing or supplementing informational materials with information developed by other institutions or organisations relevant to the target group, or including links, is relatively rare. Consequently, there is great potential for synergies. Positive examples include:

- The section entitled “Support for enterprises and workers affected by the COVID -19 (“Covid-19”) pandemic is available on the website of the MoF. There one can find a brief infographic about the support measure, a brief description, the name of the responsible institution, and a link for more information;
- The “Insolvency Proceedings of a Natural Person” section of the ICS website, where textual information is clearly structured, and is supplemented by visual/audio material and links to the relevant sources of information from other institutions, as well as to sections of the ICS website, such as the “Frequently Asked Questions” section.

Statistics on visits to the institutions’ websites

- **The average number of visits to a website depends on the scope and audience of the information disseminated by the institution.** The number of visits varies between institutions by up to 130 times. Of the institutions analysed, the SRS website was the most visited, and ICS was the least visited website. At the same time, the sections of the websites of the institutions studied that deal with financial distress are not very popular. Of the total number of visits to the website, the sections with financial distress in the ICS website have the highest percentage (30%), while other institutions have lower (less than 5%).
- **The visibility of the institution and the choice of relevant keywords are important to ensure that the website appears in search results.** For all institutions, the two main channels for accessing the website are direct access (by typing in a domain name) and organic search (through a web search engine).

Experience of institutions with communication for the identification and managing of financial distress

- **Successful examples of communication in the experience of institutions relate to the targeted organisation of the flow of information, through the comprehensive use of a wide range of information dissemination channels.** They include at least the institution’s website and social networks, and the provision of appropriate additional communication activities to successfully reach target audiences. This may include on-site or off-site counselling, online events, press releases on news portals, use of information sources from counterparties, and dissemination in information spaces used by people speaking other languages, etc. The positive examples cited by the authorities:
 - Use of digital information resources managed by the institution
 - Preparation and distribution of press releases to the media
 - Preparation and distribution of printed information
 - Involvement of cooperation partners and organisation of coordinated communication
 - Two-way communication with target groups (participation activities)
- **Unsuccessful examples of communication are related to not having a purposeful approach to organising the circulation of communication.** The negative examples cited by authorities:
 - Dissemination of information through inappropriate channels
 - Use of an inappropriate form of communication
 - Single-channel approach to information dissemination
 - Inconsistent messages

Sources of information available for the target groups

As part of the assessment, it was found that the range of information sources available to target audiences is broad and covers several aspects of financial distress. Information is disseminated through various channels, including:

| | |
|---|--|
|  | Media (print media, television, radio, Internet news portals). |
|  | Social networks (<i>Facebook, Instagram, LinkedIn, TikTok, Draugiem.lv, Twitter</i>) |
|  | Websites of public institutions and local governments |
|  | Websites of professional and industrial associations |
|  | Websites of commercial banks and non-bank lenders |
|  | Information or training activities |
|  | Electronic mail or traditional mail |
|  | Telephone or face-to-face counselling |

A detailed study was conducted on the sources of information developed by the institutions and organisations represented in the Working group. These can be considered as primary sources (published on the institutions' websites or on the thematic websites they maintain), as well as on information about events that they organise. Resources aggregated by other institutions or organisations that are not part of the Working group (e.g., the Insolvency Register of the Register of Enterprises, etc.) have not been analysed and are not included in the current study.

Figure 4 provides an overview of the available sources of information. During the study, in the case of LALRG, no sources of information related to the identification and resolution of financial distress were identified.

Figure 4. Summary: the available information sources

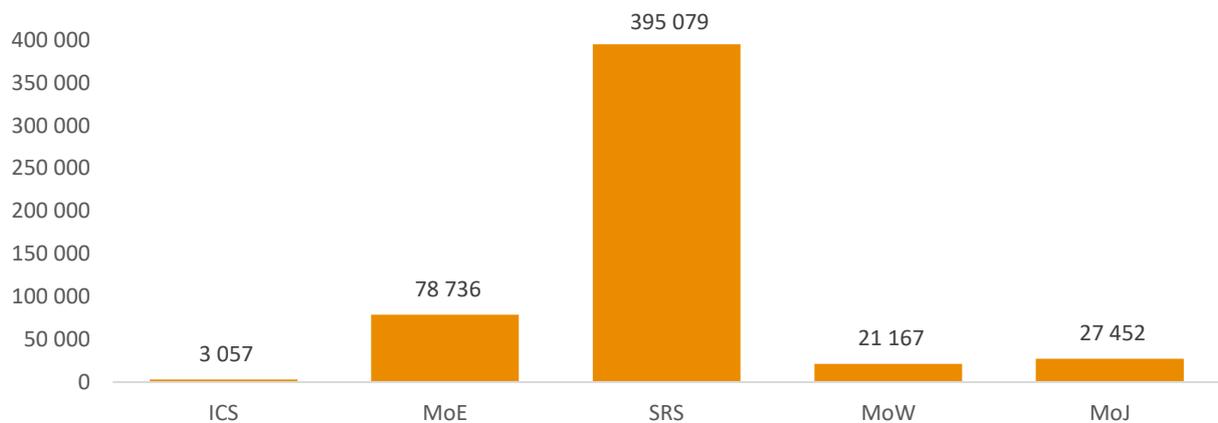


Statistics on visits to the institutions' websites

Google Analytics data on website traffic were obtained from the public administration institutions, which indicatively show the number of visitors, the duration of the visit, and the channels used to reach the website. Actual website traffic may vary significantly depending on an internet user's cookie settings.

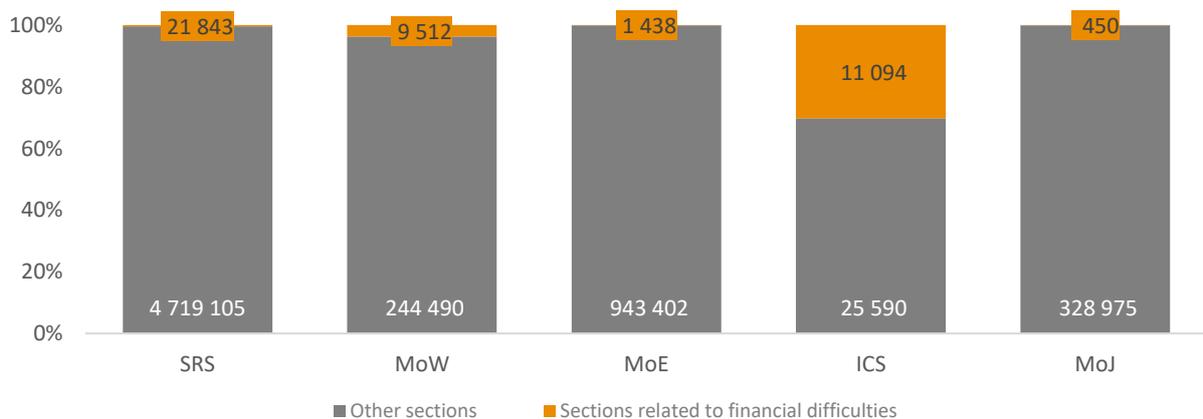
The average number of visits to a website varies by almost 130 times between institutions. The differences can be explained by the fact that the SRS offers a comprehensive range of information on topics relevant to a wide audience (individuals and entrepreneurs). In contrast, the information contained on the ICS website is about a relatively narrow area: insolvency problems.

Figure 5. The average number of website visits per month, 2021 data



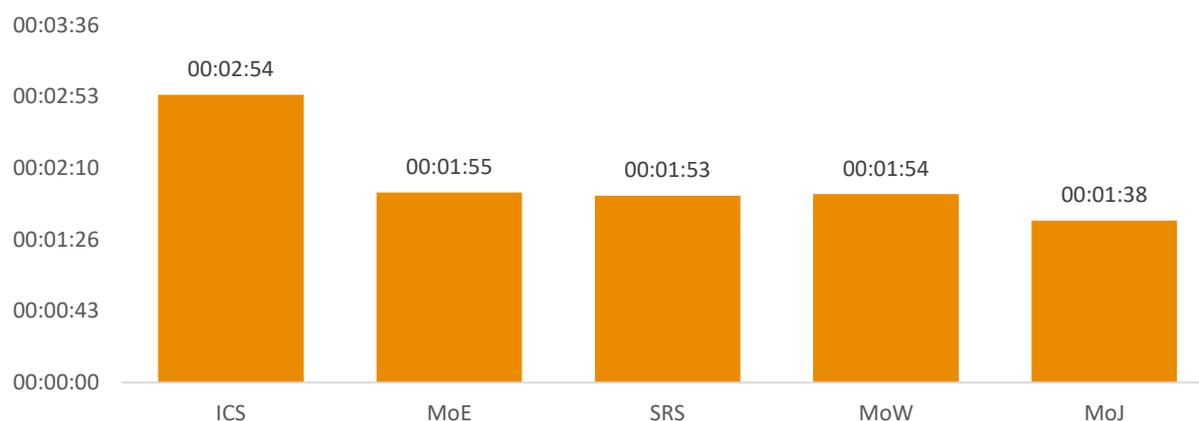
Data on visits to financial distress-related sections show that the sections identified by PwC and which contain information about the available support and possibilities in case of financial distress are not very popular on most websites of the analysed institution. The exception is ICS, where the main focus of the website is on resolving insolvency issues.

Figure 6. Visits to sections dealing with financial distress as a percentage of total visits to the website, 2021 data.



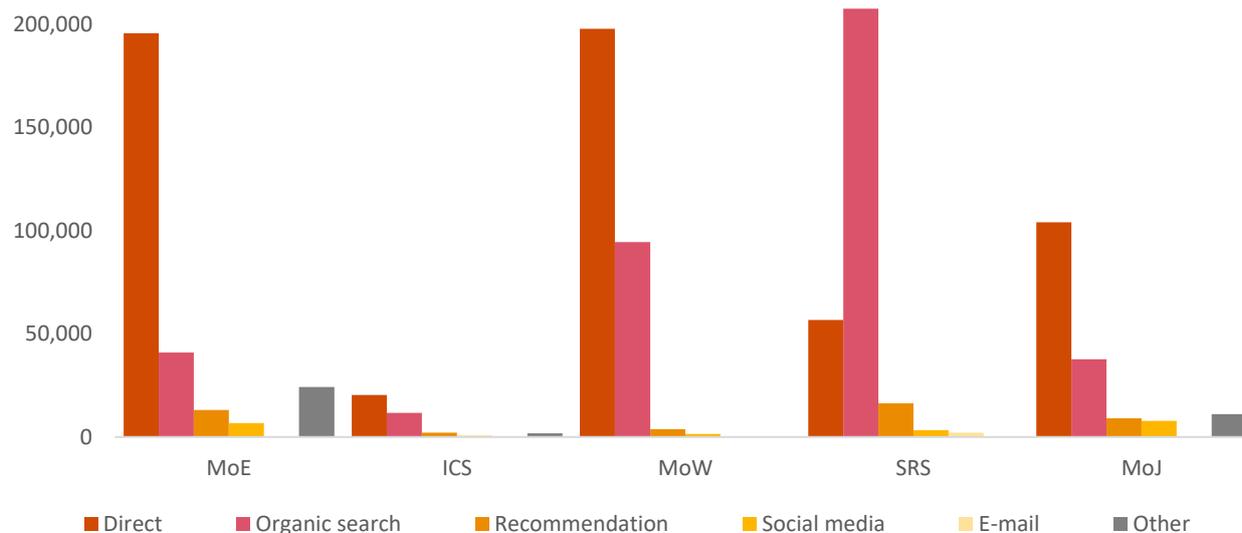
The average duration of a website visit is relatively similar between institutions. The longest time is spent on the ICS website, which could be explained by the fact that it is a professional industry site.

Figure 7. The average duration of website visits by month, 2021 data



Website access channels vary from institution to institution. However, the two most important are direct access to the website (by entering the domain name) and organic search (searching for information in a web search engine). This shows that the visibility of the institution and the choice of relevant keywords are important in ensuring that the website appears in search results .

Figure 8. Website access channels, 2021 data



Experience in communication on identification and addressing financial distress

During the interviews and through requests for additional information, institutions participating in the Working group were asked to share their most successful and unsuccessful examples of communication at their institution. They were also asked about the main challenges that should be resolved in Latvia in order to disseminate information on how to timely manage financial distress and receive support.



Successful communication examples

Targeted use of digital information sources managed by the institution -- website and social media accounts (Facebook, Twitter, LinkedIn, and YouTube).

- **Use of a simple language and visual materials.** For example, ICS observed that social networks focus more on how the information is presented rather than on its content. The

emphasis is, therefore, on creating an attractive, interesting, and visually appealing publication, thus increasing public involvement in the consumption of the content.

- **Use of social media to report an event, giving detailed information on the institution's website.** For example, MoJ points out that notices about current events are published on social media (including in visual format), while more detailed information is available on the institution's website. The ICS observed that, in their experience, communication on social networks is more about prevention, i.e., the information is also obtained by the public that is not currently in financial distress, while on the website, the user is already experiencing problems and is looking for information related addressing financial distress.
- **Regularity and a uniform approach to the publication of information.** For example, the "Current employee claims" section of the ICS website publishes up-to-date and consistently visual content on a weekly basis. The number of visits to this area is increasing, indicating that people are following the progress of their applications. For its part, the SRS prepares a newsletter that compiles current and practically useful information as an email. More than 6,000 newsletter subscribers receive a monthly newsletter from the SRS.

Preparation and distribution of press releases to the media (both national and regional media). For example, the MoW emphasises that direct placement of information in digital media with a wide readership (e.g., Delphi, TVNET) makes an important contribution to the dissemination of information.

Preparation and distribution of printed informational material. For example, brochures on debt relief for natural persons were produced by MoJ and distributed to municipal social welfare offices to inform the specific target group.

Involvement of counterparties and coordinated communication. Several institutions emphasise the importance of cooperation in sending and disseminating information in cooperation with partners such as non-governmental organisations, business and industry associations, and social services, etc.

Two-way communication with target groups. Several institutions and organisations consider personalised communication to be most effective, and this became particularly important during the COVID -19 pandemic.

- The SRS organises information sessions (seminars and question/answer sessions) to discuss current issues in detail. The benefits reported include two-way communication and the ability to save seminar recordings and post them with the other informational resources of the institution. In addition to the support available during COVID-19, a hotline dedicated to this matter has been established to provide personalised counselling to all interested parties. In the view of the SRS, a personal approach is important because taxpayers are believed to lack motivation to search for information or study the informational materials themselves.
- In the interview, LBA emphasised the functionality of the counselling, especially on-site counselling to fully identify the problem, which is not as effective with off-site counselling. According to LBA, 80% of counselling is conducted in person and the remaining 20% is conducted remotely. Moreover, LBA points out that about 90% of its customers turn to the association in situations where the debt is already due, while the rest take a preventive approach, for example by seeking advice on the draft contract. LBA emphasises the importance of communication between the creditor and the debtor. LBA used to cooperate with the professionals from *A/S Swedbank*, where the bank's representatives met with the bank's debtors, which was well received by the customers because they felt that LBA was there to protect the debtors' interests. Previously LBA organised seminars for the population in regions. Currently there is not enough capacity for LBA to create additional activities, and the association's services are not actively promoted — new customers are attracted through the good feedback from previous customers.



Unsuccessful communication examples

Communication through inappropriate channels. For example, ICS has observed that on-site counselling around insolvency has not produced the expected results. They believe that this is because customers want to address financial distress with greater confidentiality. The availability of information on the web is therefore critical in this area

Use of an inappropriate form of communication. For example, information materials use complex

legal jargon.

Inconsistent messages. For example, the SRS points out that initial communication about COVID-19 support measures was not well coordinated at various levels (politicians, responsible ministries). The message changed frequently and confused the target groups about the support offered and the action required



Key challenges in disseminating information

Cooperation between institutions and organisations involved in communication

- Lack of horizontal collaboration that complicates the process of developing informational materials and risks inefficient use of resources (e.g., not knowing that similar material has been/is being developed by another institution).
- Lack of collaboration with local governments to successfully reach different segments of the target groups, such as young adults who are neither employed nor in education or training (NEET), retirees, etc.

Reaching target groups

- Differences in the information use habits between Latvian and Russian-speaking audiences. These audiences consume different information spaces, so information must be disseminated in a targeted manner. Most institutions develop materials in Latvian and publish them on channels intended for Latvian-speaking audiences.
- “Ostrich policy” – the reluctance of the target group to communicate with the creditor, an approach often taken by those who are in financial distress to avoid managing financial distress for as long as possible.
- Stereotypical perception of the public institutions and concerns about sanctions that might be imposed on a natural/legal person.
- The target groups feel that those seeking support (especially when financial support is available) feel ashamed.

Financial literacy level. Several interviewees point out that the level of financial literacy is very important in preventing financial distress, as people with lower financial literacy are more likely to find themselves in financial distress. Low financial literacy and weak financial planning skills were regularly cited as problems in the interviews. There have been calls to improve school and university curricula with courses about financial literacy.

2. Obtaining information from the perspective of the target groups

2.A SMEs

A.1 SMEs life cycle

Purpose of the sub-section: to assess the life cycle of SMEs to identify the activities to be carried out, the points of contact with different institutions and organisations and to identify the potential for improving communication.

Methods used: the analysis of the laws and regulations and focus group discussions.

Findings: From the contact point of view, the RoE and the SRS have the greatest chance to reach the largest number of SMEs in the early stages of the company's life cycle and implement preventive information activities. The sociological survey conducted within the framework of the study substantiates this conclusion, as the representatives of the target group in their answers emphasize the role of public authorities in obtaining information. Formal contact points identify an opportunity that is not fully exploited in communication.

- **During the start-up stage**, the prospective merchants are informed about how to start a business. This includes the procedural steps that must be followed to ensure business operations meet the statutory requirements.
- **During the ongoing business and growth stage**, SMEs have access to various support mechanisms from LIDA, Altum, CFCA, SEA, local governments, and business incubators. In addition, chargeable or free business assessment tools are available that can help one compare financial data with publicly available resources, as well as benchmark one's performance against that of similar merchants, and monitor the performance of competitors, suppliers, and customers.
- **In situations where SMEs are unable to meet their obligations**, certain business support measures have been set up, provided by the MoE, SRS, Altum, local governments (e.g., due to difficulties caused by COVID-19), and disseminated mainly through the institutions' websites and other information sources (e.g., social networks, press releases, etc.).
- **Stagnation and the decline stage:**
 - In the case of an informal restructuring, the regulation provides SMEs with access not only to an operational restructuring, but also to a change in the terms of repayment based on changes in the payment terms with creditors or suppliers. Under the Law on Taxes and Duties, the SRS has the right to extend tax payment terms and capitalise tax debts, which can be used by companies. In the interview, representatives of SRS said that businesses' interest in the various tax payment possibilities was low before the COVID-19.
 - Informal debt restructuring (LPP), SMEs have access to protection means to prevent insolvency, based on the suspension of increases in contractual fines, interest, increases in late payment on tax arrears and interest on loans (credits).

During the winding up of business stage, if the liquidation procedure is initiated by the merchant, there is an increase in interest in a loan, the statutory interest, the penalty (including the contractual fines expressed in percentage) and the overdue payment are stopped.

Table 3 The life cycle of SMEs¹⁸

Everyone must engage in the activity

The activity must be carried out depending on the situation

| Life cycle stage | Set-up | | Carrying on a business | | | The occurrence of financial distress | Stagnation and decline | | | Winding up of the business | |
|-------------------|---|-----------------------------------|--|---|---|--|---|---|---|--|---|
| Activities | SMEs register with the RoE, subject to submitting all documents and paying in the share capital | SMEs register in the VAT Register | SMEs apply for pre-incubation and incubation support | SMEs prepare and submit reports or returns (VAT return, annual income tax return, reports about compulsory contributions and compulsory contributions from the income of employees, annual report, report on economic activity, consolidated annual report) | SMEs carry on economic activities, incl. assume financial obligations | SMEs establish that they will not be able to pay their liabilities | Informal restructuring (OOCR) | Formal restructuring (LPP/OOCLPP) | | | |
| Type of activity | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| Points of contact | RoE | SRS | LIDA, Altum, CFCA, SEA, local governments, business incubators | SRS, SSIA, creditors counterparties, customers | Creditors Credit information bureaux, Others ¹⁹ | Creditors | EM, Altum, local governments, Creditors | Creditors Credit information bureaux | Creditors, the person in charge of LPP/OOLPP, Court | | Creditors, Liquidator, Administrator of the Insolvency proceedings, Court |
| | | | | | | | SMEs reach an out-of-court agreement with creditors on the debt repayment plan or a full or partial release from the debt | SMEs apply to the court to instigate an LPP or OOCLPP | SMEs comply with the LPP or OOCLPP plan The SMEs apply to the court to implement the plan and terminate it LPP or OOCLPP | <ul style="list-style-type: none"> SMEs file for insolvency when debt restructuring (including LPP/OOCLPP) has failed to restore the debtor's solvency The administrator manages all the company's assets to cover creditors' claims with them <p style="text-align: center;">OR</p> <ul style="list-style-type: none"> SMEs start liquidation if debt restructuring (including LPP/OOCLP) has not restored the debtor's solvency The liquidator manages all the company's assets to cover creditors' claims with them | SMEs are deleted from the Commercial Register |

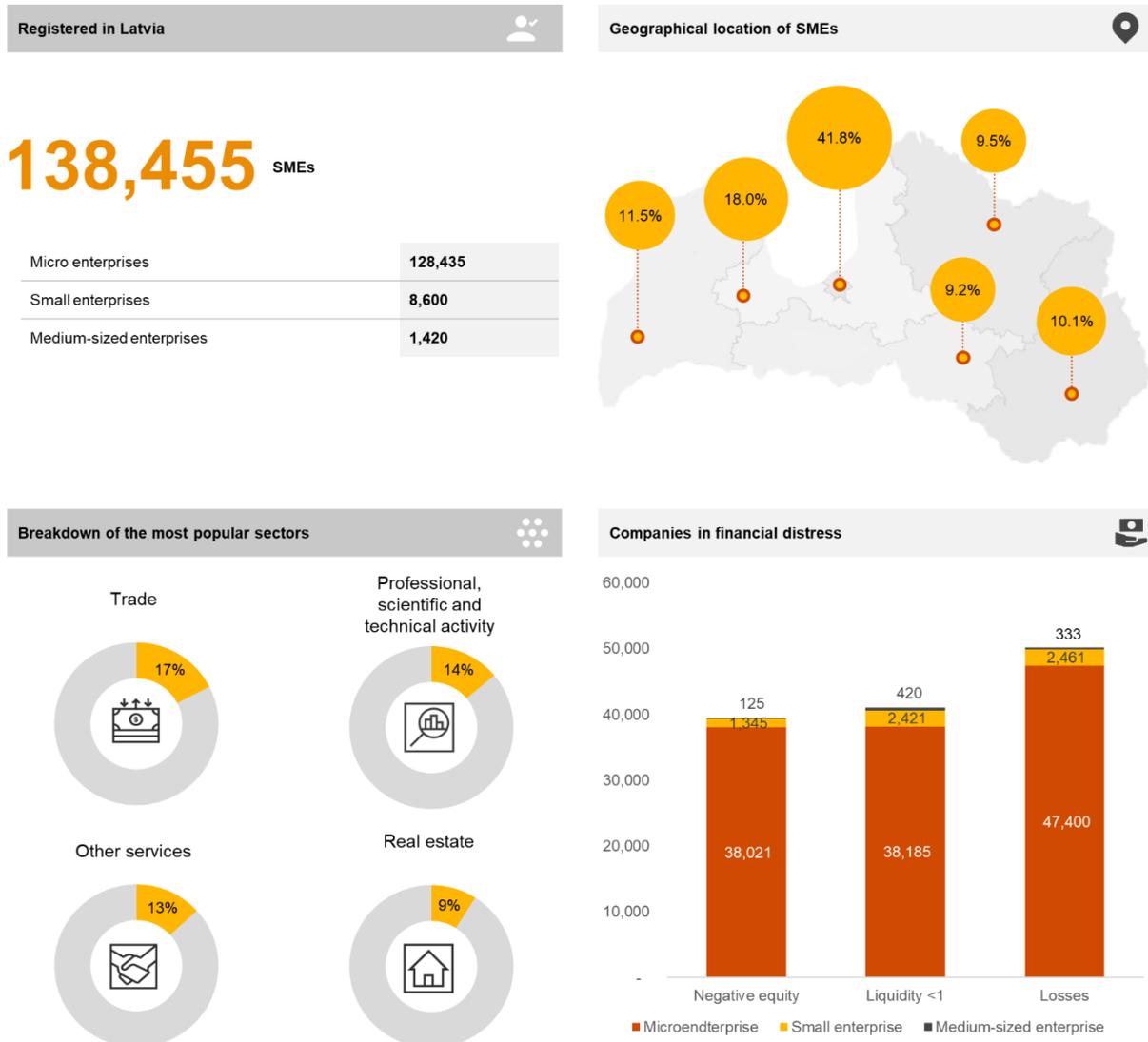
¹⁸ The laws and regulations analysed are included in the "List of information used" section "Life Cycle Activities and Contact Points Characterising the Target Groups".

¹⁹ For example, in the food sector - the Food and Veterinary Service, in the beauty sector - the National Health Service, in the construction sector - the State Construction Control Bureau.

A.2 SME profile

Purpose of the sub-section: to identify the SME profile to understand the target segments and its characteristics.

Figure 9. An overview of SMEs in Latvia (2020 data)²⁰

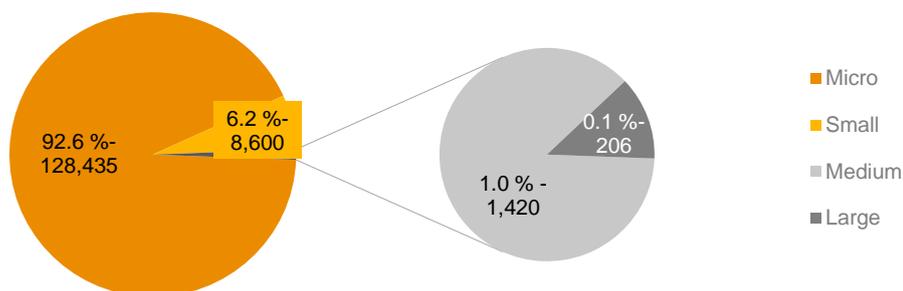


²⁰The figure contains general information about the SMEs registered in Latvia (more detailed sources of information are available below). Geographical location data includes available CSB data on all economically active SMEs. Data on companies in financial distress includes available Lursoft data on SMEs that have submitted annual reports for 2020 and the analysis of the reports shows warning signs.

Classification

A merchant is a natural person registered in the Commercial Register (individual merchant) or a commercial company (partnerships and corporations). This is under EC Regulation (EU) No. 651/2014 of 17 June 2014 declaring certain categories of support compatible with the internal market in application of Articles 107 and 108 of the Treaty on the Functioning of the European Union, which sets out the definition of an SME in Article 2 of Annex 1. Enterprises (merchants in the meaning of Latvian law) are divided into four categories – micro, small, medium and large enterprises. In Latvia, 99.9% of all enterprises are SMEs, and the remaining 0.1% are large enterprises. At the end of 2020, 57.36% of the working-age population was employed in SMEs.

Figure 10. The classification of Latvian merchants, 2020 data²¹



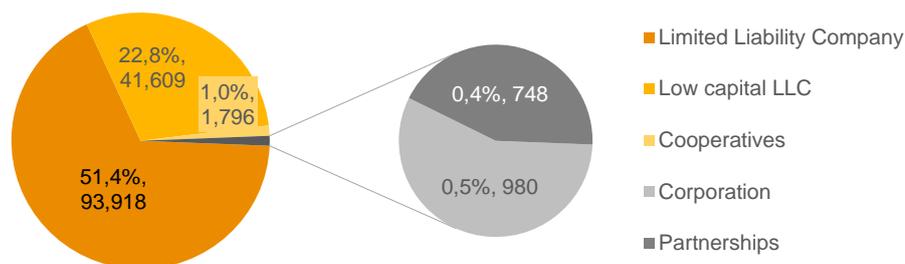
Form of economic activity

For the purposes of this Project by form of economic activity, limited liability companies (SIAs), low capital limited liability companies (SIAs), cooperatives, joint stock companies and partnerships are considered SMEs. At the end of 2021, a total of 135,371 SMEs were registered in Latvia, which is the lowest level since 2012.

- The most common legal form is limited liability company (SIA). The greatest number of SIAs was seen in December of 2015, i.e., 128,141 companies. Since then, the popularity of SIA has significantly decreased. .
- The second most common legal form is the small capital limited liability company. This legal form was introduced by amendments to the Commercial Law on 1 May 2010 aimed at promoting entrepreneurship and increasing share capital.
- Other legal forms account for only 0.97% of all SMEs.

²¹ CSB, 2020. Economically active enterprises of the market sector in the regions, cities and counties by enterprise size groups, by number of employees and main activity (NACE Rev.) 2013 – 2020 2013 – 2020.

Figure 11. Registered companies, by legal form, 2021 data²²



Breakdown by sector

Merchants are engaged in a wide range of industries. The most popular sectors for small businesses have not changed in recent years. Based on Lursoft data, the sales (retail/wholesale) industry has been consistently high for several years. The popularity of professional, scientific, and technical activities is high due to technological development. More than 90% of other services are hairdressing and other beauty care services, textile and fur product industry, laundry and (dry) cleaning services, funeral services and related activities. These are typical industries in which small businesses operate

Table 4. Breakdown of SMEs, by sector in Latvia, 2020 data²³

| | % |
|---|--------------|
| Trade | 17.2% |
| Professional, scientific, and technical activities | 13.8% |
| Other services | 12.5% |
| Real estate | 9.0% |
| Construction | 7.9% |
| Processing industry | 7.5% |
| Transport and storage | 5.5% |
| Information and communication services | 5.3% |
| Administrative and support services | 5.2% |
| Health care and social services | 4.1% |
| Arts, entertainment, and recreation | 4.0% |
| Education | 2.9% |
| Accommodation and food services | 2.8% |
| Financial and insurance activities | 1.6% |
| Electricity, gas, water | 0.5% |
| Mining and quarrying | 0.2% |
| Total | 100% |

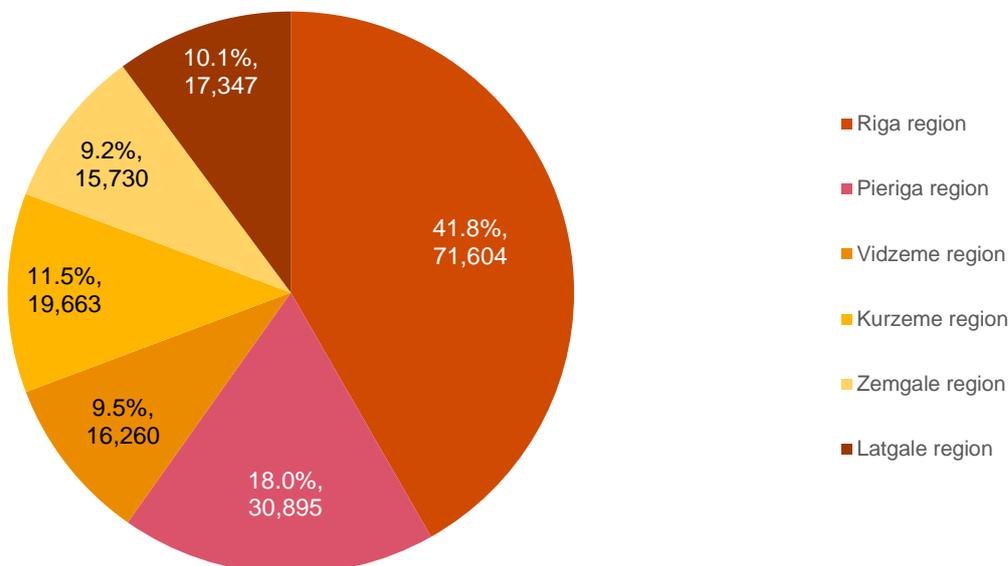
²² RoE of the RoL, Statistics.

²³ CSB, 2020. Economically active enterprises of the market sector in the regions, cities and counties by enterprise size group, by number of employees and main activity (NACE Rev. 2) 2013 – 2020

Geographical breakdown

More than half (59.8%) of SMEs are located in the central part of the country – in Riga and the regions near Riga (Pierīga), making up 41.8% and 18% of the total number of SMEs, respectively. By share of SMEs, the above regions are followed by Kurzeme region (11.5%), Latgale region (10.1%), Vidzeme region (9.5%), and Zemgale region (9.2%).

Figure 12. Detailed geographical location of SMEs in the regions of Latvia (2020 data)²⁴



Submission of annual reports

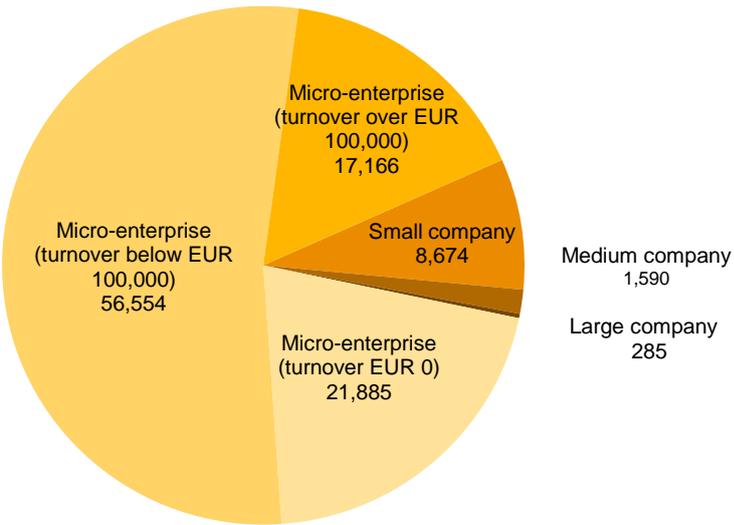
The submission of annual reports to the SRS is one of the most important criteria that indicates the carrying on of business and makes it possible to determine whether there is a reasonable intention to continue the activity. The number of merchants who had submitted their 2020 annual reports at the end of 2021 and had not been liquidated was 106,154²⁵. As of 31 December 2020, there were 187,699 companies registered in the Commercial Register, and given that 14,158 companies had been liquidated from that date to 31 December 2021, only 61% of them have submitted financial statements for 2020, indicating a “blind spot” in the available representative and up-to-date financial data on some of companies.²⁶

²⁴ CSB, 2020, CSB, 2020, Economically active enterprises of the market sector in regions, cities and counties by size groups of enterprises, by number of persons employed, and main kind of activity (NACE Rev. 2) 2013 - 2020

²⁵ Lursoft, 2022. Dynamics of the number of annual reports.

²⁶ EoR of the RoL, 2022, Statistics.

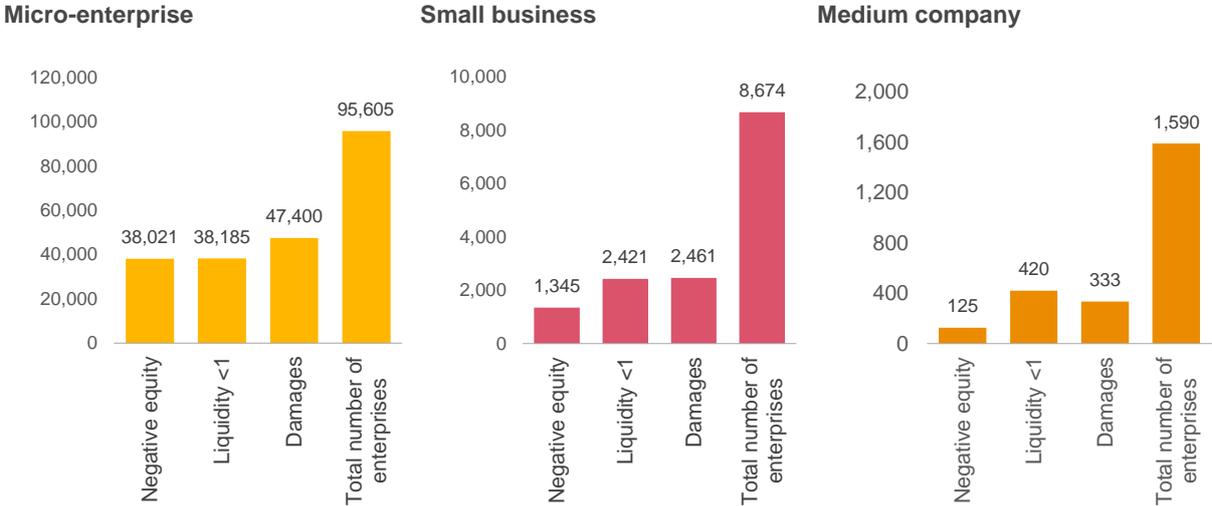
Figure 13. Breakdown of merchants registered in Latvia who submitted the annual report for the fiscal year 2020 in accordance with EC Regulation No. 800/2008²⁷



Financial distress circumstances

The results of the analysis of the financial statements shows that many SMEs are in financial distress. Looking at SMEs, about 40% of micro enterprises have negative equity, while the situation is better in the group of small and medium enterprises. While an indicator such as negative equity is not, in principle, an absolute indicator, it enables an assessment of whether the company has the necessary cash flow and profitability to initiate formal restructuring. About 30% of companies in each size group have liquidity problems.

Figure 14. SMEs that have submitted annual reports for 2020 and the analysis of the reports shows warning signs (as of 31 December 2020 or for the entire 2020 financial year), broken down by turnover²⁸



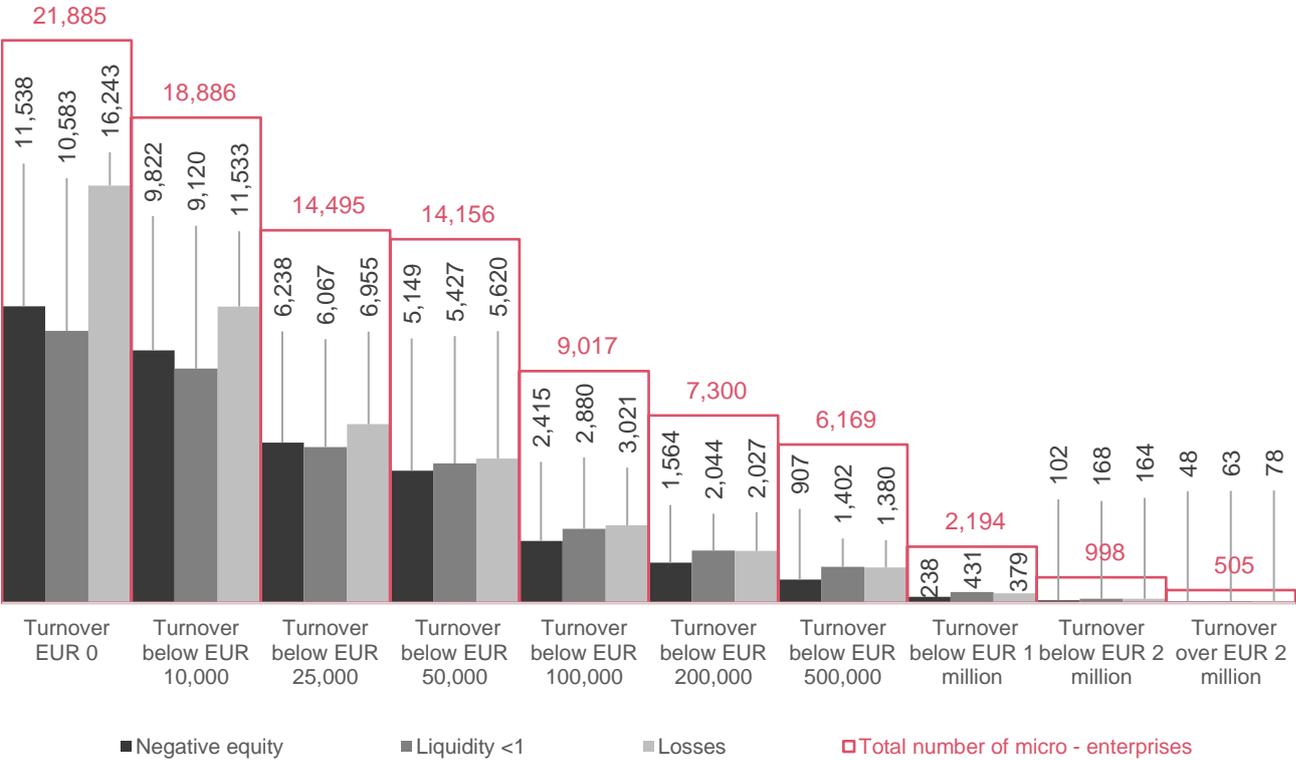
Microenterprises make up the largest share of the SMEs group. Financial statements are analysed based on turnover figures. More than 37% of entities in each analysed group had negative indicators.

²⁷ Lursoft, 2020.

²⁸ Lursoft, 2020.

Microenterprises with a turnover of 0 EUR have the greatest difficulties. Of the 21,885 companies, 52.7% had negative equity, 48.4% had total liquidity below 1, and 74.2% reported loss for the reporting year.

²⁹Figure 15. The total number of microenterprises that have submitted their 2020 financial statements and whose operations have identifiable negative financial indicators-negative equity, total liquidity below 1, and losses, classified by turnover (on 31 December 2020, or for the full 2020 financial year)



²⁹ Lursoft, 2020.

2.B Entrepreneurs

B.1 Entrepreneur life cycle

Purpose of the subchapter: to assess the life cycle of entrepreneurs to determine the activities to be carried out, the points of contact with various institutions and organisations, and the solutions proposed in terms of identifying and managing financial distress.

Methods used: analysis of the laws and regulations and focus group discussions.

Entrepreneur life cycle

Findings:

Similar to the group of SMEs, from the communication perspective, RoE and the SRS have the greatest opportunity to reach the largest number of entrepreneurs in the early stages of the company's life cycle and to implement preventive information activities. The entrepreneurs and sole traders registered in the Commercial Register are at different stages of their life cycle, and the points of contact with institutions and organisations are different³⁰. The results of a sociological survey indicate that entrepreneurs have used the information sources of RSS and SRS in dealing with financial distress. Conversely, they have used other information sources significantly less often. The formal contact points indicate an underutilised opportunity to obtain relevant information.

- **At the start-up stage**, entrepreneurs are provided with information partly by the RoE, and partly by the SRS, depending on whether the laws and regulations prescribe mandatory registration with the RoE for the chosen form of activity.
- **For promoting ongoing business and the growth stage**, entrepreneurs have several support mechanisms from LIDA, Altum, CFCA, SEA, local governments, and business incubators. At this stage, contact is mainly with the providers of finance and supervising institutions. Like SMEs, entrepreneurs have access to paid or free tools for assessing their economic performance. The representatives of the SRS pointed out in an interview that entrepreneurs who are sole traders have a relatively high interest in the EDS maintained by SRS (EDS is a special platform for monitoring tax debts, as well as the tool "The Taxpayer's Rating System").
- **In the stagnation and decline stage** entrepreneurs registered in the Commercial Register have contact with creditors, while sole traders, in addition to this, with a sworn notary or an insolvency administrator and a court.
 - **In cases where entrepreneurs registered in the Commercial Register establish that they will not be able to pay their liabilities**, same as for SMEs, both informal restructuring and formal restructuring (LPP/OOLPP) are available, as well as separate support measures provided by the MoE, the SRS, Altum and local governments (e.g., due to the difficulties caused by COVID-19).
 - **In cases where sole traders establish that they will not be able to pay their liabilities**, the mechanism contained in the Law on Debt Relief of a Natural Person (up to EUR 5,000) or the proceedings of insolvency of the natural person contained in the Insolvency Law

³⁰ Depending on the form of economic activity, the group of entrepreneurs can be divided into two large groups - entrepreneurs registered in the Commercial Register (individual merchants, individual (family) enterprises, farms/fisheries, rural artisan enterprises/farmsteads, and commercial agents) and sole traders (natural persons) who only register their activity in the SRS.

proceedings of a natural person are available.

Table 5. The life cycle of entrepreneurs³¹

Everyone must engage in the activity
 The activity must be carried out depending on the situation

| Life cycle stage | Foundation/ registration | | Carrying on business | | | The occurrence of financial distress | Stagnation and decline | | | |
|------------------|---|--|--|--|--|--|--|---|--|--|
| | | | | | | | Informal restructuring | Formal restructuring (LPP/OOCDR) | Insolvency of a natural person | |
| Activities | The entrepreneur registers with the RoE, subject to submitting all documents OR The entrepreneur registers in the VAT Register and for the status of a micro-enterprise taxpayer. | | The entrepreneur applies for pre-incubation and incubation support | The entrepreneur prepares and submits reports (annual report, business report, consolidated annual report) | The entrepreneur (except for a natural person who carries on a trade and pays a reduced patent fee for it) is required to submit a report on PIT and NSIMA, and risk duty once a quarter | The entrepreneur carries on business, incl. assuming financial obligations | The entrepreneur establishes that he will not be able to pay his obligations | <i>Economic operator.</i> The entrepreneur agrees with the creditors out of court on a schedule for repayment of debts, issuance of additional security (pledge, surety, etc.) or full or partial release from the debt liabilities. <i>Entrepreneurs registered in the Commercial Register.</i> The entrepreneur files an application to the court to initiate/declare the LPP or OOLPP, executes the LPP/OOLPP plan after its approval, and files an application to the court to implement the plan and terminate the LPP or OOLPP. | The entrepreneur files an application to the court to initiate/declare the LPP or OOLPP, executes the LPP/OOLPP plan after its approval, and terminate the LPP or OOLPP. | An entrepreneur who is a sole trader applies the insolvency procedure contained in the Law on Relief from Debts of a Natural Person (amount of debts up to EUR 5,000) or in the Insolvency Law (EUR 5,000). See a more detailed overview in the section Consumer life cycle The entrepreneur (legal entity) starts insolvency proceedings if debt restructuring (including LPP/OOCLPP) has failed to restore the debtor's solvency. The administrator manages all the assets of the company in order to satisfy the claims of creditors with them OR The entrepreneur (legal entity) starts liquidation proceedings if debt restructuring (including LPP/OOCLPP) has failed to restore the debtor's solvency. The liquidator manages all the assets of the company to satisfy the claims of creditors with the firm. |

³¹ The laws and regulations analysed are included in the "List of the used information", in the section "Life Cycle Activities and Contact Points Characterising Target Groups".

| Life cycle stage | Foundation/ registration | | | | | The occurrence of financial distress | Stagnation and decline | | |
|--------------------------------|--------------------------|--|-----|-----------|--|--------------------------------------|---|---|--|
| | Carrying on business | | | | | | Informal restructuring | Formal restructuring (LPP/OOCDR) | Insolvency of a natural person |
| Type of activity ³² | | | | | | | | | |
| Points of contact | RoE, SRS | LIDA, Altum, CFCA, SEA, local governments, business incubators | SRS | SRS, SSIA | Creditors Credit information bureaux Other ³³ | Creditors | Creditors, Credit information bureaux, Court * Person in charge of LPP/OOLPP (only for entrepreneurs registered in the Commercial Register). | Creditors Credit Information bureaux, person in charge of LPP, Court | Notary public, Creditors, NEA, Social Service, Insolvency Administrator. |

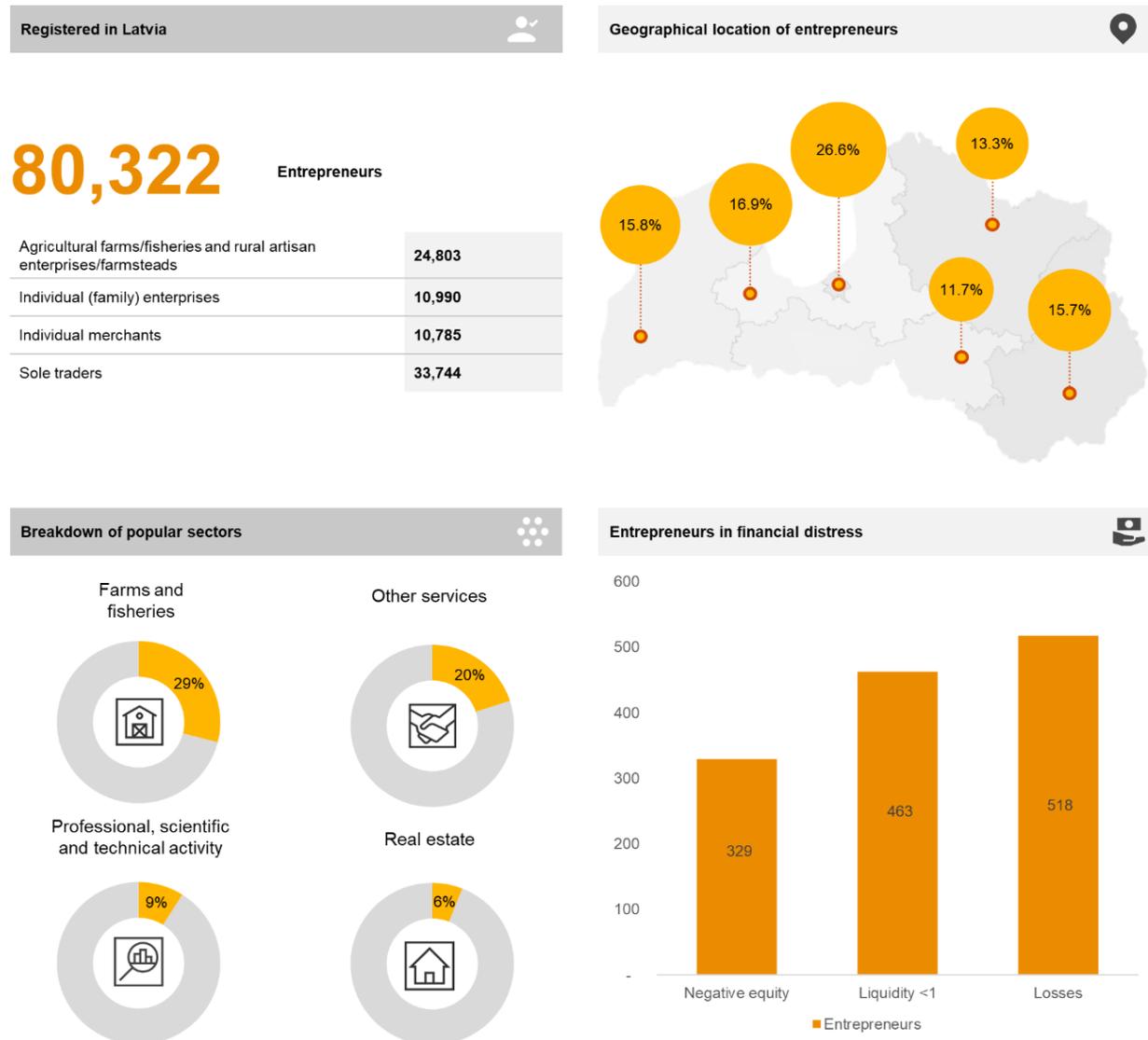
³² Depending on the form of economic activity, entrepreneurs can be divided into two large groups - entrepreneurs registered in the Commercial Register (individual merchants, individual (family) enterprises, agricultural farms/fisheries, rural artisanal enterprises/farmsteads, commercial agents) and sole traders (natural persons) who register their activity only with the SRS.

³³ For example, in the food sector - the Food and Veterinary Service, in the beauty sector - the National Health Service, in the construction sector - the State Construction Control Bureau.

B.2 Entrepreneur profile

Purpose of the sub-section: to identify the profile of entrepreneurs to understand the target segments and its characteristics.

Figure 16. An overview of entrepreneurs in Latvia (2020 data) ³⁴



³⁴ The figure contains general information about entrepreneurs registered in Latvia. Geographical location data includes the available CSB data on all economically active sole traders (natural persons).

Entrepreneurs

Form of economic activity

Depending on the form of economic activity, entrepreneurs can be divided into two large groups — entrepreneurs registered in the Commercial Register (individual merchants, individual (family) enterprises, agricultural farms/fisheries, rural artisanal enterprises/farmsteads, commercial agents) and sole traders (natural persons) who register their activity only with the SRS. Sole traders must choose a way to pay of taxes: NSIMC and PIT on their business activity; payers of reduced patent fees; taxpayers of microenterprise tax or performers of the declared business. At the end of 2020, there were 46,578 registered entrepreneurs in the Commercial Register and 33,744³⁵ sole traders paying NSIMC. The largest share of entrepreneurs is accounted for by sole traders.

Figure 17. Breakdown of entrepreneurs, 2020³⁶



Breakdown by industry

Entrepreneurs, like SMEs, operate in a variety of industries. The most represented industry is agriculture, forestry, and fishing. In 2020, 36% of the total territory of Latvia was used for agriculture and there is a high demand for agricultural products both in Latvia and abroad.³⁷ The provision of other services is widespread among economic agents.

Figure 18. Entrepreneurs entered in the Commercial Register by type of activity, 2020³⁸

| | % |
|--|--------------|
| Agriculture, forestry and fishing | 28.9% |
| Other services | 19.6% |
| Professional, scientific and technical activities | 8.7% |
| Real estate | 6.2% |

³⁵ SRS, 2022. Number of self-employed persons in 2021.

³⁶ SRS, 2021. Number of self-employed persons in 2020; and Lursoft, Statistics.

³⁷ The Ministry of Agriculture of the RoL, 2021. Latvijas lauksaimniecība 2020.

³⁸ CSB, 2020. Economically active enterprises by main kind of activity (NACE Rev. 2) 2013 – 2020.

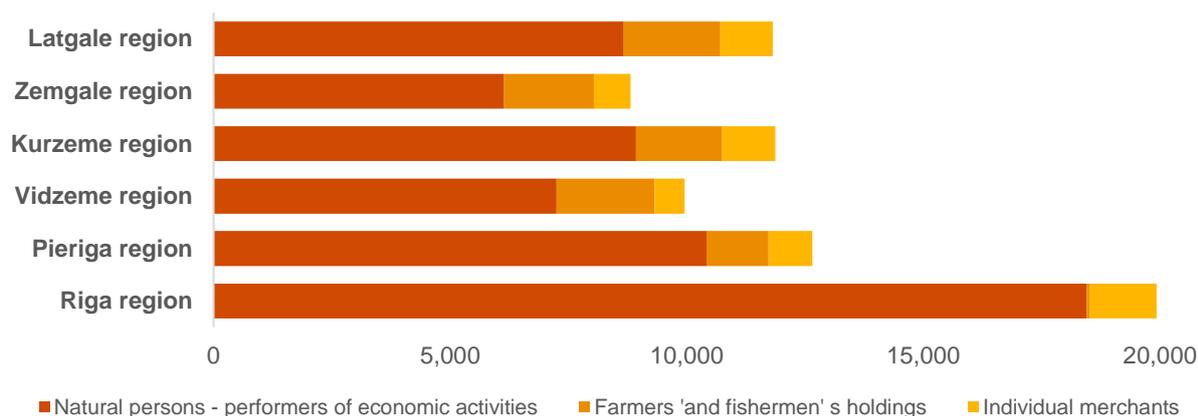
| | % |
|---|-------------|
| Trade | 5.6% |
| Health care and social services | 5.5% |
| Arts, entertainment and recreation | 4.6% |
| Processing industry | 3.6% |
| Construction | 3.5% |
| Education | 3.4% |
| Administrative and support services | 3.1% |
| Transport and storage | 2.7% |
| Information and communication services | 2.5% |
| Financial and insurance activities | 1.0% |
| Accommodation and food services | 0.7% |
| Mining and quarrying | 0.1% |
| Electricity, gas, water | 0.1% |
| Total | 100% |

Geographical breakdown

The geographical breakdown of entrepreneurs shows a similar pattern to that of SMEs. The largest number of entrepreneurial farms and individual merchants are located in the Riga region, followed by the region near Riga and the successive Kurzeme, Latgale, Vidzeme and Zemgale regions, respectively.

The biggest deviations from the usual geographical breakdown are in the number of farms and fishing farms in the regions, with the Riga region having by far the smallest number of farms and the region near Riga – the second smallest. In other regions the number of farms is similar - about two thousand.

Figure 19. Detailed geographical location of entrepreneurs in the regions of Latvia (2020 data)³⁹

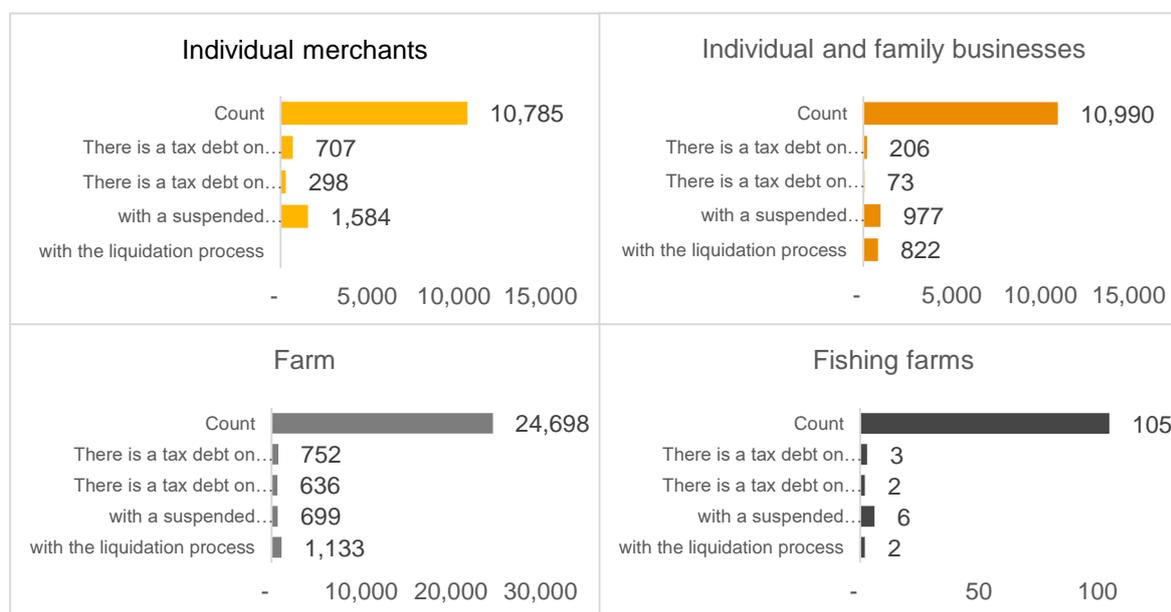


³⁹ CSB, 2020, Economically active companies in regions, cities and counties of the Republic 2013 - 2020

Submission of annual reports

The results of the analysis of the annual reports shows that some entrepreneurs registered in the Commercial Register are in financial distress. In none of the analysed groups does the share of entrepreneurs with tax debts exceed 10%. At the same time, the number of tax debtors is increasing, which can be explained by the impact of COVID -19 on business. In each group, the activity of about 5-10% of businesses are suspended. In this context, the LCCI argued in the interview that the financial distress of business groups are due to the complex legal framework in which only specialists can orient themselves. The LCCI points out that while the various tax payment systems and legal forms introduced in Latvia initially offer advantages, reaching a certain level of turnover can lead to tax arrears in a mere moment. According to the LCCI, these regulations are incomprehensible to small enterprises and business planning is too complicated, so a large part of business activities are simply ceased.

Figure 20. Entrepreneurs who have submitted annual reports for 2020 and whose analysis of the reports shows warning signs (as of 31 December 2020)⁴⁰

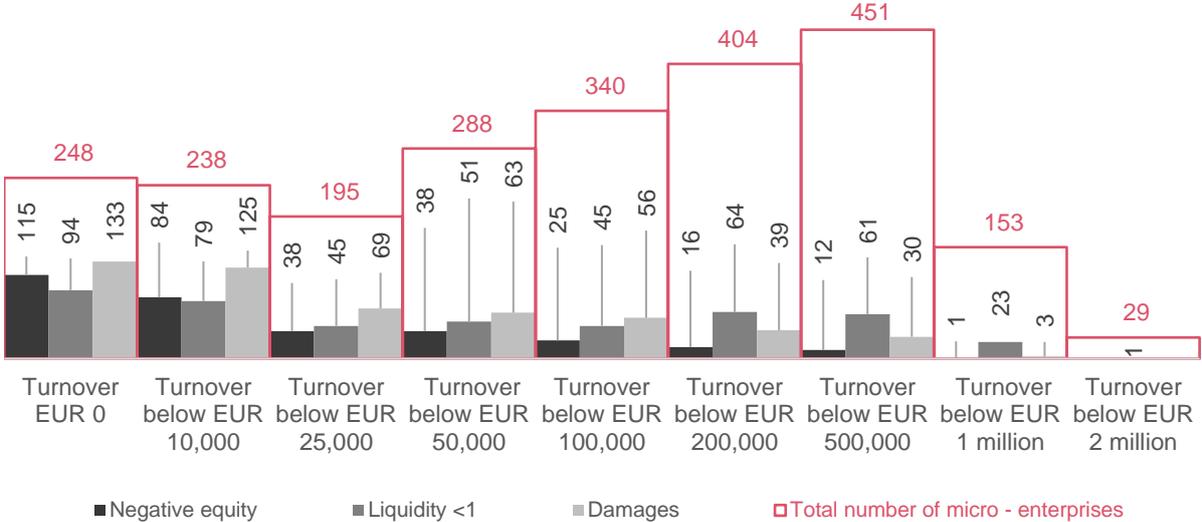


Financial distress circumstances

The analysis of the annual reports of individual (family) enterprises, individual merchants, farmers and fisheries in 2020 shows that the environment of these merchants is dominated by micro-enterprises. As can be seen in the figure (see Figure 21), an increase in turnover above EUR 500,000 per year most often mitigates the negative trends in the financial position. However, the total number of such companies is relatively small. A typical viable company in this group is one with turnover between EUR 100,000 and EUR 500,000 per year (over 800 units), but about 12% of the companies in this group also have liquidity problems. This means that these merchants may have problems paying their short-term debts when they fall due, their economic capacity is more limited, and they have problems settling with non-current and current liabilities.

⁴⁰ Lursoft, 2020.

Figure 21. Total number of individual (family) enterprises, individual merchants, farms/fisheries in the microenterprise group that have submitted financial statements for 2020 and whose financial ratios show a negative trend (31 December 2020)⁴¹



⁴¹ Lursoft, 2020.

B.3 Information getting regarding the habits of SMEs and entrepreneurs

Purpose of the sub-section: to assess the availability of information for SMEs and entrepreneurs on possible solutions for when they are in financial distress — how information would be sought, what sources of information would be used, who would be approached for support, etc.

Methods used:

A sociological survey (telephone interviews (CATI) for the selection of respondents and an online questionnaire for a general questionnaire sent to the email address provided by the respondent).

A single questionnaire was used to survey SMEs and entrepreneurs. To better compare the common and different features of the two target groups, the results of the survey are summarised in a single chapter and any differentiation on the results as per the target group is highlighted.

Findings:

- **Experience related to searching information on support for managing financial distress.** Almost one-third (30%) of the surveyed SMEs and entrepreneurs said they had, in the past five years, searched for information that could help address their financial distress. SMEs searched for information more often (36%), conversely, entrepreneurs did less often (23%).
- **Information search trends by region of operation.** It was found that during the last 5 years, information on financial difficulties has been sought by SME owners, managers and entrepreneurs whose economic activity covers the entire territory of Latvia (as opposed to those operating within one region or within the locality), and especially those who offer their goods or services outside Latvia - 46% of those who do so in other EU Member States and 50% of those who operate outside the EU. It should be noted that the representatives of the latter two groups have also borrowed more funds to support their company or their own economic activity. The highest share of such respondents is observed in the groups of entrepreneurs - 76% of those operating in EU Member States and 73% of those operating outside the EU. However, more experience does not mean more confidence in one's skills and knowledge or lead to different habits in using information channels. There were statistically insignificant and non-distinguishable trends among respondents by region of activity in the other survey questions.
- **Sources of information on support options for resolving financial distress.** The participants of the study, who **have** generally **searched for** any information that might be useful for entrepreneurs to manage financial distress, have most often searched for information in the Internet sources:
 - Websites of public institutions (mentioned by 57% of respondents who have searched for information altogether);
 - Internet news portals (44%);
 - Internet search engines (Google, Yahoo, Bing, etc.) (34%);
 - Websites of municipalities and their institutions (28%).
- **Experience in searching information from institutions to help manage financial distress.** Generally, most respondents found the information themselves. More than one-third (36%) of the respondents found the information without any difficulty, while another 21% of the respondents said that they had found the information, but only after a long search on the websites of various institutions. 11% of respondents could not find the information themselves, so they had called the institution and received guidance. 10% of respondents said that they had found only part of the information and not everything they hoped to find. 8% of traders said they could not find the information they wanted at all and did not continue the search.
- **Sources of institutions (organisations) used.** Speaking of concrete institutions, the most common information on support options for resolving financial distress is:
 - SRS (39% of respondents sought information; 44% of SMEs and 28% of entrepreneurs). It

should be noted that the information provided by SRS was convincingly rated most often (23% of merchants who sought information on support options to address their financial distress) as the most useful of all sources;

- 25% of respondents (33% of SMEs and 10% of entrepreneurs) searched information at Altum, and 9% rated it as the most useful;
- 22% of respondents (27% of SMEs and 13% of entrepreneurs) searched information at a credit institution/bank, and 13 % rated it as the most useful;
- 22% of respondents (11% of SMEs and 28% of entrepreneurs) searched information at the RSS, and 9% rated it as most useful.

- **Sources for information on support options for managing financial distress.** The respondents who **had not** previously **searched for information** on support options for managing financial distress were asked to find out who they could turn to if a company were to run into financial distress. Two variants prevailed (it was possible to choose several responses):

- Friends, acquaintances, relatives were named as the first choice to turn to in case of financial distress in 17% of cases, and as one of the three options – by 49% of respondents who have not yet obtained information about support options to address financial distress.
- Credit institutions / banks - as the first choice in case of financial difficulties, 14% named it as one of the three choices ;

Other sources of information about help options were mentioned less frequently. 15% - 23% of respondents mentioned as one of the first three activities: personally known financial advisor; SRS; personally known lawyer; financial institution "Altum"; Internet search engines (such as Google, Yahoo, etc.); and RSS.

- **The most convenient information channels on support options for addressing financial distress.** By far the most convenient way of communicating about the possibilities of assistance in solving financial distress, from the point of view of the surveyed entrepreneurs, is the possibility of receiving information by e-mail sent centrally to all companies (e.g., through EDS). This was the answer of 60% of the study participants. The results obtained in the groups of SMEs and entrepreneurs did not differ significantly.

The next places in the hierarchy of the most convenient communication channels about support options for addressing financial distress:

- Possibility to conduct a private consultation by sending an email and receiving a personal response by email (mentioned by 29% of entrepreneurs);
- A single website with information about the solutions offered by different institutions and organisations (27%);
- Possibility to get a private consultation entailing an on-site visit to the consultant (22%);
- Possibility to have a private consultation by phone (21%);
- 6% of survey participants would like to know information about support options for solving financial difficulties on social networks. Facebook is a compelling leader among social networks, used by more than three-quarters (78%) of respondents. Less than half of respondents use other social networks. The second most popular social network is Instagram with 35% of users, while LinkedIn is third with 17% of users.

- **Use of tools to assess the financial position of companies.** Nearly a quarter (23% of all; 32% of SMEs and 12% of entrepreneurs) have used a survey tool to assess the financial position of their business or counterparty in the last 5 five years. Frequently used financial tools:

- The SRS Taxpayer Rating System (displayed like a speedometer in the EDS) (52% of merchants traders had used the financial tool);
- Creditworthiness calculator offered by a credit institution (banks and non-bank lenders) (34%);
- Credit Information Bureau credit rating\credit history summary (25%);
- Lursoft (19%)

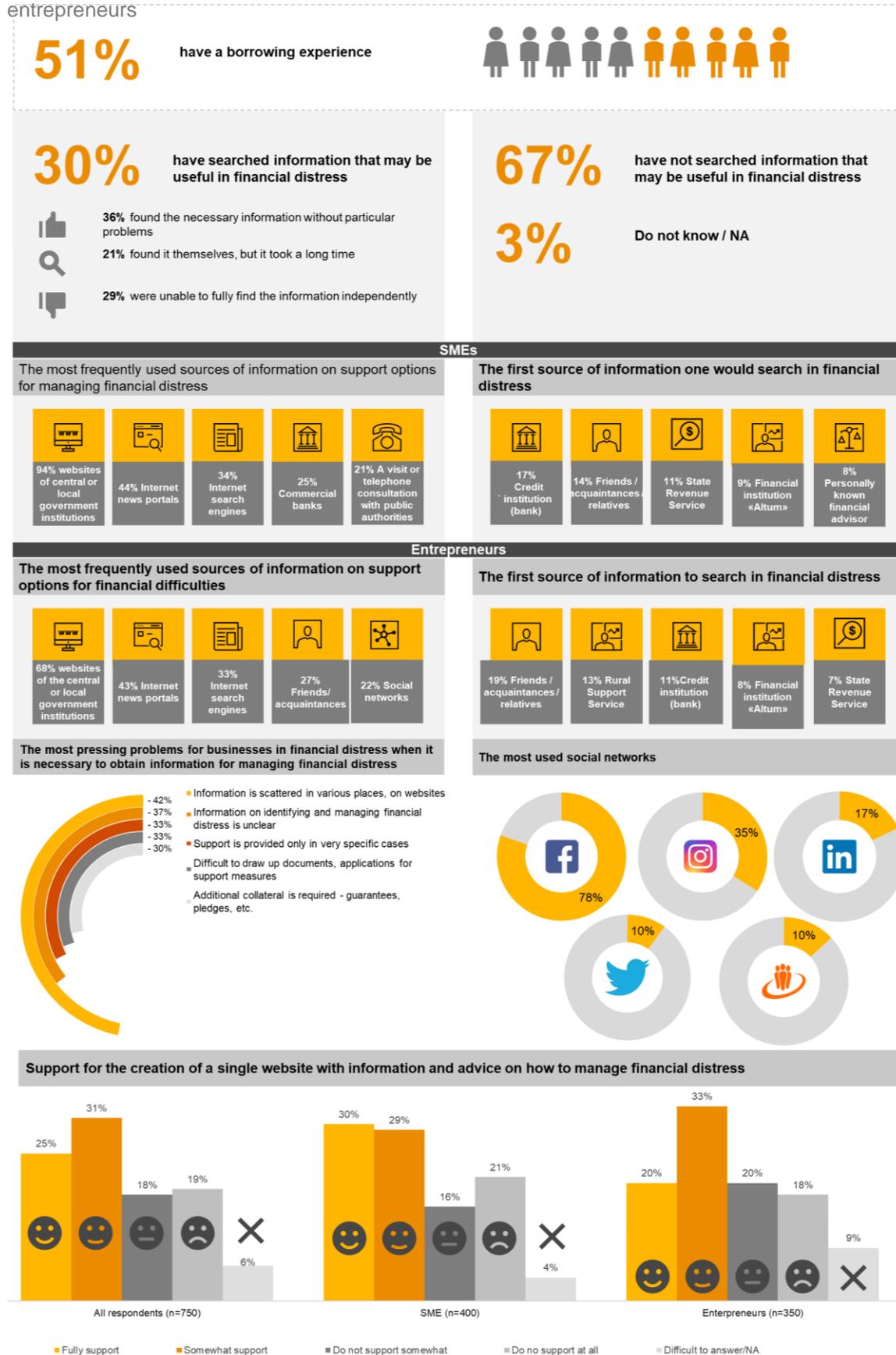
- **Action in the event of financial distress.** In the event of financial distress where no government assistance were available, SMEs would most often (several possible answers):

- try to reach an agreement with suppliers and creditors on revising payment terms (mentioned by 53% of the SMEs surveyed);

- try to raise new working capital (46%);
 - apply for state aid (27%).
- **The most pressing challenges for entrepreneurs and SMEs in financial distress.** The most frequently mentioned problems for entrepreneurs in financial distress, when they try to obtain information to manage financial distress (several possible answers):
 - The information is scattered in various places and websites (mentioned by 42% of the study participants);
 - Information on how to identify and manage financial distress is unclear (37%);
 - Support is provided only in very specific cases (33%; most often mentioned by SMEs (39%));
 - Drawing up documents presents difficulties, applications for various support measures (33%);
 - Additional collateral is required – guarantees, pledges, etc. (30%)
 - **Differences between SMEs and entrepreneur groups.** Comparing the responses of the representatives of the SMEs and entrepreneur groups, it is evident that the SMEs target group (compared to individual merchants) has more practical experience, both in searching for information and solutions and in taking advantage of real credit opportunities. They also have greater overall awareness and confidence in their skills and knowledge, both in terms of computer literacy and in terms of financial management of the business. The responses of the SMEs target group also show higher levels of trust, cooperation, and information sharing with public administration entities (such as the SRS), while sole traders, like individuals, are more likely to use direct lenders, specialised industry institutions, and private channels.
 - **Proposals for improving access to information.** The most frequently mentioned recommendations/suggestions to promote the availability of information for entrepreneurs on how to obtain and deal with timely support in the event of financial stress:
 - A single website with all of the necessary information (mentioned by 11% of the surveyed companies);
 - Information is not the most important thing - real support is important (6%);
 - SOS - help section has been created in the EDS system (5%).

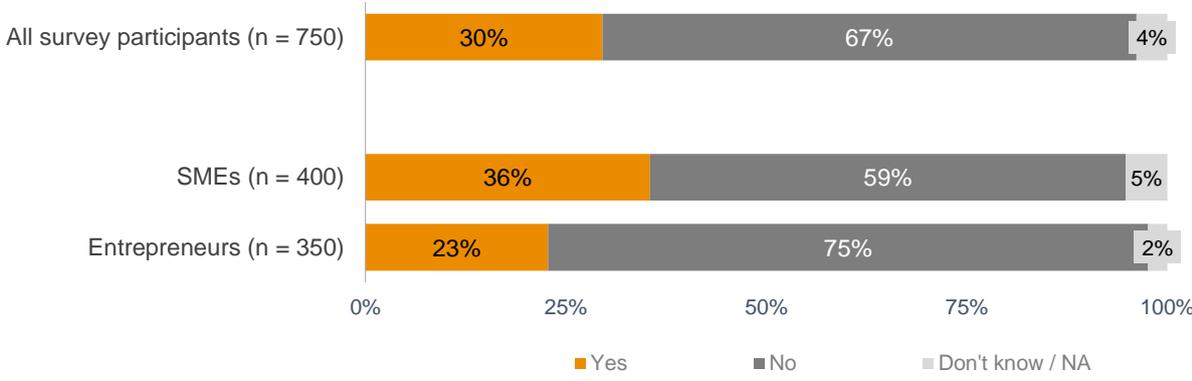
Most of the respondents (65%) found it difficult to make a recommendation/suggestion on how to promote the availability of such information.
 - **Attitude towards the creation of a single website.** Among entrepreneurs, the attitude towards the creation of a unified website that would summarise the information, recommendations and solutions offered by various institutions and organisations to alleviate financial distress is generally positive. The majority (57%) of companies are in favour of the creation of such a website. The idea was supported more often by SMEs (60%) and slightly less by entrepreneurs (53%). There is a tendency the higher the turnover of the surveyed companies, the higher the number of entrepreneurs supporting the establishment of a unified website that would combine the information, recommendations and solutions of various institutions and organisations to alleviate financial distress.

Figure 22. An overview of the information regarding information seeking habits of SMEs and entrepreneurs



Experience of searching information on support for managing financial distress

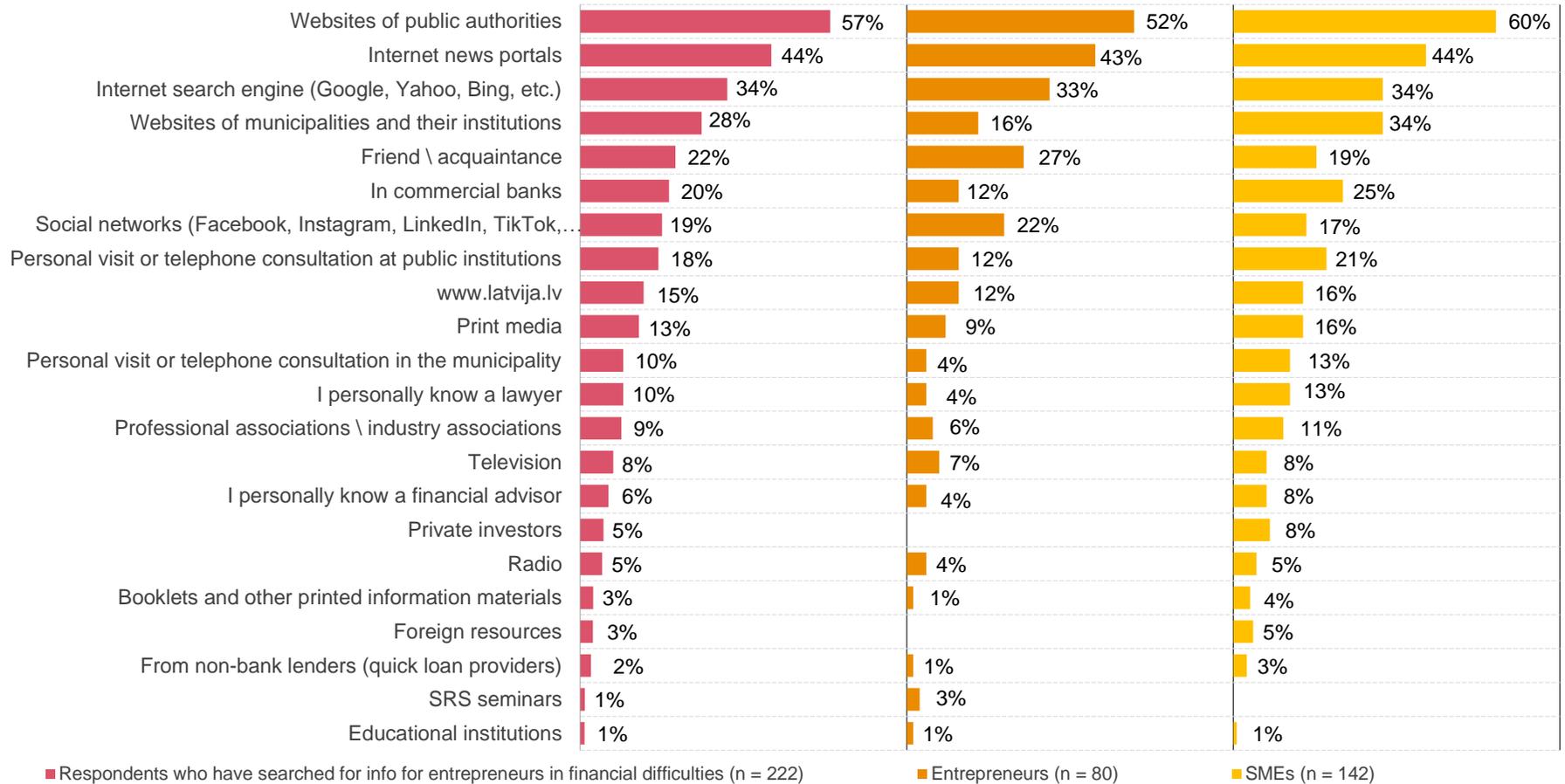
Figure 23. Question of the survey: **In the last 5 years, did you search for any information that could help entrepreneurs manage financial distress?"**



Sources of information used about support options for managing financial distress

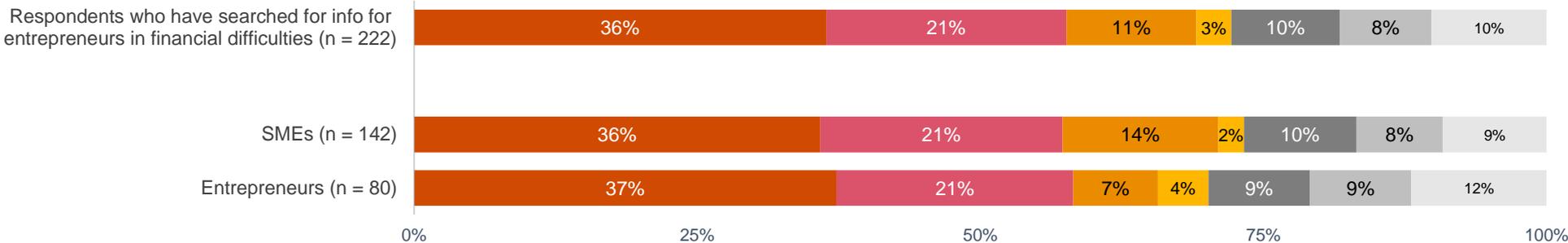
Sample - Respondents who searched for information that might be useful to people experiencing financial distress.

Figure 24. “What sources of information did you use in the last 5 years to obtain information on addressing financial distress for entrepreneurs?”



Experience of searching for information from institutions on support for managing financial distress

Figure 25. “What was your last experience when you looked for information from public authorities on support for entrepreneurs to reduce financial distress??”

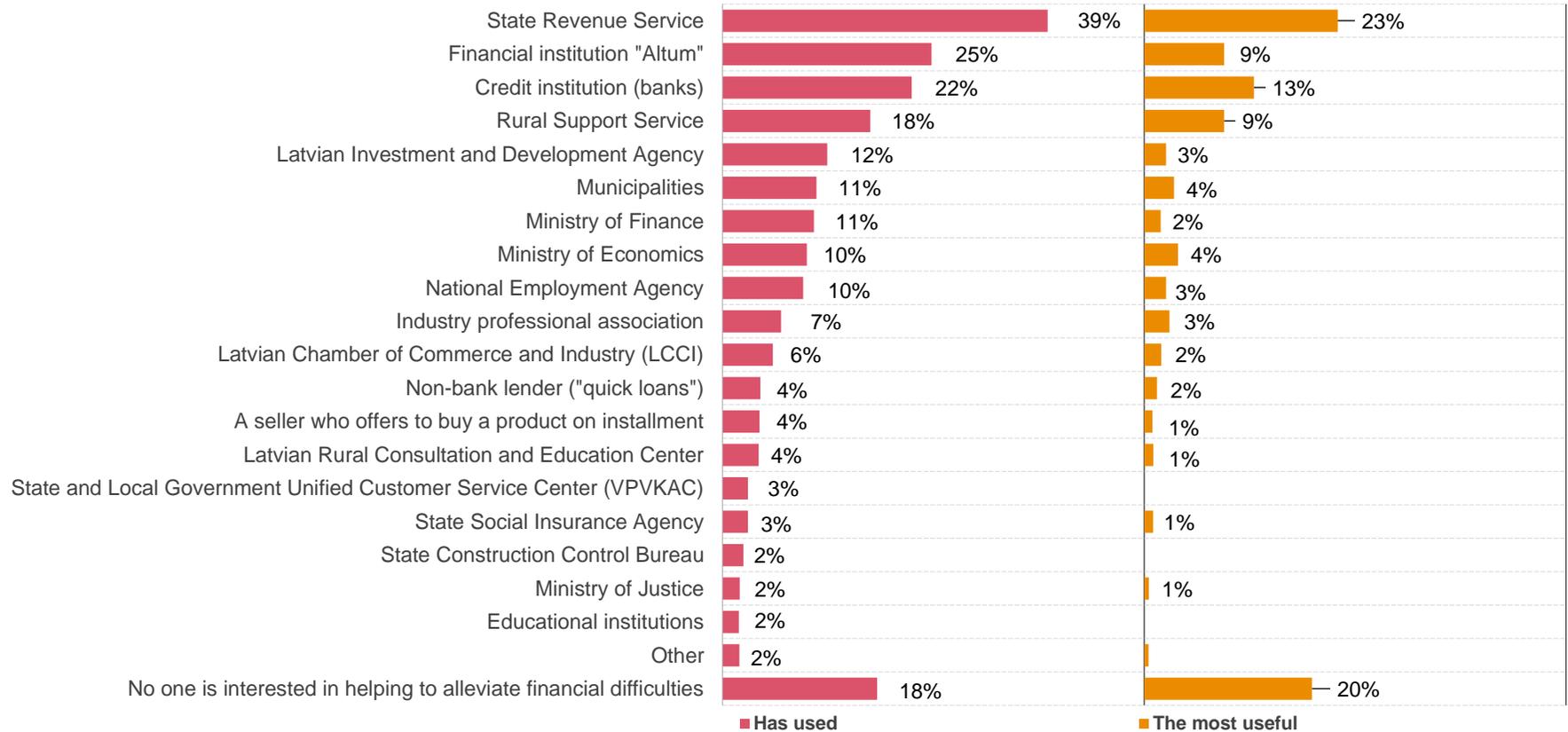


- I found the necessary information without any particular problems
- I had to search the websites of various institutions, but in the end I found myself without help
- I could not find the information on my own, so I called the institution and received a consultation
- Private consultation with a specialist (accountant, lawyer)
- I found some information, but incomplete, and did not continue my search
- I couldn't find the information, but I didn't continue searching
- Difficult to answer \ NA

Sources of institutions (organisations) used

Sample: respondents who have searched for information that could be useful to **SMEs and entrepreneurs** in financial distress.

Figure 26. Survey questions: "In the last 5 years, information from what institutions (organisations) did you use to identify and manage financial distress of entrepreneurs?" or "In the past 5 years, information from what institutions (organisations) did you find most useful for identifying and managing financial distress?"

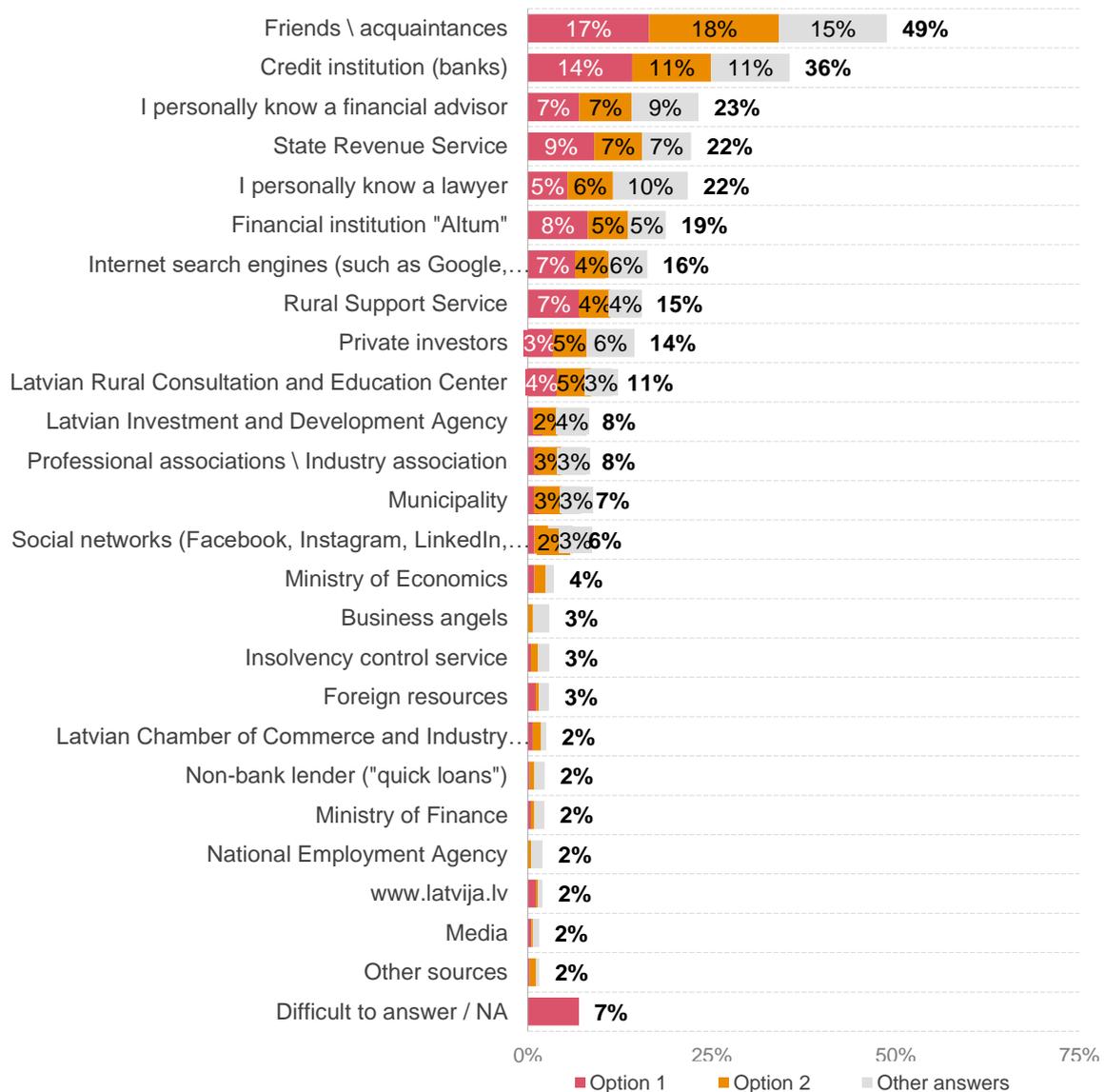


(Base =respondents who have been looking for info for financially distressed entrepreneurs;n=2)

Sources where information on support options for managing financial distress were searched

Sample – respondents who have not searched for information that could be useful for companies/entrepreneurs in financial distress.

Figure 27. Question of the survey: “Imagine that your company is in financial distress, who you would turn to or where would you search for information about getting help from the state or another source? **To whom or where would you turn first? And where would you turn next? And where else would you go?**”

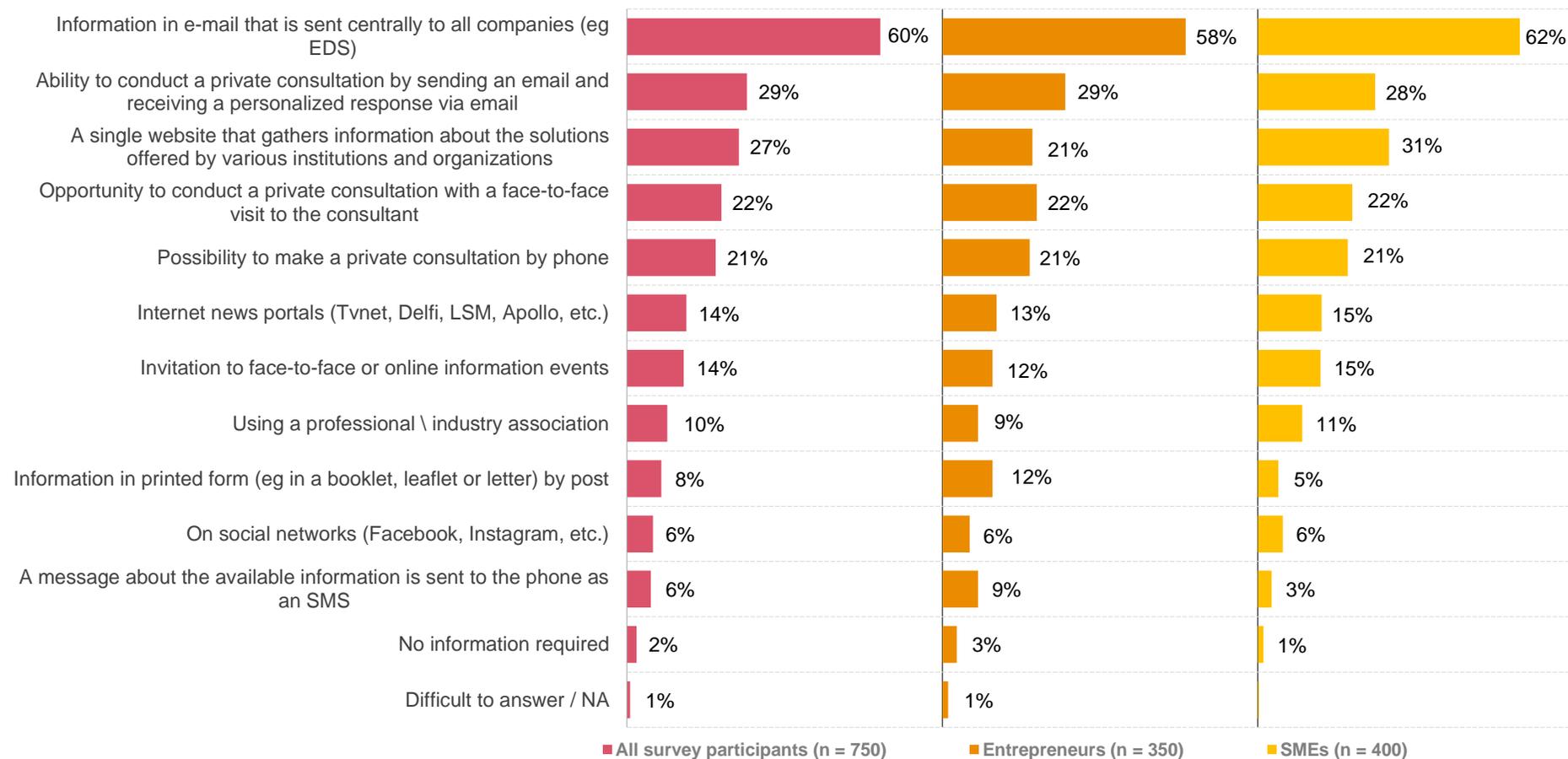


(Bāze = respondents who have not searched for info on entrepreneurs in financial difficulties; n=499)

"Other sources" (in the chart) mentioned were – single service centre; educational establishments; MoJ; FCMC; Ministry of Transportation; Ministry of Agriculture; Ministry of Environmental Protection and Regional Development.

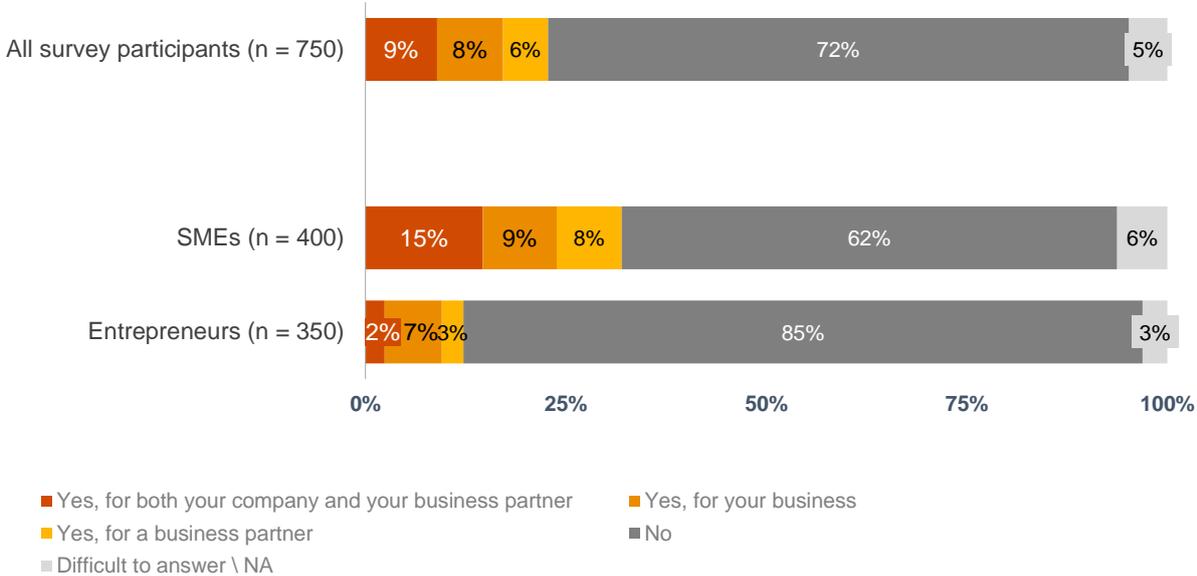
The most convenient information channels about support options for managing financial distress

Figure 28. Question of the survey: “How would it be more convenient for you to receive information about the available support options for managing financial distress?”



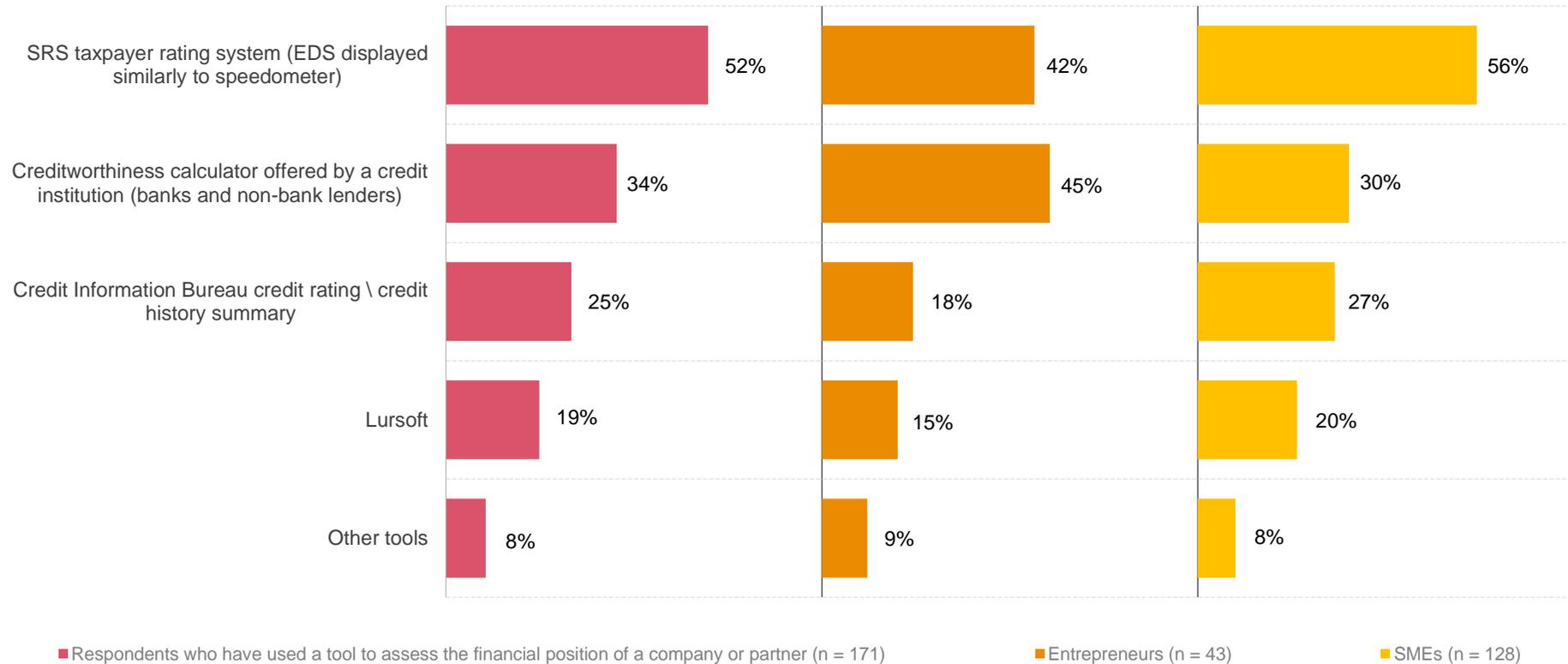
Use of tools to assess the financial position of companies

Figure 29. Question of the survey: “In the last 5 years, did you use a tool that can be used to assess the financial position of your company or a counterparty?”



Sample – the respondents who have used a tool to assess the financial position of their company or a counterparty.

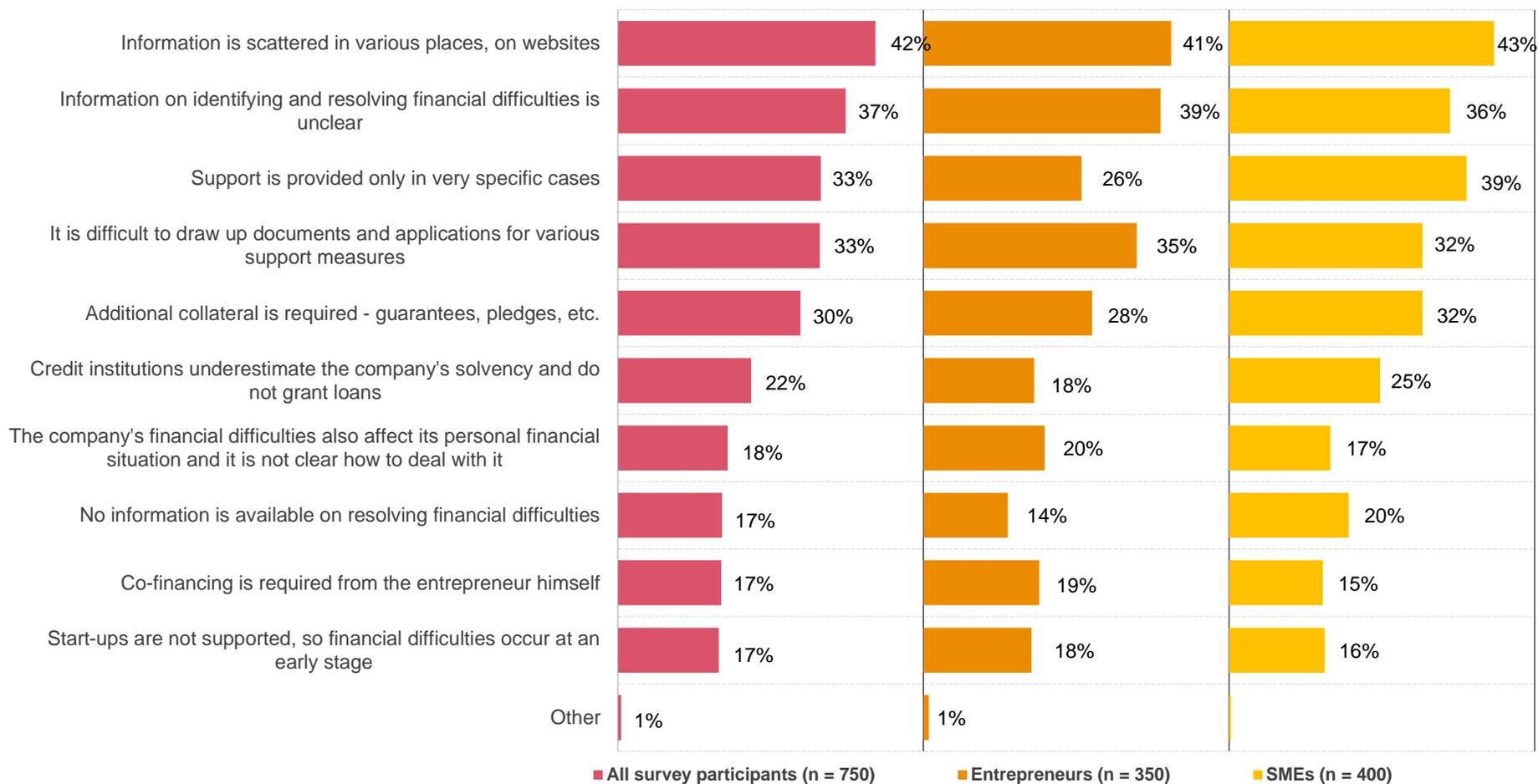
Figure 30. Question of the survey: “What tool (s) have you used for this purpose (to assess the financial position of your company or a counterparty)?”



“Other tools” mentioned (in the graph): firmas.lv; the calculator for calculating the position of a company in distress in the RSS; CrediWeb; Dun & Brads

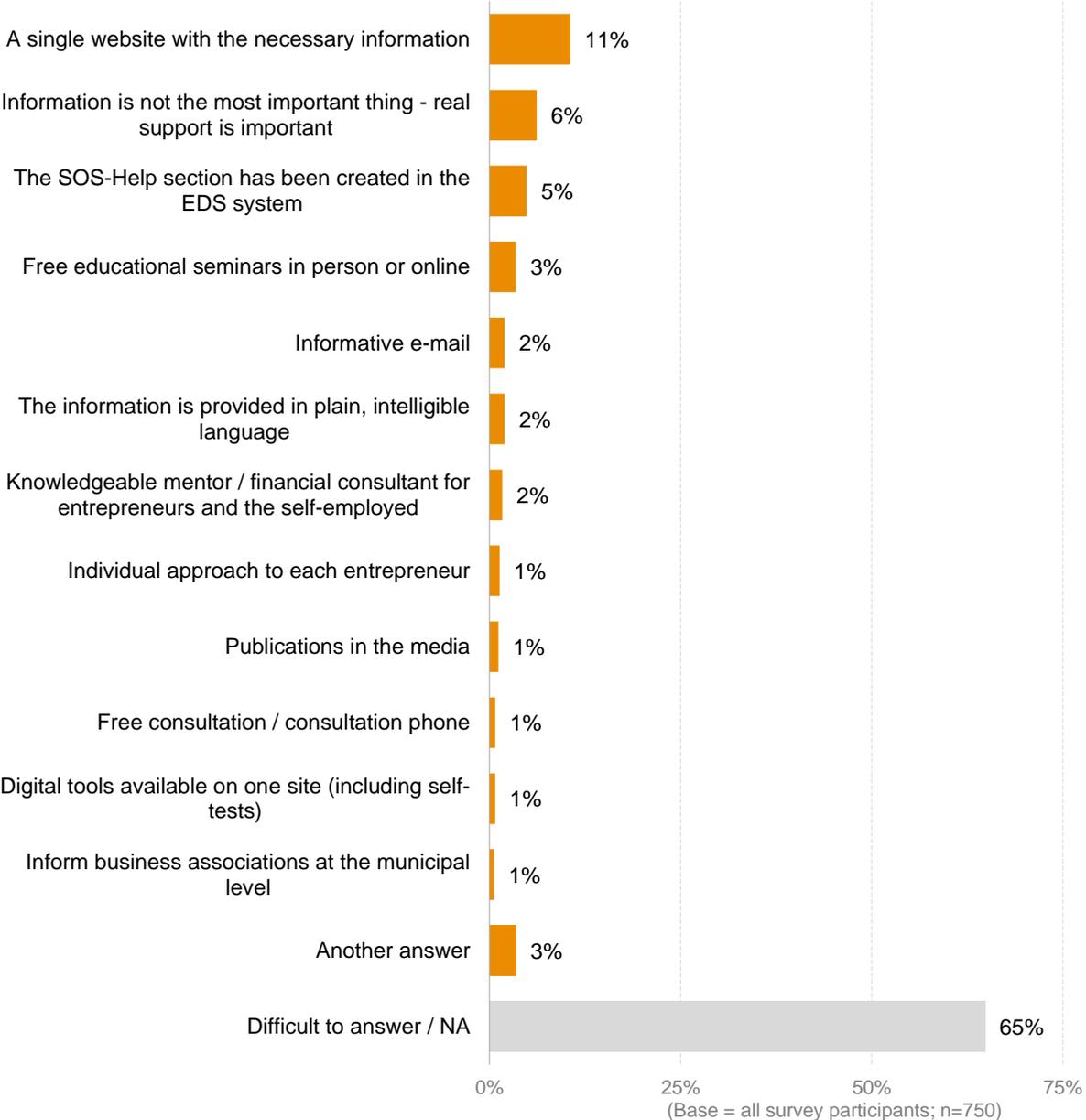
The most pressing problems for entrepreneurs in financial distress

Figure 31. Question of the survey: “In your view, what are the most pressing problems for merchants in financial distress, and when is it necessary to receive information for managing financial distress?”



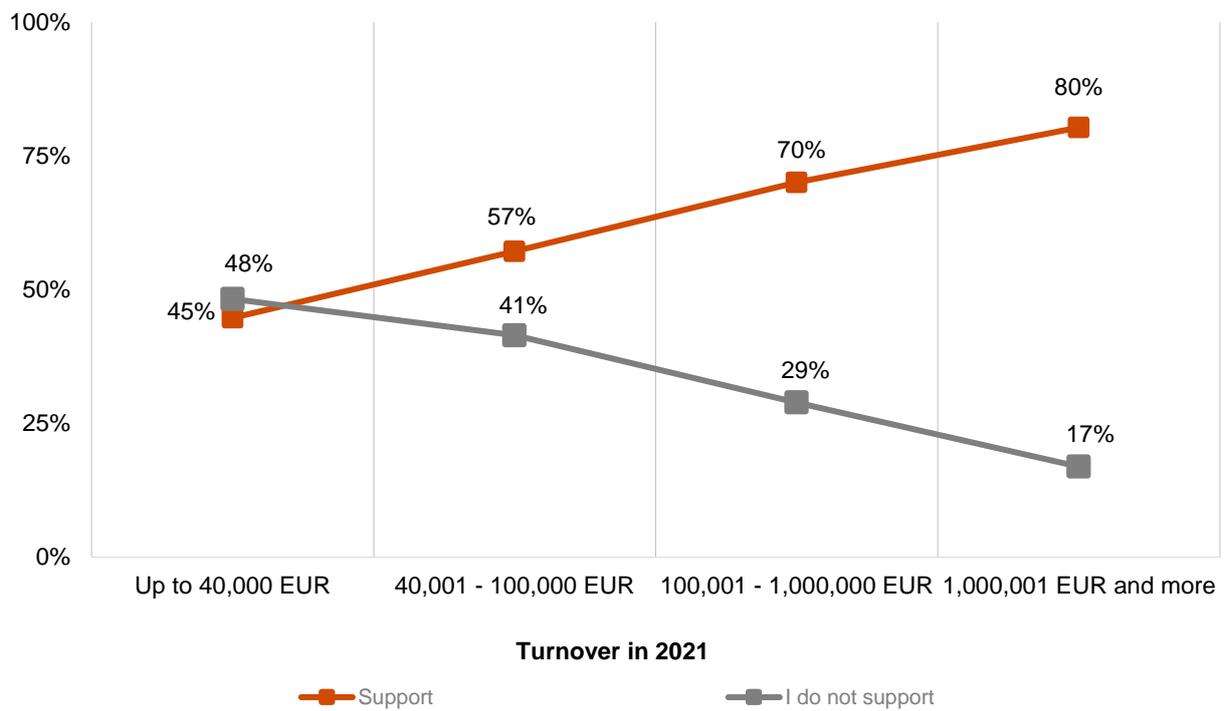
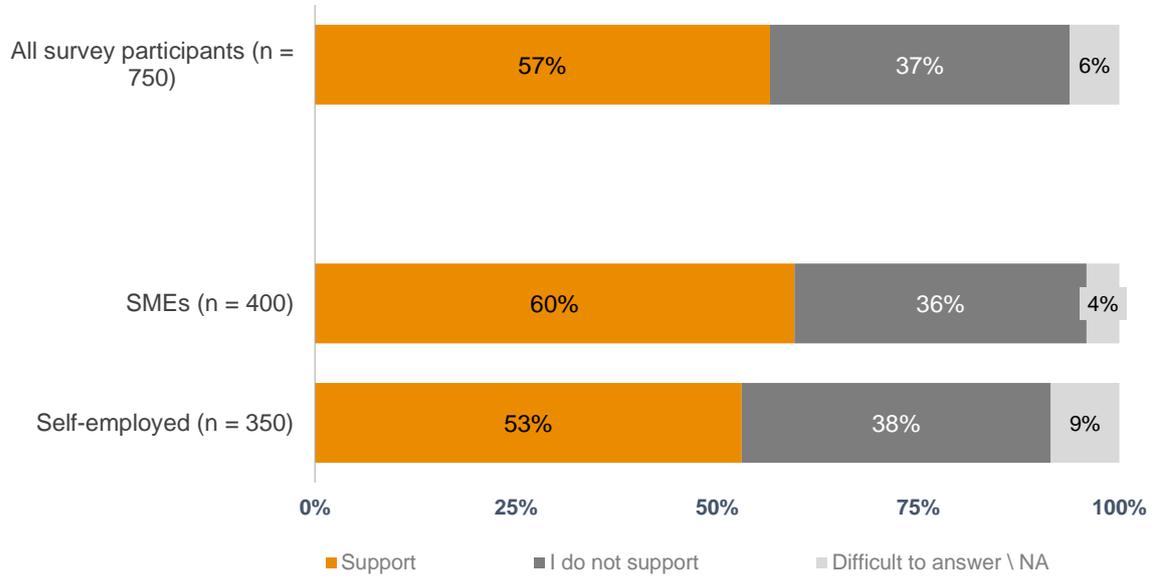
Proposals for improving availability of information

Figure 32. Question of the survey: “Do you have any recommendations/suggestions on how you think the availability of information among merchants about the possibilities to timely deal with and receive support in financial distress circumstances can be improved?”



Attitude towards the creation of a single website

Figure 33. Question of the survey: “National administration institutions are considering setting up a uniform website with information and advice on how to address financial distress. To what extent do you support such an initiative?”



2.C Consumers

C.1 Consumer life cycle

Purpose of the section: to evaluate the consumer life-cycle to identify the implemented activities, the points of contact of consumers with various institutions and organisations, and the options for the identifying and managing financial distress.

Methods used: the analysis of the laws and regulations⁴² and focus group discussions.

Findings:

From the point of view of contacts, the lender (credit institution), the manufacturer, seller or service provider and the SRS have the greatest opportunities to reach the most consumers in the early stages of their life cycle and to carry out preventive informational activities. In the phase of implementation of ideas, contacts are mainly with lenders, manufacturers, suppliers, or service providers, whereas in case of financial distress, contacts are mainly with creditors and the CRPC. When the consumer files, as a natural person, for insolvency proceedings, he/she comes into contact with the insolvency administrator and the court. In the event of a dispute between the consumer and the seller or service provider, the consumer may contact the CRPC for help.

• **During the implementation phase of the ideas:**

- **Information to be provided to the consumer before entering into the loan agreement and in the loan agreement.** Before the consumer has assumed the liabilities under the loan agreement or accepted the offer, the lender or lender's intermediary shall, on the basis of the terms and conditions of the loan offered by the lender and the consumer's expectations and information provided, if such has been provided, provide the consumer with such information in a timely manner and free of charge, which is necessary to compare different offers and make an informed decision on entering into the loan agreement.⁴³
- **Information to be provided to the consumer prior to the conclusion of the loan agreement on a loan where the collateral is immovable property or the purpose of which is the acquisition or preservation of rights in immovable property:** The lender or lender's intermediary shall ensure that clear and easily understandable general information on loan agreements is made available to the consumer at all times, free of charge, in paper form, on a durable medium or in electronic form.⁴⁴
- **Information on overdrafts, loan agreements entered into by member organisations, and loan agreements to fulfil obligations under the original loan agreement provided to the consumer prior to entering into the loan agreement to be provided to the**

⁴² The laws and regulations analysed are included in the "List of the information used " in the section "Life Cycle Activities and Contact Points Characterising Target Groups".

⁴³ The Cabinet Regulation No. 691 "Regulations on Consumer Lending" of 25 October 2016, Chapters V and VIII.

⁴⁴ Ibid., para 31.

consumer prior to entering into the loan agreement.⁴⁵

- **Information on the distance contract.** Before the consumer concludes a distance contract or has agreed to the offer, the seller or service provider must provide the consumer with the information in a clear and comprehensible form.⁴⁶
- **Information on out-of-court dispute resolution** provided by the seller or service provider in a clear, understandable, and easily accessible form on its website (if any) or included in the provisions of the contract (if any).⁴⁷.
- **Counselling services provided** only by lenders, lender intermediaries, or agents of loan intermediaries.⁴⁸
- There are two mechanisms available to consumers who, as natural persons, **find themselves in financial distress** to get out of the circumstances if they are unable to pay liabilities to their creditors in full, and they are included in the Law on Debt Relief for Natural Persons and the Insolvency Law.
 - **Release from debt cancellation** (up to EUR 5,000), a notary public provides informative support in the preparation of the application at the request of a natural person. In addition, persons in financial distress are required to attend financial education courses leading to the restoration of a natural person's solvency.
 - **As part of the insolvency proceedings of a natural person** (above EUR 5,000), the consumer must independently seek the possibility of obtaining legal assistance and advice on the issues of insolvency proceedings of a natural person, including the preparation of a draft plan for the settlement of liabilities. By entering into a separate agreement, the consumer may be granted legal assistance by the insolvency administrator. The law does not provide for counselling support to a natural person in preparing an application for insolvency proceedings, whereas the Insolvency Control Service organises the development and publication of methodological and informational material in the field of insolvency.

⁴⁵ Ibid., Chapter VI .

⁴⁶ The Cabinet Regulation No. 255 of 20 May 2014 "Regulations on Distance Contracts".

⁴⁷ Section 19 prim of the Consumer Rights Protection Law of Saeima of 18 March 1999.

⁴⁸ The Cabinet Regulation No. 691 of 25 October 2016 "Regulations on Consumer Lending", Chapter VII.

Table 6. A schematic overview of the process from the consumer's perspective

Everyone must engage in the activity
 The activity must be carried out depending on the situation

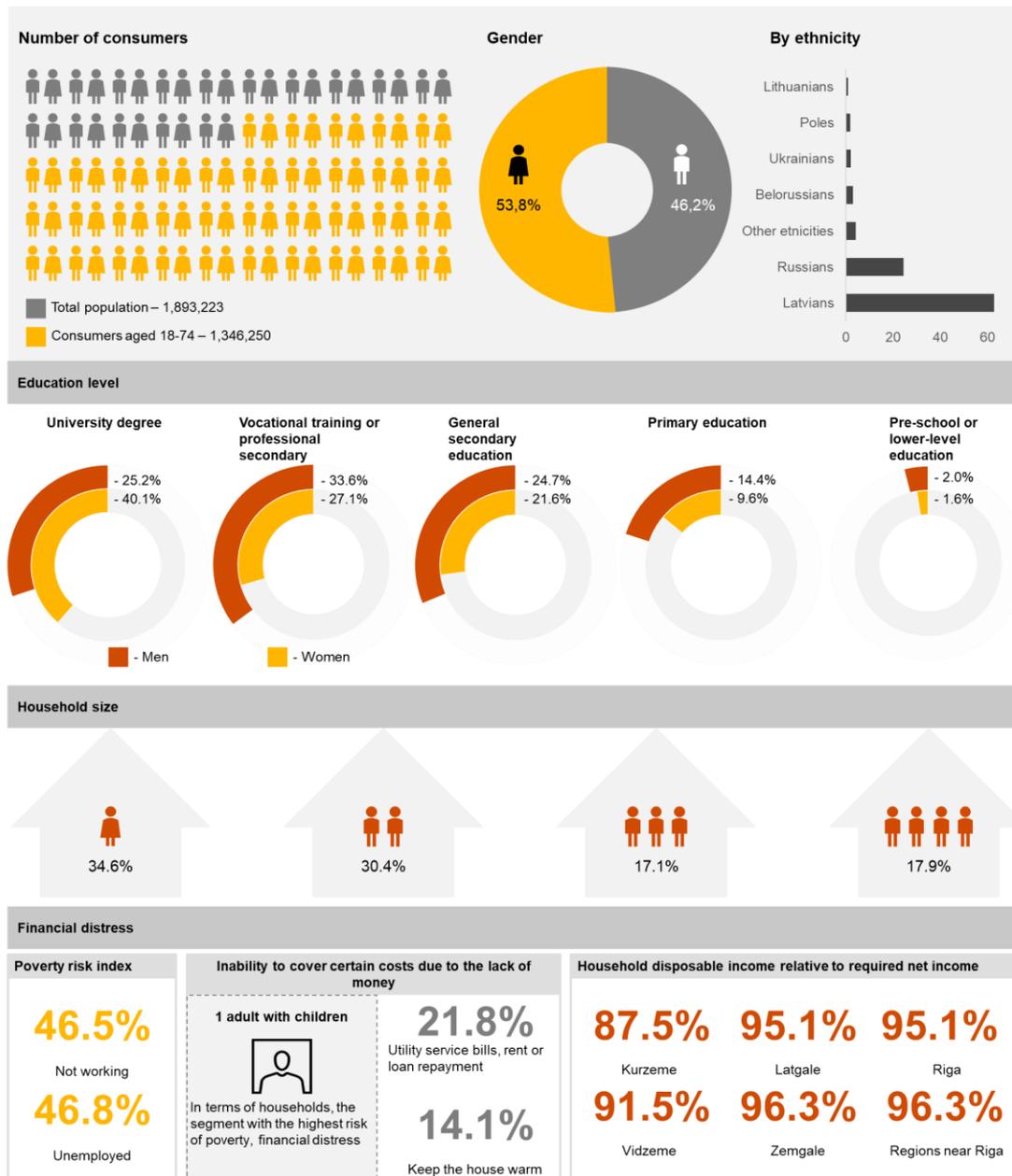
| Life cycle stage | Implementation of the idea | The occurrence of financial distress | Financial distress situation | | | |
|------------------|--|---|---|---|--|--|
| | | | Debt relief | Natural persons initiation of insolvency proceedings | Bankruptcy proceedings | Settling the obligations |
| Activities | <ul style="list-style-type: none"> The person borrows money to buy goods or services The person pays liabilities under the loan agreement or other obligations | The person establishes that he or she is unable or will not be able to meet their liabilities | <ul style="list-style-type: none"> The person applies for release from debt liabilities to a notary public (if the amount is up to EUR 5,000) The person attends financial literacy courses and masters their content The person participates in an initial counselling session with the social service within three months The person submits to the notary public a certificate on being employed or unemployed and the basis | The person prepares and submits a natural persons insolvency application to the court | <ul style="list-style-type: none"> The person transfers their funds to the administrator The person transfers his property to the administrator The person prepares a repayment schedule and sends it to all creditors or The person lodges an application to terminate the bankruptcy proceedings if no creditor has filed a claim The person submits a debt settlement plan to the court for approval if the creditors have not raised any objections⁴⁹ | <ul style="list-style-type: none"> After the court approves the repayment plan, the person fulfils the repayment plan of the natural person If necessary, the person submits amendments to the repayment plan to the court The person applies to the court to terminate the proceedings to cancel the debts and to terminate the insolvency proceedings. The court terminates the insolvency proceedings with or without a request to cancel the remaining liabilities. |
| Type of activity | ● | | ● | ● | ● | ● |
| Contact | Manufacturer Seller Supplier Creditor CRPC | Creditor | Notary public Creditor NVA Social service | Court | The administrator of the insolvency proceedings Creditors Court | The administrator of the insolvency proceedings Creditors Court |

⁴⁹ The debtor loses the right to incur new debts without the consent of the administrator. To earn further income according to their abilities.

C.2 Consumer profile

Purpose of the sub-section: to identify consumer profiles to get a view of the communication target group profiles and their characteristics.

Figure 34. An overview of consumers, 2021 data⁵⁰

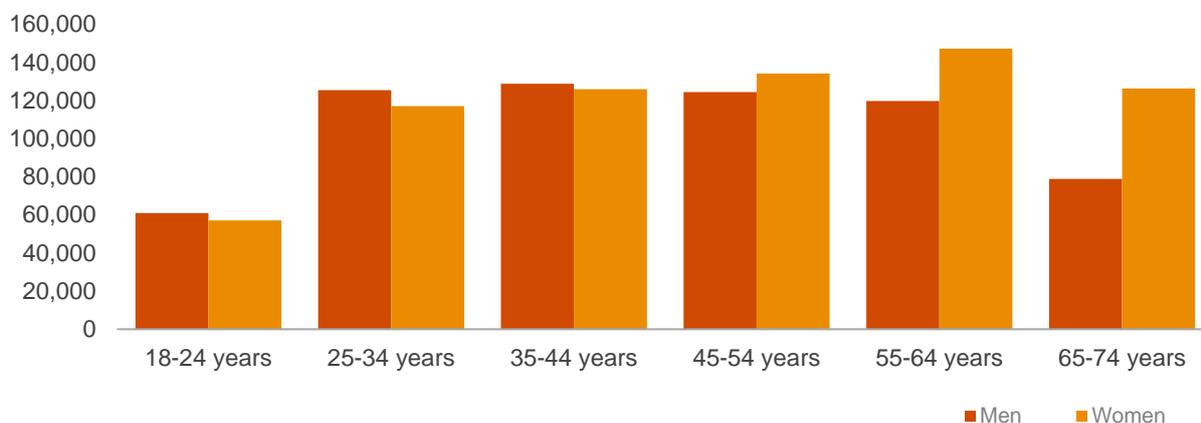


⁵⁰ All aggregate consumer data are calculated from 2021 onwards. However, the data on the household size are from 2020, as the data for 2021 were not published until after the report submission date.

Breakdown by age and gender

At the beginning of 2021, there were 1.893 million inhabitants in Latvia, of which 71.1% were aged 18 to 74, considered consumers for the purposes of the Project. Considering the sharp decline in the birth rate in the 1990s and the high migration rate, the percentage of consumers is decreasing every year. Women make up 53.8% and men 46.2% of the total number of consumers.

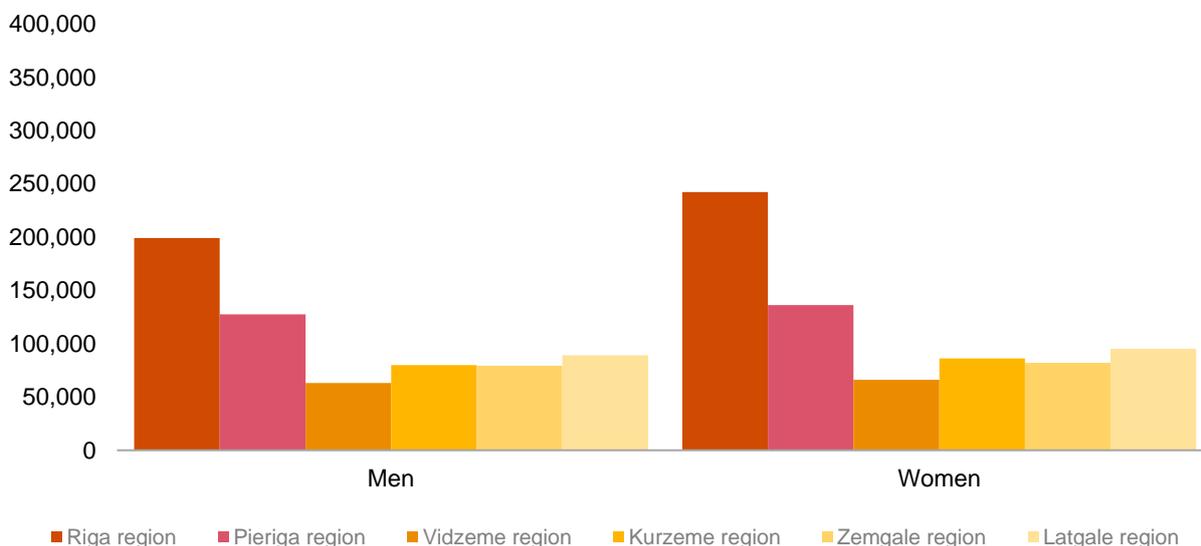
Figure 35. Consumers by gender and age in 2021⁵¹



Place of residence

About one-third of consumers live in the Riga region. The second highest proportion of consumers live in the regions near Riga, the only region where the population has grown in the last 5 years. In other regions, the share of consumers is significantly lower.

Figure 36. Consumers by gender in different regions of Latvia in 2021⁵²



⁵¹ CSB, 2021. Population by gender and age in regions and cities of the Republic at the beginning of the year 1971 - 2021.

⁵² CSB, 2021. Population by gender and age in regions and cities of the Republic at the beginning of the year 1971 - 2021.

Breakdown by ethnicity

The ethnic breakdown of Latvian population is made up of more than 10 nationalities. Latvians make up the majority or 62.7% of all Latvian consumers. The second largest ethnic group in Latvia is Russians, who make up 24.5%.

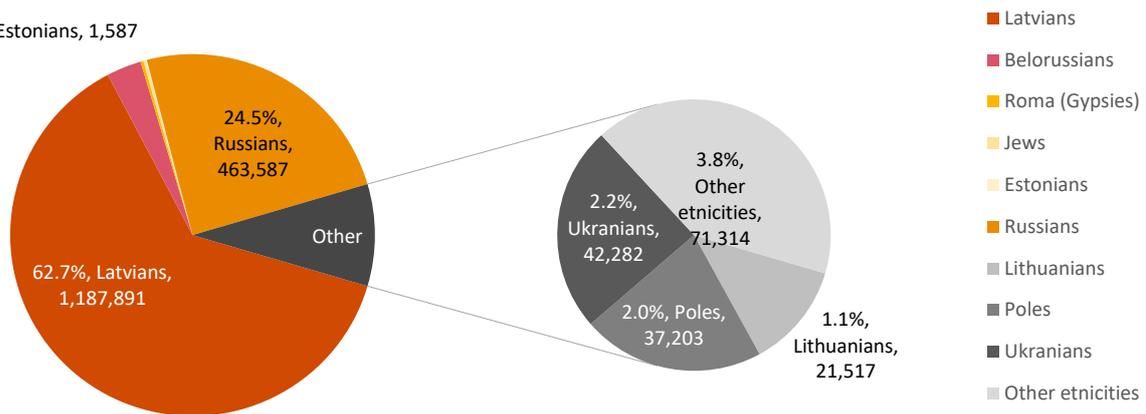
Figure 37. Consumers by ethnicity, 2021 data⁵³

3.1%, Belorussians, 58,632

0.3%, Roma (Gypsies), 4,838

0.2%, Jews, 4,372

0.1%, Estonians, 1,587

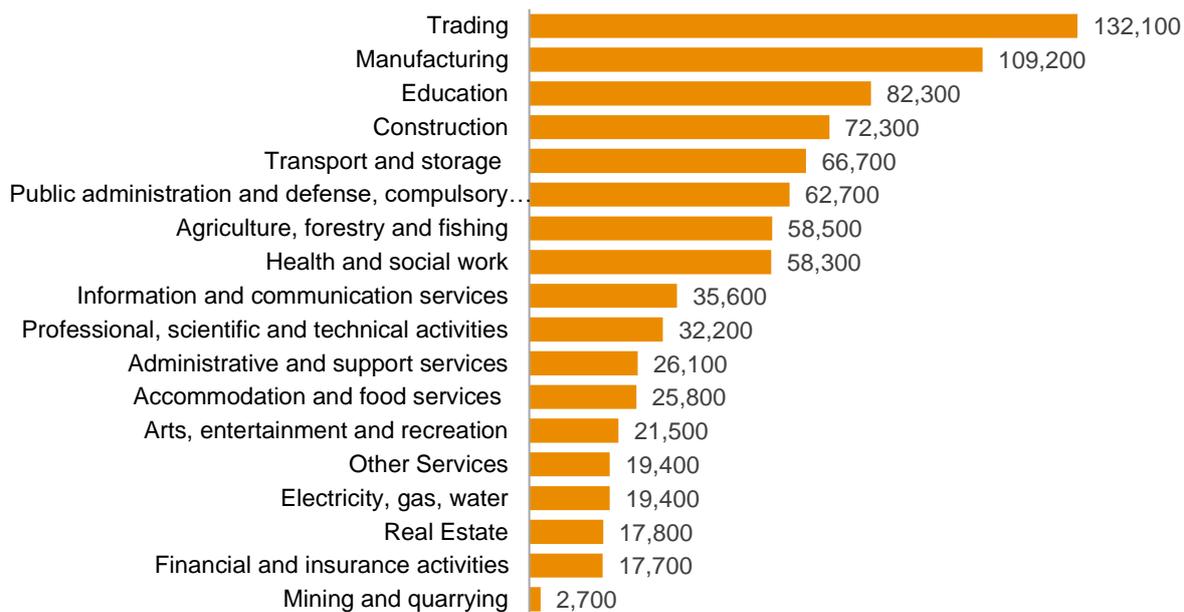


Occupation

In 2021, 860,300 or 63.9% consumers in the age group 18-74 were employed in Latvia. The largest number of the employed consumers is in trade, manufacturing and education. The first five sectors with the highest number of employees account for more than half or 462,600 of the jobs.

⁵³CSB, 2021. Population of certain nationalities, its changes and main indicators of natural movement 1980 - 2021.

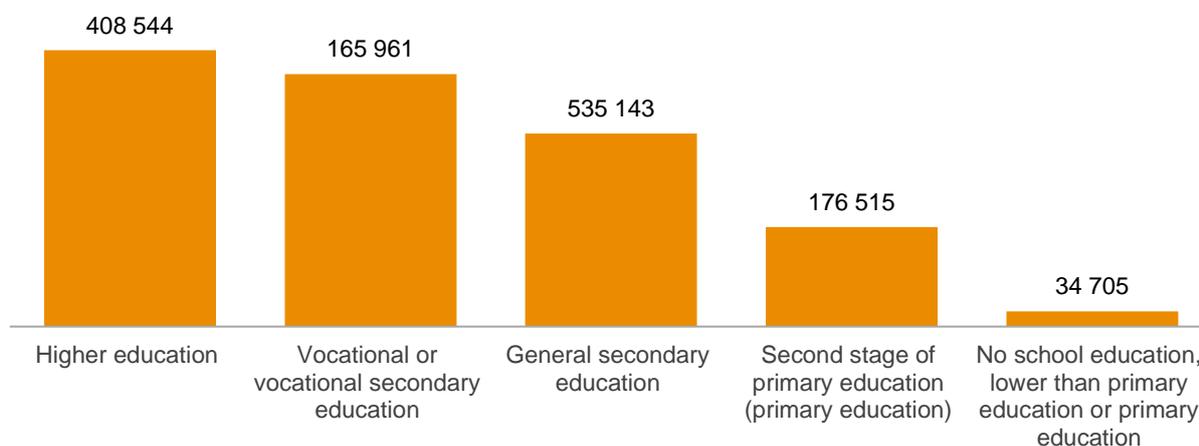
Figure 38. Employed consumers by type of economic activity, 2021⁵⁴



Education

The largest share of consumers in Latvia has a university degree (33%), while the share of the population with mainstream secondary education makes up 30.2%. The level of education should be considered when designing the communication strategy and the messages that will be understood by the target groups.

Figure 39. Education level, 2021⁵⁵



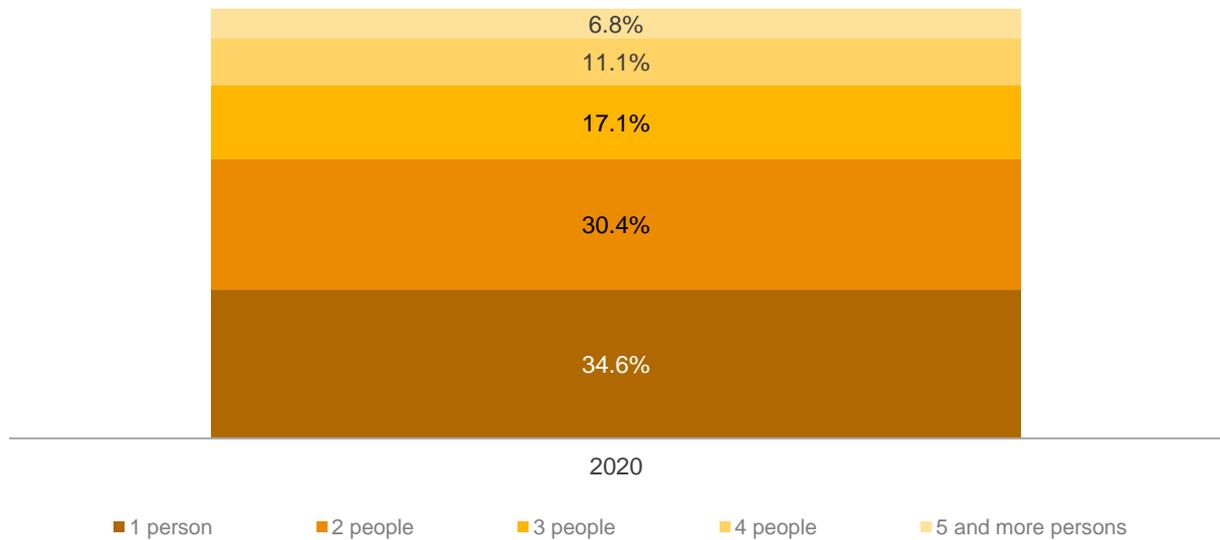
⁵⁴ CSB, 2021. Employees by type of economic activity and gender (NACE Rev.2) 2008 - 2021.

⁵⁵ CSB, 2021. Population aged 15-74, breakdown by holding university degree and gender (Labour Force Survey) 1996 - 2021.

Household size

Single-person households are most common in Latvia. Single-person households result from various trends, including the fact that the trend for multiple generations to live in one household is decreasing, both globally and in Latvia. It should be borne in mind that single-person households are exposed to a higher risk of financial distress.

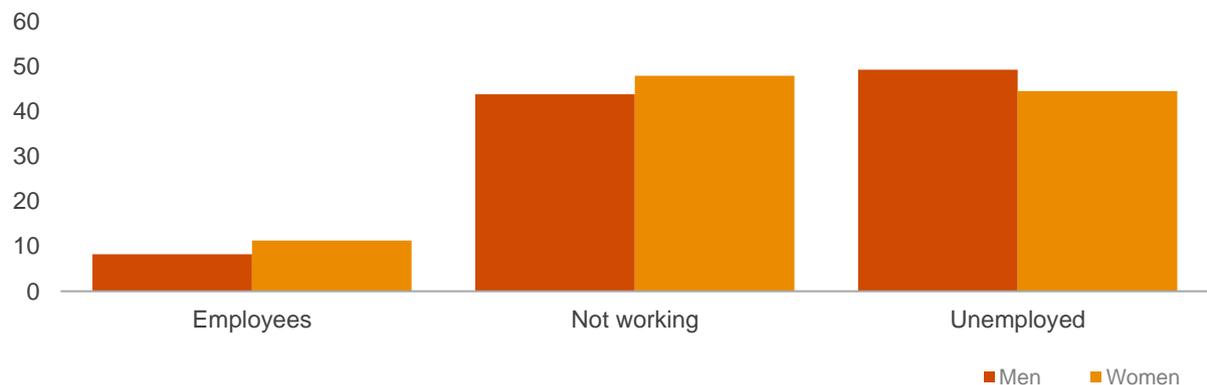
Figure 40. Breakdown of households by number of people (in %), 2020⁵⁶



Financial distress

Financial distress is related to low levels of wealth. In 2020, 407,000 or 21.6% of consumers in Latvia were at risk of poverty. The consumer groups most at risk of poverty are the unemployed and the unemployed without a stable income

Figure 41. At-risk-of-poverty rate by main employment status, gender and age group 18+ (%), 2020⁵⁷



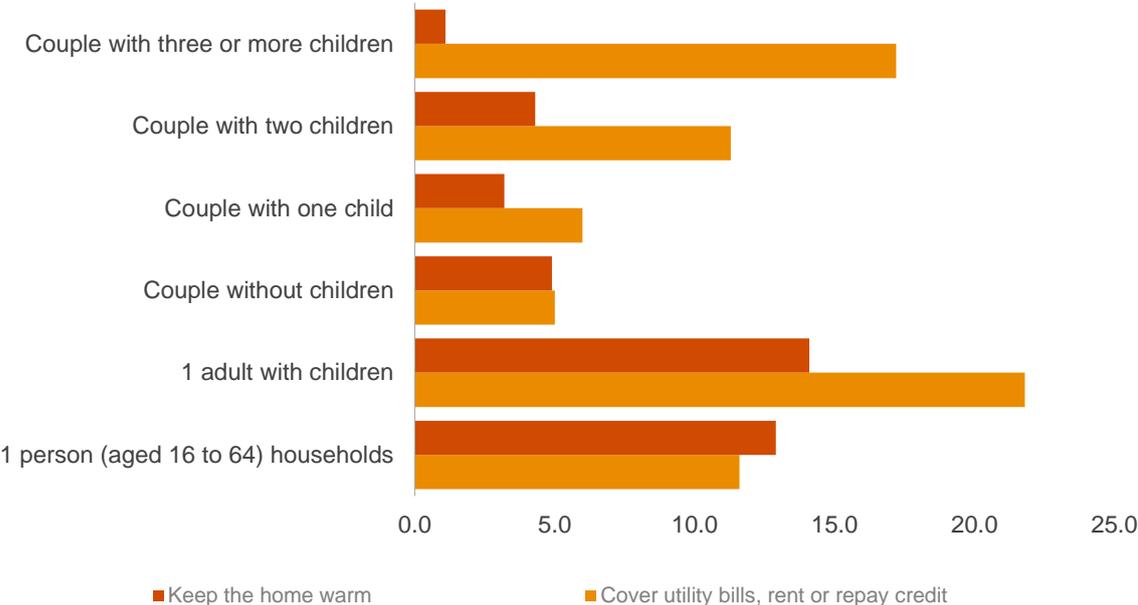
When households are broken down by number of persons, the risk of poverty due to financial distress is highest for households with children, especially for households with one adult and children. More

⁵⁶ CSB, 2020. Breakdown of households by number of persons (in per cent), 2005 - 2020.

⁵⁷ CSB, 2020. At - risk - of - poverty rate by main employment status, gender and age (percentage) 2004-2020.

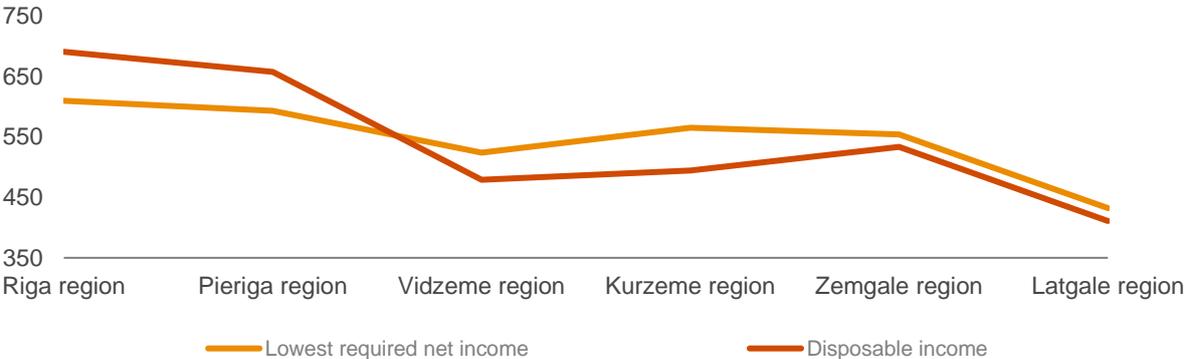
than 20% of all households with one adult and children were unable to pay their monthly bills. This is because the number of employed persons in the households is equal to or less than the number of dependent persons.

Figure 42. Share of households that could not afford to pay some bills due to lack of money (%), 2020⁵⁸



Regionally, major problems are typical for all regions outside Riga and near Riga, where disposable income does not exceed the lowest required net income.

Figure 43. Comparison of minimum net household income to make ends meet and disposable household income (EUR), 2020⁵⁹



⁵⁸ CSB, 2020. Proportion of households that could not afford to cover certain costs due to lack of money (percentage) 2005 - 2020.

⁵⁹ CSB, 2020. Comparison of households' minimum required net income to be able to make ends meet and household disposable income (EUR, per cent) 2005 - 2020.

C.3 Consumer information searching habits

Purpose of the sub-section: to evaluate the availability of information (to consumers) on possible solutions in situations related to financial distress — how information would be sought, what information sources would be used, to whom one would turn to for support, etc.

Methods used: a sociological survey (telephone interview (CATI) in the selection of respondents and online questionnaire for the main questionnaire, sent to the respondent's e-mail address) and analysis of previous research

Findings:

- **Experience of finding information on support for managing financial distress.** Nearly a quarter (23%) of Latvian population surveyed have searched for information that could be helpful in resolving their financial distress. The analysis of the research results in the groups of respondents formed according to different socio-demographic characteristics shows a natural tendency, the lower the monthly income of respondents per family member, the higher the number of respondents who have searched for information that could be useful for people in financial distress.
- **Information sources used on support possibilities to address financial distress.** The respondents, who **had searched** any information that could be useful for addressing financial distress, have searched the Internet using:
 - Internet news portals (mentioned by 60% of respondents);
 - Internet search engine (Google, Yahoo, Bing, etc.) (52%);
 - Websites of public institutions (52%).
 - Websites of local governments and their institutions (42%);
 - Social networks (Facebook, Instagram, LinkedIn, TikTok, Draugiem.lv) (32%);
 - Friends/acquaintances (32%);
 - www.latvija.lv (30%)
- **Experience of searching for information from institutions to assist in managing financial distress.** As for the recent experience, only in one out of four cases (25%) was information found easily. More often (27% of the cases), the respondents said that the information was found, but only after a long search on the websites of various institutions. 9% of respondents could not find the information themselves, so they called the institution and received counselling. 12% of respondents said that they found only part of the information, not everything they had hoped to find. 5% of respondents said they could not find the information they wanted at all and did not continue their search. Given the wide range of information sources available, this could indicate that citizens do not know which authority might be responsible for the matter that interests them, or the terminology used by specific institutions.
- **Sources of institutions (organisations) used.** Speaking of institutions, information about support options for managing financial distress (multiple response options) was most often searched:
 - In Social service (27% of respondents sought information there). It is important to note that the information provided by the social service was by far the most common (13% of the population who sought information on support options to solve financial distress) as the most useful of all sources. The positive evaluation was most often based on the fact that the institution provided specific/accurate information about social support options, such as welfare benefits;
 - 21% of respondents searched for information at a credit institution/bank, and 7% of respondents considered it most useful. Reason for the rating - the credit institution was interested in resolving the problems of the respondents and responded to them;
 - www.latvija.lv 19% of respondents searched for information, 7% rated it as the most useful, justifying this opinion with a wide range of useful information;
 - 18% of respondents have searched for information at local governments, 7% rated them as the most useful because the information is specific and accurate, and the relevant employees are interested in solving problems;

- 17% of respondents have searched for SRS information, and 6% rated it as the most useful;
- SEA information was sought by 16% of respondents, and 3% rated it as the most useful.

- **Sources of information on support options for managing financial distress.**

Respondents who **had not** previously **searched** for information on support options for addressing financial distress were asked to find out where they would look in the event of a mortgage and financial distress. Two options prevailed (multiple choice possible):

- Credit institutions/banks were mentioned as the first option to which one would turn in case of financial distress, it was mentioned by 42%, as one of the three options - by 62% of respondents;
- Friends, acquaintances, and relatives were mentioned as the first choice in case of financial distress, it was mentioned by 30% as one of the three options - 72% of respondents who have not yet found out about support options to manage financial distress.

Other sources of information about support options were mentioned far less frequently.

Consultations with a personal financial advisor or lawyer, as well as with an employer, were cited as one of the top three activities by 21%-26% of respondents.

- **The most convenient channels of information about support options for addressing financial distress.** The majority (52%) of the Latvian population surveyed cited the possibility of receiving information by e-mail sent centrally to all residents (e.g., through EDS) as one of the most convenient ways of obtaining information about support options for addressing financial distress. The results obtained across the different socio-demographic groups of respondents suggest a trend - the younger the respondents to the survey, the higher the number of respondents who preferred e-mail information sent centrally to all citizens. Among the youngest respondents under 30, as many as 70% favoured this option.

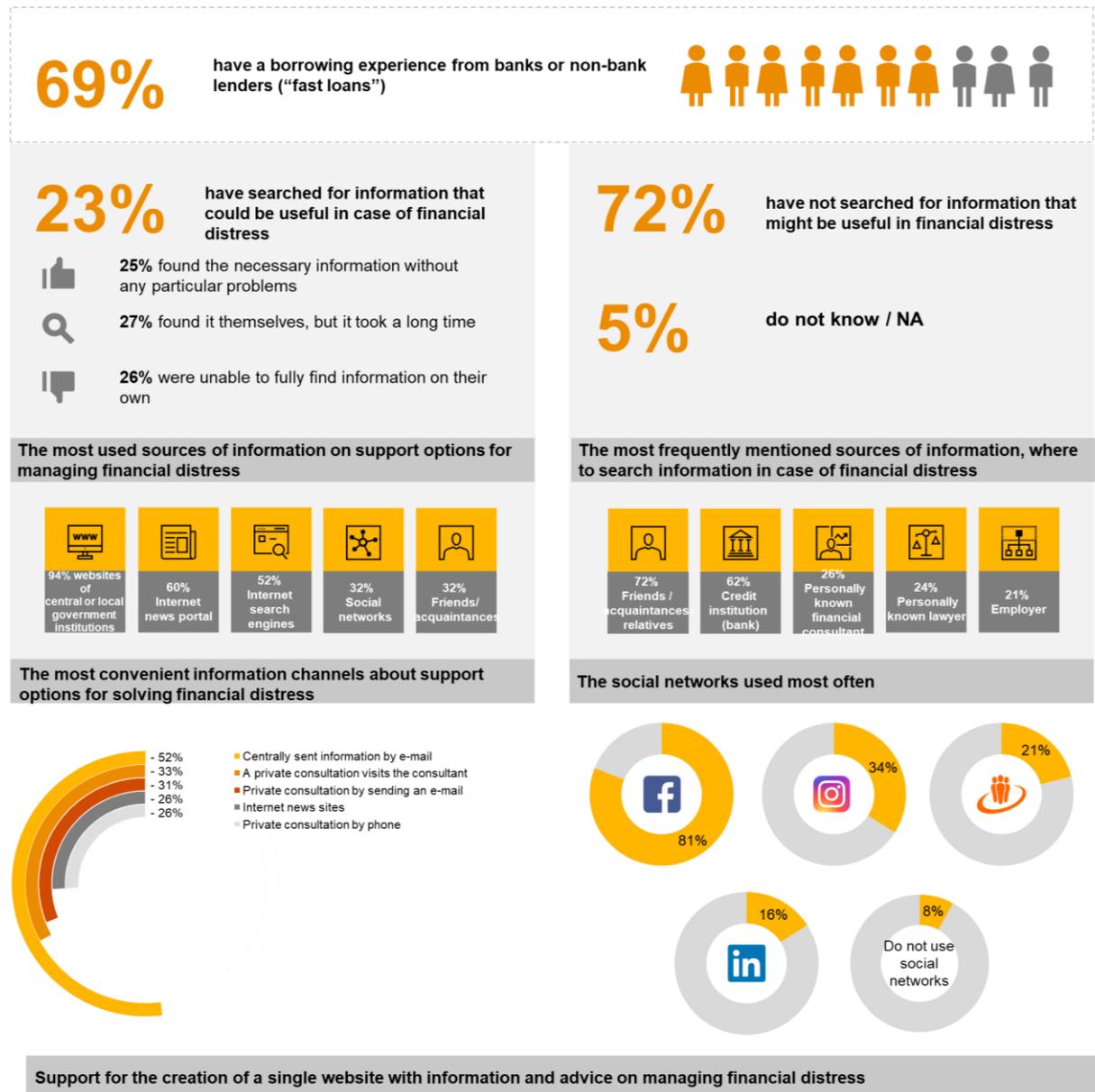
The next places in the hierarchy of the most convenient communication channels about support options for solving financial distress are taken by:

- Possibility of private counselling during an on-site visit with a counsellor mentioned by 33% of the Latvian population, this option was more often supported by study participants aged over 40 years;
- Possibility to conduct a private consultation by sending an email and receiving a personalised response by email - mentioned by 31% of survey participants, this option was more often supported by respondents aged less than 40 years;
- Internet news portals (Tvnet, Delfi, LSM, Apollo, etc.) mentioned by 26% of the population, the variant was supported more often by respondents under 40 years of age, Riga and other large cities (Daugavpils, Liepāja, Jelgava, Ventspils, Jūrmala, Rēzekne, Jēkabpils, Valmiera, Ogre) residents;
- Possibility of private consultation by phone was mentioned by 24% of respondents, and this option was more often supported by respondents under 40 years of age.

10% of survey respondents would like to see information about support options to address financial distress on social networks. Facebook is a convincing leader among social networks in Latvia, used by more than three quarters (81%) of the Latvian population. Less than half of respondents use other social networks, the second most popular social network is Instagram with 34% of the population as users, while draugiem.lv is third with 21% of using it.

- **Action in the event of financial distress.** The most common measures in the event of financial distress (multiple answers are possible):
 - Start timely discussions with creditors about the possibilities of debt restructuring (mentioned by 63% of Latvian respondents);
 - Reduce monthly expenses to a minimum, i.e., "tighten the belt" (57%);
 - Look for additional work (45%);
 - Borrowing money from friends or acquaintances (28%).
- **Support for the creation of a single website.** The attitude of Latvian society toward the creation of a single website with information and recommendations for addressing financial distress is almost unambiguously positive, with 91% of respondents supporting the establishment of such a website. 9% of respondents had negative views about the initiative. In none of the socio-demographic groups did the share of these respondents exceeded 12%.

Figure 44. An overview of consumer information searching habits



Experience of finding information on support for managing financial distress

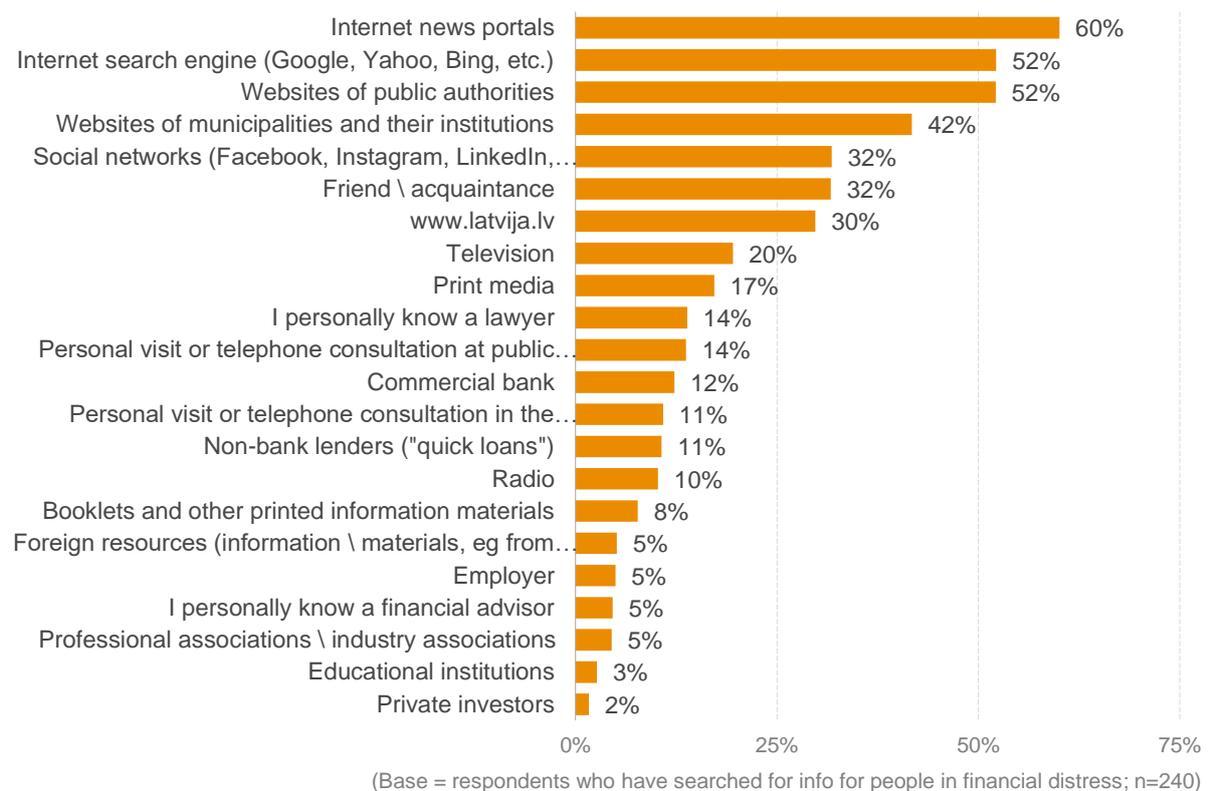
Figure 45. Question of the survey: "In the last 5 years, have you looked for any information that could be useful to people in financial distress?"



The most important sources of information on support options for addressing financial distress

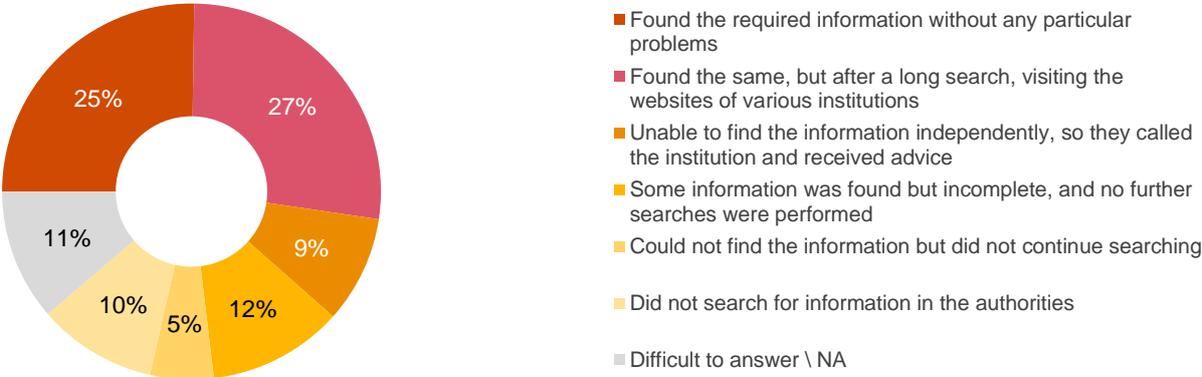
Sample - Respondents who searched for information that might be useful to people experiencing financial distress.

Figure 46. Question of the survey: "What information sources have you used?"



Experience of searching information with institutions on support for managing financial distress

Figure 47. The question of the survey: “What was your most recent experience of searching for information with institutions on support for managing financial distress of private individuals?”

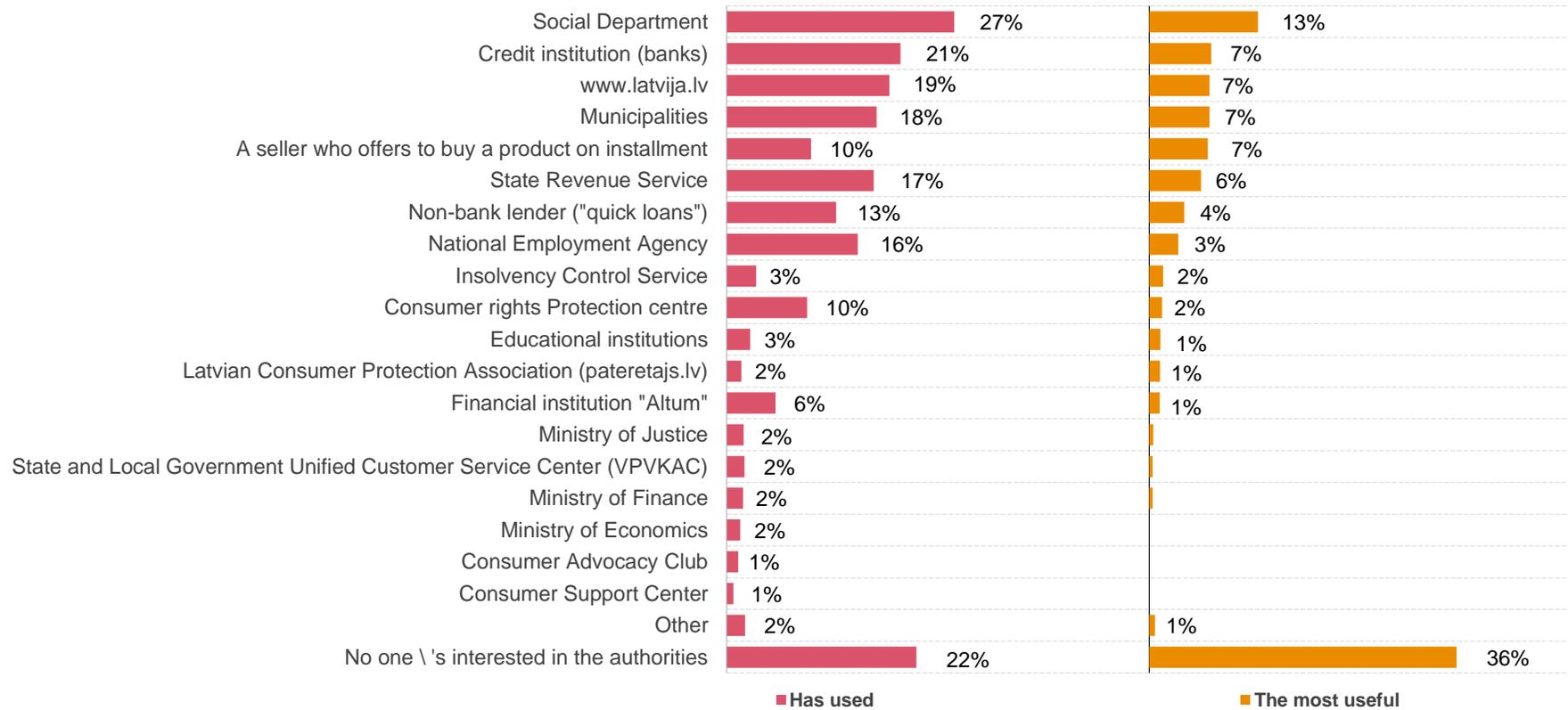


(Base = respondents who have searched for info for people in financial distress; n=240)

Institutional (organisational) sources used

Sample - respondents who have searched for any information that could be useful for people in financial distress.

Figure 48. Survey questions: "The information of what institutions on support for managing financial distress for individuals have you used? Which information provided by the institution (organisation) was most useful to you in practice? "

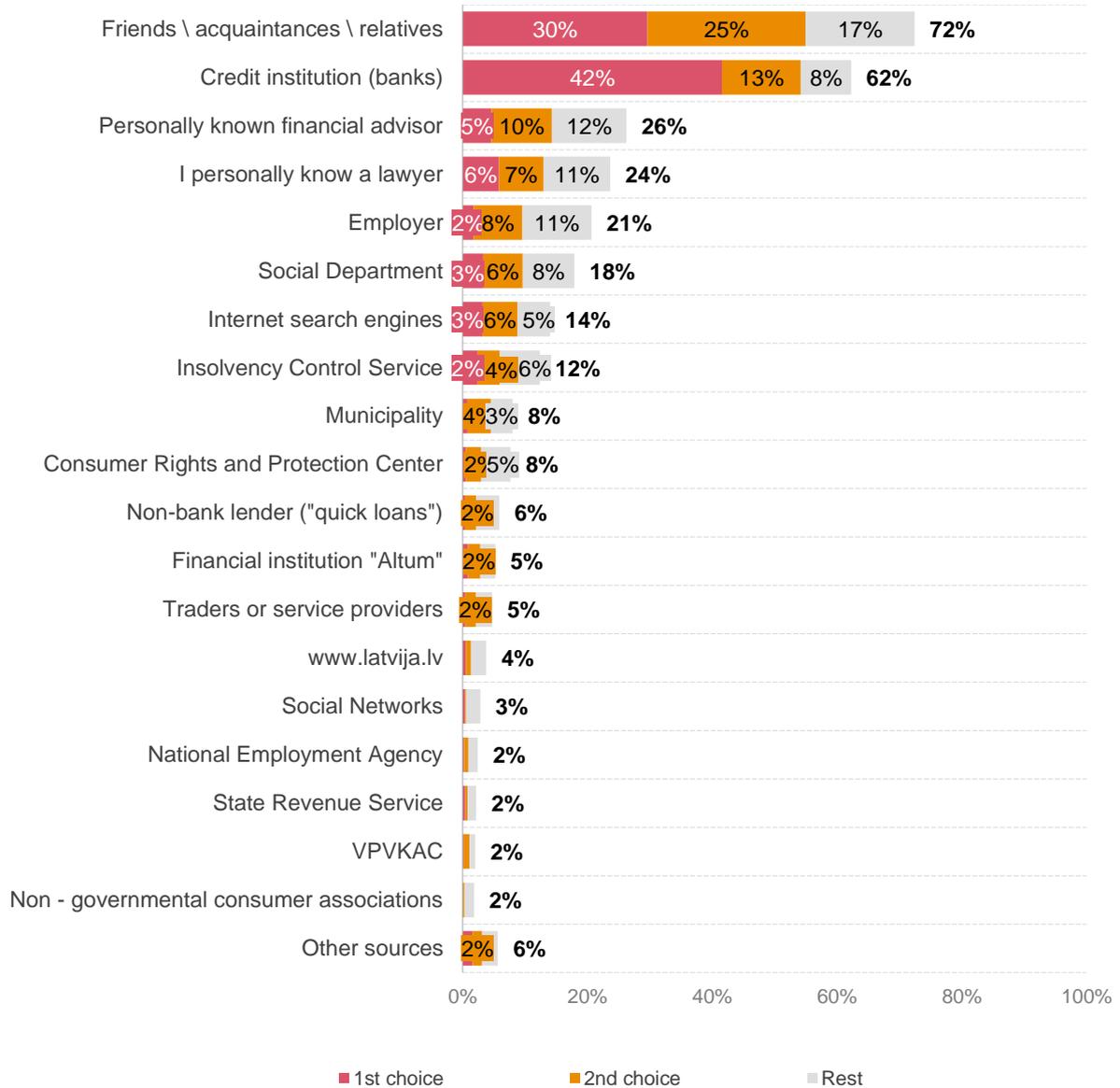


(Base = respondents who have searched for information for people in financial difficulties; n = 240)

Sources of information about support options for managing financial distress

Figure 49. Imagine you have a mortgage and are in financial distress. Where would you look for help to make your payments?

Where would you turn first? And where would you go next? And where else would you turn?

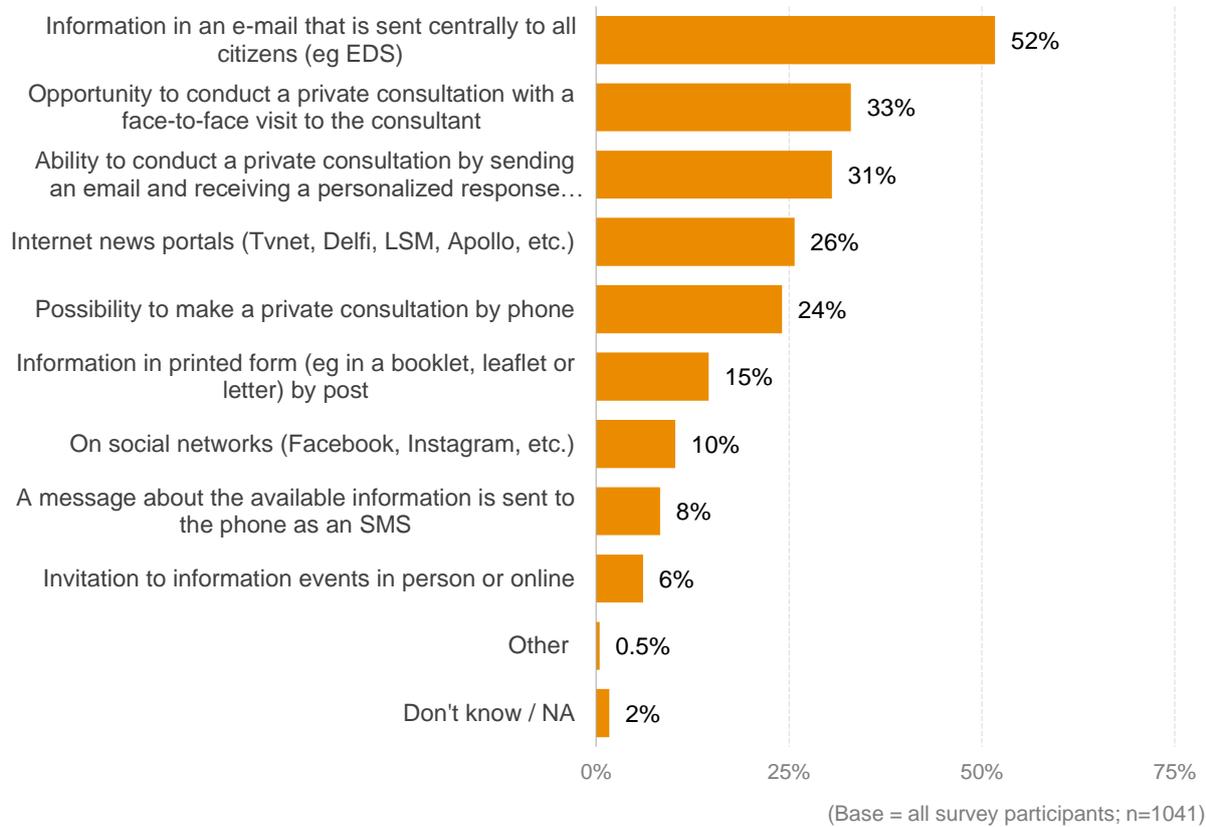


(Base = respondents who did not seek information for people in financial difficulties; n = 74€)

"Other sources" (in the graph) mentioned – I would look for other job opportunities; European Consumer Centre; Media; FM; The specific service provider where the debt originated; MoE; FCMC; MoJ; LAKRA; Educational establishments.

The most convenient information channels on support options for managing financial distress

Figure 50. Question of the survey: " What would make it more convenient for you to get information about the support options available to help individuals manage their financial distress?"

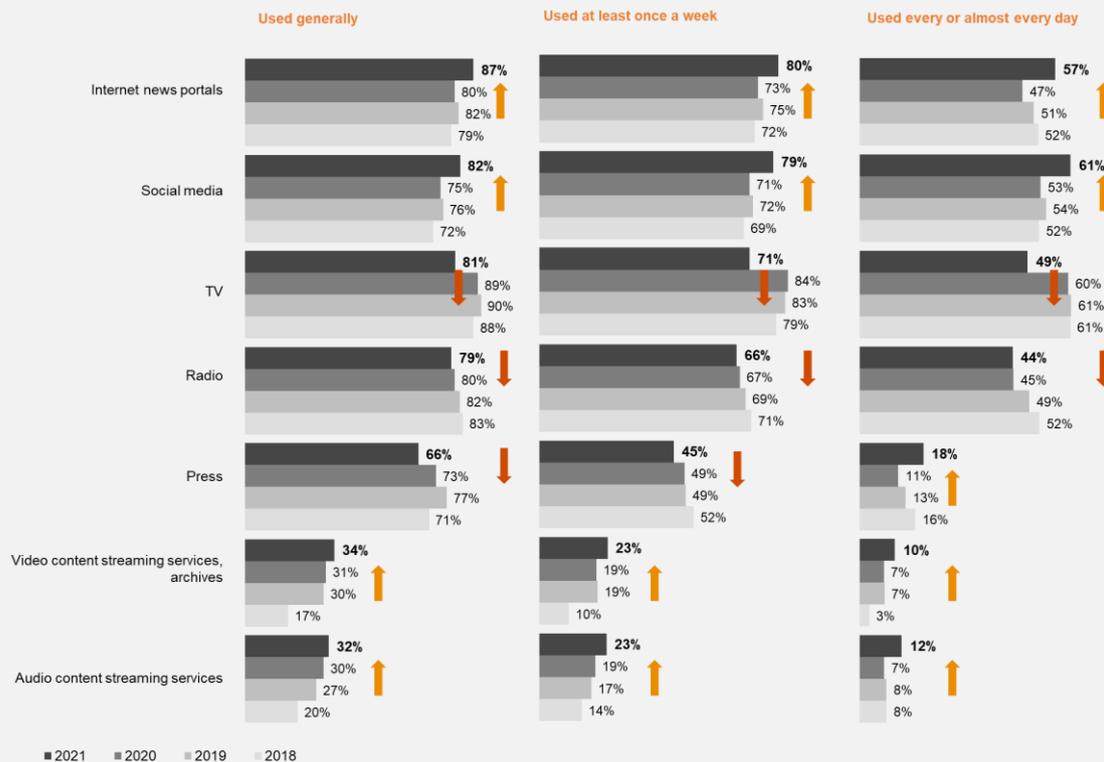


"Other" (mentioned in the chart) – *on a specialised website, created jointly by the state, banks and organisations; MoW website; bank; latvija.lv; possibility of conducting a private consultation remotely with a consultant (Zoom, etc.).*

Selection and use of information sources

The results of previous studies are consistent with the findings of this study. A study commissioned by the National Council for Electronic Media entitled “On Media Literacy and Media Usage Habits in Latvia” concludes that “traditional media inevitably lose their audience and have difficulty adapting to the communication environment created by new technologies. Social networks promote audience segmentation, where it is difficult to determine the outline of one group or another. People choose information from sources they trust, often without asking about the origin and veracity of the message. Even more important is the comfort provided by the presence of trusted, usually virtual, allies on social networks”.

Figure 51. Selection and use of information resources/media types⁶⁰



A study conducted by Latvijas Fakti for 2021 shows that the population is characterised by high digital skills. 86% of the population can get the information they need online. (see Figure 51)

The results are also confirmed by the results of the sociological survey conducted as part of the Project. The results of the sociological survey of consumers show that 99.7% of respondents have access to the Internet in their household and 99.5% of respondents use the Internet every day or almost every day. The potential of consumers to access Internet resources or information sources on the Internet is very high.

The results of both studies show the difference between the availability/use of the Internet (available to more than 99% of respondents) and the ability to get the information they need online (skills considered sufficient by 86% of respondents). The differences are because of:

- Different content of the questions
- A different study sample (the sample of the consumer sociology survey is the population under 74 years of age, while the ages in the Latvian Facts 2021 study were not registered). Consequently, the part of the population that indicated that they are not able to get the information they need on the

⁶⁰ Latvijas Fakti, 2021. A study of the media literacy and media content use habits of the Latvian population.

Internet could be over 75 years old.

The results of the survey suggest that there are differences in consumers' ability/skills to obtain information, not the lack of access to the Internet. It is possible to address these differences by promoting digital literacy among the population and ensuring easy access to and intuitive use of information resources.

Figure 52. Digital skills of the population, 2021 data⁶¹

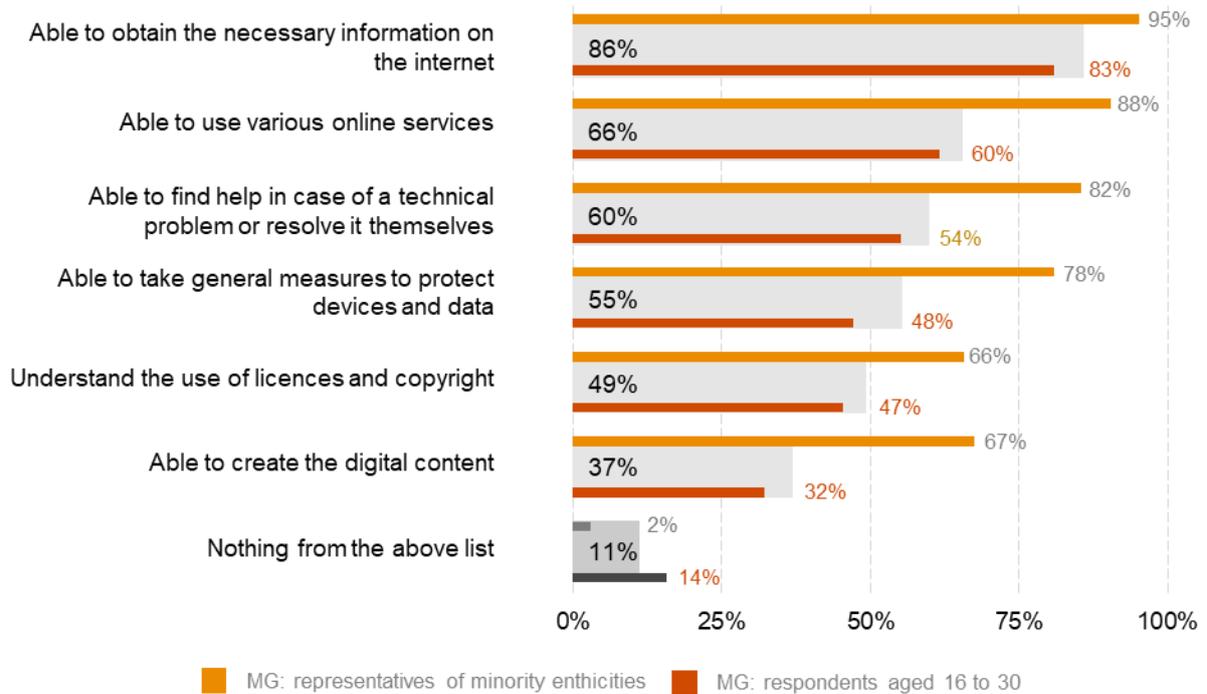
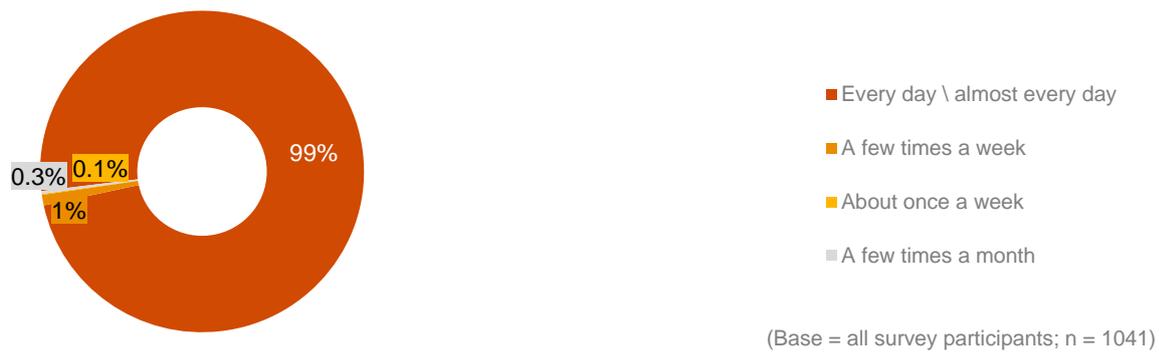


Figure 53. Question of the survey: “Do you have access to the Internet?”



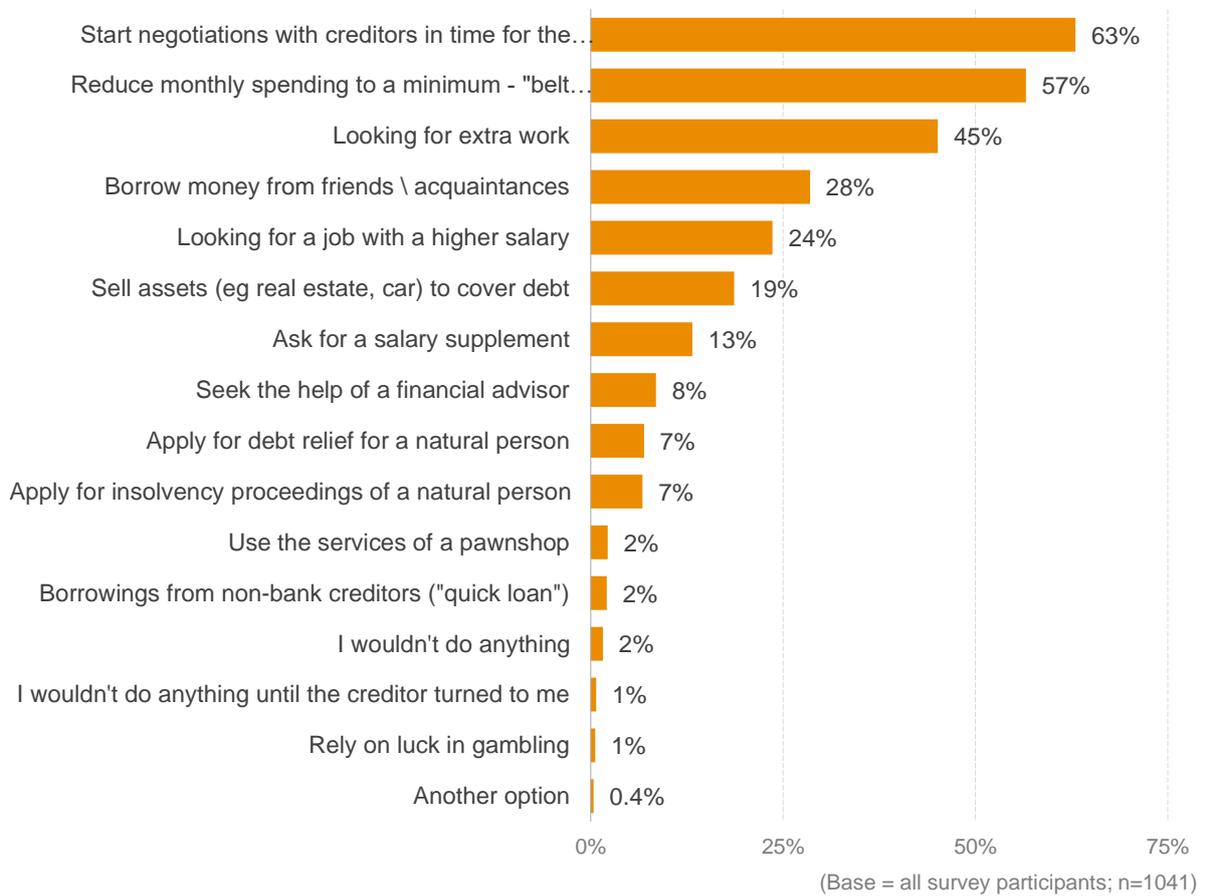
⁶¹ Latvijas Fakti, 2021.

Figure 54. Question of the survey: “How often do you use the Internet?”



Action in the event of financial distress

Figure 55. Question of the survey: “What would you do now if you were in financial distress?”



“Another option” (mentioned in the graph) – *I'd go to beg; Apply for a guaranteed minimum income benefit; Contact the municipality; I would leave Latvia.*

Attitude towards the creation of a single website

Figure 56. Question of the survey: “Public administration institutions are considering setting up a single website containing information and advice on how to deal with financial distress. To what extent do you support such an initiative?”



3. Skills, knowledge and attitudes of the target groups towards the aspects of financial literacy and managing of financial distress

3.1 Assessment of knowledge, skills and attitude

Purpose of the subchapter: to evaluate the knowledge, skills and attitudes (competence) of the target groups in resolving financial distress and to identify areas where they need to be increased.

Methods:

A sociological study (telephone interviews (CATI) in the selection of respondents and an online questionnaire for the main questionnaire, which was sent to the respondent's e-mail address), interviews with industry specialists, focus group discussions and analysis of foreign practice.

Findings:

SME and entrepreneurs

A single questionnaire was used to survey SMEs and entrepreneurs. To better compare the common and disparate features of the two target groups, the results of the survey are summarised in a single chapter and any differentiation on the results as per the target group is highlighted.

- **Knowledge of company financial management.** Two-thirds (67%) of entrepreneurs positively rated their knowledge of corporate financial management as sufficient or somewhat sufficient. The representatives of SMEs rated their knowledge slightly more positively (72% rated it as sufficient, among entrepreneurs - 61%). There is a trend - the higher the turnover of the surveyed companies, the larger the number of business people who evaluate their knowledge in this issue as sufficient.
- About half of the entrepreneurs have little interest in increasing their level of competence in financial management because they do not have time to deal with financial research if the main activity has been organised intensively (47%). This conclusion of the survey is consistent with what was said in the focus group interviews. The other main reasons why entrepreneurs tend to have inadequate financial management skills were most frequently cited:
 - Accounting is too complicated for small enterprises; you need to know too many specific things (this response was given by 50% of entrepreneurs);
 - No money to hire a financial manager or consultant (28%);
 - There is no specific training for micro and small business owners (22%).
- The merchants surveyed would like to get more information about the company's financial management on the following topics:
 - How to deal with various financial and accounting issues (need for financial and accounting advice) (mentioned by 39% of respondents; 44% of entrepreneurs, 34% of SMEs);
 - How to deal with various legal issues (need for legal advice) (32%);
 - How to optimise costs (31% of respondents; 36% of SMEs, 24% of entrepreneurs);
 - How to ensure business continuity \ develop a business continuity plan (15%).
- In three quarters (77%) of SMEs, the cash flow and financial situation of the company are monitored by the owner/entrepreneur himself. 24% of SMEs have a corresponding employee, financial officer,

accountant or similar, and 14% use outsourced services (accounting, financial consulting, etc.).

- **Awareness of the matters related to addressing financial distress for SMEs and entrepreneurs.** Most (57%) of SMEs and entrepreneurs surveyed described their level of knowledge on issues related to solving financial distress in the company as generally sufficient. The results in the groups of SMEs and entrepreneurs do not differ significantly, as 59% and 55% of respondents, respectively, rated their level of knowledge as sufficient. The companies with the largest turnover (over EUR 1 million) rated their awareness of solving financial distress in the company significantly better, as 80% of respondents rated their awareness as sufficient.

Consumers

- **Knowledge of the planning and managing of a household budget.**

The data obtained in the sociological study confirm the observations of Latvian experts (e.g., Latvijas Banka, FCMC) that the self-assessment of Latvian consumers in terms of financial knowledge is in line with other countries and is quite high, but some respondents cannot hide their lack of interest and scepticism as well as lacking motivation to follow good practice recommendations. For example, 22% of consumers surveyed say they have taken out a loan without reading the loan terms, 7% say they have given out information that is not entirely true, and 5% have been reckless and have agreed to cover a monthly loan in excess of 40% of their income.

According to the focus group interviews, the low level of social assistance and the need to cover urgent costs, such as medical treatment, contribute to inappropriate borrowing. On the other hand, blundering into fraudulent situations where consumers are offered a new financial product or service involves deliberately exploiting the gullibility of potential victims. The Financial Conduct Authority in the UK has developed a simple tool to enable consumers to check and avoid fraud in investment or pension offers (FCA Warning List)⁶².

The Latvian population's self-assessment of their knowledge of budgeting and budgeting management is quite high - 84% of respondents rated their knowledge on this topic as generally sufficient. Only 12% of respondents were critical of their knowledge of these issues. The analysis of the results of the study in the groups of respondents formed according to various socio-demographic characteristics does not reveal any significant trends. In all groups, the number of respondents who rated their knowledge as insufficient was below 20%.

Latvian society is interested in household financial planning, three quarters (76%) of respondents would like to receive additional information on these topics. The main issues are:

- How to deal with various legal matters? (of interest to 36% of the population);
- How to apply effective financial planning principles in daily life? (of interest to 29% of the population, more often young people under 30 (46%));
- How to negotiate with banks and non-bank lenders? (of interest to 22% of respondents, more often under the age of 40);
- How do you use different tools for budget planning and control? (22% of respondents are interested, more often respondents under 40 from numerically larger (3 or more) families);
- What do a person's bankruptcy proceedings look like? (21% of the population are interested in this).

Awareness of the matters related to managing financial distress for the population.

- The Latvian population surveyed was significantly more reserved in assessing their awareness of issues related to resolving financial distress than in their knowledge of budget planning and management. One in two study participants rated their knowledge as generally adequate, while 41% had a critical self-assessment. The results obtained in the different socio-demographic groups in the respondents overall show that the entrepreneurs surveyed are relatively better informed about the steps to solve financial distress. There is a tendency - the lower the level of income per one family member per month, the more respondents described their knowledge of these issues as insufficient.

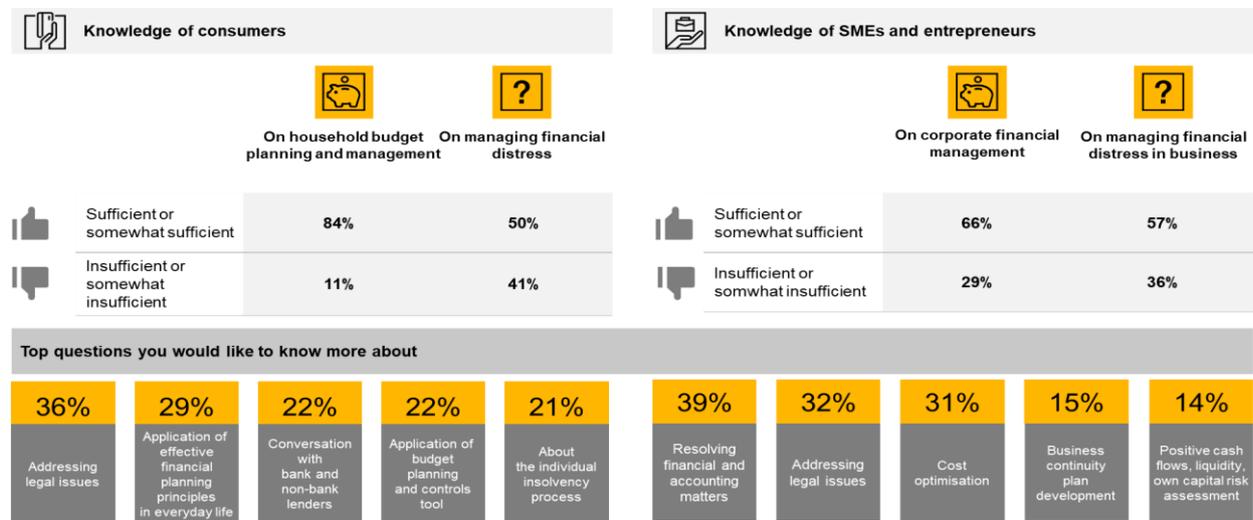
The main interest of the public is in the following information to help overcome financial distress

⁶² British Financial Management Authority, 2022. *FCA Warning List*

(there are several possible answers):

- Information and advice on overcoming financial distress (55% of the population is interested in this);
- Consultations with a lawyer or financial specialist (43% of respondents are interested in this).

Figure 57. An overview of the consumer. The knowledge and skills of SMEs and entrepreneurs in dealing with financial distress.



In assessing knowledge and skills, the results of sociological study, the results of previous research, and an analysis of foreign experience were used. The results of previous research show that Latvia has relatively low financial knowledge, which is one of the reasons for the inability to identify and solve financial distress. In a study conducted by PwC, the self-assessment of the company's budgeting and financial management is quite high and marks a significant difference between the self-assessment and the actual situation. However, if we compare these results with other studies, for example, about the level of financial literacy of the population, we find that this result is not consistent with the assessment of financial literacy of the population (individuals). Such results can be explained by the fact that self-esteem is higher than actual knowledge and skills. At the same time, the target groups indicate several topics about which they would like to have more information, suggesting that knowledge and skills need to be improved.

Table 7. A summary of the knowledge and skills of the target groups

| | Latvia ⁶³ | Consumers | | | SME and entrepreneurs | | |
|---|----------------------|--------------------|--------|-----------|-----------------------|---------|--------|
| | | USA | Canada | Australia | Denmark | Germany | France |
| Knowledge of household budget planning and management (self-assessment) | 84% | No comparable data | | | | | |
| Knowledge of corporate financial management (self-assessment) | 66% | | | | | | |

⁶³ The sociological study identified the percentage of the target group that considers itself knowledgeable in the field of corporate financial management (SMEs and entrepreneurs) or in budget planning and management (consumers). The indicated percentage of respondents is calculated by adding the number of respondents who consider their knowledge to be somewhat sufficient and applying it to all respondents.

Level of financial literacy of persons⁶⁴

48%

57%

68%

64%

71%

66%

52%

SME and entrepreneurs

Knowledge of the company's financial management

Figure 58. Question of the survey: "How do you rate your knowledge of corporate financial management?"

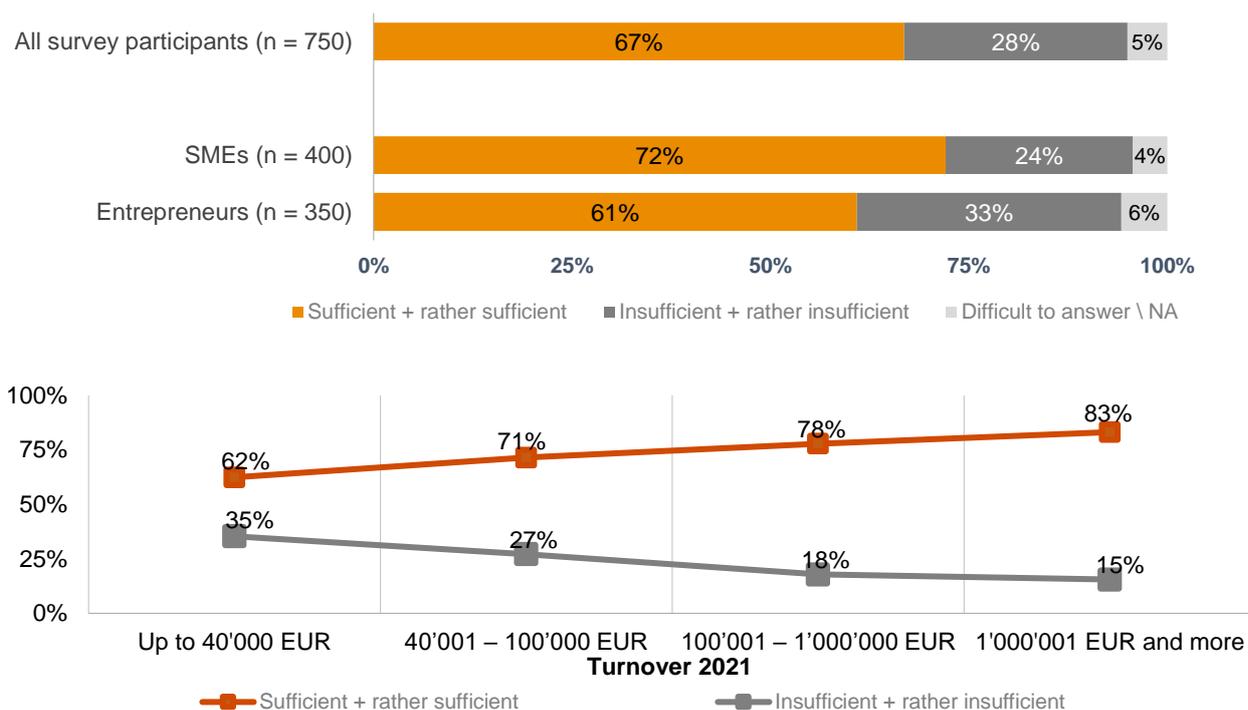
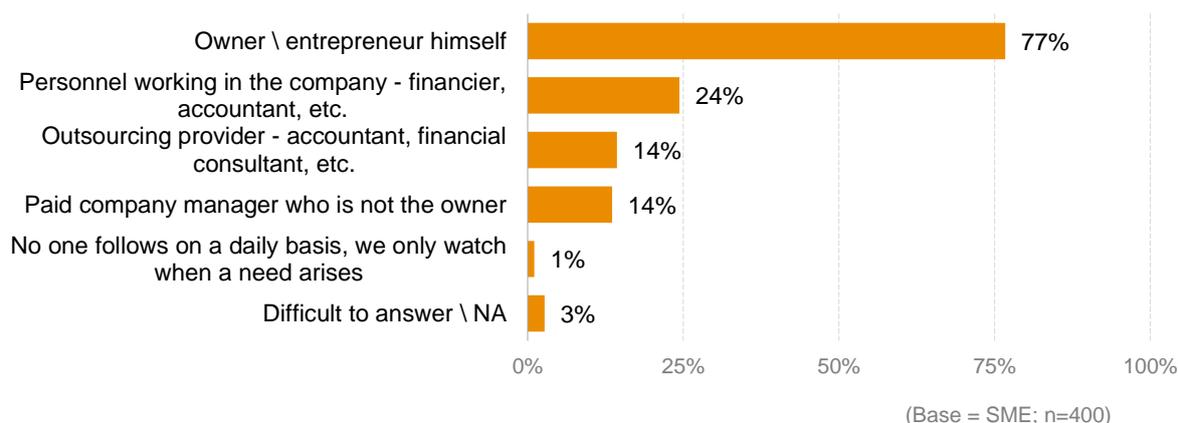
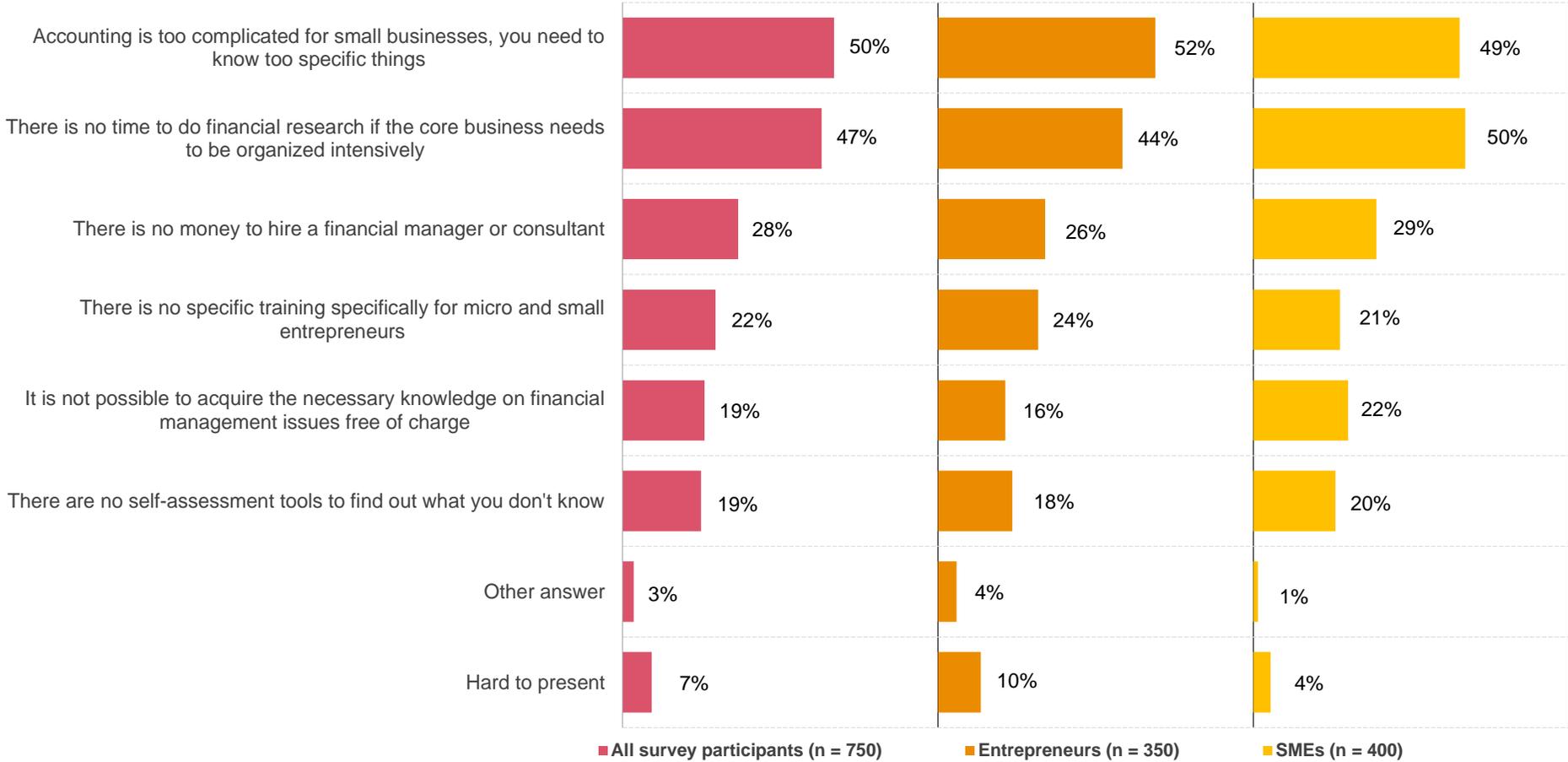


Figure 59. Question of the survey: "Who in your company keeps track of your company's cash flow and financial position?"



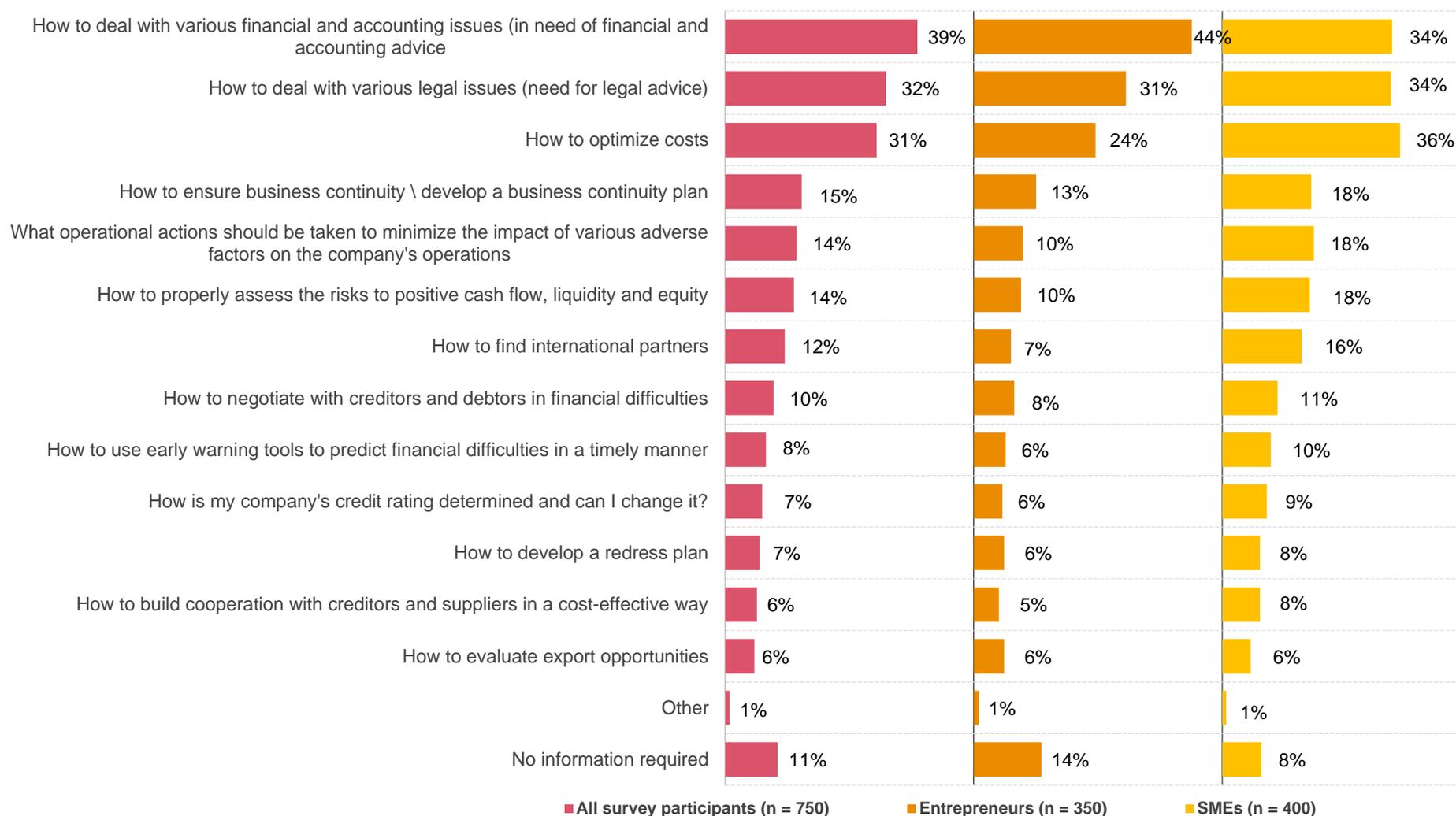
⁶⁴ A person is defined as financially literate when he or she correctly answers at least three out of the four financial concepts: basic numeracy, interest compounding, inflation, and risk diversification. (Financial literacy around the world: Insights from Standard & Poor's Ratings Services Global Financial Literacy Survey, 2015)

Figure 60. Question of the survey: “In your opinion, what are the main reasons why entrepreneurs tend to have insufficient knowledge of company’s financial management?”



“Other answer” (mentioned in the graph) – Lack of motivation /professionalism; Legislation changes too often; Lack of Internet skills (older entrepreneurs).

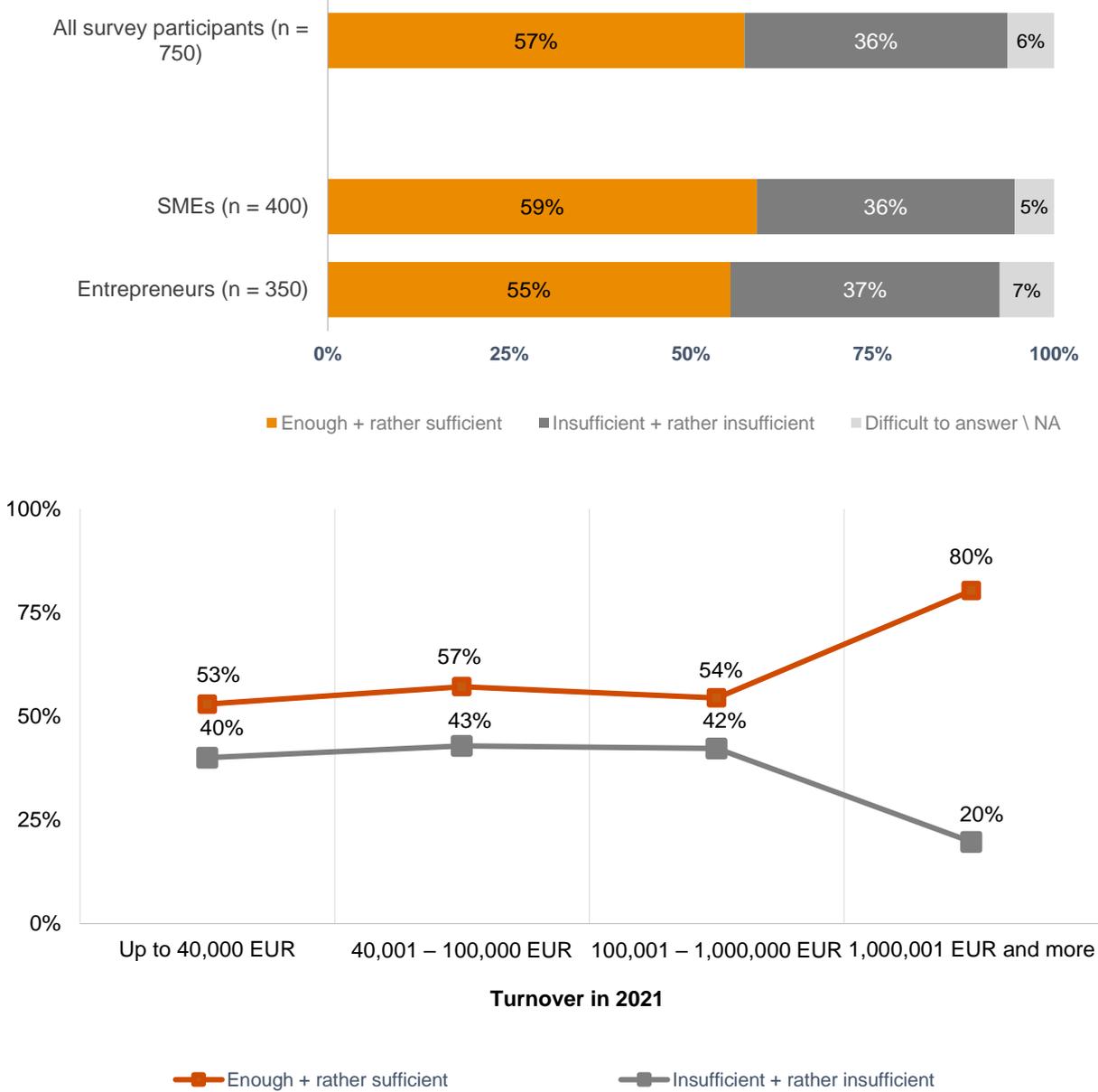
Figure 61. Question of the survey: “Regarding which questions about company financial management would you like to have more information?”



“Other” mentioned (in the chart) - issues of non-financial management (information technology (IT), marketing); establishment of an internal control system in the company in connection with the law on prevention of money laundering and financing of terrorism.

Awareness of matters related to managing financial distress for SMEs and entrepreneurs

Figure 62. Question of the survey: “How would you rate your level of awareness about resolving financial distress in business”

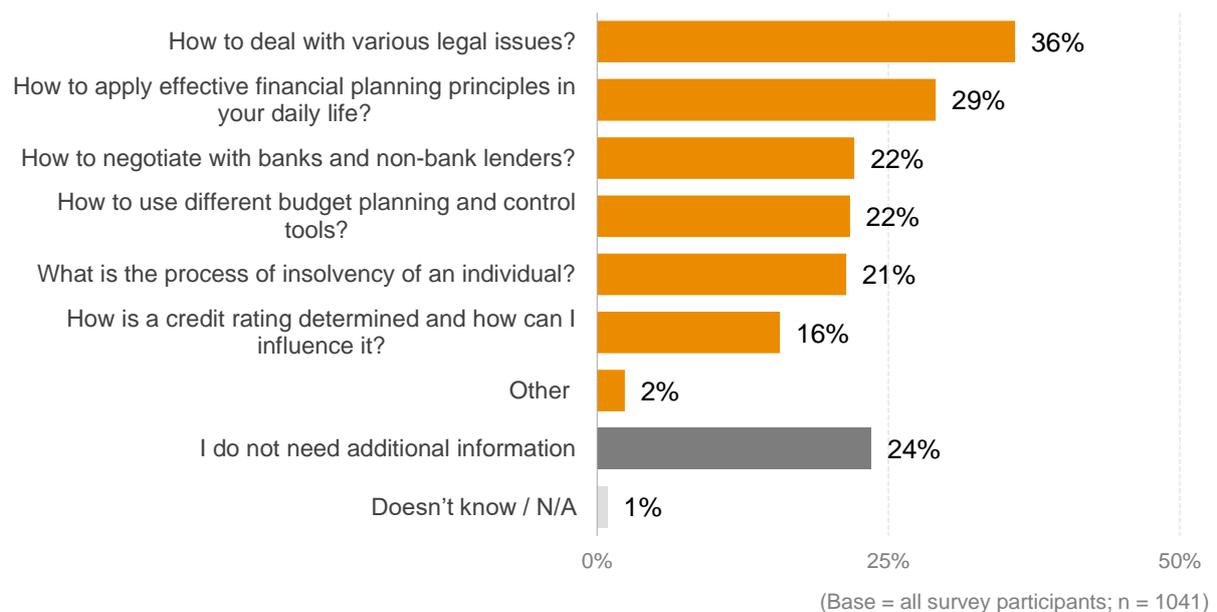


Knowledge of household budget planning and management

Figure 63. Question of the survey: “How do you rate your knowledge of household budget planning and management?”



Figure 64. Question of the survey: “For which questions about financial planning would you like to get more information?”



“Other” (mentioned in the graph):

- How to save taxes?
- How to invest money safely?
- How to not only plan but actually survive on the minimum wage, minimum pension, minimum disability pension? Real advice, financial planning, but so that it is enough for clothing, healthy food, utilities, etc.
- How to find a good paying job abroad and settle in another country?
- How can a foreign-born Latvian (a Latvian with no experience in the Latvian system) get help in a crisis? Those who do not know about it do not get help. The bureaucratic system, local government and institutions know all about it..

Awareness of the matters related to managing financial distress for the population

Figure 65. Question of the survey: “How do you assess your level of awareness of matters related to managing financial distress for the population?”



Figure 66. Question of the survey: “What information or support would you need to be more successful in managing financial distress?”



3.2 Best practice examples

Purpose of the subchapter: to identify examples of foreign best practice related to the identification and managing of financial distress of SMEs, entrepreneurs and consumers, in order to make recommendations on how to create the most appropriate model for Latvian circumstances.

Method: An in-depth analysis of best practices using publicly available information about six countries where best practices have been applied to address issues like those in the case of Latvia.

Criteria for selecting countries:

- The level of financial literacy higher than in Latvia (see Table 7).
- Targeted communication activities aimed at informing target groups and changing their behaviour are available through on-site and/or off-site channels

Findings:

Strategically managed communication with target group on on-site and off-site channels is key. In most examples identified in foreign experiences, the common feature is communication that is strategically managed, i.e., the coordinating institution (process owner) and/or a single digital platform as the main communication channel that aggregates information about the support provided by different institutions and organisations. The following examples of strategically managed communication are used in the foreign experiences:

- Websites, aimed at providing information on identifying and managing financial distress available in a single place to the widest possible audience. Based on foreign experiences, websites can be divided into two groups. Regardless of the model chosen, a single website is a valuable solution that allows an information seeker to find the information they need in one place or to refer to other specific sources of information and serve as the first point of contact for a person in financial distress.
 - A **central platform** where information about the opportunities and services offered by the public administration is available in one place and fully integrated. The information is compiled thematically and is not limited to the jurisdiction of a particular institution. (Examples from Canada and France)
 - **Thematic platform** dealing exclusively with financial distress. It provides background information on key issues and hyperlinks to the external resources of institutions and organisations, where information is available in a detailed format. (Example from the U.S., Germany, and France).
- An advisory mechanism, aimed at providing access to personalised advice and support in managing financial distress. The focus is on resolving complex cases where a person would have significant difficulty or be unable to handle them on their own. The following elements of best practice were identified during the study:
 - **Ensuring of comprehensive counselling.** The content of counselling is primarily related to financial and legal matters, as well as psychological support for people in financial distress. Counselling is usually provided by non-governmental organisations that specialise in the relevant issues.
 - **Ensuring various counselling formats.** The variety of formats increases the likelihood that a person in financial distress will be interested in counselling. It should be remembered that the problems may vary in sensitivity and may be therefore different, so it is necessary to create a safe environment. Counselling services involving the counsellor and the client are positioned as independent and confidential. This message is consistently emphasised, which may alleviate the client's concerns and encourage them to seek help from a specialist. This is especially important since the person seeking help must disclose sensitive information to receive a personalised solution. Counselling on foreign experience can be accessed both in person and remotely in a variety of formats – by phone, email, or online chat. Organisations also offer group counselling and training to help individuals share knowledge and learn new skills.

- **Counselling by experienced and trained specialists.** Because resolving financial distress involves a variety of financial, legal, and psychological aspects related to financial distress, counsellors are appropriately trained to work within these dimensions and provide practical solutions. This mechanism is funded by both public institutions and private companies.

Insufficient understanding of financial management in foreign experience is one of the causes of financial distress. Improving financial literacy is particularly important to ensure that target groups can identify difficulties, and reduce and eliminate the potential causes of difficulties. For example, the uniform websites established in the U.S. and Canada offer a wide range of materials to help prevent financial distress by improving financial literacy.

Solving social problems in foreign experience is associated with managing financial distress. The low level of social welfare in foreign countries is considered another cause of financial distress. Therefore, communication to solve financial distress is organised in cooperation with institutions and organisations that deal with solving social problems. In Australia, for example, information is posted on websites and other resources of the relevant agencies or organisations. The most obvious example is the Gambling Help Online organisation, which trains counsellors to care for gambling addicts, which includes helping them cope with financial distress.

An overview of good practice examples is provided in Table 8. The examples in the table show the main trends in communication on the identification and resolution of financial distress that can be applied in the case of Latvia.

In the context of this report, the analysis of good practices was carried out using publicly available information and additional information from PwC's network companies (in the case of France and Germany). After organising workshops planned within the framework of the Recommendations Report, in which the most suitable directions of recommendations for Latvia will be identified, the most appropriate elements of good practice can be examined in depth.

Table 8. An overview of best practice examples

| State | Communication organisation | Communication channels ⁶⁵ | | | | | Applicability to Latvia | |
|------------------|--|--------------------------------------|--------------------------------|----------------------------|-------------------|--------------------------------|----------------------------|---|
| | | On-site | | | Off-site (remote) | | | |
| | | Printed materials | Informational events (on-site) | Counselling (face-to-face) | Website | Informational events (webinar) | Counselling (phone, email) | (An agreement on the elements of good practice to be adopted will be reached in the workshops organised in the framework of the Phase 3 handover "Recommendations Report".) |
| Consumers | | | | | | | | |
| USA | A uniform source of general information. (consumerfinance.gov). The website of <i>Consumer Financial Protection Bureau</i> , where information about various aspects of financial difficulties is available in a single place. | ✓ | - | ✓ | ✓ | ✓ | ✓ | Format: The website as a base communication channel, complemented with others on-site and off-site channels. Content: For example, aspects of financial distress are segmented by specific types of debt liabilities, debt collection, and fraud. Then, each section includes a subsection on basic concepts and terms, a subsection on understanding of one's circumstances (most common problems and personal rights), a subsection on taking action (instructions and lodging of complaints). |
| Canada | A single source of general information (https://www.canada.ca/). The official website of the Canadian government, where information on various aspects of life (including employment, immigration and citizenship, taxes, | - | - | ✓ | ✓ | ✓ | ✓ | Format: The website as a base communication channel, complemented with others on-site and off-site channels. Content: The website consists of 15 main sections, one of which is "Money and Finance". It is divided into the most detailed information provided by a specific public institution, such as the Financial Consumer Agency of |

⁶⁵ The table summarises information from publicly available sources. There is a possibility that the true range of channels used is wider.

| | | | |
|-------------------------|--|---|--|
| | <p>health, transportation and infrastructure, tourism, social affairs, etc.) is available in a single place, including financial difficulties.</p> | | <p>Canada⁶⁶, but the information is provided on the same uniform website. The institution's own digital site is also a part of the official website and not a separate website. The information of interest to consumers tends to be topic-based, uses hyperlinks, and is not limited to the functions of a particular institution. Subsections, information, and tools keep popping up in different sections when they are relevant. The consistent visual digital design supports a sense of smooth transition between information from different institutions and gives the impression of having complete information.</p> <p>The "Money and Finance"⁶⁷ section brings information on various aspects of financial management and resolving financial difficulties together in one place. It provides information on financial management, retirement planning, protection against fraud and infidelity, financial education programmes, bankruptcy, financial instruments and calculators, regulations, etc.</p> |
| <p>Australia</p> | <p>The non-governmental umbrella organisation manages the main consumer advice service. Financial Counselling Australia, which coordinates the main point of contact for consumers in financial distress and the counselling service – National help line.</p> | <p>- - ✓ ✓ ✓ ✓</p> | <p>Format: Consultations can be received in various formats: by phone, e-mail, online chat, as well as in person.</p> <p>Content:</p> <ul style="list-style-type: none"> • Complete assessment of the financial situation; • Advice on negotiations with creditors, government agencies and other corporate service providers; • Direct negotiation with creditors in certain circumstances; • Advice on options, rights and obligations; • Referral to other services, such as legal assistance, crisis food and shelter, and health services. • The national helpline also provides information and advice on the following topics. |

⁶⁶ Canadian Government. Consumer Financial Protection Bureau.

⁶⁷ Canadian Government. Money and finances.

- Credit and debt issues;
- Debtor rights;
- Advantages and disadvantages of bankruptcy proceedings;
- Developing a realistic debt payment plan;
- Access to specialised support, including gambling addiction support, family support, individual counselling, legal advice, and emergency assistance..

SME and entrepreneurs

Germany

The NGO manages the main counselling service (*Team U*), which helps German SMEs and entrepreneurs facing financial distress to avoid insolvency and helps surviving entrepreneurs to recover professionally and in private life.

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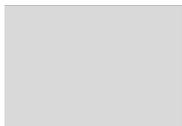


Format: Each entrepreneur can contact Team U free of charge through one of three channels - by phone, e-mail or by filling out a contact form. Team U urges entrepreneurs to contact them as soon as possible so that they can start dealing with financial difficulties as soon as possible.

- **Communication through digital and direct communication channels.** Every entrepreneur can contact Team U free of charge through one of the three channels - by phone, by email or by filling out a contact form. Team U strongly encourages entrepreneurs to get in touch as soon as possible so they can get their financial difficulties under control as soon as possible.
- **Individual consultations with Team U volunteers.** Every entrepreneur can receive free consultations. They are conducted by professionally trained volunteers who are entrepreneurs themselves and have experienced financial distress.
- **Individual consultations with external experts.** If necessary, entrepreneurs are advised to contact external experts, such as credit institutions that are able to deal with financial distress.
- **Events and projects.** For example, the Anonymous Insolvents support group, which helps in avoiding immediate insolvency. The group aims to show entrepreneurs that they are not the only ones facing financial distress and that mutual support can be of help.

Content: a variety of support aimed at the entrepreneur's recovery, as well as psychological assistance to

| | | | | | | | | |
|----------------|---|---|---|---|---|---|---|--|
| | | | | | | | | entrepreneurs to help them recover from an unpleasant situation. Team U does not provide legal and financial advice |
| Denmark | <p>The main counselling service is managed by the public institution <i>Early Warning Denmark</i>. It is a programme created and maintained by the government that provides free, objective and confidential advice to Danish SMEs and entrepreneurs in financial distress.</p> | - | - | ✓ | ✓ | ✓ | ✓ | <p>Format: Possible to contact via one of three channels - by phone, e-mail or in person.</p> <p>Content: Each case is evaluated individually, and support is offered based on the results:</p> <ul style="list-style-type: none"> • If the company can be saved from bankruptcy, a volunteer consultant is provided to the company to assist in the company's reorganisation process. • If the future of the business is uncertain or the outcome is adverse, a meeting is arranged for the entrepreneur with a bankruptcy attorney to determine if the business can be partially or fully reorganised or restructured. <p>Individual consultations for each entrepreneur. Consultations are provided by professionally trained advisors or professional volunteers - current or former managers of large companies, owners of small businesses, board members, chairpersons, and various professionals.</p> |
| France | <p>The Chamber of Commerce and Industry offers support to entrepreneurs in various regions of the country. Its goal is to provide information about the options of starting and building a business in France and to provide advisory support to entrepreneurs in distress.</p> | - | ✓ | ✓ | ✓ | ✓ | ✓ | <p>Format: basic information source (website) and access to on-site and off-site consultations.</p> <p>Contents:</p> <p>Information on how to manage financial distress. The site provides information on the various counselling options available, such as psychological support, debt schedule preparation, etc.</p> <ul style="list-style-type: none"> • Business management tool. The tool available on the website allows one to determine the company's position and general trends in real-time. With the management tool, it is possible to create a cash flow plan, determine the minimum turnover required, and create an interim balance sheet. • Services and solutions. In this section of the website, one finds a range of courses, services, and advice on various topics such as finance, business development, and sustainable development. The financing service is |



designed to support companies in difficulty. The website offers the possibility to find the nearest CCI for the entrepreneur, where he will be assisted by knowledgeable advisors.

A detailed description of the best foreign practice is included in the Annex.

List of information used

| No. | Name |
|--|--|
| Laws and regulations | |
| Laws and regulations governing the activities of institutions and organisations | |
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List of Annexes

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