

ECONOMY AND ENTREPRENEURSHIP

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SMALL ENTREPRENEURSHIP: CHALLENGES AND OPPORTUNITIES FOR INCREASING EMPLOYMENT LEVELS IN LATVIA

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Abstract. The article examines and substantiates the main approaches to stimulating small business activity through proposed development scenarios, highlighting the advantages and disadvantages for each type of scenario. It analyzes the impact of taxation and specific risks arising in small business activities on their stability and development. Based on the assertion that small businesses expand employment and create favorable conditions for more rational economic development in the regions, the sectoral structure of small business entrepreneurial activity within Latvia's administrative-territorial division is reviewed.

Key words: small entrepreneurship, sectoral structure of regions, taxation, employment, development scenario.

Introduction. The interest in the research topic is largely determined by the fact that small business plays a significant role in the development of Latvia's economy, as it performs social functions, contributes to expanding employment opportunities for the working-age population, provides additional income sources, and enables the entrepreneurial potential of various social groups. Achieving a high level of employment is one of the key goals of the macroeconomic policy of a welfare state, to which Latvia also aligns itself. An economic system designed to meet the material needs of the population can achieve this by increasing the production of social goods through both labor productivity growth and the creation of additional jobs. A high employment rate is one of the primary goals of any country's socio-economic policy. Employment issues are particularly relevant for Latvia at the moment. This can be achieved both by creating additional jobs and by encouraging the population to develop small businesses.

The relevance of the research topic is underscored by the current state of Latvia's economy, the aggravation of the labor market situation, and the need to find new approaches and mechanisms for employment regulation. The development of small businesses as a factor in increasing employment and reducing unemployment deserves close attention. The stimulation of small business activity is not only a prerequisite for stabilizing the national economy but also a powerful impetus for systematic economic renewal and regional development. To address Latvia's internal economic and social challenges and improve the living standards of its population, it is essential to harness the potential of small businesses, which underscores the relevance of this research topic.

Despite the socio-economic significance of this issue for the country's economy and the practice of regulating and influencing the labor market, the features and challenges of small business

development in Latvia have not been fully explored. Researchers, such as American economists D. Blanchflower, Yin, M., Australian economist Thomas Lange, J. Lichy, and Latvian researchers Rīta Greitāne, Christoph Ernst Wilken Kisker, and Lāsma Dobeļe, have all focused on issues related to unemployment and employment management. Latvian scholars, including Ilze Sproģe, A. Zvejnieks, Acad. R. Karnīte, I. Kodoliņa-Miglāne, L. Kavale, A. Kodoliņš, K. Ketners, I. Sīpola, Ī. Vītola, A. Boruks, among others, have also contributed to this research area.

However, despite extensive research on small business development, insufficient attention has been paid to the challenges faced by self-employed individuals, particularly their risks and opportunities. There is also insufficient focus on the taxation of entrepreneurs who have independently established their micro-businesses and are forced to manage both business operations and financial reporting simultaneously. Additionally, the issue of unequal regional development in Latvia requires urgent attention, particularly in addressing budget shortfalls in light of the sectoral structure of small businesses under the new administrative-territorial division. The analysis of recent studies and publications outlining the main aspects of small business challenges highlights unresolved issues within the broader problem, particularly the urgent need for state support and the development of small entrepreneurship. These studies emphasize the necessity for enhancing governmental policies to address the barriers faced by small businesses, which are essential for fostering economic growth and reducing unemployment, highlight the research objective which is to focus on activating small business activities to promote employment. The unresolved issues that remain in the context of small business development, such as inadequate state support, limited access to financial resources, and complex regulatory frameworks, have direct implications on employment rates. By addressing these gaps, the research aims to propose effective solutions for stimulating small business growth, which, in turn, would contribute to increasing the employment rate and improving the overall economic stability of the country.

Research Objective. The research objective is to develop and substantiate approaches to modeling scenario-based development of small business activities. This will be based on the assessment of identified factors that hinder the activation of these businesses and the increase in employment in Latvia.

Research Methodology. The research methodology combines analytical and forecasting methods, statistical data analysis and their connectedness (correlation), as well as comparative and analytical methods. These approaches aim to provide a comprehensive understanding of the obstacles small businesses face and offer actionable models for enhancing their contribution to employment and economic growth in Latvia.

Economic Features of Regional Development in Latvia

In Latvia's economy, the small business sector significantly influences the country's economic growth rates, employment levels, as well as the structure, size, and quality of the gross domestic product (GDP). The country's economic independence largely depends on this sector, which is especially relevant in the context of EU-imposed economic sanctions on Russia, global market instability, and structural unemployment. The share of small business output in Latvia's GDP exceeds 65%, which is notably lower compared to highly developed EU countries, where it averages around 70% of GDP. This highlights the potential for growth and the need to strengthen the small business sector to boost Latvia's economic resilience and competitiveness. Across all regions of Latvia, micro and small businesses account for more than 98% of all registered enterprises. Notably, over 71% of all companies are registered in the Riga Planning Region (Figure 1). The small business sector dominates Latvian business, thus becoming a critical employer for the country's residents. In 2023, 67.3% of all employees working in registered companies in Latvia were employed by micro and small enterprises. Nearly three-quarters of these small businesses are concentrated in the Riga region, while the remaining regions account for approximately 29%, with the smallest share in Latgale.

This distribution indicates a strong concentration of small businesses around the capital and its surrounding area, while other regions have significantly fewer small enterprises. Each region also demonstrates its own specific economic focus, highlighting the diverse economic landscape across Latvia.

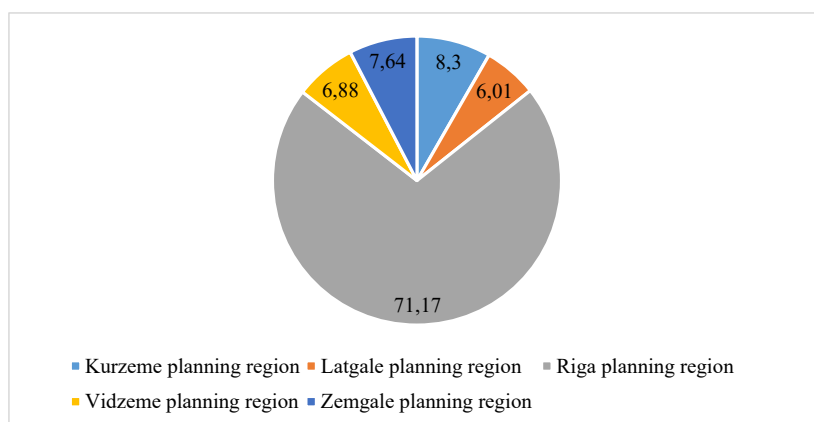


Fig. 1. Regional Distribution of Small Businesses in Latvia, %, 2022

Source: Created by the author based on Lursoft data

This figure 1 highlights the uneven distribution of small businesses across Latvia's planning regions. Riga Planning Region dominates, accounting for over 71% of all small businesses, while the other regions hold a significantly smaller proportion. This reinforces the importance of Riga as the primary economic hub for small business activity in the country, with rural areas like Latgale and Vidzeme playing a more marginal role in small business development.

The Republic of Latvia is historically divided into four regions, as well as the capital Riga and the Riga region. The capital of Latvia, Riga, and its region are the wealthiest in terms of budget revenue and offer the most favorable conditions for employment. Small business activities in the Riga region primarily align with the needs and demands of the local population and differ significantly from the types of activities in regions farther from the center.

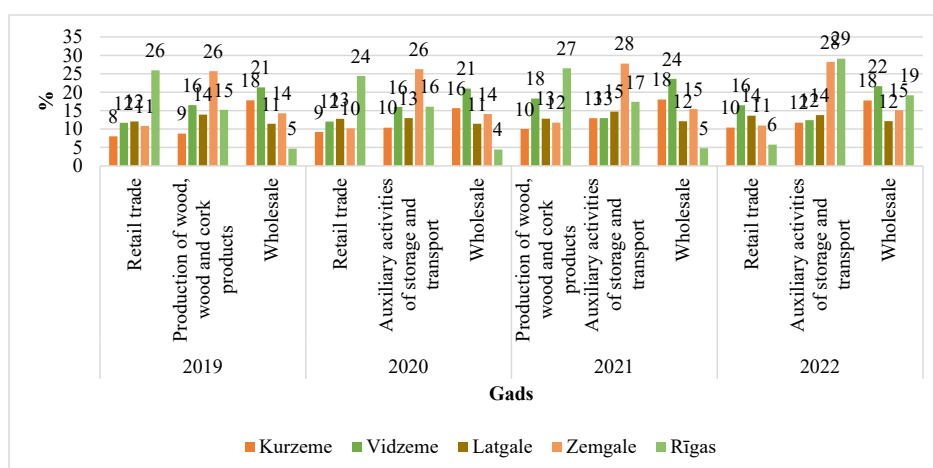


Fig. 2. Main types of small businesses according to NACE 2nd edition in the planning regions of Latvia, % of total net turnover of the region, 2019–2022

Source: created by the author based on Lursoft data

Each of Latvia's five regions has its own distinct characteristics in the development of economic, cultural, and social life. Entrepreneurs register their companies by specifying their primary activity according to NACE codes, 2nd edition. The main activity of small businesses across all planning regions of Latvia from 2019 to 2022 has consistently been wholesale trade, accounting for 12% to 29% of the total annual net turnover in the planning region, followed by retail trade, contributing 9% to 24%. (Figure 2) In third place are storage and transportation services, making up 6% to 10% of the total net turnover in the planning regions. Diagram 2 presents the percentage data for the main small business sectors in Latvia's regions for the years 2019–2022.

Data Comparison:

1. Retail Trade:

- Riga dominates in 2019, 2020, and 2021 with percentages of 26%, 25%, and 24% respectively.
- In 2022, Riga increases its share to 29%.
- Vidzeme also shows a high percentage in 2021 (18%) but drops to 16% in 2022.
- Latgale remains steady at around 12% throughout all the years.

2. Wood Products Manufacturing:

- Zemgale leads with peak figures of 26-28% in 2020-2022.
- Kurzeme and Vidzeme show moderate values around 16-18%.
- Latgale remains stable at around 13% over the entire period.

3. Wholesale Trade:

- Riga also shows significant results in wholesale trade, especially in 2022 with 19%.
- Zemgale experienced growth in 2021, reaching 27%, but dropped to 22% in 2022.
- Kurzeme steadily grows over the four years, reaching 18% in 2022.

4. Logistics and Transport Services:

- Zemgale leads in this sector, reaching 28% in 2021 and 22% in 2022.
- Riga continues to show steady growth, reaching 18% in 2022.

This comparison highlights how Riga remains dominant in both retail and wholesale trade, while Zemgale shows strength in wood products manufacturing and logistics. Meanwhile, other regions like Latgale and Kurzeme remain relatively stable in their respective sectors.

Conclusions:

- The Riga region maintains its leadership across all categories, particularly in retail and wholesale trade.
- Zemgale shows strong positions in wood product manufacturing and transport services, with a growing share in these sectors.
- Kurzeme and Vidzeme continue to develop steadily, particularly in wholesale and retail trade sectors.
- Latgale holds relatively modest positions across all categories but remains stable.

Features of Small Business Taxation in Latvia:

Small businesses at this scale are often fragile and unstable, requiring state support. Frequent changes in legislation negatively impact the development of small enterprises.

To reduce the administrative and tax burden on small businesses, the Microenterprise Tax Law was adopted in 2010. Since then, the law has been amended 13 times, with the tax rate rising from 9% to 40% between 2010 and 2024. From 2010 to 2014, the tax rate was stable at 9% of the company's turnover. However, from March 2015 to 2017, the rate increased to 15%, and from July 2021, it further rose to 25%. At the same time, the allowable net turnover for businesses eligible for this tax was reduced—from €100,000 in 2010 to a sharp drop to €40,000 in 2018 (the threshold for VAT registration). The latest legislative changes in 2021 and 2022 completely abolished the microenterprise tax for legal entities. This left businesses without preferential taxation during the challenging period of the COVID-19 pandemic.



Fig. 3. Change in the number of legal entities paying the microenterprise tax and their employees

Source: constructed by the author based on data from the State Revenue Service

Regular restrictions caused by constant changes to the Microenterprise Tax Law have gradually destroyed small businesses. The numerical data in Figure 3 demonstrate that the number of legal entities using the microenterprise tax and the number of employees in these businesses decreased proportionally as tax rates increased.

From 2017, when the tax rate was raised from 9% to 15%, to 2018, when in addition to the tax rate increase, the net turnover limit was reduced from €100,000 to €40,000, the number of registered businesses choosing this taxation method decreased proportionally. This was not due to taxpayer choice but to legislative preference that limited business opportunities.

Over the last five years (2017–2021) due to increased legislative restrictions, the number of businesses paying this tax decreased by 57%.

In mid-2021, restrictions also impacted the number of employees in microenterprises. Starting from July 1, 2021, businesses were required to pay general taxes for all employees in addition to the unified turnover tax. (Figure 4) The numerical data in Figure 3.9 show a sharp decline in both the number of registered taxpayers, from 14,000 to 7,000 during 2021, and the number of employees, from 18,000 to 4,000 by the beginning of Q4 2021.

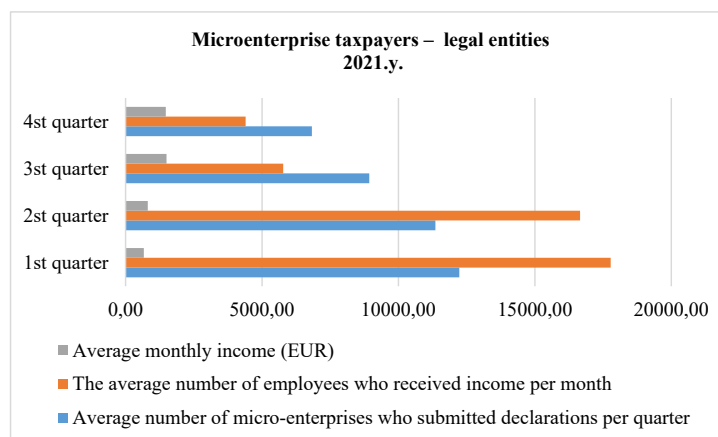


Fig. 4. Changes in the number of legal entities paying the microenterprise tax and the income of their employees in 2021

Source: constructed by the author based on data from the State Revenue Service

As a result, many employers were unable to manage with the additional tax burden, leading to significant workforce reductions. This, in turn, sharply increased the country's unemployment rate (Fig. 5).

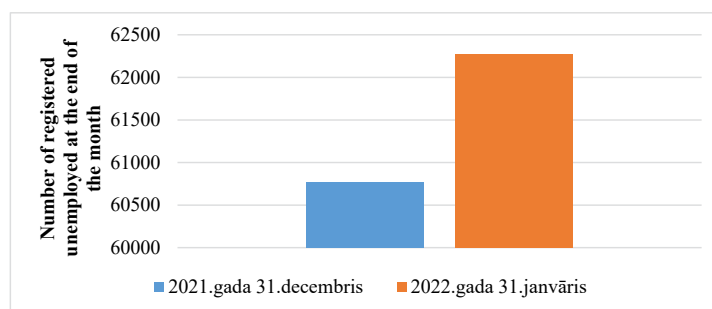


Fig. 5. Comparison of main unemployment indicators (as of January 31, 2022, compared to December 31, 2021)

Source: NVA statistical data

The year 2021 marked a transitional period not only for entrepreneurs but also for the government, which was forced to pay unemployment benefits to former taxpayers instead of collecting taxes. (Figure 6) According to NVA indicators, the unemployment rate rose by 0.4% between December 2021 and January 2022, negatively impacting the overall welfare of the population.

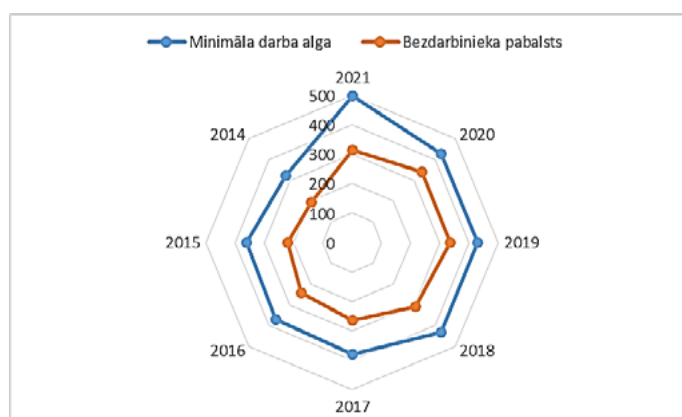


Fig. 6. Ratio of the average unemployment benefit paid to the level of minimum wage in Latvia

Source: constructed by the author based on VSAA statistical data

The amount of unemployment benefits received by the Latvian population does not even reach the country's level of the minimum wage. As a result, individuals who lose their jobs immediately fall below the poverty line (Figure 7).

Despite increases in Latvia's minimum wage from 2014 to 2018, the gap between unemployment benefit and the subsistence minimum narrowed from 39% to 21%. However, in 2021, the gap reached 37%, leaving the working population who lost their jobs on the brink of survival. On one hand, this situation encourages unemployed individuals to start their own businesses. On the other hand, as previously mentioned, frequent legislative changes undermine the stability of small enterprises. During the challenging times of the pandemic, legislation has also changed frequently. Since 2019, the Law

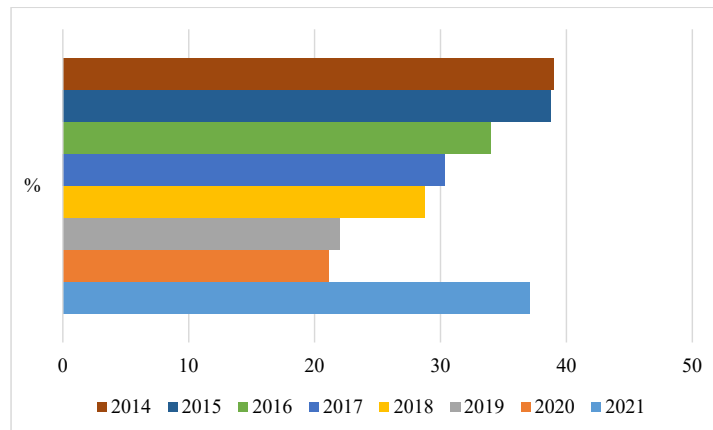


Fig. 7. Deficit (gap level) of the unemployment benefit received compared to the minimum wage in % (2014–2021)

Source: constructed by the author based on VSAA and NVA statistical data

on State Social Insurance has been amended eight times, the Personal Income Tax Law seven times, and the VAT Law nine times. In their struggle for survival, entrepreneurs are forced to constantly adapt to unexpected legislative changes.

Legislative changes for small businesses, effective January 1, 2022, including the abolition of the microenterprise tax, have significantly worsened the condition of enterprises that previously paid this tax. The situation is further exacerbated by the fact that these legislative changes were implemented during the COVID-19 pandemic, a time when small businesses were already facing significant challenges. Many businesses suspended their operations starting January 2022, while others were completely liquidated.

For those that survived and remain operational, net turnover and payroll funds have already decreased significantly due to the pandemic. Following the implementation of the law abolishing the microenterprise tax, tax contributions have increased as these businesses transitioned to regular taxation.

Additionally, changes in the Law on State Social Insurance, effective July 1, 2021, deprived microenterprise taxpayers and self-employed individuals of unemployment benefits. This has led to an increase in layoffs and, consequently, a rise in unemployment, with the government failing to provide support even at the initial stage of income loss (fig. 8).

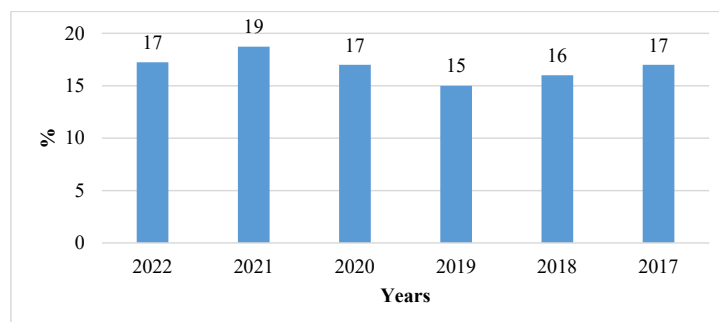


Fig. 8. Reduction in unemployment benefit fund payments with the possibility of employing unemployed individuals part-time, % (2017–2022)

Source: Developed by the authors

Starting in 2019, the Law on State Social Insurance, effective July 1, 2021, states that if an employee or a self-employed individual has a declared (aggregated) object of mandatory contributions in a quarter that is less than three times the monthly wages set by the Cabinet of Ministers, the employer is responsible for making mandatory contributions on the difference between three times the monthly wage and the declared object of mandatory contributions from their own resources. This means that when hiring a specialist, the employer is obliged to pay taxes based on the country's minimum wage, even if the hired specialist is only needed on a part-time basis. The social security contributions, which in 2022 amount to 23.59% of the minimum wage in Latvia (620 euros), amount to 146.26 euros for the employer, regardless of whether the employee generates this profit for the employer. This situation discourages employers from hiring necessary specialists, thereby hindering entrepreneurial development. Furthermore, a specialist registered as unemployed with the NVA and receiving unemployment benefits from the government for eight months, incurs expenses rather than generating additional tax revenues.

This creates two interrelated problems: on one hand, the government misses out on tax revenues, and on the other hand, employers lack access to the services of specialists who are needed for a limited time to foster business growth. If 50% of the specialists searching for full-time employment for 8 months and receiving unemployment benefits could be employed part-time, and if the employer had the ability to pay social contributions based on the actual wages paid, government expenses on unemployment benefits could be reduced by an average of 17% annually.

The restrictions imposed by the government on entrepreneurs regarding the part-time employment of specialists not only hinder entrepreneurial development and tax revenues but also limit the potential for improving the population's living standards. The upcoming tax reform of 2025 introduces further changes to the previous tax reform of 2018, once again distracting entrepreneurs from their business activities and increasing the tax burden on both the population—by raising income tax rates from 20% to 25.5%—and entrepreneurs across various sectors, despite only a slight increase in the non-taxable minimum, which becomes fixed.

It is justifiable to assert the necessity of developing and adopting a comprehensive tax concept that aligns with specific socio-economic conditions, including those that foster the activation of small business activities.

Based on empirical approaches, the following principles should underpin this concept:

- **Precise Definition of State and Regional Influence:** A clear delineation of the state's and regions' influence on economic processes and, consequently, the application of tax multiplier opportunities.
- **Objective Assessment of Tax and Borrowed Financing:** An objective evaluation of the effective ratio between tax and borrowed financing relative to the budget balance, aiming to mitigate the effects of inflationary-deflationary crises in the context of economic expectations and uncertainty.
- **Rational Tax Structure:** The establishment of a rational balance in the tax structure concerning the combination of progressive and proportional taxes based on the scale of tax withdrawals and objects of taxation.
- **Objective Analysis of Tax Reductions:** An objective analysis of the potential consequences and outcomes of tax reductions, considering the need to ensure adequate revenue in the budget system while stimulating business and investment activities under specific conditions.
- **Scientifically Justified Taxation Levels:** A scientifically substantiated methodology for determining the maximum taxation level.
- **Account for Government Structure Features:** An objective consideration of the characteristics of government structure when determining the composition of taxes, methods of collection, and redistribution.

In the context of economic uncertainty due to geopolitical risks, state taxes have risen to unjustifiably high levels, with tax revenues forming a significant portion of government income. With rapidly

increasing state debt, it is essential not to underestimate the quantitative and qualitative impact of taxes on both economic growth and decline. From this perspective, the most significant areas of tax impact are, first and foremost, entrepreneurial activity—especially in small businesses—employment, and the distribution of income within both government and local administrations, as well as households. Chaotic and poorly considered interventions in changing tax rates do not contribute to creating conditions for revenue growth, which is necessary to meet the increasing needs and expenditures of the state, influenced by the ongoing military actions in Ukraine.

Economic Consequences of Business Liquidation in Latvia

Aggregated data from the Enterprise Register from January 1, 1991, to 2023 demonstrate that the most challenging years for entrepreneurs occur within the first five years of operation. During this period, entrepreneurs find themselves in an uncertain and unstable legal environment, which significantly increases the difficulties and risks associated with business activities. As a result, the highest number of liquidations occurs in the third, fourth, and fifth years of operation.

Workers from liquidated businesses register as unemployed, receive unemployment benefits, and contribute to a decrease in the overall employment rate in the country. In contrast, enterprises that surpass the five-year mark tend to adapt more effectively to the entrepreneurial landscape, resulting in a sharp decline in the number of liquidations.

It is crucial to emphasize that during the first five years of operation, entrepreneurs require state support and stability in tax legislation to navigate the challenges of establishing their businesses successfully (Fig. 9).

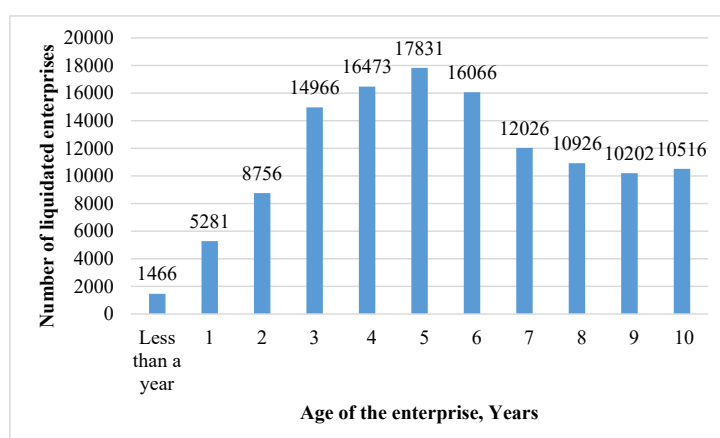


Fig. 9. Dynamics of Liquidated Micro and Small Enterprises (1991–2023)

Source: Developed by the authors

From 2018 to 2023, according to NVA statistics, a total of 452,783 individuals were registered as unemployed. The highest number of individuals who became unemployed occurred in 2020, with 103,018 people affected during the COVID-19 pandemic, as well as in 2022, when 90,577 individuals became unemployed due to the intervention in Ukraine, which also impacted the Latvian economy. During the same period from 2018 to 2023, a total of 24,482 enterprises with an operational age of 1 to 5 years were liquidated. Economic calculations justifying support for small entrepreneurship in the first five years of operation indicate that with adequate support, the number of registered unemployed individuals could be reduced by an average of 5.4% annually (Fig. 10).

Based on the average unemployment benefits paid from 2019 to 2023 (covering the first five years of operation), calculations indicate that government support for entrepreneurs during this initial period enhances employment levels, provides individuals with personal income, and ensures tax rev-

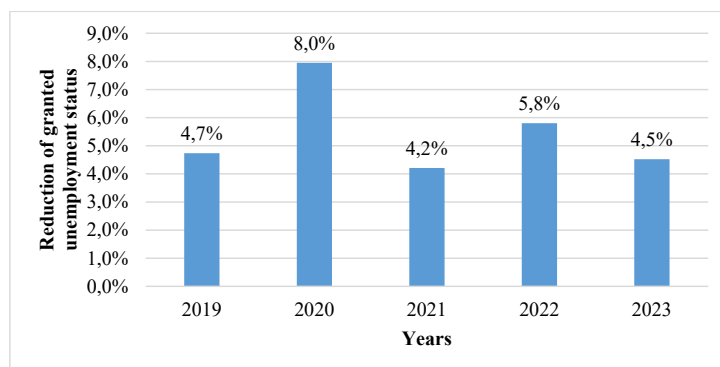


Fig. 10. Dynamics of Registered Unemployed Individuals with Government Support for Small Enterprises in Their First Five Years of Activity (%), 2019–2023

Source: Developed by the authors

venues for the budget (Figures 9 and 10). Considering the anticipated increase in the minimum wage starting in 2025, it is reasonable to expect a more significant trend in tax revenues to the budget, while the use of the social insurance special budget for unemployment benefits will decrease.

Employment levels are a fundamental economic issue that generates considerable social resonance. By definition, micro and small enterprises employ between 1 and 49 staff members. This study examined the average number of employees in companies and analyzed the trends in employee numbers within economically active enterprises. The study results on the employment of the working population in Latvia (aged 15–64) from 2016 to 2023 demonstrate a direct correlation with the number of employees in micro and small enterprises. The employee count does not exclude the same employee working in multiple companies (Fig. 11).

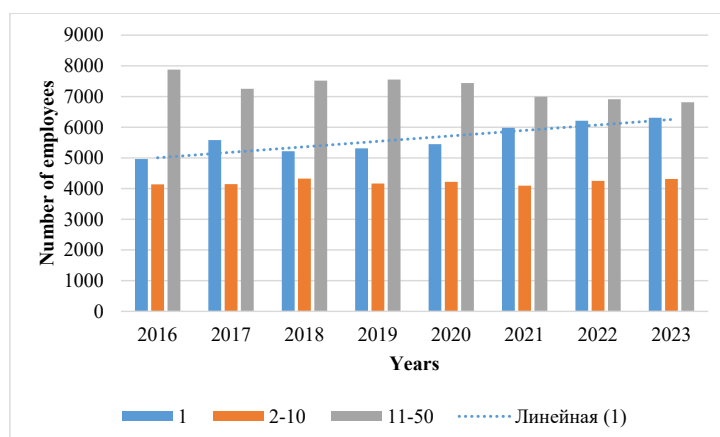


Fig. 11. Distribution of Latvian Enterprises by Number of Employees, 2015–2022

Source: Created by the author based on data from the Central Statistical Bureau

Most micro and small enterprises employ only one staff member (Figure 11). At the same time, during this period, self-employed individuals find work for themselves and organize their own “businesses” without having hired employees. This form of micro-entrepreneurship, namely self-employment, contributes to reducing the number of people leaving the country to seek work abroad.

Scenarios for the Development of Small Enterprises

To assess the prospects for the development of small enterprises and their impact on increasing employment levels in Latvia, a scenario analysis method was employed. This method is useful when

the forecasting objects are either very simple or, conversely, very complex, making it nearly impossible to consider the influence of numerous factors on the outcome.

For developing scenarios for small enterprise growth in Latvia, this approach is particularly relevant, as the forecasting object and the influencing factors create a sufficiently complex system. Utilizing the scenario method helps minimize erroneous decisions. When predicting developments, several scenarios are typically considered to prepare for potential risks while taking into account the economic and social implications for the population under different scenarios.

Scenario analysis does not assume specific future events due to the high level of uncertainty in the evolution of a complex socio-economic system within the country. Instead, it establishes certain boundaries for future developments. Thus, this type of analysis is well-suited for determining trends in small enterprise growth in Latvia, especially considering the frequent changes in legal regulations and the instability of the political and economic landscape.

In the study of trends in the development and directions of utilizing the potential of small entrepreneurship to increase employment in Latvia, the opinions of members of small business boards hold significant importance. To determine the preferences of working individuals regarding changing their status, a sociological survey was conducted among both self-employed individuals and employees of micro and small enterprises. A total of 311 people were surveyed, of which 113 were self-employed. The survey revealed that 36.28% of self-employed individuals refuse to change their status and transition to being employees. The remaining 63.72% expressed a desire to abandon their “business” and become employees if a favorable opportunity arose. Furthermore, in Latvia, a large portion of those wishing to become employees prefer to work in small enterprises (with 10–49 employees) rather than in micro enterprises (with 2–9 employees).

As of early 2024, there are 430,710 active small enterprises in Latvia. To confirm the scientific significance of the ratio of the surveyed enterprises (311) to their total number in Latvia, the methodology by J. Cohen was utilized, considering specific parameters

$$SS = ((Z\text{-score}^2) \times \text{StdDev} \times (1 - \text{StdDev})) \div (\text{ConfInt}^2),$$

where

- SS – sample size;
- confidence level – 90% (Z-score = 1.65) – the most commonly used value;
- StdDev – standard deviation (set at 0.5, which is a safe value ensuring a sufficiently large SS);
- ConfInt – confidence interval (set at $\pm 5\%$).

As a result of the calculations based on these parameters, a sample size of $SS = 272.25$ was obtained (rounded to 273). This indicates that the number of surveyed specialists (311) exceeds the theoretically required amount and is scientifically justified, with the statistical results being significant. The conclusions drawn using this model are scientifically substantiated and applicable in practice.

Guided by the data from the sociological survey and the results of their processing, the first scenario for the development of small entrepreneurship can be reasonably proposed, in which 63.7% of self-employed individuals cease their activities and transition to work in micro and small enterprises as employees. For example, in the 4th quarter of 2023, the State Revenue Service of Latvia registered 38,689 self-employed individuals paying social security contributions. The statistics on social security contributions include both those self-employed individuals who pay 10% of their income exceeding the minimum wage of 700 euros per month and those who pay 25% or 31.07%. According to the forecast of the first scenario for the development of small entrepreneurship, if 63.7% of self-employed individuals transition to employee status, their personal incomes will increase almost two-fold, which, in turn, will double the social contributions to the state budget.

Advantages and Disadvantages of Scenario 1: Transition of Self-Employed Individuals to Employee Status

Advantages:

1. Increase in Personal Income: The transition of 63.7% of self-employed individuals to work in micro and small enterprises could lead to an almost twofold increase in their personal incomes, thereby improving their standard of living.

2. Growth of Social Contributions: As incomes rise, social contributions to the budget will also increase, which may enhance the funding for social programs, healthcare, and pensions.

3. Employment Stability: Employees typically enjoy greater protection in labor relations, reducing the risk of income loss due to unforeseen circumstances, such as economic crises or market changes.

4. Increased Motivation and Productivity: Working in a stable structure can boost employee motivation, which in turn may lead to increased labor productivity.

5. Reduction of Administrative Burden: The transition to employee status may decrease the administrative and financial costs associated with running a business, such as accounting and taxation.

Disadvantages:

1. Loss of Independence: Self-employed individuals may feel less independent and more dependent on their employer, which can negatively affect their motivation and job satisfaction.

2. Reduced Flexibility in Work Hours: Employees often have a fixed work schedule, which may limit the flexibility they enjoyed as self-employed individuals.

3. Adaptation to a New Environment: Transitioning to employee status may require self-employed individuals to adapt to a new work culture and employer expectations, which can be stressful.

4. Risk of Increased Unemployment Among Self-Employed: If a significant number of self-employed individuals leave their businesses, this could lead to a reduction in the overall number of small and micro enterprises, potentially increasing unemployment in this sector.

5. Dependency on Economic Conditions: Employees may be more vulnerable to economic fluctuations and layoffs, which could result in job instability during crises.

Advantages and Disadvantages of Scenario 2: Transition of Employees to Self-Employed Status

Advantages:

1. Self-Realization and Creative Freedom: Transitioning to self-employment allows workers to implement their ideas and utilize their creative potential, which can lead to greater job satisfaction.

2. Flexibility in Work Hours: Self-employed individuals have the ability to set their own work schedules, allowing them to better balance personal and professional commitments.

3. Increased Income Potential: Successful self-employed individuals can significantly increase their earnings, as they have the opportunity to set prices for their services or products according to market demand.

4. Creation of New Jobs: A rise in the number of self-employed individuals can contribute to job creation across various sectors of the economy, positively impacting economic growth.

5. Economic Diversification: An increase in small businesses and self-employment fosters economic diversity and enhances competitiveness in the market.

Disadvantages:

1. Financial Risks: Self-employed individuals often face financial instability, especially in the early stages of their business, when income can be unpredictable.

2. Lack of Social Guarantees: Self-employed individuals do not always have access to the same social guarantees as employees, such as paid vacations, sick leave, and pension contributions, which can decrease their financial security.

3. Need for Self-Management: Transitioning to self-employment requires individuals to manage their own business, which can be a challenging task for those without relevant experience or skills.

4. Income Instability: The income level of self-employed individuals can fluctuate depending on market conditions, leading to financial uncertainty and stress.

5. Adaptation to New Conditions: Workers may encounter difficulties during the transition, including the need to find clients, develop business strategies, and manage business processes.

The second scenario, where employees resign and become self-employed, offers numerous advantages, such as the opportunity for self-realization and flexibility. However, it is also associated with significant risks, including financial instability and the lack of social guarantees. The success of this scenario depends on the readiness of workers to accept these challenges and the availability of support from the government and organizations that promote entrepreneurship development.

Advantages and Disadvantages of Scenario 3: Additional Entrepreneurship

Advantages:

1. Additional Income: Registering a personal business allows employees to earn supplementary income, which can significantly enhance their standard of living and financial stability.

2. Flexibility in Employment Choices: Workers can decide how much time and effort they wish to dedicate to their business, providing the ability to manage their work hours flexibly.

3. Skill and Experience Development: Working as a self-employed entrepreneur enables the development of new skills, such as business management, marketing, and customer service, which can be beneficial in their primary profession.

4. Minimized Financial Risks: Since the main job remains stable, employees can reduce the financial risks associated with entrepreneurship and use additional income for investments or creating reserves.

5. Networking Opportunities: Additional entrepreneurship can lead to the expansion of professional contacts and the creation of new business relationships, which can be advantageous for career development.

Disadvantages:

1. Increased Workload: Balancing a primary job with entrepreneurship can lead to overload and stress, negatively affecting the employee's health and personal life.

2. Time Constraints: Challenges in time management may arise from the need to balance the main job with entrepreneurial activities, potentially resulting in decreased quality of work in both areas.

3. Legal and Tax Obligations: Registering a personal business requires knowledge of the law as well as compliance with various legal and tax obligations, which can be a time-consuming and complex process.

4. Income Unpredictability: While additional entrepreneurship can generate income, it is not always stable and predictable, creating financial uncertainty.

5. Conflict of Interest: In some cases, work at the primary job may conflict with entrepreneurial activities, especially if the employer has strict rules regarding additional occupations.

The third scenario, in which 47% of the working population registers their own entrepreneurship alongside their main job, has many advantages, such as the opportunity to earn additional income and develop new skills. However, it is also associated with drawbacks, such as increased workload and legal obligations. The success of this scenario will depend on the ability of workers to effectively manage their time and resources, as well as the support from employers and the government.

It is important to note that when evaluating the most acceptable scenario for the development of small entrepreneurship, it is necessary to consider the situation while taking into account the personal qualities and advantages of the individual.

The summarized results of potential small entrepreneurship development scenarios are presented in Table 1. In the second scenario, an "X" is marked in the first row of the predicate of Table 1, as the significant uncertainty when opening one's own business means that it cannot be predicted in advance whether it will be successful or not.

Indicators	Scenario 1	Scenario 2	Scenario 3
additional VSAOI revenues to the state budget	+	X	+
eligibility for unemployment benefits	+	—	+
increase in personal income	+	+	+
arrival of qualified personnel	+ / -	- / +	+
opportunities for self-realization of employees	—	+	+
free work schedule (no need to comply with the working hours and conditions of the employer)	—	+	+
salary restrictions	—	+	+
personal burnout at work	+	+	-

Note: “+” indicates a positive influence, “—” indicates a negative influence, and “+/-” indicates a possible positive or negative influence depending on the circumstances.

Source: Developed by the authors

We believe that the most positive scenario is number 3, in which the working population registers additional economic activity as self-employed individuals in addition to their main jobs, thereby obtaining additional personal income, which, as a consequence, leads to increased tax contributions to the state budget.

Conclusions. Small entrepreneurship is a significant factor in socio-economic development that can have a noticeable impact on the issue of employment in the country. Enterprises that have crossed the five-year mark of operation sustainably adapt sustainably adapt sustainably adapt to the entrepreneurial environment and contribute to the stabilization of economic development. The results of the research, obtained through scenario analysis, identified possible future alternatives – advantages and disadvantages – in the proposed three options for the development of the economic situation in Latvia. The most preferred scenario is one in which the working population, in addition to their main jobs, registers additional economic activities as self-employed individuals, thereby obtaining additional personal income, which results in increased tax contributions to the state budget. The self-employment of the population and small entrepreneurship have a direct impact on addressing the issues of universal employment in the country, facilitating the emergence of new opportunities for job creation in various sectors of the economy. Government regulation of this process promotes full and effective employment.

The main conclusion: In the overall system of entrepreneurial activity, small businesses hold a special place, as they most closely align with the core essence of Latvia’s socio-economic development. One of the key objectives of structural reforms in the Latvian economy is to create an efficient entrepreneurial environment for small businesses and establish conditions that stimulate activity, thereby consistently maintaining and increasing employment of the labor force.

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