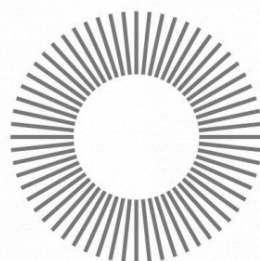




FICIL Sentiment Index 2015 - 2018

**THE DEVELOPMENT OF THE INVESTMENT CLIMATE IN
LATVIA: THE VIEWPOINTS OF FOREIGN INVESTORS**

Arnis Sauka



FOREIGN INVESTORS
COUNCIL IN LATVIA

About the author



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Foreword

The European economy has been growing at its fastest rate for a decade. However, in Latvia, during 2018, the influx of foreign direct investment has been mercurial. In the first half of 2018, the flow of investment was twice as low as compared to the same time last year. This could be interpreted as a reaction to the reputation crisis of the financial sector, but is probably also a result of years of uncertainty and volatility. Of course, action taken to attract new investment is commendable, but first and foremost, pressing issues constraining growth need to be addressed.

2018, overall, has been a significant year for Latvia. The “FICIL Sentiment Index 2018” has been compiled over a time period stretching from the pre-election debates all the way to the 100th anniversary celebration of the Proclamation Day of the Republic of Latvia. Every election period elicits a sense of a new beginning, and this feeling has been amplified this year as the country enters its next centenary.

While FICIL appreciates the government’s efforts in enhancing the business environment, the foreign investors have identified areas that need critical attention and comprehensive action in order to facilitate economic growth for Latvia. For the fourth year in a row, FICIL members have drawn attention to the availability of workforce, reform of higher education and the capability to combat economic and financial crime as being amongst the main issues. The government’s response to the MONEYSVAL report will constitute the will to deal with economic and financial crime and, if successful, could restore some of the reputational damage suffered in 2018.

During the 22nd High Council meeting in 2018, the conversation revolved around an important aspect of cooperation – building trust. Respect for the rule of law, sound use of public funds, enforcing law and engaging with citizens are all important contributors towards building trust. With increased transparency, we see sound controls and healthy governance prevailing.

FICIL is celebrating its 20th anniversary this year. We are determined and committed to continue to work hand in hand with the government and responsible institutions to improve the investment climate and business environment in Latvia. With the said new beginning taking place, this is exactly the right time to work together to boost Latvia’s future, for tomorrow is the consequence of now.



Julia Sundberg
FICIL Chairperson of the board

Executive Summary

The FICIL Sentiment Index was established in 2015 by the Foreign Investors' Council in Latvia (FICIL), in cooperation with the Stockholm School of Economics in Riga (SSE Riga), to foster more evidence-based policy decisions in promoting a favourable investment climate in Latvia. This is the fourth FICIL Sentiment Index report, following the three reports written in 2015, 2016 and 2017. The key aim of the current report is to address the following issues: (i) Do investors see progress with regard to policy initiatives to meet the main challenges as identified in the 2015, 2016 and 2017 studies?; (ii) How do investors evaluate the government's efforts and current policy initiatives aimed towards improving the investment climate in Latvia?, and (iii) Which have been the 'best' and 'worst' decisions or policy initiatives that have been introduced by the Latvian government over the last 5 years and had a positive or negative impact on the business environment of Latvia? As in 2015, 2016 and 2017, empirically this report draws on a survey: mini case studies of foreign investors in Latvia.

From September to early November 2018, we interviewed the same 38 (out of 42) companies that took part in the 2017 study. In addition, 2 new companies joined the sample in 2018. Altogether, these companies (including their subsidiaries) contribute to 9% of Latvia's total tax revenue, 18% of total profit and employ 4% of the total workforce of companies above a 145000 EUR turnover and 50% foreign capital (data from Firms.lv).

The results of the 2018 study suggest that the investment attractiveness of Latvia, according to the viewpoints of foreign investors, has remained the same as compared to the situation one year ago. Namely, on a scale of 1 to 5, where '1' means that there are no improvements at all, '3'- some positive improvements and '5' - the investment climate has improved significantly, the development of the investment climate in Latvia over the past year (both in 2017 and 2018 study) was evaluated as '2.5', which is 0.5 higher than in 2016. The investors' assessment with regards to the policy-makers' efforts to improve the investment climate in Latvia over the past year, has also been evaluated at the same level as in the 2017 study. Namely, in both the 2017 and 2018 studies, respondents graded the work of policy-makers as almost 'average' (2.9) on a scale of 1-5, where '1' and '2' are fail and '5' is excellent. For comparison, in 2016 the grade was 2.3. The overall conclusion is that there is still substantial potential to increase both the policy-makers' efforts and the resulting overall foreign investment climate in Latvia. Investors also commented on each of these areas, identifying both positive and negative trends that have influenced their assessment.

Similarly to the 2016 and 2017 studies, foreign investors were once again asked to evaluate whether there has been any progress within key areas of concern as identified back in 2015. The results of the 2018 FICIL Sentiment Index study suggest that, compared to the findings of the 2017 study, the situation looks somewhat more positive with regard to *demography and healthcare system*, i.e. substantially more investors highlighted that progress in these

areas has been made at least ‘partly’, which was rarely the case in previous FICIL Sentiment Index surveys. *Access to labour*, however, seems to be an even bigger challenge in 2018 as compared to 2017: as many as 35 (from 40) in 2018, compared to 30 (from 42) in 2017 foreign investors interviewed report that there has been no progress in this area. The majority of interviewed foreign investors are also not satisfied with the improvements in *uncertainty*. The situation with regard to the *court system and quality of business legislation* is also still far from satisfactory in the viewpoints of foreign investors, yet progress in 2018 has been evaluated as slightly better than in 2017.

Also, evaluation of progress with regard to the *tax system* has slightly improved in 2018 as compared to the 2017 study, where more respondents in 2018 admit that progress has been achieved at least ‘partly’. Slightly more foreign investors have also seen progress with regard to the situation in *unethical or illegal behaviour by entrepreneurs and unfair competition* in 2018, as compared to 2017, even though still approximately half the respondents (19 from 40) report that no progress has been achieved in this area in 2018. Finally, as many as 14 respondents in 2017, and 15 in 2018, answered that they see progress in the *support from the government and communication with the policy-makers*, 10 (in 2017) and 12 (in 2018) answered that progress has been achieved ‘partly’, but 16 (in 2017) and 15 in 2018 that there has been no progress in this area over the past 12 months.

To summarise, from all the issues that have been highlighted by previous FICIL Sentiment Index reports, arguably three most important ones stand out. Those are (i) availability and quality of workforce in Latvia, (ii) corruption in the public sector and the shadow economy, and (iii) effectiveness of the public sector with regard to improving the business environment in Latvia. In the 2018 study we further aimed to address all three issues slightly more in-depth, asking the 40 foreign investors in Latvia that participated in the study to provide potential solutions that might help to achieve better progress with regard to solving these areas of concern. We hope that those suggestions will be helpful for policy-makers in Latvia in order to achieve substantial progress within all three key areas of concern to foreign investors.

Furthermore, in the 2018 study we asked 40 key foreign investors in Latvia to answer the following question: “Could you please identify the ‘best’ and ‘worst’ decisions or policy initiatives (up to 3) that have been introduced by the Latvian government over the last 5 years and had a positive/negative impact on the business environment of Latvia?” The results suggest that, according to the viewpoint of foreign investors, the *‘top positive’ decisions or policy initiatives* are related to taxes and tax reform; initiatives to solve the situation with regard to the electricity compulsory procurement component (OIC); decisions related to the membership of Latvia in international organisations and entering the Eurozone; shadow economy related activities, including initiated activities with regard to prevention of money laundering, corruption; progress in insolvency administration; policy initiatives to improve the education system; digitalisation focus; involvement in large infrastructure projects, such

as Rail Baltica; the decision to increase the minimum wage, as well as a number of decisions made with regard to improvement of the situation within the construction sector and increasing the defence budget to 2% of the GDP.

The '*worst decision*' or policy initiative, however, most often highlighted by foreign investors in Latvia, is related to decisions on the current situation in the financial sector. Taxes and tax reform, electricity compulsory procurement component (OIC) and shadow economy related activities, including prevention of money laundering, corruption- that have been mentioned amongst the best decisions, are, however, also included in the '*worst decision*' list by approximately the same amount of foreign investors. Other most negative decisions or policy initiatives include the government's ability to prioritise and communicate; activities related to the labour and demographics issues: migration, immigration, residency permits, as well as environment regulations, including waste management. Investors are also not happy with various activities and policy initiatives that are related to the construction sector, absence of regional reform, regulation of the taxi industry, as well as decisions that have been targeted to improve the investment climate and healthcare system; decisions about cash registers.

As in the previous FICIL Sentiment Index studies, in the 2018 survey, foreign investors in Latvia were again asked whether, and under what conditions, they plan to increase investment in Latvia. To summarise, as many as 22 from the interviewed 40 investors answered that they plan to increase investment in Latvia (in the 2017 study: 24 of the interviewed 42 investors answered with 'yes'), 14 said 'no' (the same amount as the 2017 study) and 4 answered that 'it depends on the circumstances' (7 in the 2017 study) or they have not yet decided. For comparison: according to the findings of the 2016 FICIL Sentiment Index study when 32 foreign investors were interviewed, 16 investors said 'yes', 10 said 'no' and 6 were 'undecided'. There are both very positive and very negative opinions with regard to the further investment plans as expressed in the 2018 study, however, there are considerably more positive cases than negative ones.

Finally, we asked all 40 foreign investors that took part in the 2018 FICIL Sentiment Index study to send a message to the prime minister of Latvia: one paragraph on what should be done to improve the business climate in Latvia, from the viewpoint of a foreign investor. These messages summarise a number of key concerns that foreign investors are still facing in Latvia, as well as providing some solutions on how to overcome them. These messages, similarly to the findings of the 2018 FICIL Sentiment Index study, also highlight the necessity to continue policy-makers' efforts to improve the investment climate in Latvia. We hope that, similarly to the three previous reports, this report will support policy-makers with better grounds for making informed policy decisions in such a way that the overall competitiveness of the entrepreneurship climate in Latvia will be improved. It is also hoped that it will continue to foster further constructive communication between foreign investors and the government of Latvia.

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1. Introduction and methodology

This is the fourth FICIL Sentiment Index report, following the three reports written in 2015, 2016 and 2017. The FICIL Sentiment Index was established in 2015 by the Foreign Investors' Council in Latvia (FICIL), in cooperation with the Stockholm School of Economics in Riga (SSE Riga). The key aim of the Index is to foster more evidence-based policy decisions to further promote a favourable investment climate in Latvia. We aim to achieve this by summarising the key concerns and suggestions of the main foreign investors in Latvia – representatives of companies that have made the decision to invest in the country and have been operating here for a considerable period of time.

The key aim of the current report is to explore whether, according to foreign investors in Latvia, there has been any progress in the development of the investment climate in Latvia. In particular:

- (1) Do investors see progress with regard to policy initiatives to meet the main challenges as identified in the 2015, 2016 and 2017 studies?
- (2) How do investors evaluate the government's efforts and current policy initiatives aimed towards improving the investment climate in Latvia?
- (3) Which have been the 'best' and 'worst' decisions or policy initiatives that have been introduced by the Latvian government over the last 5 years and had a positive or negative impact on the business environment of Latvia?

As in 2015, 2016 and 2017, this report draws on a survey: mini case studies of foreign investors in Latvia. From September to early November 2018, we interviewed the same 38 (out of 42) companies that took part in the 2017 study. In addition, 2 new companies joined the sample in 2018. Altogether, these companies (including their subsidiaries) contribute to 9% of Latvia's total tax revenue, 18% of total profit and employ 4% of total workforce of companies above 145000 EUR turnover and 50% foreign capital (data from Firmas.lv, 2017). A short introduction to the companies that were involved in the study is presented in Appendix 2. Most of the companies chose to remain anonymous and, for this reason, in the results sections of this report the companies' names have been excluded.

The guidelines for the mini case studies were developed by Professor Arnis Sauka (SSE Riga) with input from the board members of FICIL. The interviews were conducted, under the supervision of FICIL and SSE Riga, by FICIL board members. The guidelines for the interviews are presented in Appendix 1 and consist of the following key parts:

- *Evaluation of progress with regard to the major areas of concern identified by foreign investors in Latvia in 2017 (2016 and 2015), including the following areas:*

- demography
 - access to labour
 - level of education and science in Latvia
 - quality of business legislation
 - quality of the tax system
 - support from the government and communication with policy-makers
 - unethical or illegal behaviour on the part of entrepreneurs, unfair competition
 - uncertainty
 - court system in Latvia
 - the healthcare system in Latvia
- *Evaluation of the work of the Latvian policy-makers with regard to improving the investment climate in Latvia during 2018*
 - *Assessment of whether, according to foreign investors, the investment attractiveness of Latvia has improved during the past 12 months.*
 - *Evaluation of the key drivers of Latvia's economic competitiveness – the FICIL Sentiment Index 2018.*

As in previous years, we also asked foreign investors whether, and under what conditions, they plan to increase their investment in Latvia. In addition, we also asked foreign investors whether, apart from Latvia, their company has also invested in the other two Baltic countries or Poland? And, if so, whether the proportion of investment that the particular company is investing in Latvia is increasing or decreasing, as compared to their investment in Estonia or Lithuania. In the 2018 survey, we also asked foreign investors to identify the best and worst decisions or policy initiatives that have been introduced by the Latvian government over the last 5 years and had a positive or negative impact on the business environment of Latvia.

Previous FICIL Sentiment Index studies have identified a number of key challenges that foreign investors face in Latvia. The most serious concerns for foreign investors in Latvia have been communicated continuously to the government of Latvia, aiming to put those issues on the agenda of the policy-makers. Amongst those concerns are (i) availability and quality of workforce, including quality of education (various levels) and science for achieving productivity growth, (ii) corruption in the public sector and the shadow economy, and (iii) effectiveness of the public sector with regard to improving the business environment in Latvia. Taking into consideration the importance of these three issues, in the 2018 study we asked foreign investors to provide a more in-depth opinion with regard to all three. The aim of the in-depth discussions during the interviews was to generate suggestions for policy-makers that could provide some support in improving the situation with regard to demography and the quality of labour, corruption and the shadow economy, as well as decreasing bureaucracy and increasing the effectiveness of the public sector in Latvia.

Finally, in the 2018 study we also asked 40 foreign investors in Latvia to write a short message to the prime minister: one paragraph on what should be done to improve the business climate in Latvia from the viewpoint of a foreign investor. We promised to deliver this message along with the report.

The report is structured accordingly and, whenever possible, investors were asked to provide more detailed opinions and examples. We hope that similarly to the previous three reports, this report will also provide policy-makers with better grounds for making informed policy decisions in such a way that the overall competitiveness of the entrepreneurship climate in Latvia will be improved. It is also hoped that it will continue to foster further constructive communication between foreign investors and the government of Latvia.

2. FICIL Sentiment Index 2015-2018

This section presents the FICIL Sentiment Index 2015-2018 – an assessment of the economic competitiveness of Latvia or, more specifically, an evaluation of the investment climate in Latvia by foreign investors operating in the country. The FICIL Sentiment Index was calculated for the first time in 2015. In 2018, it draws on the expert opinions of 40 qualified entrepreneurs/managers representing companies that are key investors in Latvia. Altogether, these companies (including their subsidiaries) contribute to 9% of Latvia's total tax revenue, 18% of total profit and employ 4% of total workforce of companies above 145000 EUR turnover and 50% foreign capital (data from Firmas.lv, 2017).

However, the numbers in the FICIL Sentiment Index should be interpreted with caution, taking into consideration that (i) mostly relatively large investors have taken part in the study, so that the results might better represent the opinions of larger companies; (ii) the sample mainly consists of FICIL members, thus potentially creating a selection bias. FICIL therefore recommends using these figures as complementary information to the information summarised in other sections of this report, i.e. as a brief approximation, aimed at shedding more light on the overall assessment of the drivers of Latvia's competitiveness from the viewpoint of key foreign investors in Latvia.

The main factors that potentially influence Latvian competitiveness were derived through reviewing relevant academic literature or emerged from in-depth discussions within the FICIL Sustainable Economic Development Work Group, in 2015. As a result, the FICIL Sentiment Index – foreign investors' assessments of the drivers of Latvia's competitiveness – consists of the following indicators:

Availability of labour
Efficiency of labour
Demand for products and services
Attitude towards foreign investors
Quality of business legislation
Quality of education and science
Quality of health and social security
Hard infrastructure
Investment incentives
Soft infrastructure
Demography

Additionally, foreign investors were also asked to evaluate **the standard of living in Latvia**.

During the 2015 study, 28 selected foreign investors in Latvia evaluated each of these indicators – potential drivers of Latvia’s economic competitiveness. The same 28 respondents, as well as 4 new companies, participated in the evaluation of the same indicators in 2016, whereas in 2017 an additional 10 companies joined the sample. In 2018, however, we interviewed the same 38 (out of 42) companies that took part in the 2017 study. In addition, 2 new companies joined the sample in 2018.

We provided respondents with an evaluation scale from 1-5, where ‘1’ means that the indicator is not competitive and ‘5’ means that the indicator is very competitive. Some indicators included one item, some included several items: please see Table 1 below. The FICIL Sentiment Index was calculated as a simple average for each indicator. 26 of the 28 investors interviewed provided an evaluation for most of the indicators in 2015: all 32, 42 and 40 respondents took an active part in evaluating the indicators in the 2016, 2017 and 2018 study, respectively. The results are presented in Figure 1.

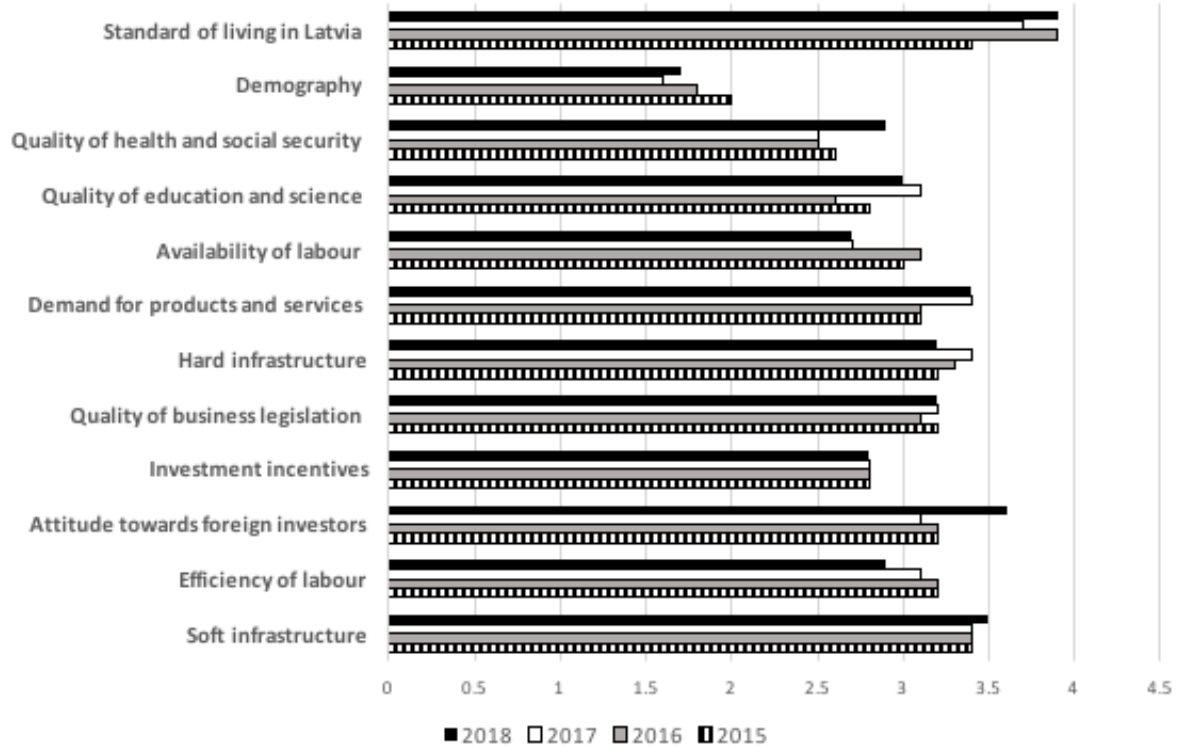
As illustrated by Figure 1, for all four years (2015, 2016, 2017 and 2018 studies) foreign investors in Latvia mostly evaluated the potential drivers of the economy as above average. Similarly to previous years, in 2018 investors are also relatively satisfied with the ‘soft infrastructure’, measured as ‘business culture in Latvia’ (3.5 out of 5 in 2018, as compared to 3.4 in 2015-2017) (see Figure 1 and Table 1) and ‘demand for products and services’ (3.4 out of 5 in 2018 and also 2017). In 2018, however, the ‘attitude towards foreign investors’ has been evaluated as high as 3.6 out of 5 (as compared to 3.1 in 2017 and 3.2 in 2015 and 2016), which is the best assessment by foreign investors since the launch of the FICIL Sentiment Index.

Investors are, however, least satisfied with ‘demography’ where the evaluation gradually decreased from 2015-2017 (i.e. from 2.0 out of 5 in 2015, 1.8 in 2016 to 1.6 in 2017), yet slightly increased in 2018 (1.7 out of 5).

Figure 1: FICIL Sentiment Index 2015-2018

Evaluation scale from 1-5, where '1' means that the indicator is not competitive and '5' means that the indicator is very competitive.

2015: n = 28; 2016: n = 32; 2017: n = 42; 2018: n = 40



Source: FICIL Sentiment Index 2015-2018

The investors' assessment of the quality of the 'health and social system' has improved in 2018, as compared to 2015-2017 (from 2.6 in 2015, 2.5 in 2016 and 2017, to 2.9 in 2018). However, a decrease can be observed in 'efficiency of labour' (from 3.1 in 2017 to 2.9 in 2018), whereas 'availability of labour' has remained at the level of 2017 (2.7 out of 5). It is important to note, however, that there is a decrease in the component 'availability of blue-collar labour' (from 2.5 in 2017, to 2.3 in 2018). 'Quality of business legislation' and 'investment incentives', however, have been assessed at the same level in 2018 by foreign investors, as compared to the assessment in 2017 (3.2 and 2.8 accordingly).

Assessment of 'hard infrastructure' has decreased from 3.4 in 2017, to 3.2 in 2018, and is driven by a decrease in the assessment of 'energy resources' (3.0 in 2018, as compared to 3.4 in 2017) as well as 'low production costs' (2.9 in 2018, as compared to 3.2 in 2017). Also, assessment of the 'quality of education and science' has slightly decreased (from 3.1 in 2017, to 3.0 in 2018), following an increase from a low of 2.6 in 2016, to 3.1 in 2017. Finally, the standard of living in Latvia has been evaluated with '3.9', from '5.0' in 2018, which is a 0.2 increase as compared to 2017, and at the same level as in 2016. (See Figure 1 and Table 1).

Table 1: Components of the FICIL Sentiment Index 2015- 2018.

Evaluation scale from 1-5, where '1' means that the indicator is not competitive and '5' means that the indicator is very competitive.

2015: n = 28; 2016: n = 32; 2017: n = 42; 2018: n = 40

	2015	2016	2017	2018
Soft infrastructure	3,4	3,4	3,4	3,5
business culture in Latvia	3,4	3,4	3,4	3,5
Efficiency of labour	3,2	3,2	3,1	2,9
efficiency of labour	3,2	3,2	3,1	2,9
Attitude towards foreign investors	3,2	3,2	3,1	3,6
Investment incentives	2,8	2,8	2,8	2,8
Quality of business legislation	3,2	3,1	3,2	3,2
monetary policy	4,0	4,1	3,9	3,7
tax system	3,1	2,8	2,8	3,1
legal system	2,6	2,6	2,8	2,9
Hard infrastructure	3,2	3,3	3,4	3,2
defence	3,4	3,6	3,6	3,6
low production costs	3,3	3,2	3,2	2,9
infrastructure (roads, electricity, etc.)	3,1	3,1	3,3	3,2
energy resources	2,8	3,3	3,4	3,0
Demand for products and services	3,1	3,1	3,4	3,4
domestic demand	2,8	2,6	2,9	2,8
external demand (exports)	3,3	3,3	3,7	3,8
industry traditions	3,4	3,5	3,5	3,6
Availability of labour	3,0	3,1	2,7	2,7
availability of labour at management level	3,4	3,5	2,9	3,0
availability of blue-collar labour	2,7	2,8	2,5	2,3
Quality of education and science	2,8	2,6	3,1	3,0
education and science / innovation	2,8	2,6	3,1	3,0
Quality of health and social security	2,6	2,5	2,5	2,9
health system	2,5	2,4	2,4	2,7
social security	2,8	2,5	2,6	3,0
Demography	2,0	1,8	1,6	1,7
demography (population growth)	2,0	1,8	1,6	1,7
Standard of living in Latvia	3,4	3,9	3,7	3,9

Source: FICIL Sentiment Index 2015-2018

3. The attractiveness of the investment climate in Latvia

One of the key aims of the FICIL Sentiment Index is to measure the progress of investment climate development in Latvia. To do so, similarly to 2016 and 2017, investors in the 2018 survey were also asked for their perspective on whether the investment attractiveness of Latvia has improved over the past 12 months. Investors could evaluate the improvement of the investment attractiveness of Latvia using a 5-point scale, where ‘1’ means that investment attractiveness has not improved at all, ‘2’ means that there have only been minor improvements, ‘3’ means that there have been some positive improvements, ‘4’ means yes, investment attractiveness has improved and ‘5’ means yes, investment attractiveness has improved significantly.

Table 2: Progress of investment climate development in Latvia: development over the past 12 months: 2016, 2017 and 2018 studies.

Scale 1-5 where ‘1’: investment attractiveness has not improved at all; ‘5’: investment attractiveness has improved significantly.

2016: n = 32; 2017: n = 42; 2018: n = 40

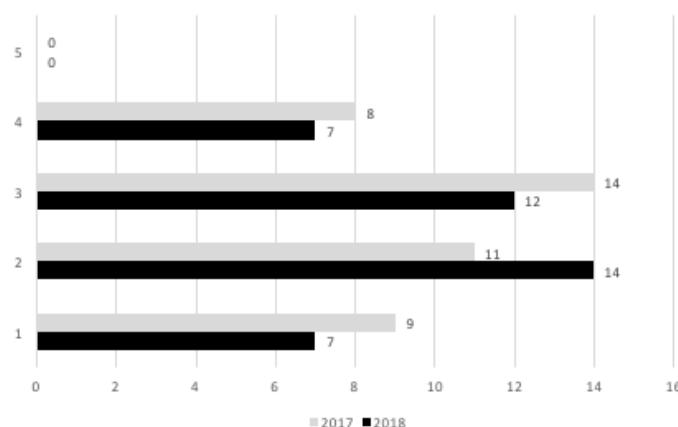
<i>year</i>	<i>rank</i>
2018	2.5
2017	2.5
2016	2.0

Source: FICIL Sentiment Index 2015- 2018

Figure 2: Has the investment attractiveness of Latvia improved during the past 12 months? Distribution of responses, 2017 and 2018.

Scale 1-5 where ‘1’: investment attractiveness has not improved at all; ‘5’: investment attractiveness has improved significantly.

2017: n = 42; 2018: n = 40



Source: FICIL Sentiment Index 2015- 2018

All 40 respondents answered this question, in most cases evaluating the development of investment attractiveness with either ‘2’ – there have been only minor improvements or ‘3’ – some positive improvements (see Figure 2). No respondents, however, answered with ‘5’, i.e. that investment attractiveness has improved significantly (see Figure 2). ***On average, the development of the investment climate in Latvia over the past year was evaluated with ‘2.5’, which is at the same level as compared to the evaluation a year ago, and 0.5 higher in comparison to answers to the same question in 2016*** (see Table 2).

We also asked investors to justify their assessment and received the following opinions, some of them (i.e. negative ones) highlighting the major issues that foreign investors also expressed in the FICIL Sentiment Index 2015, 2016 and 2017 studies:

“No changes at all, not to say that things have become worse, there are simply no changes. Still no access to labour, the reputation of the financial sector has worsened, education reform isn’t really working; we don’t really have access to well-educated people. The only bright side is the transport sector; our airport seems to be getting better and better.” (Professional assurance and advisory services company).

“Investment climate in Latvia is now based more on the reputation of the financial sector rather than policy-makers. The Latvian “name” has been tarnished on a global scale in the eyes of foreign investors because of the whole non-resident banking scandal.” (Professional assurance and advisory services company).

“Sometimes the existing legislation hinders economic development and exports. Our company would love to participate in local pilot projects. We would participate in projects regarding a more intelligent use of local resources. Digitalisation is moving ahead in Latvia, but slowly. Certain things in construction have shifted to a more digitalised approach.” (Manufacturing company).

“The only positive aspect at the current time is the increasing economic trends, however, I’m not sure whether this can be correlated with the government’s active work.” (Consultancy and IT company).

“Latvian risk profile, we are a high-risk country in the financial system. The banking environment has contributed to this. They have done something to improve this, but we are still considered to be a launderette. Changes in corporate tax are designed to improve the situation.” (Professional assurance and advisory services company).

... however, there are also more positive opinions:

“Certain things take time; have to stay on track to see the benefits. Actions taken have been in the right direction.” (Retail trade and service company).

“Minor improvements are observed in certain areas; nevertheless, in the eyes of foreign investors, the precarious political situation in Latvia, both in the context of developments in the banking and financial sector and in the context of the 2018 elections, still causes concern.” (Professional assurance and advisory services company).

“I do not think that foreign investors are welcome. The feeling here is that theoretically one needs to have foreign investment but in reality, nobody wants foreign investment in Latvia.” (Service company).

“There might be small changes in the overall efficiency when it comes to administrative tasks, some improvements with digitalisation; it’s a bit easier to handle some things online. But, in terms of demography, access to labour and the banking sector – things have got worse.” (Manufacturing company).

“Significantly affected by banking reputation crises – due to implementing AML procedures and due to the Bank of Latvia crisis.” (Manufacturing company).

“Salary inflation is a problem. Consumer emigration is also a big thing. Not everything can go to export.” (Manufacturing company).

“Something is happening, something is being done. European Union projects being implemented here bring a positive change. IKEA has opened a store, we

“The market is growing for banks: July was the first month when the market started to grow, for retailers it seems to be getting better in general. Overall, profitability was good in the first quarter.” (Finance and banking company).

“Evaluation is ‘3’ due to growing internal demand. No other positive moves.” (Professional assurance and advisory services company).

“Skilled labour is a factor of attractiveness. We have good business ethics and talented people” (Professional assurance and advisory services company).

have the Rail Baltica project. In our line of work (construction) we have seen positive changes in legislation – we can now build 7-storey buildings from wood. Seems like we are developing along with the changing times.” (Manufacturing company).

“There are some opportunities. The banking sector is distressed, so you can acquire it more cheaply. It is an opportunity from that point of view. So, there are no improvements in the investment environment but there are opportunities. There are quite a few distressed assets in the market that constitute an opportunity for investment.” (Finance and banking company).

4. Assessment of the work of the Latvian policy-makers: what has been done to improve the investment climate in Latvia during the previous year?

As in the 2017 study, we asked 40 main foreign investors in Latvia that participated in the 2018 FICIL Sentiment Index survey to assess the work of the Latvian policy-makers and what has been done to improve the investment climate in Latvia during the previous year. The policy-makers’ contribution was evaluated on a scale of 1 to 5 (where ‘1’ is fail, ‘3’ is average and ‘5’ is excellent). Answers to this question are directly comparable to the similar question that was asked in the 2016 study: “To what extent has the government’s promise to improve the investment climate in Latvia – made during the FICIL High Council Meeting in 2015 – been fulfilled?”, as both involve assessment of policy-makers’ efforts to improve the investment climate over the past year. The results from the 2016, 2017 and 2018 studies are summarised in Table 3.

All 40 respondents answered this question and the distribution of answers is provided in Figure 3. In short, Figure 3 suggests that, similarly to the 2017 (and also 2016) study, the majority (i.e. one third) of respondents in the 2018 study evaluated the government’s efforts, with regard to the development of the investment climate in Latvia, as ‘3’ – average. However, in both the 2017 and 2018 surveys, approximately one quarter of those that answered the question felt that the government has not invested enough effort to improve the investment climate in Latvia, hence the ‘grade’ ‘2’. Approximately the same number of respondents answered with ‘4’. Only in a few cases did investors evaluate the work of the Latvian policy-makers with ‘1’, however, not a single respondent responded that the government has done an excellent job in this regard (see Figure 3). ***On average, foreign investors evaluated policy-makers’ efforts to improve the investment climate over the past year with 2.9 out of 5 in 2018, and also in 2017.*** (Table 3).

Table 3: Foreign investors' assessment of policy-makers' efforts to improve the investment climate over the past year: 2016 and 2017 studies

Scale 1 to 5, where '1'-fail, '3'- average' and '5'- excellent

2016: n = 30; 2017: n = 42; 2018: n = 40

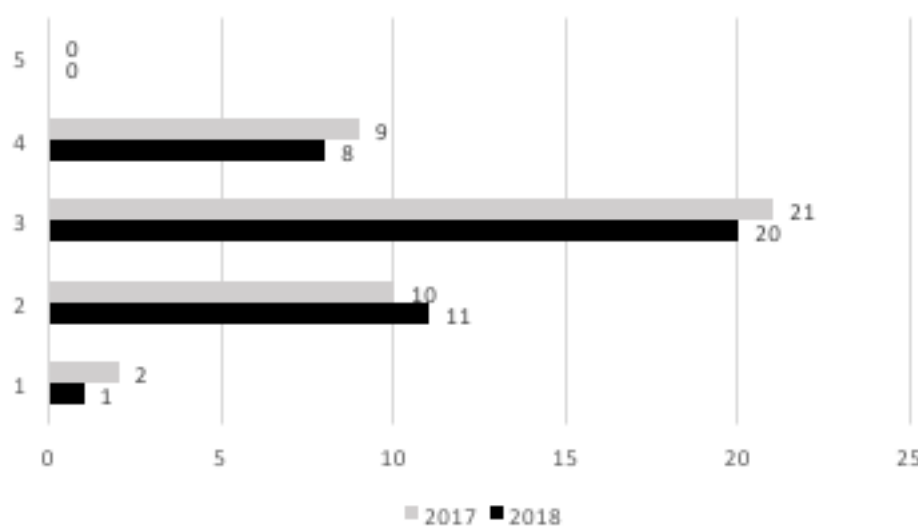
year	rank
2018	2.9
2017	2.9
2016	2.3

Source: FICIL Sentiment Index 2015- 2018

Figure 3: Foreign investors' assessment of policy-makers' efforts to improve the investment climate over the past year. Distribution of responses, 2017 and 2018.

Scale 1 to 5, where '1'- fail, '3'- average' and '5'- excellent

2017: n = 42; 2018: n = 40



Source: FICIL Sentiment Index 2015-2018

Again, respondents were asked to justify their assessment and the following opinions - both negative and positive – were received:

“I cannot give more than 2. To a certain extent they are trying to do something, but with no visible results.” (Consultancy and IT company).

“We do not feel that they are doing anything. Digitalisation would make our life easier but it is still not there! All the paperwork that has to be done – be it building permit, reconstruction or immigration – it is just unacceptable for the 21st century.” (Consultancy and IT company).

“They did not have time to improve it; they were busy playing the pre-election games.” (Retail trade and service company).

“Short-term and reactive behaviour.” (Retail trade and service company).

“Extremely low or non-existent engagement with EU lawmakers. One thing is bringing new investors to Latvia and another is making sure you have a normal investment climate from the existing investors’

“Can’t say that it has become significantly worse, but there are also no improvements in my opinion. The government has missed a lot of opportunities to take a firm stand in different areas that would make us better off. Even when it comes to the issues in the banking sector, the government could have taken a stronger stance, showed some support for the industry, taken responsibility.” (Manufacturing company).

“Populist discussion about MPC reform, which has been on the government’s agenda for many years now, together with crises in the banking sector (Bank of Latvia corruption case, ABLV insolvency) gave very bad signals to investors.” (Manufacturing company).

“(Not good) because of changes in tax legislation. We recently hosted a group of Chinese investors, wanting to invest in infrastructure projects. Ministry representatives left the meeting before the coffee break, without discussing specific opportunities for future investments. This gives me the impression that they are not working towards anything specific.” (Professional assurance and advisory services company).

perspective.” (Retail trade and service company).

“Some things are pretty good in Latvia – for example, you have good access to the policy-makers and government to discuss business-related problems.” (Manufacturing company).

“Last year was better than the average year in Latvia, the general view is that there have been small improvements, some decisions have been made with far-reaching consequences.” (Finance and banking company).

“I believe that the government acknowledged the need for the structural reforms, but has not really done anything to properly plan and perform them.” (Professional assurance and advisory services company).

“Slow, but good progress. Main issue – in some industries honest companies cannot operate, e.g. construction.” (Finance and banking company).

“It looks like financing from the European Union is being put to good use, although legislation needs to be clear, understandable, direct. Corruption needs to decrease, and then we can talk about new investors coming to Latvia.” (Manufacturing company).

5. ‘Best’ and ‘worst’ initiatives by policy-makers over 5 years: viewpoint of foreign investors

In the 2018 study, we asked 40 key foreign investors in Latvia to answer the following question: “Could you please identify the best and worst decisions or policy initiatives (up to 3) that have been introduced by the Latvian government over the last 5 years and had a positive/negative impact on the business environment of Latvia?” The aim is obvious - to provide a somewhat longer term perspective on the assessment of policy initiatives in Latvia that, according to the viewpoint of foreign investors, has positively or negatively influenced the investment climate in Latvia.

The findings are summarised in Table 4, whereas all findings, including quotes from the interviews, are provided in Appendix 3. Key insights with regard to the best and worst decisions or policy initiatives of the Latvian government, in the viewpoint of foreign investors in Latvia, are further summarised below.

Table 4: ‘Best’ and ‘worst’ decisions or policy initiatives that have been introduced by the Latvian government over the last 5 years and had a positive/negative impact on the business environment of Latvia. Viewpoint of foreign investors, 2018

2018: n = 40

Best decisions or policy initiatives	Worst decisions or policy initiatives
Taxes, tax reform	Financial sector related
Electricity Compulsory Procurement Component (OIC)	Taxes, tax reform
Memberships in international organisations, entering the Eurozone	Priorities by the government, communication
Shadow economy related activities, including prevention of money laundering, corruption, etc.	Electricity Compulsory Procurement Component (OIC)
Insolvency administration	Shadow economy related activities, including prevention of money laundering, corruption, etc.
Education	Labour and demographics related: migration, immigration, residency permits, etc.
Digitalisation focus	Environment regulations, including waste management
Infrastructure projects: Rail Baltica, etc.	Construction sector related
Increasing minimum wage	Absence of regional reform
Construction sector related	Taxis: competition council
Defence: increasing budget to 2% from GDP	Investment related
Other	Health system related
	Cash register related
	Other

Source: FICIL Sentiment Index 2015- 2018

FINANCIAL SECTOR RELATED ISSUES: AMONG THE WORST POLICY INITIATIVES IN LATVIA DURING THE PREVIOUS 5 YEARS

Perhaps not surprisingly, the foreign investors that took part in the 2018 study highlighted that the *worst policy decisions or activities* that policy-makers in Latvia have implemented over the past 5 years are associated with the situation in the financial sector. The quotes say it all:

“It seems like the government was unable to react quickly and efficiently to the crisis in the financial sector, a lot of things could have been done differently to salvage whatever good reputation was left. The government didn’t effectively communicate the crises, meaning policies in place regarding non-residents.”
(Professional assurance and advisory services company).

“Decision not to open HEI governance and financing topic.” (Professional assurance and advisory services company).

“Weak supervision and governance of banks that resulted in the recent banking scandals.” (Finance and banking company).

“When it comes to the financial sector – the government reacted badly. They just cut everyone, not taking out the few bad apples that were breaking the law, but cutting everyone out.” (Service company).

“The way the problems in the banking sector were handled was very bad from the government’s side.” (Manufacturing company).

“Non-resident finances – the idea to clean up the financial sector was good, but the way it was carried out was very bad. This has damaged Latvia’s reputation for years to come. Looks like the country is handing its functions over to the private sector.”
(Service company).

“Financial sectors never improve by themselves; it’s always a crisis that cleans them up.” (Real estate company).

“ABLV turbulence became a scandal. It became an international news story and polarised people. We knew about all the risks surrounding the business of ABLV for many years, but we looked away and pretended there was no problem. As a result, we got into a scandal because of our own inaction!” (Real estate company).

“Handling of the situation regarding the banking crisis – absence of communication from the government.” (Wholesale and retail company).

“The pace of introducing AML procedures in Latvia is extremely slow (the banking system is very shaky right now).” (Professional assurance and advisory services company).

“AML – we did have the regulatory framework to supervise financial institutions, we had supervisory institutions in place, so how come we have the FinCEN report and Moneyval report that are so bad for Latvia and are damaging our reputation?”
(Consultancy and IT company).

“AML implementation, handling of the case of ABLV.” (Finance and banking company).

“Poor management of Latvia’s reputation in the international arena with regard to finance sector transparency and integrity. Latvia is still perceived as the centre of money laundering, Central Bank corruption scandal, government’s investment plans in the bankruptcy of PAREX.” (Manufacturing company).

TAXES AND TAX REFORM: BOTH VERY POSITIVE AND VERY NEGATIVE OPINIONS

On a positive note - taxes and tax reform have frequently been highlighted by foreign investors ***amongst the key most positive policy initiatives*** that policy-makers have implemented. This is reflected in the following quotes:

“Tax reform (is amongst the most positive policy initiatives).” (Finance and banking company; Consultancy and IT company; Professional assurance and advisory services company; Finance and banking company); Service company; Real estate company).

“Tax reform seems to be a good thing – small progressivity, lower salaries pay less tax.” (Retail trade and service company).

“0% for reinvested profits or corporate tax reform. In spite of regulatory weaknesses, overall tax reform is positive. It should be taken into account that it will be possible to judge fully the impact on the Latvian business environment when a longer period of time from the moment of the reform has passed.”
(Professional assurance and advisory services company).

“The change in the tax system to reinvest the profit.”
(Service company).

“Corporate tax rate of 0% is good.” (Real estate company; Retail trade and service company).

“Change in corporate income tax system is positive.”
(Professional assurance and advisory services company).

“Tax reform, the goal is to make Latvia more attractive for investors, good initiative but need to wait to see if it will actually work.” (Wholesale and retail company).

“Tax system – erasing inequality and moving towards progressivity is a very good thing. Regarding corporate tax – too early to say but hopefully the change will result in some positive outcomes.”
(Service company).

“Excise tax (is amongst the most positive policy initiatives).” (Manufacturing company).

“Reduced VAT (is amongst the most positive policy initiatives).” (Retail trade and service company).

“Income tax reform is moving in a positive direction.”
(Manufacturing company).

However, almost as many foreign investors **also expressed dissatisfaction with taxes or the tax reform**, highlighting that this has actually been amongst the worst decisions/policy initiatives by the policy-makers of Latvia:

“Tax reform (was amongst most significant fails).” (Finance and banking company).

“Corporate tax reform (the dividend tax increase).” (Service company).

“Social tax changes that happened 2-3 years ago. You have to pay tax but it is not adding on to your pension plan.” (Retail trade and service company).

“Continuing to increase excise tax.” (Retail trade and service company).

“Tax regulation and the reform – the way it was done – fast, quick, without consultations etc.” (Consultancy and IT company).

“Corporate tax reform was a fail.” (Manufacturing company).

“Tax reform – the end result is not acceptable.” (Consultancy and IT company).

“Excise Tax changes, indecisiveness of health system.” (Retail trade and service company).

“Taxation of beverages basically.” (Retail trade and service company).

“Municipality of each freeport can decide on the tax rebate – not fair. Would I invest still in Ventspils? No.” (Retail trade and service company).

“Fuel excise tax increase.” (Retail trade and service company).

“Tax reform is a failure. Extremely complicated, in particular, for small companies. Inability to figure out how to tax shared economy.” (Finance and banking company).

ELECTRICITY COMPULSORY PROCUREMENT COMPONENT: VERY NEGATIVE OPINION, YET POSITIVE THAT THE GOVERNMENT IS TRYING TO SOLVE THE ISSUE

Similarly to the tax reform, the ‘Electricity Compulsory Procurement Component’ issue has also been highlighted as a **major problem** - one of the worst decisions by policy-makers within the scope of the previous 5 years:

“OIK saga is a mess.” (Finance and banking company; Consultancy and IT company).

“Declaring abolishment of OIK was foolish and irresponsible.” (Retail trade and service company).

“OIK is not a good thing.” (Retail trade and service company; Retail trade and service company).

“OIK fiasco was one of the worst decisions the government made.” (Manufacturing company).

“Mandatory procurement component (OIK) – retrospective change of rules of the game – not fair vis a vis, both foreign and local investors.” (Wholesale and retail company).

“OIK issue. I do not think this deserves any more comment. This has caused a terrible loss to our economy and manufacturing in general.” (Manufacturing company).

However, many highlight that policy-makers should be credited for aiming to solve this issue, mentioning these amongst the **best policy initiatives**:

“Understand and start the process in changing the approach to OIK.” (Consultancy and IT company).

“They are at least trying to clean up the OIK mess.” (Professional assurance and advisory services company).

“Another good decision was the dismantling of the OIK debacle.” (Manufacturing company).

“Electricity Compulsory Procurement Component (OIK) and subsidised electricity tax. As a result of poor control, foreign entrepreneurs who have invested in the renewable energy sector are in a disadvantaged situation.” (Professional assurance and advisory services company).

TACKLING SHADOW ECONOMY AND CORRUPTION: BOTH VERY POSITIVE AND VERY NEGATIVE

Similarly to taxes and reforms, tackling the shadow economy has also been evaluated as amongst both the best and worst activities as implemented by policy-makers in Latvia during the past 5 years. Overall, a number of **key investors appreciate the progress that has been made in decreasing the shadow economy in Latvia, and corruption**:

“The governance change in the Office for Prevention of Laundering of Proceeds Derived from Criminal Activity.” (Finance and banking company).

“Different sectors are signing general agreements, trying to improve the situation with the shadow economy.” (Professional assurance and advisory services company).

“Gradual decrease of the grey economy.” (Finance and banking company).

“Clean-up of banking sector and money laundering.” (Finance and banking company).

“Some initiatives to tackle the shadow economy. Maybe efficiency is not there but the government should be credited for doing this.” (Real estate company).

“Trying to fight the shadow economy has had a positive effect on our industry. People are being more careful with what kind of cars they buy, they don't want shady deals.” (Wholesale and retail company).

“Putting more effort and resources into fighting the shadow economy.” (Retail trade and service company).

“Decision to change the FIU head.” (Professional assurance and advisory services company).

However, some still highlight that the **shadow economy and corruption are major problems in Latvia** and see no or insufficient effort from the government to tackle these issues:

“Inability to combat the grey economy in construction. Inability to hold Riga City Council and its companies accountable for all the corrupt methods and terrible governance. Lack of investigation of economic

“Inability to deal with the non-resident issue and anti-money laundering and other financial crimes. Society seems to be uneducated on this topic. Latvia lacks a clear vision and strategic thinking when dealing with these problems.” (Finance and banking company).

crimes.” (Finance and banking company).

“Corruption is still there and I do not see that there will be any progress. I think there are many areas where there is no transparency, esp., regarding EU funding.” (Consultancy and IT company).

PRIORITIES OF THE GOVERNMENT, COMMUNICATION- BAD!

A substantial number of foreign investors are **very unhappy** about how the Latvian government works, i.e. prioritising or not prioritising important activities, communicates, etc. This is reflected in the following quotes:

“Inertia from the government, very inward focused, with a survival instinct. They didn’t really address the big problems like education, health.” (Service company).

“Inaction by the prime minister when communicating with investors. Plain lies and promises.” (Service company).

“Many things have not been done; no proactive actions from the government to improve the business environment.” (Finance and banking company).

“Needless initiatives carried out in the wrong way. The government seems to be taking a positive idea and making it absurd. Good ideas interpreted wrong.” (Wholesale and retail company).

“The government is not clear, they don’t explain their decisions and reasons for certain actions. When it comes to the environment - if they really care about the environment why are they unable to implement any favourable policies in reality?” (Wholesale and retail company).

“Lack of long-term strategy and decision-making ability. Unwillingness to make important decisions that would make a difference.” (Retail trade and service company).

LABOUR AND DEMOGRAPHIC RELATED DECISIONS, I.E. MIGRATION, IMMIGRATION, RESIDENCY PERMITS- AMONGST THE WORST INITIATIVES BY POLICY-MAKERS

“The decision not to touch migration as an issue before the elections (is very bad)” (Professional assurance and advisory services company).

“Availability of labour and the decision to keep the borders too tightly closed for third country nationals (in particular, low skilled labour) (is a failure).” (Manufacturing company).

“They made it very difficult to obtain and renew residency permits (this drives part of the economy, potentially attracts investments).” (Real estate company).

“Initiative to improve demographics, immigration and remigration – could have done more. In fact, nothing has been done.” (Real estate company).

ENVIRONMENTAL REGULATIONS, INCLUDING WASTE MANAGEMENT- NEGATIVE!

“Waste management is a big problem in Latvia, heavily politicised and very backward looking. There is still no decision about plastic bottle deposits and this is unacceptable for the 21st century! We know the system in any shape or form will cost us money but we want it and we think it is a must in today’s world!” (Manufacturing company).

“Environmental regulations at municipality level have been changed several times and this is very strange. In Ventspils, for example, there is one regulation, in Riga and Liepaja it is completely different. But why would you have different regulations in such a small country? We are in Europe!” (Retail trade and service company).

“An unprofessional, poorly managed and non-transparent system for support of renewable energy production. Setting the country’s environmental goals and commitments with poor evaluation of economic opportunities.” (Manufacturing company).

ABSENCE OF REGIONAL REFORM - NEGATIVE!

“Decision not to perform regional reform (is a fail).” (Professional assurance and advisory services company).

“No regional reform – that is a major problem.” (Finance and banking company).

“Regional reform hasn’t been carried out – all these battles between the municipalities – this is absurd.” (Finance and banking company).

INSOLVENCY PROCESS- MOSTLY POSITIVE!

Previous FICIL Sentiment Index reports have emphasised many challenges that Latvia faces with regard to insolvency process regulation. Judging from the responses of the FICIL Sentiment Index 2018 study, however, a number of foreign investors **appreciate the progress** that has been achieved in this area, often naming this amongst the most positive policy initiatives that Latvian policy-makers have implemented over the last 5 years:

“Prosecution against dishonest insolvency practitioners.” (Professional assurance and advisory services company).

“Fight against abuse of insolvency process and work on implementing anti-money laundering policies.” (Professional assurance and advisory services company).

“Insolvency regulation reform. The pre-existing serious problems in insolvency proceedings have been mitigated by systematic work on improving regulation. (Professional assurance and advisory services company; Real estate company).

“Changes in insolvency administration thanks to the joint research of Deloitte and FICIL, and thanks to the continuous work of FICIL in following up the situation.” (Finance and banking company).

“Insolvency administration – the government sort of managed to end some of the schemes, but it is still a work in-progress and I expect this to be continued.” (Service company).

“Getting right the insolvency administration process (as a result of the pressure from FICIL).” (Wholesale and retail company).

We also received *some negative opinions*, however:

“Delayed and untimely action in overseeing insolvency administration processes.” (Finance and banking company).

“Insolvency – the job has not been completed.” (Service company).

MEMBERSHIP OF INTERNATIONAL ORGANISATIONS: VERY POSITIVE!

Indeed, many foreign investors named entering the EU, OECD, NATO and the Eurozone as the top 5 most *positive policy initiatives* of Latvian policy-makers - even though some of these activities in actual fact took place more than 5 years ago...:

“EU membership, NATO, OECD (are amongst the most positive policy decisions).” (Retail trade and service company).

“Latvia joining the OECD (is amongst the most positive policy decisions).” (Service company; Wholesale and retail company; Manufacturing company).

“Stability brought by Latvia belonging to the EU, NATO – for investors it gives predictability in terms of where Latvia stands on the global map.” (Consultancy and IT company).

“Latvia joining the Eurozone increased stability. Now foreign investors aren’t concerned with a different currency’s devaluation.” (Service company; Finance and banking company).

INVOLVEMENT IN BIG INFRASTRUCTURE PROJECTS: AMONGST THE MOST POSITIVE DECISIONS MADE WITHIN THE PAST 5 YEARS

“The ability to pick up two major projects – Rail Baltica and railway electrification. Up to this point, Latvia hasn’t been doing so well in developing such major projects. It used to be the case that when the government received huge amounts of money for projects – this money was divided among the political parties.” (Professional assurance and advisory services company).

“The decisions regarding improving the transportation sector in Latvia (e.g. Rail Baltica).” (Service company; Real estate company).

“Active usage of EU funds for infrastructure projects.” (Professional assurance and advisory services company).

DECISIONS RELATED TO THE EDUCATION SYSTEM: MOSTLY POSITIVE

According to the FICIL Sentiment Index 2018 study, a number of foreign investors *very positively* evaluate decisions related to the education system:

“Teachers’ salary review and schools’ network review.” (Professional assurance and advisory services company).

“Education reform has been coming along for a couple of years now.” (Retail trade and service company).

“Decision about optimising the school network. Full respect for doing this and in the pre-election year! The downside is that nothing is happening in the area of higher education – no reforms.” (Finance and banking company).

“Competence based education.” (Retail trade and service company).

“Education reform and initiatives towards strengthening and improving technical education and engineering education in Latvia, thus giving positive signals for producers about future priorities of the country.” (Manufacturing company).

... however, some, i.e. 2 out of 40 interviewed foreign investors in Latvia argue that education-related decisions have actually been amongst ***the worst***:

“Failure to implement education reform, esp., higher education, because it will backfire very seriously; the issue of Russian schools.” (Professional assurance and advisory services company).

“Decision about Latvian language in schools – I am not sure it was the right decision. It is just making the situation worse – it allows some destructive people to create an image of Latvia as a country with internal conflicts etc. This is unnecessary.” (Finance and banking company).

DIGITALISATION: VERY GOOD DIRECTION, BUT STILL A WAY TO GO

Indeed, a substantial number of investors that we interviewed in 2018 highlight the focus on digitalisation as a ***top initiative of policy-makers*** over the past 5 years:

“Initiative to finally focus on digitalisation of the country.” (Consultancy and IT company).

“E-signature, e-Latvia is at least there and there is no turning back.” (Real estate company).

“Digitalisation and e-services (EDS as a great example).” (Retail trade and service company).

“e-Health (it is not ideal but the fact that it is being launched and used is already a big step forward).” (Manufacturing company).

However, one foreign investor ‘reminds’ us that there is ***still a way to go*** in this regard:

“We are still severely lacking in digitalisation; every ministry seems to be building their own digital instruments, but even those aren’t working. We all need digital services to be under the same umbrella.” (Wholesale and retail company).

INCREASING MINIMUM WAGE: AMONGST THE MOST POSITIVE DECISIONS

A number of foreign investors also highlighted that the decision to increase the minimum wage is ***amongst the most positive policy initiatives*** that Latvian policy-makers have made over the past 5 years. This is reflected in the following quotes:

“The increase of the minimum wage.” (Service companies).

“The fact that the minimum wage is increasing is good. It forces some of the local players to come out of the shadows. If the shadow economy gets smaller, more taxes are paid and employees receive more, which also means they will probably spend more.” (Manufacturing company).

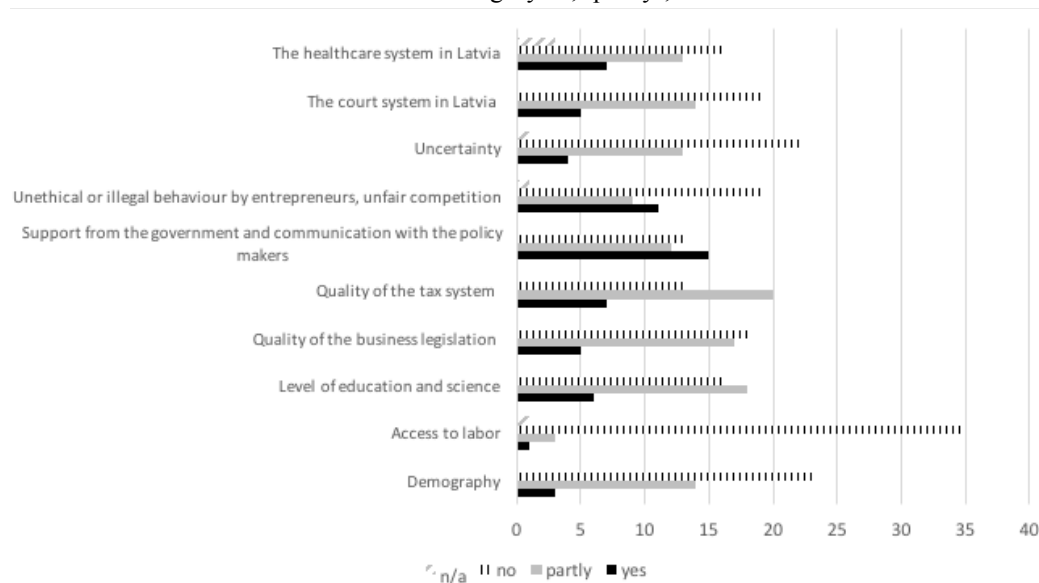
A number of other decisions/policy initiatives have been mentioned as being either the most positive or most negative; please see Appendix 3 for more information.

6. Key challenges faced by foreign investors in Latvia: progress or regress?

During the 2015 and 2016 surveys, a number of key challenges that foreign investors in Latvia faced while developing their businesses were identified. These included: demography, access to labour, level of education and science, quality of the business legislation, quality of the tax system, support from the government and communication with the policy-makers, unethical or illegal behaviour by entrepreneurs, unfair competition, uncertainty, the court system in Latvia and the healthcare system in Latvia. In the 2018 survey, we asked the 40 biggest foreign investors in Latvia whether, in their opinion, there has been any progress during the previous 12 months within these areas of concern. The findings from the 2018 study are summarised in Figure 4, whereas, for comparison, findings from the 2017 study are displayed in Figure 5.

Figure 4: Foreign investors’ assessment of the progress over the past 12 months with regard to the key areas of concern as identified in 2015 and 2016: findings from 2018

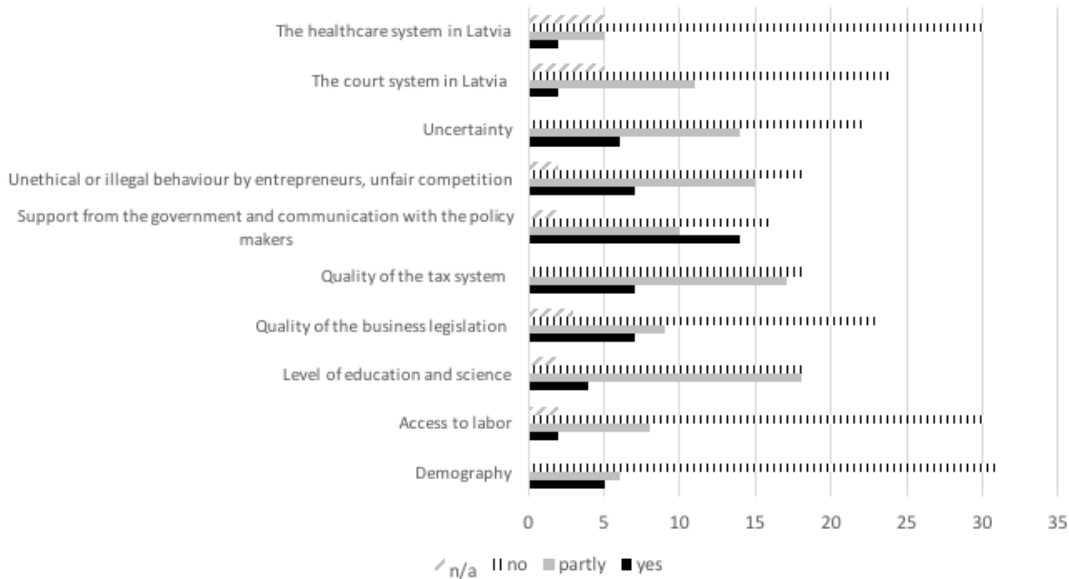
Respondents were offered to evaluate each unit by assessing whether there has been an improvement by answering: ‘yes’, ‘partly’, or ‘no’. *n=40*.



Source: FICIL Sentiment Index 2015-2018

Figure 5: Foreign investors' assessment of the progress over the past 12 months with regard to the key areas of concern as identified in the 2015 and 2016 studies: findings from 2017

Respondents were offered to evaluate each unit assessing whether there has been an improvement by answering: 'yes', 'partly', or 'no'. n=42.



Source: FICIL Sentiment Index 2015-2017

As exemplified by Figure 5, the majority of interviewed foreign investors in the 2017 survey did not see any progress with regard to the situation with *access to labour*. Quite contrary, *access to labour*, seems to be an even bigger challenge in 2018, as compared to 2017, i.e. accordingly as many as 35 (from 40) vs 30 (from 42) interviewed foreign investors report that there has been no progress in this area. In 2018, however, the situation looks somewhat more positive with regard to *demography and the healthcare system*, with substantially more investors (as compared to 2017) answering that progress in these areas has been made at least 'partly'.

The majority of interviewed foreign investors are also not satisfied with the improvements in *uncertainty* (22 saw no improvements in 2018, as well as in 2017). The situation with regard to the *court system and quality of business legislation* is also still far from satisfactory in the viewpoint of foreign investors, yet progress in 2018 has been evaluated somewhat better than in 2017 (i.e. 24 and 23 respondents assessed with 'no progress' in 2017 vs 19, and 18 respondents in 2018, accordingly). Also, evaluation of progress with regard to the *tax system* has slightly improved in 2018, as compared to the 2017 study, where more respondents in 2018 admit that progress has been achieved at least 'partly'. Slightly more foreign investors also see progress with regard to the situation in *unethical or illegal behaviour by entrepreneurs and unfair competition* in 2018, as compared to 2017, even though still approximately half of the respondents (19 from 40) report that no progress has been achieved in this area in 2018 (see Figure 4 and Figure 5).

Finally, as many as 14 respondents in 2017, and 15 in 2018, answered that they have seen progress in the *support from the government and communication with the policy-makers*, 10 (in 2017) and 12 (in 2018) answered that progress has been achieved ‘partly’ but 16 (in 2017), and 15 in 2018, that there has been no progress in this area over the past 12 months.

A more in-depth insight into the attitudes of foreign investors in Latvia - both positive and negative - with regard to the progress within the key areas of concern (during the past 12 months) is provided by selected quotes below:

Demography

*“Statistics show that there are no positive tendencies that would demonstrate any improvements.”
(Consultancy and IT company).*

“Partial changes, some progress.” (Finance and banking company).

“Very little change for the better. Immigrants and emigrants seem to level out. Subjectively, I feel that newborn numbers are increasing.” (Manufacturing company).

“A real concern for our company. In fact, this is the biggest concern we currently have in Latvia. Supply is growing but the number of people is reducing.” (Real estate company).

“Current policy-makers’ ambitions to improve the Latvian demography seem to be more like a banner, rather than a long-term goal with an actionable step-by-step plan for how to get there.” (Retail trade and service company).

“The population continues to decline, which means a limited amount of skilled labour. Accordingly, demography remains an important factor for foreign investors.” (Professional assurance and advisory services company).

*“We see it in the numbers, no positive changes.”
(Professional assurance and advisory services company).*

*“Population decline continues, but at a slower pace.”
(Finance and banking company).*

*“Still an issue, size of the population is decreasing.”
(Consultancy and IT company).*

*“Statistics-wise the birth rate is lower than previously, the death rate is higher than in the other Baltic countries. Attraction of Latvians coming back from abroad, Ministry of Economy said they would make that happen, but I haven’t noticed it much.”
(Professional assurance and advisory services company).*

Access to labour

“Although there has been a series of efforts to make improvements, one of the biggest problems for foreign investors is still the shortage of skilled labour. This could also be attracted from other countries, but there are several barriers to this, including changing the residence permit conditions, limited employment opportunities for foreign students, and the lack of integration measures.” (Professional assurance and advisory services company).

“In the financial sector, employment is growing, companies are able to hire people, but wages are also increasing. Recently a bank collapsed, so there is a surplus of bank employees. A shortage of labour is the only possible outcome of a good economy, but overall there is not much improvement.” (Finance and

“I would say that the situation has worsened: there is practically no unemployment in Riga; it has become harder and more expensive to find employees. We have started to implement import of workforce: within a one year period, 3 colleagues from Ukraine have joined us. I must say, they work at management level which is partially due to a lack of local workforce and partially due to the particular specialisation, which is hard to find in the Baltic job market.” (Consultancy and IT company).

“We have a lot of vacancies all over Latvia; it shows economic growth, but also shows that we don’t have enough workforce. This situation has worsened.”

banking company).

“Since we are involved in the construction process, access to labour is very problematic because the sector is booming now. There is a lot of activity in construction at the moment and we have certain delays due to a shortage of labour. In fact, it feels a little like “d  j   vu” from 2008, but in a smaller form.”
(Real estate company).

“Linked with demography. Expecting more immigration, but for political reasons this isn’t happening. Ministry of Economics’ initiative “Latvia is working” was a success; we were able to attract Latvian people to come back to Latvia.” *(Consultancy and IT company).*

“This is our main concern. With only 2% unemployment in Riga, we lose the time invested in people, and this is how they manipulate salaries. Global business sector – very limited, so we fish for the same candidates.” *(Consultancy and IT company).*

“More difficult to find staff than it was last year. Our business doesn’t benefit from immigration. Salaries are growing way faster than inflation and our ability to match sales’ prices for our services.” *(Professional assurance and advisory services company).*

(Manufacturing company).

“Our business feels that we are totally out of resources. We work with IT specialists – we either overpay (getting those people from competitors) or we import them from Russia and Ukraine mostly. For that, the process is very long. There are some improvements in immigration laws but dealing with all the paperwork for immigration is very heavy stuff. There are so many inconsequent decisions. Everything depends on the clerk that you get at the window. PMLP decisions are not consistent. We will continue to import people, we will remain an IT hub.”
(Consultancy and IT company).

“Bureaucracy is very heavy regarding immigration. No digitalisation in this area. The processes could have been much easier.” *(Consultancy and IT company).*

“Qualified labour is an issue; certain sectors are competing to acquire the best employees, because there aren’t enough in the job market.” *(Professional assurance and advisory services company).*

Level of Education and Science in Latvia

“We ourselves carry out training, even for those specialists that graduate with the corresponding diploma (as journalists). There is a lack of qualitative specialists that could work with complex technologies and technological solutions (e.g. mobile TV station etc.).” *(Consultancy and IT company).*

“No changes. Things seem to be happening, but no positive changes. I believe there are fundamental issues in Latvia’s education system. Employers also emphasise that they can’t find ready-for-work people; they are not ready to join the job market after their education. So, it needs to become more involved in the actual industries, with professional knowledge.”
(Manufacturing company).

“Some slight improvements, e.g. IT+Finance education programme launched by RTU and BA School of Finance.” *(Finance and banking company).*

“No progress, extremely important.” *(Real estate company).*

“Haven’t seen major changes.” *(Professional assurance and advisory services company).*

“Not really getting better, science is just sad, not much improvement. EU Horizon programme is great - gives more Latvians an opportunity to excel at science. Money can be won in competitions for innovation. Latvia spends little money on science, and the role of science in Latvia is also very small.”
(Finance and banking company).

“There has been no improvement in education and science. On the contrary, the corporate income tax reform has significantly reduced the amount of donations for education and science. It is also important to raise the issue of the need to combine higher education programmes and improve the quality of the content in order to ensure the preparation of specialists corresponding to the labour market.”
(Professional assurance and advisory services company).

“We do not feel that the quality of, for example, IT employees, is insufficient.” *(Consultancy and IT company).*

“It’s ok, the fresh candidates we hire are competent, the financial background and accounting is good. The

*“The idea is good in reforms for secondary education, but how it will be implemented is another question.”
(Retail trade and service company).*

*level of English language is good. We invest in training, in additional benefits. Universities in Latvia are not up to the task to create people for GBS. The level of science is good, but in general for the need for the GBS sector there is still a level of improvement.”
(Consultancy and IT company).*

Quality of the Business Legislation

“Limitation of payday lending is a good thing for responsible financial lenders. These types of loans did significant social damage, reduced the pool of eligible applicants for serious lending like mortgages. Maybe the interest rate is too low.” (Finance and banking company).

“New laws are still viewed negatively due to the lack of transparency and hasty adoption of amendments to the laws. This tendency was particularly observed during the last sittings of the 12th Saeima before the elections of the 13th Saeima.” (Professional assurance and advisory services company).

“Partly because of the EU framework, we do not feel that Latvia would stand out as a negative example in our global operations. But there is definitely room for improvement.” (Consultancy and IT company).

“No changes, not as many issues with the laws in place as there are with the implementation process.” (Manufacturing company).

“No change.” (Consultancy and IT company).

“Not much progress. We have not had many concerns that directly affect our business. We think that the business environment is satisfactory.” (Real estate company).

“I see some sort of efforts made in the SRS and Ministry of Finance, but there is still plenty to be done.” (Professional assurance and advisory services company).

“Everything has stayed the same, the only positive thing is the e-signature, it can be seen that they are trying to improve this.” (Retail trade and service company).

Quality of the Tax System

*“Tax reform was a good idea, but the implementation was lacking. Wasn't carried out well.”
(Manufacturing company).*

*“It is too early to speak about the possible impact.”
(Professional assurance and advisory services company).*

“Even though the government is trying to improve the tax system, it is complex per se and certain tax treatment is hard to interpret or, to be precise, if it can be well interpreted then it will be hard to evaluate the quality of the tax system as good.” (Consultancy and IT company).

“Too much time devoted to that, taxes weren't a big problem in the first place.” (Finance and banking company).

*“Tax reform – complexity has increased. From the investors' side, we can see there are incentives to invest, but the tax reform isn't of a good quality.”
(Professional assurance and advisory services company).*

“In the meantime, there is no positive effect from the ambitious changes in the tax policy that came into force on January 1st, 2018. Changes in frequent and drastic tax policies do not create confidence and a willingness to invest in the long run.” (Professional assurance and advisory services company).

“Should slightly reduce the grey economy.” (Finance and banking company).

“Remained complex, a lot of changes. The changes

“So much ambiguity, the timeline was impossible for businesses to prepare themselves appropriately. And responsible authorities are not able to provide timely explanations.” (Consultancy and IT company).

are good for a big company. We are fully transparent.” (Consultancy and IT company).

“How it works in practice is yet to be seen but the idea is to facilitate investment which is positive.” (Professional assurance and advisory services company).

“Hopefully, the new tax system will lead to more investments. The fact that one can reinvest profit - I think it motivates companies. I also support the progressive taxation; it is the right way to go.” (Real estate company).

“Some improvements have been introduced with the tax reform.” (Retail trade and service company).

Support from the Government and Communication with the Policy-makers

“On development of new legislative acts, the process of investors’ participation in this is very weak. Insolvency legislation, tax legislation, there are work groups set up but those recommendations aren’t considered too much.” (Professional assurance and advisory services company).

“Communication is improving but there is still a long way to go. The important part of communication is also feedback and follow-through – this is where we’d like to see more focus in the coming years.” (Retail trade and service company).

“Lack of predictability and trust. Pre-election time was also not helpful.” (Consultancy and IT company).

“Positive changes, they seem to be listening and it has been taken on. Our ideas and advice are being used in assessing the current policy.” (Wholesale and retail company).

“Everything seems OK. The attitude towards us as investors seems positive. The communication with the government takes place through the association.” (Retail trade and service company).

“The government and policy-makers are open for active communication and constructive dialogue. The decision, which has helped industrial investors the most, was to launch MPC differentiation from January 1st, 2018.” (Manufacturing company).

“FICIL High Council 2018 meeting was of a very high quality. Productive, interesting discussions, a very good overall structure for the meeting. Other than that, I get the feeling that any communication with the government is focused on obtaining more votes for elections, not actual problem-solving.” (Manufacturing company).

Unethical or Illegal Behaviour by Entrepreneurs, Unfair Competition

“Unfair competition is still fierce in aggregates and ready-mix businesses. However, we see engagement among several institutions trying to really work on improving the situation. We are part of an anti - grey economy multidisciplinary working group and industry competence is shared in order to improve several aspects of control.” (Manufacturing company).

“The Competition Council of the Republic of Latvia – what’s the problem? It seems as though they are trying to create issues and looking for infringement where it doesn’t exist.” (Manufacturing company).

“It is improving overall, especially if you look at the longer perspective. There are small steps but in Latvia compared to many other countries there is progress. We have introduced comprehensive guidelines in our company group, the awareness of ethical practice and its importance is growing.” (Real estate company).

“We haven’t had any encounters with unfair

Overall the negative tendencies seem to be decreasing; this field is becoming more honest.” (Manufacturing company).

“AML legislation, a lot of policy moves to increase the bar of legal and illegal behaviour, in terms of company exposure. This has been done in a harsh way in a short period of time. This was done because of international organisations.” (Professional assurance and advisory services company).

“Some of the banks are not entirely fair in how they deal with their customers. And then it goes to the entire industry. A lot of pressure in the banking sector.” (Finance and banking company).

“Dienas Bizness is a perfect example of the business environment in Latvia. In fact, the ABLV case and everything surrounding it shows that the business environment is much worse than anyone could expect or think of.” (Finance and banking company).

“Employees are the asset that we compete for and in

competition situations. Have heard of new market entrants having regulatory issues with unfair competition.” (Wholesale and retail company).

this area, we do see unfair competition. Sometimes businesses accept unfair behaviour because they do not want to waste time and money going to court.” (Consultancy and IT company).

Uncertainty

“It seems that bureaucracy at municipality level has increased. For example, if once there were mostly building inspectors and building engineers in Riga City Construction Board then now they mainly have teams of lawyers.” (Retail trade and service company).

“Many reforms will probably be stopped due to a new government. Not sure about continuity.” (Consultancy and IT company).

“Still strong due to geopolitical aspects, business environment and new government.” (Manufacturing company).

“Uncertainty is increasing based on all the failed changes the government has made.” (Manufacturing company).

“Stability of taxation is very important.” (Manufacturing company).

“We will be able to speak about decreased uncertainty once we stop talking about major overhauls every year and assume a stable course of action (rarely do these talks transform into decisions, even more rarely into actions, but these discussions are what fuels the uncertainty).” (Retail trade and service company).

“Elections have provoked some uncertainty; we can see that some reforms have been postponed or not even started due to the elections. What happened in the financial sector earlier in 2018 has also had an impact on business. Some developers have problems because they have lost financing. Financial infrastructure overall is very important. We have now far fewer financial institutions to talk to and this is a concern. We need proper, solid, big banks. At the moment I have a feeling what we have is not enough—bigger competition would be better.” (Real estate company).

“An extremely uncertain business environment. In difficult situations, with pressure from outside, Latvia becomes very exposed. Internal changes are possible, but at the moment we have no idea what our government will look like.” (Professional assurance and advisory services company).

“This has decreased for investors; capital investments seem to be increasing in Latvia as well.” (Wholesale and retail company).

“Uncertainty related to the future of the tax system and the upcoming elections.” (Finance and banking company).

The Court System in Latvia

“I’m following in perspective of some projects, regarding criminal and civil cases; the process is very slow and extremely unpredictable.” (Professional assurance and advisory services company).

“I was personally in court this year and could see “from inside” – economic expertise and competence is a major problem in the courts!” (Finance and banking company).

“A while back, Latvia had more than 200 arbitration courts, which is way too many in my opinion. It’s good that they have been consolidated to a smaller number.” (Retail trade and service company).

“Steps taken towards improvement of quality in court decisions related to insolvency and evaluation of actions of certain judges in insolvency cases.” (Manufacturing company).

“No visible improvement.” (Retail trade and service company).

“No change in a bad way.” (Manufacturing company).

“In light of what happened to the banking sector this year, I will repeat the same thing that was said by a senior official from the United States – I am looking forward to some people being criminally convicted

“We have not had any dealings with courts at all. We do invest a lot in legal assistance as due diligence - not many deals go through the office without legal expertise. We have had a few accidents. Delays to

and very soon! That is the only way to restore Latvia's reputation." (Finance and banking company).

"I've heard of reforms being planned, but I haven't seen anything actually taking place. Things seem to be moving in the right direction. Not massive improvements, but small positive changes." (Wholesale and retail company).

handle simple matters are big." (Real estate company).

"Still too long, too complicated, access is a problem. Smart businesses will take many steps just to avoid court. The court is the very final stage; nobody wants to go there because they know the process may take ages! Sometimes businesses accept unfair behaviour because they do not want to waste time and money going to court." (Consultancy and IT company).

The Healthcare System in Latvia

"The healthcare system in Latvia simply doesn't work. Either the private sector needs to become bigger and better, or they need to clean up the public sector. We have good specialists in Latvia, but bad management and little resources in the healthcare system." (Manufacturing company).

"We buy our employees' health insurance policies because the standard healthcare system in Latvia is rather poor. In Estonia, however, we don't have to buy the policies since the system is more than satisfactory." (Retail trade and service company).

"Healthcare system is not accessible to the general population, even less so by tying it to the taxes paid. In the given circumstances, private health insurance is deemed as a necessity rather than an optional benefit provided by the employer." (Retail trade and service company).

"Definitely no improvement. For us the biggest issue is sick leave. We are on the black list for emergency services – young people often do not want to work, so they try to get sick leave by calling the emergency services -in 90% of cases, for no reason." (Consultancy and IT company).

"Quality is of a good level, but the system could be more competitive." (Manufacturing company).

"Healthcare reform - budget increase for healthcare system, increase of salaries for medical personnel, improvements in state reimbursement system, digitalisation of healthcare. Although the e-health system is very challenging to deal with and the process has been long and inefficient, generally digitalisation in healthcare is a positive step." (Manufacturing company).

"Small positive changes." (Manufacturing company).

"This is one of the biggest challenges for Latvia – demography and how to restructure the health system accordingly. I know charities that provide health services to those in need in rural areas, where these services have disappeared, because the demand is still there. It is important to find balance in regional issues – access and cost." (Real estate company).

"No changes, a lot of talk but no action. We have a good healthcare system if you have a lot of money, but if you go the state-funded route then you have to be in good health to survive in the state system." (Wholesale and retail company).

7. In-depth discussion on three key challenges identified during the 2015-2017 studies: problems and solutions

FICIL has invested considerable effort to draw the attention of Latvian policy-makers to a number of serious issues that are amongst the top priorities for foreign investors in Latvia. These have been described in previous FICIL Sentiment Index reports, addressed by various FICIL working groups, as well as discussed with the policy-makers both during the annual FICIL High Council meetings and various other forums. By doing this, the institution has aimed to put these issues on the agenda of the policy-makers, while at the same time doing their best to provide suggestions for potential solutions in various areas.

From all the issues that have been discussed, arguably three most important ones stand out. These are (i) availability and quality of workforce in Latvia, (ii) corruption in the public

sector and the shadow economy, and (iii) effectiveness of the public sector with regard to improving the business environment in Latvia. In the 2018 study we thus aimed to address all three issues somewhat more in depth, asking the 40 foreign investors in Latvia that participated in the study to both comment and, even more importantly, provide potential solutions that might help to achieve better progress with regard to solving these areas of concern. The findings are summarised below.

7.1. Availability and quality of workforce, including quality of education and science for achieving productivity growth

On a positive note, a number of foreign investors in Latvia that we interviewed actually argued that the situation has improved with regard to the quality of labour, i.e. education and science. This is reflected in a number of quotes:

“We don’t have many problems with education. I’m not in favour of huge scale immigration because we have people in Latvia that can actually do the work necessary. Some skills need to be improved, but other than that we have workers here. Sometimes the immigration policy is just too complicated, it should be easier to attract employees from abroad. Science and innovation are non-existent in Latvia, we really are not producing any future scientists, because research is under-funded.” (Finance and banking company).

“Every day the profile of the workforce changes. In Estonia we can take 1300 people from 3rd countries per year. E-residency in Estonia has its issues as well; these workers might not be able to open bank accounts. How operational can they be? Latvia is in a better position than Estonia; you welcome more people based on business needs. Latvia seems to be more open to people in that sense.” (Retail trade and service company).

“Vocational education has made big strides lately. At this point, the quality of professional education has increased, there is more of a technical base, a lot of money and resources have been invested to make this happen, so it seems to be ok. At least there is some kind of interaction with employers, but these education institutions should work more closely with employers.” (Professional assurance and advisory services company).

“So far it has been possible to find good employees. We work intensively with employer branding and there are not as many workplaces in Latvia that are as interesting for engineers as ours.” (Retail trade and service company).

However, the following quotes, as well as the information provided in section 6 of this report, show that availability and quality of workforce is still a major problem in Latvia.

“Workforce availability is a problem in Latvia; you could say that nothing is being done to improve the situation. As it stands now, there isn’t even a productive discussion on the issue or the import of workforce. To be honest it seems like the government doesn’t even acknowledge that there is a major problem. We aren’t noticing any discussions in the education sphere around smart changes to the education system.” (Consultancy and IT company).

“No major change in the last few years. Regarding quality – it feels ok. The biggest problem is productivity. Overall, the remuneration package requests that we see today from the potential and existing employees are not commensurate with their personal investment and readiness to work.” (Wholesale and retail company).

“We are preparing ourselves for a situation where the availability of labour will become even worse, when low-skilled labour will be even more scarce and more

“We cannot really complain about the unavailability of a low quality workforce; however, the quality of education in Latvia is an issue, it’s a real challenge to keep up with, and there are some pockets of interest in this area but no visible improvements yet.”

expensive at the same time.” (Retail trade and service company).

“Availability of workforce is still a big problem. Hard to attract and hard to retain. Turnover in the office is still around 20%, which is very high. Much more linked to Riga; in Portugal we have less than a 10% turnover. It’s a very competitive market; shared services are becoming more popular.” (Finance and banking company).

“Unfortunately, we haven’t seen much progress; workforce availability is one of our major concerns.” (Retail trade and service company).

(Consultancy and IT company).

“No actions were performed. Quality of education should be reviewed at every level starting from schools, vocational education and higher education institutions.” (Professional assurance and advisory services company).

“With regard to the availability of hands, I think it is safe to say that a lot of businesses are currently in need of more hands. As for management level, there is an IT specialist shortage.” (Retail trade and service company).

A number of suggestions were provided by foreign investors to solve the challenge, both with regard to the quantity and quality of labour. For convenience, the key words that policy-makers should pay specific attention to are underlined in the quotes:

Quantity

“With regard to labour availability and quality, potential improvements can be divided into 2 main directions:

1. Choosing a career before starting a career
It is necessary to encourage pupils to understand the various possibilities of further study and the types of work each day in different occupations, in order to reduce the number of students who make ill-considered choices.

2. Quality and practical experience of higher education

Latvia has a large number of universities and different curricula compared to the population of Latvia. As mentioned above, it would be necessary to think about the specialisation of higher education institutions and the merging of programmes in order to ensure a quality study programme for students. In addition to theoretical knowledge, it is also important for students to provide practical experience in order to maximise the preparation of students for the start-up process.” (Professional assurance and advisory services company).

“Labour law needs more flexibility – currently as it stands it is very complicated.” (Retail trade and service company).

“If the immigration policy doesn’t change, this will create a detrimental environment, that will spur a negative trend concerning corruption. Workforce will be found illegally. In general, the rate of unemployment in Latvia is relatively low, however the local workforce needs more competition, otherwise people are worsening – they choose to sit home on

“Something definitely needs to be done to increase the workforce. To my mind, not only importing the workforce will solve the issues Latvia is facing. The domestic demand is facing a major problem – there is a big pay pressure from the workers who are not ready to work more or more efficiently. The wage rate is continuously rising and there’s a feeling in the air of a bubble forming. Something will change soon, let’s see what.” (Retail trade and service company).

“Need to think about ways to support regional mobility, housing, better transport systems locally. Also need to promote regional development – strengthen regional centres. I haven’t heard any evaluation of the operation of tax-free zones – maybe there should be something else to incentivise business?” (Retail trade and service company).

“We need to open borders for both skilled and low-skilled labour. And there are opportunities. Otherwise, soon you will have to wash your own dishes in the restaurant after eating your lunch.” (Finance and banking company).

“The availability of workforce has become even worse. Why? Because social security works too well in terms of not giving incentives to actually work. For example – sick leave – it is too easy to go on sick leave for months, nobody really controls it – and employers have to foot the bill. Running a business in Latvia, employers can really feel the impact of how easy it is to get sick leave here. One way that companies can correct this situation is with immigration, to hire immigrants who actually want to work. This is really

sick leave rather than work because there is little chance someone might take their job. How exactly are European Union workers better than workers from Ukraine? At times, the fresh perspective that people from other cultures bring into the workplace is extremely valuable, they think of new solutions that local workers might not see.” (Manufacturing company).

“Immigration is something that Latvia should think more about. In the pre-election year no-one wants to talk about it, but we are unsuccessful in attracting people to Latvia. And this is not an issue of national security.” (Finance and banking company).

decreasing Latvia’s value competition-wise for foreign investors – the high costs of all the sick employees.” (Manufacturing company).

“Young people after university do not want to stay in Latvia and that is the problem. This will continue; the workforce will migrate. Migration will be our future; this is why we think the immigration procedures should be more straightforward... My suggestion would be to accept that we need to have an imported workforce. Let’s say it loudly and let’s not hide from it. Let’s open borders smartly. Smart migration is the answer. We need to assume that this is a problem.” (Consultancy and IT company).

Quality

“In the education sector there is a tendency towards segmentation and inequality, which is dangerous and bad for such a small country. Good that there was the decision about optimising -- the same should be done in higher education.” (Finance and banking company).

“It is important to strengthen technical and engineering studies in Latvia, develop educational programmes in cooperation with employers in Latvia and consider reasonable opportunities for the migration of workers.” (Manufacturing company).

“Millennials are a very special type of workforce. I think in 5 to 10 years things like “internal working regulations” will disappear; the working climate will be based more not on the process but on the results and targets. Things like coffee and fruits in the office are part of the norm, it is expected. Young people expect fun in the office.” (Consultancy and IT company).

“The size of Latvia and the current migration policy is very restrictive, there isn’t a way for the workforce to simply appear, it doesn’t matter how much you invest in education. Compensation as well as productivity of low-skilled workers should be looked at. We are lacking a policy that allows specifically skilled immigrants to work here in Latvia. Someone should be responsible for specified policies and programmes in place to allow workforce immigration that can offer specific skills that aren’t available here in Latvia.” (Professional assurance and advisory services company).

“It starts with municipalities that aren’t focusing on the quality and effectiveness of schools, instead focusing on how not to close down a school, ignoring the actual factors that prepare students for further

“Language skills of people in Latvia are good, looking for a potential university programme dedicated to the GBS sector ... What is missing – the future of GBS is digitalisation, automatisisation, artificial intelligence, robots. So far, I can’t see this in Latvian universities. IT has remained very stagnant – programming isn’t the only future, so Latvia needs to pay more attention to possible future developments..” (Consultancy and IT company).

“For example, digitalisation – BIM workflow for construction would possibly improve workforce availability. If the projects are digitalised, then all necessary parts of the project – including materials and “hands” would be calculated precisely; that would be very effective. This would also improve the honesty in the calculations of budgets for projects. Foreigners have favourable work conditions in Latvia, plus they are usually very efficient, more so than locals. Maybe the fact that people want to move to Latvia is great, it’s nice to hear that foreigners want to live here, but there needs to be a balance, Latvia’s policy in this respect needs to be very clear.” (Manufacturing company).

“It’s a positive thing that the education system has currently focused on competence based education. Not every youngster has to be a student in academia. Some people are just more hands-on and can be better at construction work, carpentry and so on. This way of thinking has to be further promoted; it will help the economy. The country needs to focus on our most available resources, thus prioritising production and science. Education, science and production must go hand in hand for the economy to flourish. Entrepreneurs are the ones that must promote this synergy.” (Finance and banking company).

“With regard to the education system, there are many

education. At the moment, there are too many students who graduate from high school and take up low-skilled jobs because they haven't been efficiently taught about the potential to continue their studies. Latvia also has too many universities where students get a degree and leave the university as unqualified and unprepared "specialists" (Consultancy and IT company).

"Teachers' salary reform is a good start, it should reach all educational institutions. Education should go in line with the development priorities of Latvia as a country and be reorganised accordingly." (Professional assurance and advisory services company).

"For such a small country you shouldn't have so many universities. Education reform needs to be targeting different high schools to level out the quality of education in all institutions." (Retail trade and service company).

"Educational institutions need more funding and need to build more ties with industries." (Retail trade and service company).

things wrong, starting with primary education. It doesn't focus on building careers, rather on making the students memorise a lot of worthless information. We should look to Finland's education system. Also, the remuneration for academics and teachers are at an absurdly low level. Furthermore, the language of Europe is French, yet it isn't taught in schools. Another point I'd like to make is that the government should promote and focus on education tourism. This would help to keep the young and smart people in Latvia after their studies." (Service company).

"Sick leave is a huge problem and there should be better control over who grants it and on what conditions etc. Employees are abusing it and my suspicion is that not all doctors are honest in this area!" (Manufacturing company).

"Streamlined procedures for importing high quality labour." (Consultancy and IT company).

7.2. Corruption in the public sector and the shadow economy

As also summarised in section 6, a number of foreign investors argue that the situation is also improving with regard to corruption in the public sector and the shadow economy:

"There is a feeling that the shadow economy is decreasing, slowly though. The few cases where VAT frauds have been caught and detained, including illegal TV content distributors, have been a good example of the consequences". (Consultancy and IT company).

"When it comes to the shadow economy – there are clear improvements. Budget execution is a positive indicator. More and more people within society understand that paying taxes is a good thing. It seems that fewer people are agreeing to work for "envelope" salaries". (Professional assurance and advisory services company).

"The shadow economy is shrinking, slowly but it is moving in the right direction." (Finance and banking company).

"In our (Latvia) case, the shadow economy is more under control now than it was before. Positive developments over the years. Almost every month you can see new cases of corruption coming to light in society and in the media, so I guess there is still a lot of corruption, it just needs to be tackled more effectively." (Retail trade and service company).

However, investors also clearly emphasise that many things should still be done in this regard:

"At the same time, e-health is an example where new "Corruption in municipalities is still a big problem. ...

and necessary projects are developed based on the principle “how to create something simply to get something in return”, rather than the right principle of “how to create a high-quality project in an effective manner.” (Consultancy and IT company).

“It seems that public enterprises are becoming more and more transparent; however, the statistics show that it’s not the case. The corruption at state level might have decreased, but not at municipality level.” (Finance and banking company).

“I believe that we don’t always see this, but there is corruption throughout all public sectors and within society as a whole. It seems like corruption is being fought very loudly in the public sector, sometimes with unjust humiliation. As soon as a state official or company worker declines to comment, they are considered guilty or part of the sham, which makes people wary of the public sector.” (Professional assurance and advisory services company).

What was surprising was the revelation this year that bank supervision institutions in Latvia were actually susceptible to bribes. I personally thought this kind of thing couldn’t happen in the financial sector in Latvia.” (Finance and banking company).

“There are still many opportunities to bypass the law in logistics, ready-mix and quarry businesses in Latvia, and due to this we are suffering from unfair competition.” (Manufacturing company).

“No improvements with regard to Riga City council and its companies. But a slight decrease of the shadow economy in general.” (Finance and banking company).

“There are many stories out there about state institutions being taken over by certain political interests. We don’t see any major changes in the government trying to combat this. For example, what happened with the oligarch tapes? If you have that kind of evidence, you should do something about it. I think it’s suspicious at a very high level.” (Consultancy and IT company).

The following solutions were provided during the interviews of the 2018 FICIL Sentiment Index study:

“Currently in our country there’s a feeling that you don’t get punished if you break the law.” (Finance and banking company).

“A number of actions have been taken and we can see some results. Having said that, we lack transparency on the actions taken and activities implemented, with particular examples of actions and their consequences.” (Retail trade and service company).

“Corruption is not punished enough. It feels like there are no benefits for the honest ones in this country. With regard to the shadow economy, Latvian policy-makers are not on the right track to solve the problems of the shadow economy anytime soon. It might be because of corruption at state level.” (Service company).

“If the government is targeting corruption – it needs to be done at the same level across all sectors – public, private, NGO. Latvia has learned a lot regarding shortcomings in the insolvency proceedings, the bank sector, although there is still a lot to deal with in the private sector.” (Finance and banking company).

“The fight against corruption should be a whole public sector topic - state and municipal, as well all

“Now the thought process is more related to the question – what’s the actual motivation to commit corrupt actions? Media has also influenced people in my opinion; sometimes you can achieve more with the help of the media than with the actual government. There will always be someone somewhere who will try to steal or give into corruption, but altogether Latvia is moving in the right direction. The government should be more forthcoming with their own corruption scandals, because that will further increase people’s distaste for corruption and increase responsibility for government employees.” (Manufacturing company).

“This takes a generation to change. The situation has improved compared to twenty years ago. The current generation and new politicians that we saw in the last election have a more honest agenda. KNAB is working better, the SRS is also doing better: they have improved control mechanisms. But, corruption is still there. Real estate, for example, is politicised. It just takes longer if you want to do everything honestly. You need to use competences, time, do your homework very well and then you can manage and work in this country. Need more patience. On the other hand, when you hear what is happening in Spain, Greece, South Europe - here is much better.” (Real estate company).

“Non-bank crediting and “payday loans” are huge in Latvia and are politically safeguarded. This is not

institutions which are closely related to them. Currently this topic is only a SRS problem, and therefore is not efficient. The Corruption Prevention and Combating Bureau (KNAB) should start initiating the changes in the legislation regarding different interpretations - unlawful party financing, conflict of interests, using charities (NGOs) for municipal purposes and delegating them municipal functions etc., rather than using old interpretations and giving room for unlawful actions. (Professional assurance and advisory services company).

“An effective way to fight the shadow economy is with cashless transactions. It’s harder to hide debit card and credit card transactions. State Revenue Service (SRS) is moving in the right direction. It’s a smart move, to come up with campaigns of checking certain sectors, like taxi companies, and letting them know that they will be double-checked in terms of tax payments. The SRS can only be as effective as the existing legislation permits it to be. But I’ve also heard that while a company is respectful, SRS is ok, but as soon as a company disagrees with them, you have to basically go to court to get SRS to admit their mistakes. So, the blame game is a negative, the heads of these institutions should know when their employees have to admit wrongdoings, so that not every case of disagreement ends up in court.” (Professional assurance and advisory services company).

“We still have corruption, the shadow economy. I don’t understand why we still have cash deposit machines for banks; I think that increases the chances of the shadow economy, because they can’t trace the money that is paid into these machines. These people should queue in a bank and answer questions about where they have got the money from. Around 30% of the shadow economy in my opinion.” (Wholesale and retail company).

“The only thing left to do is to bring the cases to court and prosecute. If the courts are really corrupted, then it’s very sad. It (corruption) won’t go away by itself.” (Consultancy and IT company).

“Still fairly big problems with corruption and misuse of power in the public sector. The more dialogue that is established with public sector officials, the closer it will bring us to cleaner practices in the long run. To move away from the shadow economy we need to promote a cash free society.” (Retail trade and service company).

“It is necessary to raise awareness both of what corruption and the underground economy are, and about their consequences before a young person has started work. Both schools and universities would need to set up separate lessons / lectures during which these issues are discussed.” (Professional assurance and advisory services company).

normal. Hundreds of thousands of those who should never have received loans, have received them. Do we really want a 25-year-old to get addicted to this system? One of the results – employees want their salaries in cash, because otherwise their money is being seized by bailiffs. This is clear evidence of an industry that is pushing people into the grey economy. But it should be the other way around – we should be pushing people and companies into the “white sector”!” (Finance and banking company).

“Need to continue a tough fight against corruption, among the Baltic States we have big problems. In Estonia the way of thinking is different. People tend to go through the proper channels, while in Latvia people tend to make more backroom deals. This closely links to trust in the government, state administration and the tax system, because if we don’t see results people don’t want to pay taxes.” (Wholesale and retail company).

“Regarding the shadow economy – the perception in Lithuania and Estonia is that Latvia is the most corrupt country. That is the real perception, unfortunately. And I do not see that the government and all ministries are working in tandem to fight that. There should be a collective effort involving the Ministries of Justice, Finance, the Interior. Unfortunately, we need some big cases in the courtrooms, we need the public to see that those who do not pay taxes, who illegally evade tax or perform other illegal economic crimes are punished!” (Retail trade and service company).

“More should be done. Why is no-one controlling all those who are paying 500 EUR banknotes into supermarket cash machines? Overall, the situation in the SRS has improved. It is doing better and performing better, their staff are more responsive.” (Professional assurance and advisory services company).

“Procurement process has become more transparent, procurement procedures are followed more, the law has improved. SRS has also tried to change their approach and attitude towards their customers which is a positive thing.” (Professional assurance and advisory services company).

“The government should involve the general public more in the laws they are passing and legislation being created. If people were more aware of what’s happening, they might also be more reactive when illegal actions take place, like corruption. Involving the public in creating legislation and decision-making would only benefit the country. There needs to be a mechanism in place to make this happen.” (Manufacturing company).

7.3. Effectiveness of the public sector with regard to improving the business environment in Latvia

Effectiveness of the public sector with regard to improving the business environment in Latvia has often been emphasised by foreign investors in Latvia, and is reflected in the findings of all previous FICIL Sentiment Index reports. In the 2018 study, investors also highlight a number of challenges:

“It seems that bureaucracy is the main issue that hinders the business environment in Latvia. Everyone can invest in Latvia, but they have to be ready to come up against heavy red tape.” (Finance and banking company).

“The major thing that Latvia needs to improve is automation and digitalisation. IT has the tools for Latvia to become more efficient. Estonia is a great example”. (Consultancy and IT company).

“There are some positive examples, like EDS, Latvija.lv. Let’s say there are some positive signs of improvement. On the other hand, we have ID cards but we cannot use them to vote. Why? Bureaucracy is a major problem – SRS, construction, veterinary offices. This is very heavy. There is no progress whatsoever. Also, judging by the various court processes that we are involved in, Latvia compared to other countries, stands out as having very long, unpredictable court processes, very bureaucratic and very slow decision-making.” (Retail trade and service company).

“Change and improvement management is challenging. In the public sector there are long-term employees who have resisted change “many times already”. A new way of working will come with proper digitalisation.” (Retail trade and service company).

“It is naive to hope that some things will change soon. We are going towards a goal, the policy-makers – towards a process. They don’t think about whether it’s easy to start a business here in Latvia; they follow the procedures. With regard to digitalisation, the government should follow the example of the Road Traffic Safety Directorate; some other institutions (e.g. Latvijas Pasts), compared to them, are from the Stone Age. Also, the Competition Council should think about increasing the competition amongst the pharmaceutical holdings controlling the market in Latvia, thus improving the prices of pharmaceutical goods. Because of weak competition, we have very expensive drug prices.” (Retail trade and service company).

“There are still a lot of things to improve in this regard. If you build something in Riga, construction permits take a lot of time and energy. Different Latvian government institutions have 30 days to answer a message, and then it becomes a kind of ping-pong game where they always take their time to answer company questions. Not at all effective when trying to get construction permits. 30 days should be the maximum for them to answer; they take it as a minimum.” (Retail trade and service company).

The following are suggested to improve the situation with regard to the effectiveness of the public sector in Latvia:

“Structural reforms in the whole public sector by reviewing the existing activities and designing the most efficient future public processes, which are client-oriented and as digital as possible. By performing these reforms the business environment will improve: reducing the admin burden on the existing companies, by segmentation of the taxpayers (SMEs, large companies, multinational companies).” (Professional assurance and advisory services)

“The public sector remains largely inefficient, where, to our knowledge, the reasons are a lack of qualified labour resources that would be willing to work in the public sector and, on the other hand, the slow speed to market – i.e., the time required to adopt new technology, approaches or ideas.” (Retail trade and service company).

“I think e-health is unfortunately something quite

company).

“Fragmentation is a problem in the public sector, starting from the municipalities. And each and every municipality wants to live isolated and be “on its own”. They do not want to cooperate. Overall, in the public sector there are too many vested interests and this is why reforms are not taking place. Many people depend on getting revenues from the state.” (Finance and banking company).

“Communication with public administration/employees is essential for improving the business environment. First of all, information that is important for entrepreneurs should be freely available on the Internet (on the websites of various ministries / institutions) and it should be possible to consult on a specific question either by telephone or online. Secondly, electronic submission of information should be maximised by completing various easy-to-use forms that automatically retrieve data from various state-based databases. Thirdly, it is necessary to promote the use of an electronic signature, including the acceptance of electronic signatures issued outside of Latvia.” (Professional assurance and advisory services company).

“Review of the existing legislation so that true digitalisation can be implemented in cooperation between the public and private sector. Less/no cash; electronic invoicing/ transport documentation, removal of the unnecessary functions from public bodies and concentration of them.” (Professional assurance and advisory services company).

“There are many good, creative ideas and initiatives but more activities should be organised by the Investment and Development Agency of Latvia (LIAA) e.g. workshops, exhibitions, presentations, to involve more of the general public in different entrepreneurial activities.” (Finance and banking company).

“The good thing is most people realise that digitalisation is an important topic, however the actual implementation of the digital economy is severely lacking. The main issue is that all the government offered e-services are not all under the same umbrella, not all under the same digital platform. Communication among different government institutions is very weak.” (Consultancy and IT company).

“The cooperation among ministries is very poor and should be improved.

It seems that the entire system of how the government operates and how legislation is written in Latvia is based on the principle: “Catch the thief!”. But I do not think I deserve to be perceived as a thief!” (Finance and banking company).

illustrative of the opposite – the problem of digitalisation, efficiency, bureaucracy etc. There is an appetite to cut the bureaucracy, which in reality is like a fight with a three-headed dragon.” (Consultancy and IT company).

“Government institutions have enough people, but they need to work on the effectiveness of those people. On digitalisation – there are certain specifics that were implemented in Estonia five years ago; why can't we buy a ready product and implement it in Latvia. The process of enforcing change is more active in Lithuania, Estonia is just very much ahead of us. In Estonia, things just happened. In Lithuania, enforcement is happening, but in Latvia "it's slower.” (Professional assurance and advisory services company).

“The main problem with digitalisation is that we are trying to implement it in a corrupt environment, so there are not many supporters for it, which is slowing down the whole process. Certain public procurement projects are carried out with elections in mind, so this is not always done in the best interests of the country, but instead with the number of votes in mind. We need to increase transparency.” (Manufacturing company).

Rule of law should be consistently applied everywhere. When we work with state institutions, there is often room for interpretation of various things and this is not ok.” (Consultancy and IT company).

“Bureaucracy is there and digital systems are not user-friendly, not compatible with one another. There are some improvements, but not enough. Regarding GDPR, I think Latvia is doing very poorly compared to other European countries. ... The state sector should be much more efficient, the number of clerks should be reduced.” (Consultancy and IT company).

“Maybe the public sector should have fewer resources. The public sector mostly leaves us alone and we leave them alone. Resources need to be spent more wisely; just throwing money at problems won't solve anything. Efficiency needs to be improved in a major way. Too many people work in the public sector.” (Real estate company).

“Also, state institutions should have more effective internal communication. A more digitalised economy would definitely solve many communication and bureaucracy problems.” (Finance and banking company).

“Digitalisation would help speed up many processes (such as construction permits, etc.). For example, the Road Traffic Safety Directorate, when you need to register cars it is done more efficiently now with digitalisation. ... When we look at the banking sector during the last 5 years, a normal person doesn't have

“Digitalisation needs to be implemented at all levels in the country, the public and private sector. We need transparency. We need to decrease bureaucracy, look at the weakest link, and strengthen it. Help needs to be given to big and small businesses. If there were fair rules in place protecting smaller businesses as well, everyone would be more satisfied.” (Manufacturing company).

“... the state should work in a way that people don't need their services; people should be able to digitally do what needs to be done, and be self-sufficient. All the other sectors should be self-regulated in a lawful way.” (Professional assurance and advisory services company).

“The Global Competitiveness Index by the World Economic Forum 2017 emphasised the inefficient governmental and municipal bureaucracy as the main burden for doing business in Latvia. As steps towards improvement, we see efficiency and functionality audits, development of e-governance and further interoperability of various systems used today.” (Manufacturing company).

to go to the bank, everything is digital; the same thing should happen in the government. The State Revenue Service has an electronic declaration system, which is a step in the right direction.” (Retail trade and service company).

“Firstly, there aren't set measurements we can rely on to tell us how effective the public sector really is. Therefore, this is more of a comparison game. It's hard mentioning the precise criteria that should be used. There was talk of reducing administrative actions, but if Latvia wants real change, it needs to evaluate all services and all details. The main point is to not have functions that overlap, or make different institutions, or even the same institutions, do the same job twice. This is where all the problems begin. Digitalisation could help in this regard, as well as subcontracting certain things.” (Professional assurance and advisory services company).

“Good progress, but needs to be faster in the rule of law section.” (Finance and banking company).

8. Further investment plans of foreign investors in Latvia

As in the previous FICIL Sentiment Index studies, in the 2018 survey, foreign investors in Latvia were also asked, *“Does your company plan to increase investment in Latvia? If yes, under what circumstances and in what period / amount? If not, why?”*

To summarise, as many as 22 from the interviewed 40 investors answered with ‘yes’ (in the 2017 study: 24 of the 42 investors interviewed answered with ‘yes’), 14 said ‘no’ (the same amount in the 2017 study) and 4 answered that ‘it depends on the circumstances’ (7 in the 2017 study) or that they have not yet decided. In one case, an investor mentioned that the question about increasing further investment is not applicable for the particular company. For comparison: according to the findings of the 2016 FICIL Sentiment Index study, where 32 foreign investors were interviewed, 16 investors said ‘yes’, 10 said ‘no’ and 6 were ‘undecided’.

There are both very positive and very negative opinions with regard to further investment plans, yet there are considerably more positive cases than negative ones. Below are selected answers from the respondents, classified in four sections. As in previous years, the quotes speak for themselves, providing some food for thought for the policy-makers in Latvia responsible for increasing the level of foreign investment in the country:

Yes, we plan to increase investment

“Investments have been made in all Baltic States, the amount of investments in Latvia this year has been greater compared to the other countries in the Baltics, which is related to the specifics of the company’s production processes in Latvia. At the same time, it has to be noted that two Baltics’ operational managers have chosen Riga as the place to live in. Something in Riga must be more appealing compared to Vilnius or Tallinn.”
(Consultancy and IT company).

“Yes, we are building excellence centres in Latvia for Baltics/Northern. Timing – 3 years, amounts – confidential.” (Professional assurance and advisory services company).

“We continue to invest in Latvia, we invest about 2-4 million every year, and we will continue investing the same amount in the next few years as well.” (Retail trade and service company).

“Yes. We continuously do it; it’s part of our business operation.” (Professional assurance and advisory services company).

“Yes, we are planning to invest, building a depot, around 7 million investment. We are acquiring other buildings, which is another 6 million investment.” (Service company).

“Yes, the amount is around 10 million.” (Finance and banking company).

“Yes, we have many projects. We will invest approx. 100 million in the next 10 years.” (Real estate company).

“We are investing as we speak. Next 2 – 3 years will be a pretty active programme. We are also looking for new opportunities.” (Real estate company).

“We are planning on investing a lot. It will be around 13 million in total by the end of 2019. Our aim is more towards the local consumers, we will be making changes in packaging and we will be adding new products as well. There will be a small amount aimed at export but mostly we are targeting locals. Export is more tended towards Denmark, Romania, Norway.” (Manufacturing company).

“Yes, we plan to increase our investment in

“Taking into account the opportunities as well as challenges – yes, probably in the time span of 5 years.” (Finance and banking company).

“We want to become the best bank in terms of IT, we will invest more, yes. We will improve all IT systems in branches around Latvia. We will use external and internal IT providers.” (Finance and banking company).

“Yes, half a million by 2019.” (Service company).

“Yes, we believe that there will be development within the circular economy sector. Probably between 2020-2021, 50-100 million” (Retail trade and service company).

“The office plans to continue its operations in Latvia, as well as expand as much as possible.” (Professional assurance and advisory services company).

“The strategy is to increase. Yes. We are also planning a 20% staff increase.” (Service company).

“Yes. We will continue to grow our credit portfolio slightly faster than GDP.” (Finance and banking company).

“We would like to purchase other companies in Latvia, expand our business that way. Our company has a parent company in Poland; they are currently expanding in the direction of health institutions, but this will not be implemented in Latvia at the moment. If the right target presented itself – we would purchase other companies, but at the moment can’t say about a specific investment amount or timeframe.” (Finance and banking company).

“Definitely yes, we are planning to increase investment; if the geopolitical situation improves we can invest more. Our business is fairly simple, if Russia changes then maybe we can invest more. We originally chose Latvia because of the airport, cost efficiency, port infrastructure, people’s ability to speak different languages. If this situation doesn’t change then we will invest even more, just at the moment there is uncertainty because of the political situation. We want to expand, we want to build more terminals, time and amount – can’t say specifics.” (Service company).

“Yes. We are investing according to our long-term

Latvia; we do so gradually every year, investing an additional million euros annually. These investments go towards production or improving working conditions for our employees.” (Manufacturing company).

“Recently we already invested 75 million in the Baltic Distribution Centre and, of course, we will continue. We have 7 construction projects; the 5th will be completed very soon. The 6th project is the biggest and most expensive one - the already mentioned distribution centre. We decided to build it in Riga because of the beneficial location, right in the heart of the Baltics.” (Retail trade and service company).

“Limited. We invested 50 million last year. Next year probably 2 -3 million, nothing big.” (Retail trade and service company).

strategic plan. We will invest tens of millions and it will be for more than a year.” (Retail trade and service company).

“Investment is planned to remain at about the same level - investments do not increase primarily due to the higher attractiveness of neighbouring economies and oversaturation of our chosen business segment.” (Retail trade and service company).

“Yes, we are planning on increasing investments in Latvia, over the next two years, investing millions, can’t give you specific numbers at the moment.” (Wholesale and retail company).

No, we do not plan to increase investment

“In principle no, but we are currently finishing some of our existing projects with continuous investment. But, no new projects at the moment, this is not directly in connection with Latvia, our investment funds have ended at the moment and we have to wait for renewed funds.” (Real estate company).

“No plans to do this at the moment, sales and marketing functions are in Latvia, we might have new job openings, but we are not planning on increasing production in Latvia.” (Wholesale and retail company).

“No, not planning on increasing. The key reason is that at global level Latvia is viewed as a high-risk country because of the financial sector. It’s a matter of – the country is small, we will maintain the same level of operations.” (Professional assurance and advisory services company).

“No plans for additional investments. The market is shrinking so we do not plan to invest. We will just make the usual, normal investments that we do every year in our business units, which is between 1 and 2 million, not more.” (Manufacturing company).

“Not in the coming year. Our group company decided to expand in other countries – Georgia and Malta. One of the reasons – access to labour. Also attitude towards foreign investors is much better there.” (Consultancy and IT company).

“We are not planning to invest in Latvia at the moment, not in our business strategy right now.” (Retail trade and service company).

“We do not plan to invest in Latvia due to resource concentration in bigger and higher potential markets (with bigger size of market and better support from the government). In Latvia, compared to other countries in Europe, the overall investment from the government side in the health sector is still among the lowest in Europe, which means poor access to healthcare.” (Wholesale and retail company).

“We are not planning on increasing investment at the moment. No specific reason.” (Consultancy and IT company).

It depends on the circumstances

“Our investment will depend on availability of workforce. There will be some investment, but it will depend on labour.” (Consultancy and IT

“There is constant investment in existing production facilities and continuous improvements. If MPC differentiation for energy

company).

“Yes, if we see a better investment governance and screening model in place. The government needs to be more understanding business-wise, but we are willing to invest if we see such incentives”
(Consultancy and IT company).

“Probably yes, everything depends on construction prices and availability of labour. We have been offered to take over some assets from other developers who are leaving or freezing their projects due to the problems in the construction sector in Latvia. In terms of our own investment, we are thinking about renting houses, offices as well. Investment of around 50 million.” (Real estate company).

intensive companies remain, which helps Latvian producers to be more competitive in Scandinavia, increase in investment is expected in order to supply the demand.” (Manufacturing company).

“Yes, if there are no major global crises. If the relations with neighbouring countries get worse, our investment decisions could be revisited. In principle, we have a major investment plan until 2022 and it is worth several tens of millions of euros.” (Manufacturing company).

Other

“This is not really applicable to our company. We keep investing in educating new recruits. For example, we take 30 students, fresh out of university and then we train them up to be experts. And afterwards they join the job market, and that is our investment into the business culture.” (Professional assurance and advisory services company).

Furthermore, in the 2018 study we asked foreign investors the following question: “Apart from Latvia, has your company also invested in the other two Baltic countries or Poland? If yes, is the proportion of investment that your company is investing in Latvia increasing or decreasing, as compared to the investment your company is making in Estonia or Lithuania?”. Different answers were provided by 40 foreign investors in Latvia that took part in the study, with no clear or common pattern. For this reason, the quotes from 39 out of 40 respondents that answered the question are summarised in Appendix 4.

9. Mr Prime Minister: you’ve got mail

Finally, we asked all 40 foreign investors that took part in the 2018 FICIL Sentiment Index to post a message to the prime minister of Latvia: one paragraph on what should be done to improve the business climate in Latvia, from the viewpoint of a foreign investor:

“We would really like the government to pay attention to the problem topics in a meaningful and focused manner. Take a subject, clearly define the problem, come up with a realistic plan and then implement it with an exit strategy and clearly defined goals (must be measurable). Clarity, predictability, even if it involves a “no, that can’t be done” – that is far more important and better than a weak, roundabout conversation on nothing.”
(Consultancy and IT company).

“Please stick to the promises, especially those regarding the improvement of the business environment. The biggest obstacle in our country is the uncertainty; therefore, I wish the new government to stick to the plans in the long-term. I hope that our future government officials will continue what the current coalition has already begun. Also, it is important to finally prioritise the domains that need to be dealt with. For example, much is talked about developing the IT sector, but does it really account for much of Latvia’s GDP? Do we really need to spend so much on innovations if we could just wisely utilise our available natural resources?” (Finance and banking company).

“One of the main issues is the fixing of the financial crisis that just happened. What can we do to improve the image of Latvia’s financial situation? Let’s see what Latvia’s foreign policy machine, with the prime minister, can do to attract influential financial sector representatives from abroad (FinCEN, ECB) to give a signal to the world that Latvia’s black page has been closed, and everything is under control now. Latvia shouldn’t keep repeating that we are working on bettering the situation because that just makes it look like things are still messed up. We need to be concrete in the image we present, but it needs to be backed up by action.”
(Professional assurance and advisory services company).

“Please improve your attitude towards foreign investors. We are not here to steal something from you or ruin your life. We are here to boost your economy, we pay taxes. Don’t be so nationalistic in the bad sense of this word. As a small nation with a declining population, you are very much dependent on foreign investment. See us as opportunities not as threats! Also, what this country needs is to risk more. Nothing happens if you don’t take a risk.” (Consultancy and IT company).

“The government needs to improve the satisfaction levels of the public sector. More focus needs to be on deliverables, without paying so much attention to procedures. Focus more on the outcome and the quality of the provided services. For example, schools shouldn’t be kept open just because teachers need jobs, without actually having any students or quality of education. Regional reforms need to be carried out, we have too many municipalities. I understand many people will lose their jobs; that’s why there is resistance, but it still needs to be done.” (Finance and banking company).

“Please think about the first place that foreigners see when they come to Latvia! There should be a bigger vision with regard to the infrastructure of the airport and the surroundings. The second thing: we need to have a more highly-skilled workforce! This doesn’t just mean attracting brains from other countries, it means changing the current education system. Good luck!” (Service company).

“A strong and united government can do a lot for Latvia, therefore for the PM, as the leader of the State of Latvia I would like to wish: The leader is the one who out of the clutter brings simplicity, out of confusion - clarity, out of difficulty - opportunity, out of despair - confidence.” (Professional assurance and advisory services company).

“To promote growth and attract investments, the framework needs to be stable, reliable and foreseeable. In order to make accurate projections of the future we must have reliable data and statistics. A proper digitalisation reform will bring many advantages when it comes to efficiency and the reduction of bureaucracy in the public sector, as well as good statistics to build the future on.” (Retail trade and service company).

“Prime ministers should get the government to work as a unified team, to achieve targets and get things done. There shouldn’t be competition between parties and ministers, shouldn’t be tit for tat, but they should all work as a team. They are now elected to the Saeima. They were elected to get things done – so that needs to happen, putting personal differences aside. Simply work together.” (Retail trade and service company).

“Improving the investment climate should be the common goal of the new government. The government needs to be brave and consistent in implementing new initiatives. ... From the point of view of foreign investors, the abolition of ABLV Bank has left a negative impact, which has, among other things, stimulated the negative attitude of Latvian banks towards non-residents, foreign investors. It goes without saying that no compromise is possible with regard to the prevention of money laundering and counterterrorism, but the current attitude of banks reduces the competitiveness of Latvia as an investment destination.” (Professional assurance and advisory services company).

“There are two issues that need immediate attention. First, availability of labour. If you want economic development and economic growth, this needs to be solved now. Tomorrow might be too late because manufacturing companies might relocate by then. Our proposal – controlled migration. It already works in Estonia, why it wouldn’t in Latvia? In Estonia, in our company there are 40 Ukrainians that work there and receive the same salary as the locals, with no problems. Second, sick leave. Please look at the Estonian or Lithuanian model! In the current situation, where we are critically lacking labour and the labour efficiency is very low, the sick leave system needs to be fixed – it needs to be better controlled and its abuse should be prevented! This can’t wait four years to be fixed.” (Manufacturing company).

“One of the top priorities should be an effective public sector with digital economy in the forefront. Digitalisation is vitally important to develop and take this country to the next level. The government should also focus on building trust; the decisions should be transparent, with clear motives. Zero tolerance of corruption and financial crimes should be implemented across all sectors. Latvia needs to find its “unique sales proposition” that would stand out on a global scale. Not just define it, but also develop this special attribute that Latvia could attract investors with. I have nothing against magnetic Latvia – but that’s just not enough – this idea needs to be developed further into something special and tangible.” (Wholesale and retail company).

“Congratulations on your recent appointment. The first 100 days will be crucial in setting out the vision and aims of the new coalition government. I would like to hope that on the business agenda you will help focus on the continued need for reforms in the insolvency administration process. We need transparency in the appointments process and how administrators manage their insolvency, and they need to be held accountable for their actions. The restriction on the large accounting companies being part of the industry makes little sense either on a business or transparency basis and should be removed. On the legal agenda, I would hope a top priority will be the much-needed reform of the court system to deliver the application and interpretation of the national law in a quick, simple and transparent way. Should the supreme court not take responsibility for decisions? Rather than the continuing referral back to lower courts and then an appeal back to the supreme court. The current process adds to time and costs and does not help improve the decision-making process, nor add to transparency.” (Service company).

“Investigate economic crimes, clean up the corrupt and badly governed Riga City council companies, create opportunities so that in some industries honest companies (that pay all the taxes themselves and cooperate with suppliers and sub-suppliers that also pay all taxes) stand a better chance (e.g. construction).” (Finance and banking company).

“You should look at decreasing the number of state officials, too many functions duplicate across all sectors. It’s a waste of resources and makes for a very ineffective country. Less attention is paid to business legislation and the tax system, because those things are actually working, there are investors in Latvia, they are getting annoyed with the constant changes happening. To actually bring the populist election promises to life, you should not break things that are already working, but instead focus on long-term goals and a vision and strategy. Investors come here with long-term plans, stability is key in a prosperous country.” (Service company).

“Reorganise and make efficient all digital systems in Latvia – that would be a great starting point and a big step forward. Starting point – set the targets, do an audit of the existing systems, get rid of what is unnecessary. This is what we do in the private sector when we have a problem that needs fixing.” (Consultancy and IT company).

“Let’s get Rail Baltica completed, but in a correct way, just get it completed. This is a great economic investment, adds additional access to the rest of the world for us. Anything that brings us together with the West is a positive thing. ... There has to be a reform in the court system where these scandalous trials don’t take years, but can be completed in months.” (Real estate company).

“Culture – what needs to be done to make government institutions proactive, forward-thinking, digital? Pick one industry as an experiment and try it. The change in mindset starts at the top, if you want to change certain things you usually need to get rid of 30% of employees. At the moment, individual initiative at ministries and other government institutions is being killed off, talented people are being discouraged from joining these institutions. How well can Latvia do its job in comparison to other countries around us?” (Finance and banking company).

“The rule of law is still a problem in Latvia. In particular, the execution and implementation. As long as no “big fish” are caught and punished, no one will believe that Latvia is serious about fighting economic and financial crimes.” (Finance and banking company).

“We need to join forces and place Riga on the map where it deserves to be – right next to other Nordic metropolises. According to several sources (including the sustainable development strategy for Latvia 2030), more than 1 million live in metropolitan Riga. And, almost 100 000 out of these 1 million are students (local, foreign) who are our future. We belong in the company of the big Nordic metropolises – Stockholm (2.2 million), Copenhagen (2 million), Helsinki (1.6 million) and Oslo (1.2 million). We should have already been in

that company for many years and stopped competing with Tallinn and Vilnius! The first step for getting there is to become more active, vocal and ambitious and everyone up to the highest echelons of the government should fight for the place of Riga on the European map!” (Real estate company).

“Dear Mr Prime Minister,

The main concern right now is the demography and it is a complex task. One cannot just sit and wait for things to improve themselves. You need to do something about it – one way is to open up Latvia to the world. Don't close yourselves up! Finding ways to develop pragmatic policies to allow some more immigration in the country would be a solution. Work immigration is something one should actively support. And the choice is: economic development or stagnation. At some point growth will stop otherwise.

Projects like Rail Baltica require thousands and thousands of workers. Unless there is a plan for allowing more labour, it will put much pressure on the private sector. If the cost goes too high, you will face a situation where all available resources will go towards EU funding and nothing for the private sector. That is dangerous. Might be good for a few years, but would start stalling afterwards.” (Real estate company).

“Allow us to work. Sometimes the government doesn't need to involve itself in every aspect. Don't bother the investors, we have global experience, we know what to do.

The more infrastructure you have, the better it is. Pay attention to Rail Baltica, it really needs to be there, so that needs to be a priority. Attracting new investment will be very difficult right now because of the financial sector. It looks like the banks are running the country. The government needs to add their own perspective to open Latvia up to new business opportunities. Latvia doesn't look like a great place to invest right now; it looks like the government is not in control of what happens here. It seems like the prime minister can't make decisions, on a lower level, people are understanding and normal, but when you go to higher authorities, they can't make any decisions, they lie, promise everything, and do nothing.” (Service company).

“If people in Latvia didn't know the names of people in charge, maybe the system would work better. We need to move away from this mini-oligarch system that has been created, trying to control everything around you for fear of losing that control. Create a flat system, where trust and transparency are the basis, where everyone has access to all information. We should have a clear plan and vision for Latvia, clear Key Performance Indicators that we are moving towards. Every three years the government releases a new National Development Plan for Latvia. At the moment, there is no basis for where we could say that we are doing well or badly. Everything is relative, that's why we need a continuous plan to keep us accountable. If our elected representatives would just focus more, they could solve most of the issues, they just don't want to. We need one really good leader who wants things to change and will create a good team around him that will also foster positive change.”

(Manufacturing company).

“Motivation is the key. It is the key thing in any sphere. Motivate investors to invest, be open, do not be afraid of taking unpopular decisions, making tough decisions and even making mistakes. This is about building trust!”
(Real estate company).

“Everything that Mr. Kucinskis was talking about when he assumed the responsibilities of prime minister seemed really good, there was a sense that he understands the issues, but I guess that's not true based on his work. Monetary policy needs to be bettered, we don't have a vision as a country, we don't have a strategy, a bigger picture in place of who we want to be, where we are going. What are we doing, how are we going to develop? We don't have a country development model for cities. What will Latvia look like after 5-10 years and how will we get there? We need clear, defined goals.” (Manufacturing company).

“Going back to the infamous “oligarch conversations” – has anything happened or is that it? Sort out the issue. Put the names on the table and ask the prosecutor general to investigate. Tackle specific cases. Don't let them be buried!” (Finance and banking company).

“Continue to promote the shared service sector in Latvia and abroad as well. Adapt the education system with the need for shared services, to support Latvia's own ambition. Make immigration simpler, inside Europe and maybe later for outside of Europe as well.” (Consultancy and IT company).

“It would be very good for business to have a more or less stable outlook on taxation for the coming 5 to 8 years. Keep the lowest excise in the Baltics – it makes sense. Regional policy should become a priority - motivate young people to live in the cities outside Riga; roll out the red carpet for young professionals who are ready to move out, think about tax incentives, subsidies for housing and other ways to motivate them!” (Manufacturing company).

“Improve the credibility of Latvia by acting on promises in various areas. General sentiment, on paper we have a lot of amazing initiatives, but the initiatives do not come to life. Or those initiatives that come to life are not advertised.

Working on the credibility of the country, have people with strong views and the ability to stand by those views in leading positions. This would show that we are a country with a lot of potential going forwards.”
(Professional assurance and advisory services company).

“Keep the country safe, make it a reliable and trusted partner, ensure a level playing field for all, and consistent rules in the medium term.” *(Consultancy and IT company).*

“Be more open to engage with the business community, share knowledge, create interaction with companies. Latvia should improve its presence at European Union level on various topics, interact with EU policy-makers. The government could improve their approach towards the business community. All government officials should see the business community as a partner rather than an enemy.” *(Retail trade and service company).*

“Honesty and compliance are not appreciated here in Latvia. Dishonesty and non-compliance are accepted and tolerated – this is very poor marketing towards foreign investors.” *(Retail trade and service company).*

“The prime minister should listen to FICIL more, because FICIL has a lot of the answers already. At least 50% of FICIL recommendations should be implemented in the next 12 months. They don’t even have to come up with solutions for the problems – FICIL has done that part. Prime minister – read the FICIL Sentiment Index and you should have a clear picture of what needs to be done for positive changes in Latvia.” *(Wholesale and retail company).*

“Please think about how to attract more investors. Of course, compared to 10 years ago, the situation is much better. E-governance is a big issue that needs to be developed, improved, expanded. Why can’t we vote electronically from our homes, for example? The government should spend less time on nonsense (for example, the cash register reform) and look at the bigger picture. To learn and implement things faster than competitors (i.e. other countries) is the key to winning.” *(Retail trade and service company).*

“The most important thing for every investor is predictability. We need a clear vision about what is going to happen in the next 4 years and we need to see there is a clear plan for how to get there, with specific actions and an earmarked budget.” *(Wholesale and retail company).*

“Latvia has not been positioned as a place to invest! But we should put Latvia on the map as a top destination for investment. We need to have a clear script about what the attractiveness of Latvia is, why one should invest there, what our strengths are, why we are better than our neighbours! We have nothing of that! Why? Why is this job not being done properly? All we hear from investors – you have no premises, you have no employees in Latvia, state institutions are not client-friendly etc. This is not good enough!” *(Retail trade and service company).*

“Ease the immigration policy and stimulate a foreign labour inflow into Latvia, thus improving labour availability and reducing pressure on wages and productivity. This is one of the integral parts of further economic growth and development.” *(Retail trade and service company).*

*“Stability and sustainability of decisions.
Fierce and non-compromised elimination of shadow economy, corruption and ensuring judicial independence.
Improvements in governmental and especially municipal efficiency.”* *(Manufacturing company).*

“Implement regional reform! It is possible; it is doable. It could be that the minister has to resign afterwards but someone needs to do it.” *(Finance and banking company).*

Appendix 1. Guidelines for interviews: 2018 study

1. Has there been any progress during the previous 12 months, within the following major areas of concern, as expressed in the previous year, with respect to development of your business in Latvia:

(Interviewer, please make it short: ask whether there has been improvement: (i) yes- Y, (ii) partly- P, (iii) no-N, and ask for a very brief comment).

	Y	P	N	<i>Brief comment: how crucial is this issue, any good initiatives that have been implemented by policy-makers, any 'light at the end of tunnel'?</i>
Demography				
Access to labour				
Level of education and science in Latvia				
Quality of the business legislation				
Quality of the tax system				
Support from the government and communication with the Policy-makers				
Unethical or illegal behaviour by entrepreneurs, unfair competition				
Uncertainty				
The court system in Latvia				
The healthcare system in Latvia				

2. Please assess the work of the Latvian policy-makers on a scale of 1 to 5 (where '1' is fail, '3' is average and '5' is excellent) that has been done to improve the investment climate in Latvia as compared to one year ago

1	2	3	4	5
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Comment:

3. Overall, from your perspective as an investor, has the investment attractiveness of Latvia improved during the previous 12 months?

1	2	3	4	5
Not at all	Only minor improvements	Some positive improvements	Yes, has improved	Yes, has improved significantly

Comment:

4. Please evaluate from 1-5 the following drivers of Latvia's economic competitiveness from the current perspective ('1' being uncompetitive or requiring improvement and '5' being very competitive).

Area	1 (very low) to 5 (very high)
Business culture	
Demography (population growth)	
Education and science/innovation	
Health system	
Social security	
Infrastructure (roads, electricity, etc.)	
Domestic demand	
External demand (exports)	
Traditions of the industry (your company represents) in Latvia	
Availability of labour (management level)	
Availability of labour ('hands')	
Efficiency of labour	
Low production costs	
Monetary policy	
Tax system	
Legal system	
Standard of living in Latvia	
Attitudes towards foreign investors	
Investment incentives	
Defence	
Energy resources	
<i>Other (please specify)</i>	

5. Could you please identify the best decisions or policy initiatives (up to 3) and worst decisions or policy initiatives that have been introduced by the Latvian government over the last 5 years and had a positive/ negative impact on the business environment of Latvia.

Interviewer: tell the respondent that these can also be activities/ initiatives that have been introduced previously, but have had significant positive/ negative consequences over the last 5 years.

BEST

WORST

6. **Apart from Latvia, has your company also invested in the other two Baltic countries or Poland? If yes, is the proportion of the investment that your company is investing in Latvia increasing or decreasing, as compared to the investment your company is making in Estonia or Lithuania.**

7. **During the FICIL High Council and various other forums, we have worked hard to draw Latvian policy-makers' attention to a number of serious issues. All these questions are amongst the top priorities for foreign investors and by doing this we have also aimed to put them on the agenda of the policy-makers. I would now like to ask for your more in-depth opinion with regard to 3 of these issues:**

- a. **Availability and quality of workforce, including the quality of education (various levels) and science for achieving productivity growth)**

Interviewer: ask about overall satisfaction with availability (quantity and quality) of workforce. How/whether this has changed: the situation 3-4 years' ago, and today.

'Forecast' for the coming 3-4 years.

What is good, what is lacking?

What should be prioritised by the policy-makers to improve the situation?

Any further comments and suggestions.

- b. **Corruption in the public sector and the shadow economy**

Interviewer: ask the respondent how big this problem is, any cases to support these arguments?

Are policy-makers in Latvia on the right track to solve corruption and the shadow economy (talk about each topic separately, yet showing how they are linked).

Suggestions to improve the situation?

- c. **Effectiveness of the public sector with regard to improving the business environment in Latvia**

Interviewer: ask about the overall satisfaction of the respondent with regard to how effective the public sector is in Latvia in improving the business environment in Latvia.

Strong and weak areas of the public sector in Latvia.

Do they have enough resources (people, equipment) vs how this resource is managed. Any suggestions on how this could be improved?

Talk with the respondent about the effectiveness of the legal framework: the process of identifying what should be done (activities), implementation process (how law/regulation is introduced), process of implementation and control.

Bureaucracy. Rule of law. Efficiency and digitalisation.

Whenever possible, try to extract some illustrative cases that demonstrate good or bad practice of the effectiveness of the public sector.

- 8. Your message to the prime minister that we deliver in a closed envelope: one paragraph on what should be done to improve the business climate in Latvia from the viewpoint of a foreign investor.**

Appendix 2. Foreign investors that took part in the 2018 study

AFI Europe

AFI Europe is a leading real estate development and investment company operating in Central and Eastern Europe and focusing on the development of large-scale commercial and residential projects. The company owns, develops and manages properties and projects in Bulgaria, the Czech Republic, Germany, Hungary, Latvia, Poland, Romania and Serbia, with on-the-ground teams comprising nearly 200 professionals. Headquartered in the Netherlands, AFI Europe is part of the AFI Group – an international holdings and investments conglomerate.

Aldaris

Aldaris is a Latvian brewery with rich traditions and a long history dating back to 1865. Nowadays, JSC Aldaris is part of the Carlsberg Group and one of the largest companies operating in beer and non-alcoholic beverages in Latvia. JSC Aldaris is focused on sustainable growth, while developing new products and experimenting with exclusive tastes. Years of industry experience and in-depth business knowledge allow the company to successfully adapt to emerging market trends and a rapidly changing business environment. Aldaris – shaping the beer industry and corporate agenda in the region.

AM Baltics

Driven by innovation and opportunities in the media sector, Providence Equity Partners, a global premium asset management company acquired Modern Times Group's media business (Free-TV), subscription and content distribution businesses (Pay-TV), digital and radio businesses in the Baltic region in October 2017. Now the company operates as All Media Baltics. The All Media Baltics' brands are – TV channels: TV3, LNT, TV6, Kanāls 2, 3+, TV8, TVPlay Sports, TV1000 Premium; radio channels: Star FM, Radio Volna and Power Hit Radio; the largest AVOD video portal TVPlay; digital advertising platform SmartAD; news and entertainment portals: Skaties.lv, Uudised.ee, Buduaar.ee and TV3.lt, as well as the largest SVOD platform in the Baltics, TVPlay Premium and one of the leading TV service providers in the Baltics, TVPlay Home.

Balta/PZU

PZU is one of the largest financial institutions in Poland, as well as Central and Eastern Europe. Continuing a 200-year tradition PZU provides comprehensive insurance coverage in all key sectors of private, public and economic activity. PZU Group also manages an open pension fund, investment funds and savings programmes. PZU acquired BALTA in 2014. With nearly 27 years of experience, BALTA is the leading non-life insurance company in Latvia, with almost 600 employees, including a distribution network of 300 agents and 42 branches across Latvia. BALTA is also the most loved insurance brand in Latvia, as well as recognised as the most honest insurer in the SKDS consumer survey for the last 15 years, among other recognitions and awards.

Baltic Container Terminal

Baltic Container Terminal Limited (BCT) is a privately-owned container terminal operating within the Free Zone of Riga Freeport. Mariner S.p.A. of Italy has acquired the full shareholding interests of BCT. The terminal has become the fastest-growing container handling facility in the Baltic States and enjoys a proven track-record with its clients through the quality of its work, high standards, productivity, safety and efficiency. Currently BCT employs 190 people.

CEMEX

CEMEX was founded in 1906 with the opening of the Cementos Hidalgo plant in northern Mexico. Now, CEMEX is a global building materials' company that provides high-quality products and reliable services to customers and communities in more than 50 countries throughout the world, and maintains trade relationships in over 100 nations.

Circle K

Couche-Tard is a leader in the Canadian convenience store industry. In the United States, it is the largest independent convenience store operator in terms of the number of company-operated stores. In Europe, Couche-Tard is a leader in convenience store and road transportation fuel retail in the Scandinavian countries (Norway, Sweden and Denmark), in the Baltic countries (Estonia, Latvia and Lithuania), as well as in Ireland and also has an important presence in Poland. In Europe Couche-Tard's network comprises 2,723 stores, the majority of which offer road transportation fuel and convenience products, while the others are unmanned automated fuel stations which only offer road transportation fuel. Couche-Tard also offers other products, including stationary energy, marine fuel and aviation fuel. Approximately 25,000 people work in its retail network, terminals and service offices across Europe, including employees at branded franchise stores,

Citadele

Citadele Group is a full-service financial group for both – individuals and companies, offering a complete portfolio of banking, financial and private capital management services in Latvia and through an international presence. In 2015, a consortium of international investors led by New York-based Ripplewood Advisors LLC acquired a 75% plus one share stake in Citadele from the Latvian Privatisation Agency.

Coca-Cola

The Coca-Cola Company is a total beverage company, offering over 500 brands in more than 200 countries and territories. In addition to the company's Coca-Cola brands, our portfolio includes some of the world's most valuable beverage brands, such as Fanta, innocent smoothies and juices, Powerade sports drinks, Sprite, vitamin water and ZICO coconut water. We're constantly transforming our portfolio, from reducing sugar in our drinks to bringing innovative new products to the market. We're also working to reduce our environmental impact by replenishing water and promoting recycling. With our bottling partners, we employ more than 700,000 people, helping bring economic opportunities to local communities worldwide.

Deloitte

Deloitte refers to Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. In Latvia, the services are provided by SIA Deloitte Latvia, SIA Deloitte Audits Latvia and law firm Deloitte Legal (jointly referred to as "Deloitte Latvia") which are affiliates of Deloitte Central Europe Holdings Limited. Deloitte Latvia is one of the leading professional service organisations in the country, providing tax, legal, audit and advisory services through over 160 national and specialised expatriate professionals.

EY

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. The insights and quality services EY delivers help build trust and confidence in the capital

markets and in economies the world over. The company develops outstanding leaders who team together to deliver on its promises to all its stakeholders. In so doing, EY plays a critical role in building a better working world for the people, the clients and the communities.

Eversheds Sutherland Bitāns

Eversheds Sutherland is one of the world's largest corporate law firms. Committed locally with Latvian office – Eversheds Sutherland Bitāns, but connected globally, with offices based in the world's major economic centres in 66 offices and 32 countries. The law office provides full service legal assistance in all areas of business law. Eversheds Sutherland Bitāns was recognised as a Baltic-wide law firm of the year in 2017 and received the Baltic-wide client service award in 2018 by prominent independent legal directory Chambers and Partners.

Evolution Gaming

Evolution Gaming Group AB develops, produces, markets and licenses fully integrated B2B Live Casino solutions to gaming operators. Since the company was established in 2006, Evolution has become a leading B2B provider in the European market with 100+ operators among its customers. The group today employs approximately 3,500 people the majority being based in Latvia and Malta. The parent company is domiciled in Sweden.

Food Union Group

Food Union Group is an international group of dairy and ice cream producing companies operating in nine countries in Northern and Central Eastern Europe. In Latvia, Food Union Group unites companies and sales offices like “Rīgas piena kombināts”, “Valmieras piens”, and “Rīgas Piensaimnieks”. Currently, Food Union Group is the leading milk processing company in Latvia and the largest ice cream manufacturer in the Baltics and Denmark. The Group employs more than 2,500 people.

Fortum

Fortum is a leading clean-energy company developing and offering solutions for its customers in electricity, heating, cooling, as well as solutions to improve resource efficiency. Fortum provides services for the power generation industry and solutions for consumers so that they can be smarter in their energy choices. Fortum has operated in Latvia since 2007, and since 2008 has been the district heating operator in Jelgava city. Electricity produced in Jelgava power plants is sold on Nord Pool Spot, as well as to large industrial customers. Since summer 2018, Fortum has also operated in Daugavpils where it produces heat energy and electricity.

GlaxoSmithKline

GlaxoSmithKline (GSK) is a British pharmaceutical company headquartered in Brentford, London. As one of the world's leading research-based pharmaceutical and healthcare companies GSK is committed to improving the quality of human life by enabling people to do more, feel better and live longer. GSK's three world-leading businesses research and deliver innovative medicines, vaccines and consumer healthcare products. The GSK office employs 45 people in Latvia.

Knauf

Knauf is one of the world's leading manufacturers of modern insulation materials, drylining systems, thermal insulation composite systems, paints, floor screed, systems, and construction equipment and tools. Knauf has 150 production facilities and sales organisations

in over 86 countries and 27,500 employees worldwide. The Latvian branch of the company was established in 1994 and employs 185 people.

KPMG

KPMG operates as a global network of independent member firms offering audit, tax and advisory services; working closely with clients, helping them to mitigate risks and grasp opportunities. KPMG member firms can be found in 152 countries. Collectively, they employ more than 189,000 people across a range of disciplines. KPMG practices in the Baltics operate within KPMG in Central and Eastern Europe. In Latvia, KPMG was established in 1994.

Linstow

Owned by the Awilhelmsen Group, a large international investment company, Linstow is one of Norway's leading real estate enterprises. Since 1996, Linstow's Baltic subsidiary has been Linstow Centre Management – the region's leading developer and operator of shopping centres. Linstow has established five shopping centres in Latvia: Alfa, Mols, Galerija Centrs, Origo, and Dole and the largest shopping center in Estonia – Ülemiste. Linstow also owns seven hotels in the Baltic region, all operated by Radisson under the Radisson Blu and Park Inn brands. The value of Linstow Group's real estate portfolio in the region totals EUR 700million.

Luminor

Built on the extensive experience of the two leading Nordic banks, Nordea and DNB, Luminor aims to become the leading financial services' provider for Baltic businesses and entrepreneurs. Luminor is the 3rd largest financial services' provider in the Baltic banking market with a 16% market share in deposits and 23% in lending. The bank has a wide customer base of around 1.3 million customers and 3000 working professionals.

Maxima

Maxima Latvija is one of the leading retail chains in Latvia, the largest private employer in the country and one of the largest tax payers in Latvia. The company is part of the "Maxima Grupe" holding company that is the largest retail store chain and employer in the Baltics, employing more than 30 000 employees in five countries – Lithuania, Latvia, Estonia, Poland and Bulgaria.

Møller Auto

Møller Auto is the leading car retailer in the Baltic countries. The core business is connected to new and used Volkswagen and Audi car sales, original spare parts, car service and maintenance. Møller Auto employs over 600 employees in the Baltic countries. Møller Auto is part of the Norwegian "MøllerGruppen" and has operated in the Baltic countries since 1997.

Nasdaq

Nasdaq Baltic represents the common offering of the Nasdaq Tallinn, Nasdaq Riga and Nasdaq Vilnius securities' markets, as well as Nasdaq CSD. Nasdaq Baltic maintains a regulated, open and efficient market infrastructure. It strives to be an efficient channel for companies to raise capital and to facilitate the participation of institutional and private investors in primary offerings and secondary trading.

NCH Advisors

NCH Capital's deep-value strategies are executed, depending on the local opportunity set, through investments in real estate, agribusiness, private equity and publicly quoted securities. NCH is one of the largest farm operators in the world and manages approximately \$3 billion of capital through a network of nine offices in Eastern Europe, Russia and Brazil.

Neste

Neste is the world's largest producer of renewable diesel refined from waste and residues, also introducing renewable solutions to the aviation and plastics industries. It is listed in the Dow Jones Sustainability World Index and the Global 100 list of the world's most sustainable companies. SIA Neste Latvija is engaged in direct sales of cleaner traffic fuels, as well as retail sales via its Neste fuel station network. The company has its own oil terminal in Riga harbour and 72 fuel stations in Latvia.

Orkla

Orkla Confectionery & Snacks Latvija (OCSL) is the leading confectionery & snack producing company in the Baltic States. The company represents the following brands: Laima, Selga, Staburadze, Ādažu Čipsi and Taffel The Original Snacks, as well as managing Laima Chocolate Museum. OCSL employs more than 1100 employees, exports goods to over 30 countries and has 3 manufacturers. The company is building a new factory for the most beloved food brand in Latvia – LAIMA and has announced that it will build a biscuit and wafer competence centre in the country.

PNB Banka

PNB Banka is one of the oldest commercial banks in Latvia. The Bank has a universal product offering and the largest branch network in Latvia, servicing resident and international customers. Digitalisation is a core mantra for the team, combined with humanity, adaptiveness and dynamism as key competencies.

PricewaterhouseCoopers

At PwC, the purpose is to build trust in society and solve important problems. PwC is a network of firms in 158 countries with more than 250,000 people who are committed to delivering quality in assurance, advisory and tax services.

Rimi Baltic

Rimi Baltic is one of the leading and fastest growing retailers in the Baltic States and operates five chains – Rimi Hyper, Rimi Super, Rimi Mini, Rimi Express and hard discount chain Supernetto. The company employs over 11 600 people in all three Baltic countries. Rimi Latvia currently operates 123 stores and employs more than 5600 people.

Robert Bosch

The Bosch Group is a leading global supplier of technology and services. The German engineering and electronics company founded its subsidiary in Latvia in 1993 and currently employs 60 people in Latvia. Robert Bosch SIA is a wholesale company, which represents power tools, thermo technology (also brands Junkers and Buderus), the automotive aftermarket and diagnostic technology products, and security system products.

SEB

SEB is a leading financial services group in Scandinavia and the Baltics. SEB Latvia has a strong position in both retail and corporate banking, offering a full range of banking services for Latvian people and companies. In Latvia, the bank serves more than 400 000 private

individuals and 40 000 companies. SEB Latvia is the first financial institution in Latvia to receive the Sustainability Index Platinum level – the highest possible position, reflecting the bank’s long-term thinking and responsible business practices.

Solvay Group

Solvay Group is an advanced materials and specialty chemicals company, committed to developing chemistry that addresses key societal challenges. Solvay is headquartered in Brussels with about 27,000 employees spread across 61 countries. Solvay in Riga operates as the Global Business Services Center and provides a variety of services to Solvay group, such as Accounting, IS helpdesk, Data management, Customer Services, etc.

Swedbank

Swedbank is the leading bank in Sweden, Estonia, Latvia and Lithuania. Swedbank Latvia is the largest bank in Latvia which nearly 1 million people and over 71,000 businesses have chosen as their partner in financial matters. Swedbank is a key driving force behind the country's economic and regional development that ensures continuous availability of financial services, offering clients support with a modern consultation centre and the widest branch and ATM network in Latvia.

TAV

TAV Airports Holding is one of the leaders in airport operations and airport construction companies in the world. TAV Airports Holding provides airport services in 20 countries, 80 airports, and serves around 900,000 flights with more than 120 million passengers. In Riga International Airport TAV Airports Holding is represented by six TAV group companies - TAV Latvia is operating commercial areas, ATU - Duty Free, BTA - Food & Beverage, TAV Operation Services - Business Lounge, HAVAŞ - Ground Handling and TAV IT - Solutions, with approximately 600 employees in total. TAV Latvia is in charge of all commercial areas of RIX that have been operated by group companies and other international and local investors since the beginning of 2011, when TAV Airports Holding won a tender and signed a concession agreement with Riga International Airport, becoming one of the most valuable cooperation partners of RIX.

Telia

Telia Company AB is the leading telecommunications provider in the Nordic/Baltic region and operates one of the largest IP networks in the world. Telia Company is a shareholder in Lattelecom and LMT – Latvia’s biggest telecommunications companies. Telia Latvia, its wholly owned subsidiary, has been a trusted partner for many local and international companies in the business technologies segment since 1992.

URALCHEM

Uralchem is one of the largest producers of nitrogen in Russia and CIS. Its main competitive advantage is the development and production of innovative fertilisers tailored to particular countries, markets and segments, along with ammonium nitrate and urea. SIA URALCHEM Trading belongs to URALCHEM Group and focuses on consolidating URALCHEM export sales. The company provides shipment of the goods in ports and chartering of vessels.

Vastint

Vastint Group is an international real estate organisation with over 25 years of experience. The cornerstone of their operation is the management of portfolio properties and the

development of commercial real estate, including residential development and sales. Vastint has been present in Latvia since 2003.

Ventspils nafta terminals

Ventspils nafta terminals (VNT) is the largest and most technologically advanced crude oil and petroleum product transshipment company in the Baltic States operating for more than 55 years in the ice-free port of Ventspils. 49% of the company's shares belong to Eurotank Holding Sarl, part of the international terminal operating company VTTI, while 51% belong to Martank. Currently VNT employs 200 specialists from different fields.

Vitol

Vitol Baltics is a part of the Vitol Group, which is an energy and commodities company. Vitol is a private company founded in Rotterdam and for over 50 years Vitol has served the world's energy markets; trading over seven million barrels of crude oil and products a day and delivering energy products to countries worldwide. In Latvia the Vitol Group invests mainly in these companies: Ventspils nafta terminals, LatRosTrans, LSC.

Visma

The Visma group comprises five software business areas, which corresponds with Visma's strategic positions in important segments: SMB, Enterprise, Commerce Solutions, Custom Solutions and Cloud Infrastructure Services. Visma is present in twelve countries with a pivot in Northern Europe, and headquarters located in Oslo, Norway. Visma Group is represented by 3 companies in Latvia. Visma Enterprise is the market leader in the field of ERP and HCM solutions, while Visma Consulting provides custom solutions for government and private entities, together employing 150 specialists. Visma Labs in Latvia supports Visma group's new products development and currently employs 200 specialists.

Appendix 3. Most positive and most negative decisions/policy initiatives that the Latvian government has implemented over the past 5 years: assessment by key foreign investors in Latvia. 2018.

<i>Most positive decisions/policy initiatives</i>	<i>Most negative decisions/policy initiatives</i>
<p style="text-align: center;">Taxes, tax reform</p> <p>“Tax reform.” (Finance and banking company; Consultancy and IT company; Professional assurance and advisory services company; Finance and banking company; Service company; Real estate company; Real estate company).</p> <p>“Tax reform seems to be a good thing – small progressivity, lower salaries pay less tax.” (Retail trade and service company).</p> <p>“0% for reinvested profits or corporate tax reform. In spite of regulatory weaknesses, overall tax reform is positive. It should be taken into account that it will only be possible to judge fully the impact on the Latvian business environment after a longer period of time has passed, from the moment of the reform.” (Professional assurance and advisory services company).</p> <p>“The change in tax system to reinvest the profit.” (Service company).</p> <p>“Income tax reform is moving in a positive direction.” (Manufacturing company).</p> <p>“Corporate tax rate of 0% is good.” (Real estate company; Retail trade and service company).</p> <p>“Change in corporate income tax system is positive.” (Professional assurance and advisory services company).</p> <p>“Tax reform, the goal is to make Latvia more attractive for investors, a good initiative but need to wait to see if it will actually work.” (Wholesale and retail company).</p> <p>“Tax system – erasing inequality and moving towards progressivity is a very good thing. Regarding corporate tax – early to say but hopefully the change will result in some positive outcomes.” (Service company).</p> <p>“Excise tax.” (Manufacturing company).</p> <p>“Reduced VAT.” (Retail trade and service company).</p>	<p style="text-align: center;">Taxes, tax reform</p> <p>“Tax reform.” (Finance and banking company).</p> <p>“Corporate tax reform (the dividend tax increase).” (Service company).</p> <p>“Social tax changes that happened 2-3 years ago. You have to pay tax but it is not being added on to your pension plan.” (Retail trade and service company).</p> <p>“Continuing to increase excise tax.” (Retail trade and service company).</p> <p>“Tax regulation and the reform – the way it was done – fast, quick, without consultations etc.” (Consultancy and IT company).</p> <p>“Tax reform is a failure. Extremely complicated, in particular, for small companies. Inability to figure out how to tax a shared economy.” (Finance and banking company).</p> <p>“Corporate tax reform was a fail.” (Manufacturing company).</p> <p>“Tax reform – the end result is not acceptable.” (Consultancy and IT company).</p> <p>“Excise tax changes, indecisiveness of health system.” (Retail trade and service company).</p> <p>“Taxation of beverages basically.” (Retail trade and service company).</p> <p>“The municipality of each freeport can decide on the tax rebate – not fair. Would I still invest in Ventspils? No.” (Retail trade and service company).</p> <p>“Fuel excise tax increase.” (Retail trade and service company).</p>
<p style="text-align: center;">OIK</p> <p>“Understand and start the process in changing the</p>	<p style="text-align: center;">OIK</p>

<p><i>approach to OIK.” (Consultancy and IT company).</i></p> <p><i>“They are at least trying to clean up the OIK mess.” (Professional assurance and advisory services company).</i></p> <p><i>“Electricity Compulsory Procurement Component (OIK) and subsidised electricity tax. As a result of poor control, foreign entrepreneurs who have invested in the renewable energy sector are in a disadvantaged situation.” (Professional assurance and advisory services company).</i></p> <p><i>“Another good decision was the dismantling of the OIK debacle.” (Manufacturing company).</i></p> <p><i>“Improvements in the insolvency administration process supervision and control.” (Finance and banking company).</i></p>	<p><i>“OIK saga is a mess.” (Finance and banking company; Consultancy and IT company).</i></p> <p><i>“Declaring abolishment of OIK was foolish and irresponsible.” (Retail trade and service company).</i></p> <p><i>“OIK is not a good thing.” (Retail trade and service company; Retail trade and service company).</i></p> <p><i>“OIK issue. I do not think this deserves any more comment. This has made a terrible loss to our economy and manufacturing in general.” (Manufacturing company).</i></p> <p><i>“OIK fiasco was one of the worst decisions the government made.” (Manufacturing company).</i></p> <p><i>“Mandatory procurement component (OIK) – retrospective change of rules of the game – not fair vis a vis, both foreign and local investors.” (Wholesale and retail company).</i></p>
<p>Membership of international organisations, entering the Eurozone</p> <p><i>“EU membership, NATO, OECD.” (Retail trade and service company).</i></p> <p><i>“Latvia joining OECD.” (Service company; Wholesale and retail company; Manufacturing company).</i></p> <p><i>“Stability brought by Latvia’s belonging to EU, NATO – for an investor it gives predictability in terms of where Latvia stands on the global map.” (Consultancy and IT company).</i></p> <p><i>“Latvia joining the Eurozone; that increased stability. Now foreign investors aren’t concerned with a different currency’s devaluation.” (Service company; Finance and banking company).</i></p>	<p>Financial sector related</p> <p><i>“Weak supervision and governance of banks that resulted in the recent banking scandals.” (Finance and banking company).</i></p> <p><i>“It seems like the government was unable to react quickly and efficiently to the crisis in the financial sector, a lot of things could have been done differently to salvage whatever good reputation was left. The government didn’t effectively communicate the crises, meaning policies in place regarding non-residents.” (Professional assurance and advisory services company).</i></p> <p><i>“Decision not to open HEI governance and the financing topic.” (Professional assurance and advisory services company).</i></p> <p><i>“Non-resident finances – the idea to clean up the financial sector was good, but the way it was carried out was very bad. This has damaged Latvia’s reputation for years to come. Looks like the country is handing its functions over to the private sector.” (Service company).</i></p> <p><i>“Financial sectors never improve by themselves; it’s always a crisis that that cleans that up.” (Real estate company).</i></p> <p><i>“ABLV turbulence became a scandal. It has become an international news story and polarised people. We knew about all the risks surrounding the business of ABLV for many years, but we looked away and pretended there was no problem. As a result, we got into a scandal because of our own inaction!” (Real estate company).</i></p>

	<p><i>“When it comes to the financial sector – the government reacted badly. They just cut everyone, not taking out the few bad apples that were breaking the law, but cutting everyone out.” (Service company).</i></p> <p><i>“The way the problems in the bank sector were handled was very bad from the government’s side.” (Manufacturing company).</i></p> <p><i>“The pace of introducing AML procedures in Latvia is extremely slow (the banking system is very shaky right now).” (Professional assurance and advisory services company).</i></p> <p><i>“AML – we did have the regulatory framework to supervise financial institutions, we had supervisory institutions in place, so why is it we have the Fincen report and Moneyval report that are so bad for Latvia and are damaging our reputation?” (Consultancy and IT company).</i></p> <p><i>“AML implementation, handling of the case of ABLV.” (Finance and banking company).</i></p> <p><i>“Handling of the situation regarding the banking crisis – absence of communication from the government.” (Wholesale and retail company).</i></p> <p><i>“Poor management of Latvia’s reputation in the international arena with regard to finance sector transparency and integrity. Latvia is still perceived as the centre of money-laundering, Central Bank corruption scandal, government’s investment plans in the bankruptcy of PAREX.” (Manufacturing company).</i></p>
<p>Shadow economy related activities, including prevention of money laundering, corruption, etc.</p> <p><i>“The governance change in the Office for Prevention of Laundering of Proceeds Derived from Criminal Activity.” (Finance and banking company).</i></p> <p><i>“Different sectors are signing general agreements, trying to improve the situation with the shadow economy.” (Professional assurance and advisory services company).</i></p> <p><i>“Decision to change the FIU head.” (Professional assurance and advisory services company).</i></p> <p><i>“Gradual decrease of the grey economy.” (Finance and banking company).</i></p> <p><i>“Clean-up of banking sector and money laundering.” (Finance and banking company).</i></p> <p><i>“Some initiatives to tackle the shadow economy. Maybe efficiency is not there but the government should be credited for doing this.” (Real estate</i></p>	<p>Shadow economy related activities, including prevention of money laundering, corruption, etc.</p> <p><i>“Inability to combat the grey economy in construction. Inability to hold Riga City Council and its companies accountable for all the corrupt behaviour and terrible governance. Lack of investigation of economic crimes.” (Finance and banking company).</i></p> <p><i>“Corruption is still there and I do not see that there has been any progress. I think there are many areas where there is no transparency, esp., regarding EU funding.” (Consultancy and IT company).</i></p> <p><i>“Inability to deal with the non-resident issue and anti-money laundering and other financial crimes. Society seems to be uneducated on this topic. Latvia lacks a clear vision and strategic thinking when dealing with these problems.” (Finance and banking company).</i></p>

<p><i>company).</i></p> <p><i>“Trying to fight the shadow economy has had a positive effect on our industry. People are being more careful with what kind of cars they buy, they don’t want shady deals.” (Wholesale and retail company).</i></p> <p><i>“Putting more effort and resources into fighting the shadow economy.” (Retail trade and service company).</i></p>	
<p style="text-align: center;"><i>Insolvency</i></p> <p><i>“Prosecution against dishonest insolvency practitioners.” (Professional assurance and advisory services company).</i></p> <p><i>“Insolvency regulation reform. The pre-existing serious problems in insolvency proceedings have been mitigated by systematic work on improving regulation.” (Professional assurance and advisory services company); Real estate company).</i></p> <p><i>“Insolvency administration – the government sort of managed to end some of the schemes; but it is still a work in progress and I expect this to be continued.” (Service company).</i></p> <p><i>“Fight against abuse of the insolvency process and work on implementing anti-money laundering policies.” (Professional assurance and advisory services company).</i></p> <p><i>“Changes in insolvency administration, thanks to the joint research of Deloitte and FICIL and thanks to continuous work of the FICIL following up the situation.” (Finance and banking company).</i></p> <p><i>“Getting right the insolvency administration process (as a result of the pressure from FICIL).” (Wholesale and retail company).</i></p>	<p style="text-align: center;"><i>Insolvency administration</i></p> <p><i>“Delayed and untimely action in overseeing insolvency administration processes.” (Finance and banking company).</i></p> <p><i>“Insolvency – the job is not completed.” (Service company).</i></p>
<p style="text-align: center;"><i>Education</i></p> <p><i>“Teachers’ salary review and school network review.” (Professional assurance and advisory services company).</i></p> <p><i>“Education reform has been coming along for a couple of years now.” (Retail trade and service company).</i></p> <p><i>“Decision about optimising the school network. All my respect for doing this and in the pre-election year! The downside is that nothing is happening in the area of higher education – no reforms.” (Finance and</i></p>	<p style="text-align: center;"><i>Education</i></p> <p><i>“Failure to implement education reform, esp., higher education because it will backfire very seriously; the issue of Russian schools.” (Professional assurance and advisory services company).</i></p> <p><i>“Decision about Latvian language in schools – I am not sure it was the right decision. It is just making the situation worse – it allows some destructive people to create an image of Latvia as a country with internal conflicts etc. This is unnecessary.” (Finance and banking company).</i></p>

<p><i>banking company).</i></p> <p><i>“Competence based education.” (Retail trade and service company).</i></p> <p><i>“Education reform and initiatives towards strengthening and improving technical education and engineering education in Latvia, thus giving positive signals for producers about future priorities of the country.” (Manufacturing company).</i></p>	
<p>Digitalisation focus</p> <p><i>“Initiative to finally focus on digitalisation of the country.” (Consultancy and IT company).</i></p> <p><i>“At least the e-signature and e-Latvia exist and there is no turning back.” (Real estate company).</i></p> <p><i>“Digitalisation and e-services (EDS as a great example).” (Retail trade and service company).</i></p> <p><i>“e-Health (it is not ideal but the fact that it is being launched and used is already a big step forward).” (Manufacturing company).</i></p>	<p>Digitalisation</p> <p><i>“We are still severely lacking in digitalisation, every ministry seems to be building their own digital instruments, but even those aren’t working. We need all digital services under the same umbrella.” (Wholesale and retail company).</i></p>
<p>Infrastructure projects: Rail Baltica, etc.</p> <p><i>“The ability to pick up two major projects – Rail Baltica and railway electrification. Up to this point, Latvia hasn’t been doing very well in developing such major projects. It used to be the case that when the government received huge amounts of money for projects – this money was divided among political parties.” (Professional assurance and advisory services company).</i></p> <p><i>“The decisions regarding improving the transportation sector in Latvia (e.g. Rail Baltica).” (Service company; Real estate company).</i></p> <p><i>“Active usage of EU funds for infrastructure projects.” (Professional assurance and advisory services company).</i></p>	<p>Labour and demographics related: migration, immigration, residency permits, etc.</p> <p><i>“The decision not to touch migration as an issue before the elections.” (Professional assurance and advisory services company).</i></p> <p><i>“Availability of labour and the decision to keep the borders rather tightly closed for third country nationals (in particular, low-skilled labour).” (Manufacturing company).</i></p> <p><i>“They made it very difficult to obtain and renew residency permits (this drives part of the economy, potentially attracts investments).” (Real estate company).</i></p> <p><i>“Initiative to improve demographics, immigration and remigration – could have done more. In fact, nothing has been done.” (Real estate company).</i></p>
<p>Increasing minimum wage</p> <p><i>“The increase of the minimum wage.” (Service companies).</i></p> <p><i>“The fact that the minimum wage is increasing is good. It forces some of the local players to come out of the shadows. If the shadow economy gets smaller, more taxes are paid and employees receive more, which means they will most probably spend more</i></p>	<p>Absence of regional reform</p> <p><i>“Decision not to perform regional reform.” (Professional assurance and advisory services company).</i></p> <p><i>“No regional reform – that is a major problem.” (Finance and banking company).</i></p>

<p>too.” (Manufacturing company).</p>	<p>“Regional reform hasn’t been carried out – all these battles among the municipalities – this is absurd.” (Finance and banking company).</p>
<p style="text-align: center;">Construction sector related</p> <p>“New construction law – more transparent, protects investors’ rights.” (Real estate company).</p> <p>“The change in legislation allowing the construction of buildings up to 7 storeys from wood was a positive shift in the construction industry. This is a good practical change. Seems like there is a lot more consistency from the Ministry of Economy.” (Manufacturing company).</p> <p style="text-align: center;">Defence</p> <p>“2% for defence from GDP is a positive thing.” (Wholesale and retail company; Real estate company).</p>	<p style="text-align: center;">Construction sector related</p> <p>“In the area of construction many practical aspects are regulated by regulations adopted by the Cabinet of Ministers. While the Construction Law is adopted, there is a delay with adopting the relevant regulations of the Cabinet of Ministers. It paralysed the entire industry for a year!” (Real estate company).</p> <p>“Changes in Construction Law – responsibility of the developer (developer responsible for any damages that happen); property tax basis will be reviewed.” (Manufacturing company).</p>
<p style="text-align: center;">Other</p> <p>“Limitation of payday lending has been a great decision. Promotes responsible lending, good for consumers as well.” (Finance and banking company).</p> <p>“Fiscal responsibility of the government.” (Real estate company).</p> <p>“The initiative of creating the so-called ‘White List’ of companies, which we are part of.” (Retail trade and service company).</p> <p>“Road traffic safety directorate radars are a good thing in general.” (Consultancy and IT company).</p> <p>“AirBaltic is a success – it grew 80% this year which is good. We see that the new hotel supply is absorbed. So, the way the government works with aviation is good.” (Real estate company).</p> <p>“Changes in the State Revenue Service.” (Finance and banking company).</p> <p>“Consult first as a basis for SRS activities.” (Professional assurance and advisory services company).</p> <p>“Liberalisation in general, for example liberalisation of the gas market.” (Retail trade and service company).</p> <p>“Judicial reform. Combining court areas with the aim of equalising the judges’ workload and promoting specialisation is a positive signal for improving the functioning of the justice system in Latvia.” (Professional assurance and advisory services company).</p>	<p style="text-align: center;">Priorities by the government, communication</p> <p>“Inertia from the government, very inward focus, survival instinct. They didn’t really address the big problems like education, health” (Service company).</p> <p>“Inaction by prime minister when communicating with investors. Plain lies and promises.” (Service company).</p> <p>“Many things that have not been done; no proactive actions from the government to improve the business environment.” (Finance and banking company).</p> <p>“Needless initiatives carried out in the wrong way. The government seems to be taking a positive idea and making it absurd. Good ideas interpreted wrongly.” (Wholesale and retail company).</p> <p>“The government is not clear, they don’t explain their decisions and reasons for certain actions. When it comes to the environment - if they really care about the environment, why are they unable to implement any favourable policies in reality?” (Wholesale and retail company).</p> <p>“Lack of a long-term strategy and decision-making ability. Unwillingness to make important decisions that would make a difference.” (Retail trade and service company).</p>

<p><i>“Possibility to attract EU funding. There are also some local investment incentives and support programmes for investment into manufacturing facilities.” (Manufacturing company).</i></p> <p><i>“The government is communicating with investors (e.g. High Council meeting).” (Wholesale and retail company).</i></p> <p><i>“Activity by the Ministry of Economics and Minister Ašeradens towards improving Latvia’s competitiveness in export markets and efficiency of operations. As one of the most significant steps – differentiation of MPC payments for industrial producers which, apart from increased competitiveness, also motivates companies to move towards energy efficiency. In support of development also the decreased tax on reinvested profit should be mentioned.” (Manufacturing company).</i></p> <p><i>“Support for small entrepreneurship via micro-enterprise tax law stimulated economic activity in the post-crisis years and stimulated new business startups and a decrease of the grey economy proportion in specific business segments.” (Manufacturing company).</i></p> <p><i>“Financial sector has improved its reputation.” (Retail trade and service company).</i></p>	
	<p style="text-align: center;">Environment regulations, including waste management</p> <p><i>“Waste management is a big problem in Latvia, heavily politicised and very backward looking. There is still no decision about plastic bottle deposits and this is unacceptable for the 21st century! We know the system in any shape or form will cost us money, but we want it and we think it is a must in today’s world!” (Manufacturing company).</i></p> <p><i>“Environmental regulations at municipality level have been changed several times and this is very strange. In Ventspils, for example, there is one regulation, in Riga and Liepaja it is completely different. But why would you have different regulations in such a small country? We are in Europe!” (Retail trade and service company).</i></p> <p><i>“Unprofessional, poorly managed and non-transparent system for support of renewable energy production. Setting the country’s environmental goals and commitments with poor evaluation of economic opportunities.” (Manufacturing company).</i></p>
	<p style="text-align: center;">Taxi: competition council</p>

	<p><i>“The Competition Council regulation that gives all taxi companies the same rights in terms of passengers from Riga Airport has resulted in chaos at the airport.” (Consultancy and IT company).</i></p> <p><i>“The latest decisions by the government and Competition Council which have hindered the image of Riga as a municipality.” (Finance and banking company).</i></p>
	<p style="text-align: center;">Investment related</p> <p><i>“The issue regarding the balance between investors’ interests and society’s interests still remains the same. How can Latvia balance companies’ and society’s interests when it comes to the environment, values, history? Latvia needs policies that will balance all these different interests.” (Professional assurance and advisory services company).</i></p> <p><i>“The investment screening process is not appreciated.” (Consultancy and IT company).</i></p>
	<p style="text-align: center;">Health system related</p> <p><i>“The health system and the way sick leave is being granted, overseen and paid. The system is probably going in the direction of strengthening the social welfare of society, but it certainly doesn’t help business. Another point is the way the average wage is being calculated – in our case it is on the basis of the last 6 months. But if you have seasonality in your business, that means that once the “season” is over, everyone wants to take sick leave because it provides them with better remuneration than their pay.” (Manufacturing company).</i></p> <p><i>“Linking availability of healthcare with tax payments is a very bad decision - we put more people on the edge. Mothers who sit at home with their children are punished! It punishes people who are already on the edge or at risk! That is not the right motivation for paying taxes. Motivation would be to make sure that people who drive Q7’s pay tax!” (Real estate company).</i></p>
	<p style="text-align: center;">Cash register</p> <p><i>“The cash register reform (the initial implementation chaos, the lack of vision).” (Retail trade and service company).</i></p> <p><i>“The changes relating to cash registers organised by the SRS – they were not ready themselves but they wanted businesses to be able to comply with their changes immediately. This is a clear case where a decision was taken without any impact assessment, without even thinking about the consequences for businesses.” (Retail trade and service company).</i></p>

	<p style="text-align: center;">Other</p> <p><i>“Changes in energy drink regulation.” (Retail trade and service company).</i></p> <p><i>“Electrification – a big surprise that this is still on the agenda. I do not see any economic reason for implementing this project. One of the problems in my opinion is that this is funded by the EU – so locally it is perceived as a donation or gift and no one cares if it is efficient use of money or not, if you get ROI or not. But such perception is toxic, it is wasted money and promotes corruption.” (Retail trade and service company).</i></p> <p><i>“The proposal for the beverage packaging deposit system was not qualitative – poorly researched and pushed through in a big rush. It was somehow declarative – we decide and you implement it.” (Retail trade and service company).</i></p> <p><i>“Inability to clean up/improve the court system in Latvia. The decision was basically not to change anything.” (Finance and banking company).</i></p> <p><i>“Rail Baltica – I do not see a political leadership for this extremely important project. It should be under the prime minister – currently under the Ministry of Transport it doesn’t look very good, in particular, knowing the reputation issues the ministry and some of its companies have.” (Finance and banking company).</i></p> <p><i>“The status of the Latvian language is an issue – for members of the board of big companies, for higher education as well – it hinders future development. There are areas where you should be a bit more flexible. If you want to attract a world class specialist or professor you can’t expect him or her to learn the Latvian language!” (Finance and banking company).</i></p> <p><i>“GDPR and its interpretation – I think that things are going very wrong and I think it is because some institutions are misinterpreting the EU law.” (Finance and banking company).</i></p> <p><i>“The decision to stop the capital market development.” (Finance and banking company).</i></p> <p><i>“The payday loan business and the way it has been working in Latvia – unfortunately, it pushed so many people out of the country and out of legal work.” (Manufacturing company).</i></p> <p><i>“Absence of higher education reform.” (Finance and banking company).</i></p> <p><i>“Sanctions against other countries have negatively affected our business.” (Service company).</i></p>
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Appendix 4. Answer to the question “Apart from Latvia, has your company also invested in the other two Baltic countries or Poland? If yes, is the proportion of investment that your company is investing in Latvia increasing or decreasing as compared to the investment your company is making in Estonia or Lithuania?”.

“As already mentioned, most of our investments are in Latvia due to the specificity of the manufacturing process. In addition, Latvia has been chosen as a financial hub for Baltic level management. Not planning on investing in Poland.” (Consultancy and IT company).

“We invest in Estonia and Lithuania, but not in Poland. No intentions to significantly increase the investments currently.” (Consultancy and IT company).

“Yes, we have invested in all three Baltic states, not Poland. But there is not much difference between the Baltic countries; basically there is a single policy for all the states. Latvian workers tend to take more sick days, but when they do show up for work they are great.” (Finance and banking company).

“Yes, we have entities in Estonia and Lithuania. In general, in Latvia business is the same size as in Lithuania. In general, the Lithuanian and Estonian public sectors spend more on consulting services, which allows business to develop.” (Professional assurance and advisory services company).

“We have invested in the other Baltic states. No investments in Poland, but we have invested in Russia. More investments in Lithuania, because the market is bigger for our business in Lithuania than Latvia.” (Retail trade and service company).

“We are investing in all three Baltic countries, we have a Baltic organisation. The same amount of investments across all three countries. In terms of IT/R&D centres, Estonia seems to be a better fit to invest in, because of the competence – digitalisation. You can acquire good specialists in Estonia, well educated. We have invested in Poland, but that is a historical investment, even before the Baltic states.” (Wholesale and retail company).

“We don’t have any investments in other countries.” (Service company).

“We have invested in Estonia where we have an IT company. Interestingly, in an Estonian company 80% of workforce is imported, these are not locals.” (Consultancy and IT company).

“Our parent company in Poland has purchased

“The investments in Lithuania, Estonia and Poland are governed from Latvia.” (Finance and banking company).

“We are everywhere basically where there is democracy and rule of law. Last year, we opened up a huge service centre in Poland, around 500 employees. One of the main reasons why we chose Krakow, Poland was because they have a large university, so there are a lot of people to choose from. Availability of labour is a very important aspect when making the decision of investing further somewhere.” (Professional assurance and advisory services company).

“In Poland – yes. In Lithuania and Estonia – no.” (Service company).

“Each investment is taken as an individual decision. We target all the Baltic countries. Lately, larger investment has gone to Lithuania.” (Retail trade and service company).

“The office operates in the global network and has network partners in both the Baltic states and Poland.” (Professional assurance and advisory services company).

“We invest in both Latvia and Estonia.” (Manufacturing company).

“We do not have anything in other countries.” (Service company).

“In Poland, we have invested more than in Latvia because of the high-quality labour available. Estonia is better placed due to their reputation in e-commerce and e-business.” (Professional assurance and advisory services company).

“Latvia is the most difficult market among the Baltic countries. Some areas – e.g. Riga municipality, are more similar to Ukraine and Russia than with the other Baltic countries.” (Finance and banking company).

“No plans to invest in other Baltic States, and no plans for Poland either. This might change in the future.” (Real estate company).

“Compared to other countries, the investment proportion in Latvia is getting smaller. Latvia proportionally is losing out to its neighbours.”

businesses in Lithuania and Estonia as well, we all operate separately focusing on individual markets.

The local heads of companies take care of the business side of things in each separate state.

Estonia is more advanced when it comes to digitalisation. For insurance companies, things have become more difficult since GDPR has been implemented. Latvia should develop the opportunity for companies to be able to sign digital contracts. Lithuania seems to be more dynamic in implementing changes, whereas Estonia has a better developed business culture.”
(Finance and banking company).

“We don’t have other investments in other Baltic countries, nor in Poland. We are only in Latvia.”
(Service company).

“In Poland.” (Real estate company).

“We have not, only in London. From a client’s point of view, I can state clearly, Estonia is the best place for investment in the three Baltics.”
(Finance and banking company).

“We haven’t invested in any other Baltic countries or Poland, so we can’t compare.” (Consultancy and IT company).

“All our investments started in 1992. We have just started investing a little bit more.”
(Manufacturing company).

“During the last year we have had some acquisitions in Estonia, Poland, Slovakia. In Latvia it is the status quo, because Latvia is losing out in its competitiveness to its neighbouring countries.” (Consultancy and IT company).

“We are now investing in Lithuania in our mineral water plant factory. We don’t have large investments in Latvia or Estonia. This is not because of anything specific in relations to the business climate in Latvia. It just worked out that way.” (Retail trade and service company).

“Recently we already invested 75 million in the Baltic Distribution Centre and, of course, we will continue. We have 7 construction projects; the 5th will be done very soon. The 6th project is the biggest and the most expensive one, the already mentioned Distribution Centre. We decided to build it in Riga because of the beneficial location, right in the heart of the Baltics.” (Retail trade and service company).

“Yes. Proportion of investment in Latvia is decreasing if compared to Lithuania; and remains at a similar level if compared to Estonia. Lower costs and lower market saturation in Lithuania,

(Finance and banking company).

“In Lithuania and Poland. We are increasing everywhere.” (Real estate company).

“We are investing in all three Baltics, but more in Latvia right now because our head office is in Riga. I think Latvia should take advantage and do more about promoting Riga. To compare, Lithuania is much more active in promoting Vilnius. So, certainly, Latvia should take advantage and promote Riga as a hub for the Baltics. It has not done enough in this area.”
(Real estate company).

“We have mostly invested in Latvia, we do not have any factories in Lithuania. We have very limited investments in Estonia, so not much to compare with there.” (Manufacturing company).

“Our company has invested in Poland more than we have invested in Latvia. Their economy is booming and there is internal demand because of the population – 40 million people. Also, there is easier access to resources. No plan to create production facilities in Estonia or Lithuania. Latvia is easily accessible and we have business traditions rooted in Latvia.” (Manufacturing company).

Yes, we have invested in Lithuania, Estonia and Poland. In Poland and Estonia, investments are higher, due to the specifics of our organisation. Investments in Estonia come from Finland; the Nordic countries see the Baltic countries as developing, more than Poland does. Coming from Scandinavian countries, the Baltics are a bigger priority for investors.” (Professional assurance and advisory services company).

“No. But neighbouring countries seem more efficient, practical and faster.” (Retail trade and service company).

“We have investments in all three Baltic states in equal amounts. The business culture in all three countries is very similar, understandable for us. We have to be in line with the business legislation. If there is a need and demand, then problems will be solved at government level.” (Wholesale and retail company).

“Yes, investment in all three Baltics. No major change.” (Wholesale and retail company).

“At this particular moment in time, we invest more in Latvia than in other neighbouring countries, but this is purely due to historic reasons in our area of operation.” (Retail trade and service company).

combined with their larger market size are the main reasons.” (Retail trade and service company).

“We do not operate in Poland. We did increase investment in Lithuania where we have a shared service centre. Latvia unfortunately lost this one to Lithuania.” (Finance and banking company).