

# FICIL SENTIMENT INDEX 2019

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



FICIL



SSE RIGA

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# ABOUT THE AUTHOR

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His academic research findings have appeared in journals such as Strategic Entrepreneurship Journal, Journal of business ethics, International Small Business Journal, Journal of Comparative Economics as well as books published by Springer, Routledge, Edward Elgar, IGI Global, Blackwell and Peter Lang. Arnis is extensively involved in applied research, including studies contracted by the European Commission, OECD, Eurofound and various banks, industry associations and NGOs. He is co-author of the Shadow Economy Index for the Baltic Countries.

# FOREWORD

**T**he FICIL Sentiment Index is a valuable opportunity to take a look at oneself from the side-lines. It is the opinion of nearly 50 investors about the business environment and tax system in Latvia, the government's efforts to improve these areas, and our 'Achille's heels', which we may not have yet noticed or paid enough attention to.

'Average' – it seems this is how we look in the eyes of foreign investors. The results of the report are not critical; however, these are not something we can be proud of or say that Latvia's full potential is revealed, and this is not the term I would wish to associate with Latvia, when thinking about entrepreneurs who are deciding where to invest in the long-term: here, or in one of our neighbouring countries.



Yes, this year has not been easy – investors are still facing challenges related to the availability and productivity of workforce; the reputation of Latvia's financial sector is being questioned. This is taking place at a time when both the global economy is slowing down and Latvia's economic growth rate is also forecast to be slower than the previous year.

One of the most important drivers of economic growth in this situation is the attraction of foreign investment. Latvia has attracted 1.1 billion euros in foreign investment over the last two years, while Lithuania has been able to attract twice as much (2.7 billion euros) and Estonia as much as 3.1 billion euros (Eurostat data, July 2019).

Of course, Latvia's competitiveness in this area is affected by many factors, some of which are beyond our control. However, we can act to make improvements. Therefore, in our annual meeting with Latvia's government in May 2019, FICIL highlighted a number of priorities for improving the business environment: increasing the availability of workforce, modernising the governance model of higher education institutions, ensuring stability of the financial system and rebuilding its reputation, as well as improving the efficiency of the public sector. These priorities are covered in more detail in the fifth consecutive FICIL Sentiment Index.

I am pleased that the results also show positive trends and, despite the above mentioned, more than half of the investors we surveyed (30 out of 47) revealed that they plan to increase their investments in Latvia. We, too, will continue to work with the government and relevant institutions to further real progress in improving the business environment and investment climate. This is FICIL's vision: to see Latvia as the most attractive country in the Baltic Sea region for running business.

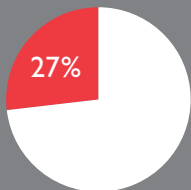
Let us all succeed together!

**Gunta Jēkabsons**  
Foreign Investors' Council in Latvia  
Chairperson of the board

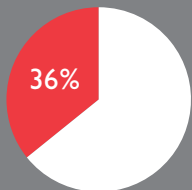
THE NUMBER OF  
COMPANIES ABOVE  
145K EUR TURNOVER  
AND 50% FOREIGN  
CAPITAL (MAJORITY)

# 3210

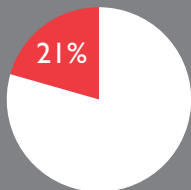
OR *1/7* OF TOTAL NUMBER OF COMPANIES IN LATVIA



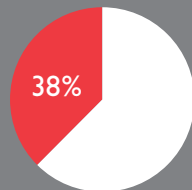
OF TOTAL  
SOCIAL TAX



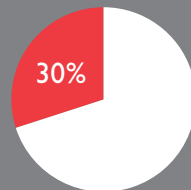
OF TOTAL  
TAXES PAID



OF TOTAL  
WORKFORCE



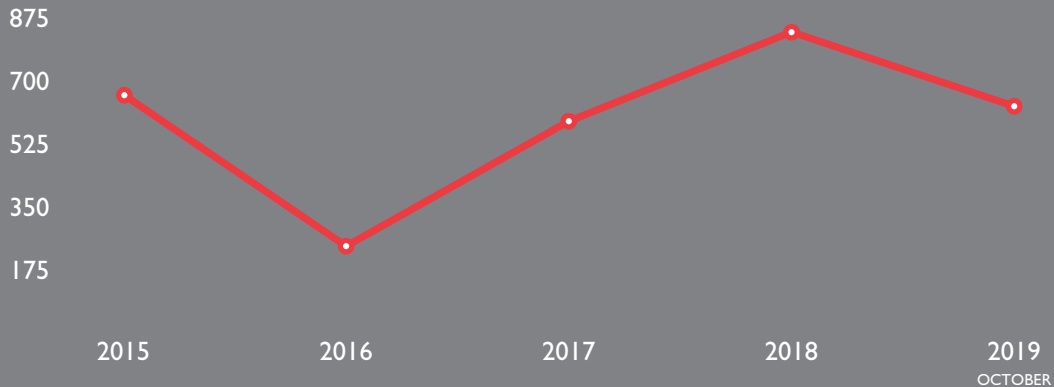
OF TOTAL  
TURNOVER



OF TOTAL  
PROFIT

# INFLOW OF FOREIGN DIRECT INVESTMENT IN LATVIA

MILLION EUR



# INTRODUCTION

The FICIL Sentiment Index was first launched in 2015 by the Foreign Investors' Council in Latvia (FICIL), in cooperation with the Stockholm School of Economics in Riga (SSE Riga).

This is the fifth FICIL Sentiment Index report, following the four previous reports written in 2015, 2016, 2017 and 2018. The key aim of the Index is to foster evidence-based policy decisions and 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.

As in previous studies, this report draws on a survey: mini case studies of foreign investors. From September to early November 2019, we interviewed 47 senior executives representing companies that are key investors in Latvia.

Altogether, these companies (including their subsidiaries) contribute to 23% of Latvia's total tax revenue, 9% of total profit and employ 11% of the total workforce of companies above a 145 000 EUR turnover and 50% foreign capital (data from Lursoft, 2018).



## FOCUS OF 2019 STUDY:



Do investors see progress with regards to policy initiatives to meet the main challenges as identified in previous studies?



How do investors evaluate governments' efforts and current policy initiatives aimed at improving the investment climate in Latvia?

## AREAS HIGHLIGHTED IN 2019 STUDY:



TAX  
SYSTEM



STABILITY OF THE  
FINANCIAL SECTOR



QUALITY OF  
HIGHER EDUCATION



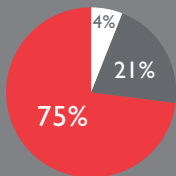
PRODUCTIVITY  
OF WORKFORCE

Category	Value
Revenue	120
Profit	85

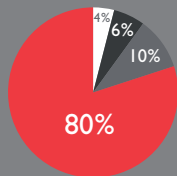


# KEY RESULTS

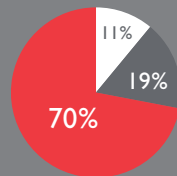
## FOREIGN INVESTORS' ASSESSMENT OF THE PROGRESS OVER THE PAST 12 MONTHS WITH REGARD TO THE KEY AREAS OF CONCERN AS IDENTIFIED IN THE PREVIOUS STUDIES: FINDINGS FROM 2019



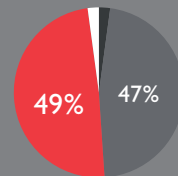
DEMOGRAPHY



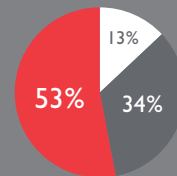
ACCESS TO LABOUR



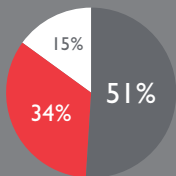
THE HEALTHCARE SYSTEM IN LATVIA



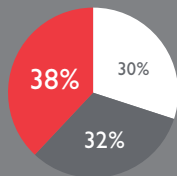
COURT SYSTEM IN LATVIA



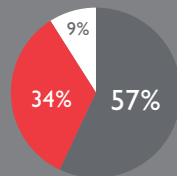
UNCERTAINTY



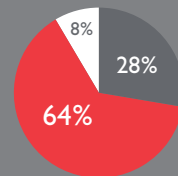
QUALITY OF THE BUSINESS LEGISLATION



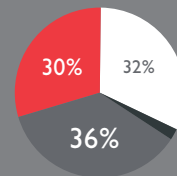
UNETHICAL / ILLEGAL BEHAVIOUR BY ENTREPRENEURS, UNFAIR COMPETITION



QUALITY OF THE TAX SYSTEM



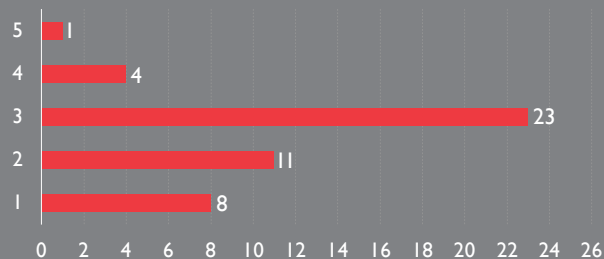
LEVEL OF EDUCATION AND SCIENCE



SUPPORT FROM THE GOVERNMENT AND COMMUNICATION WITH THE POLICY MAKERS

GOOD PROGRESS
  NO PROGRESS
  SOME PROGRESS
  N/A

## HAS THE INVESTMENT ATTRACTIVENESS OF LATVIA IMPROVED DURING THE PAST 12 MONTHS?



SCALE 1-5, WHERE '1' – INVESTMENT ATTRACTIVENESS HAS NOT IMPROVED AT ALL, '3' – THERE HAVE BEEN SOME POSITIVE IMPROVEMENTS, '5' – INVESTMENT ATTRACTIVENESS HAS IMPROVED SIGNIFICANTLY



Latvia is gradually maturing as a country and as a society.

WHOLESALE AND RETAIL COMPANY



If I had to make an investment decision now, I would choose Estonia because of its advanced digital environment. Lithuania has the biggest internal market. Latvia doesn't have strong advantages.

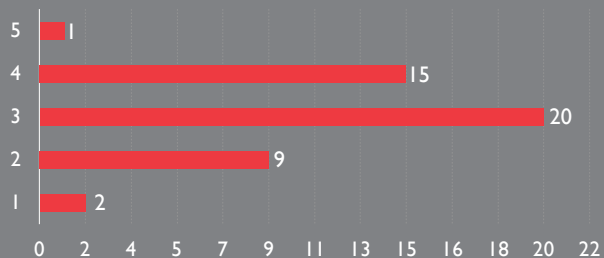
MANUFACTURING COMPANY



It may sound naïve, but I have a feeling that we now have a government which puts the interests of society above the interests of some small groups of political-businessmen.

WHOLESALE AND RETAIL COMPANY

## FOREIGN INVESTORS' ASSESSMENT OF POLICY MAKERS' EFFORTS TO IMPROVE THE INVESTMENT CLIMATE OVER THE PAST YEAR



SCALE 1-5, WHERE '1' – FAIL, '3' – AVERAGE' AND '5' – EXCELLENT



I have heard many good proposals from the government. Now we need to see some results.

RETAIL TRADE AND SERVICE COMPANY



We now have a good Saeima, a good government and an excellent State President. To me that's one hell of a good progress.

REAL ESTATE COMPANY



I don't get the feeling that policy-makers in Latvia are trying to attract new foreign investors to come to Latvia.

WHOLESALE AND RETAIL COMPANY



The current government, Prime Minister and State President are about values, not just political technology. However, the sudden excise tax war with Estonia was a stupid idea.

FINANCE AND BANKING COMPANY



## STABILITY OF THE FINANCIAL SECTOR

ASSESSMENT OF THE  
PROGRESS WITH REGARD  
TO THE EFFECTIVENESS  
OF COMBATING  
ECONOMIC AND  
FINANCIAL CRIME

3.2

Scale 1-5, where  
'1' means no progress and  
'5' – a lot of progress

“As a company dealing with financial operations on a global scale, we have had to prove our good reputation to the banks because of Latvia's recent situation in the financial and banking sector. We may not have been as much affected when a bank was shut down, but we have definitely experienced problems with opening bank accounts, making investments; we have had to explain all of our actions.”

CONSULTANCY AND  
ICT COMPANY

“A lot has been done at a very low level; a lot of the hygienic problems have been dealt with. Many companies didn't realise the seriousness of AML procedures, a reporting culture hasn't been fully installed.”

PROFESSIONAL ASSURANCE AND  
ADVISORY SERVICES COMPANY

“I do understand that changes were needed in the financial industry. We work with all of the large banks in Latvia. We have to fill out a lot of forms for the bank and re-submit the same information each quarter. This is not a huge problem, but it is definitely an inconvenience.”

WHOLESALE AND RETAIL COMPANY



“The current situation is scaring investors away. The regulators and banks are over-reacting. For example, in the shipping industry, a lot of ships and related companies are registered in offshores, and this is normal practice. However, Latvian banks do not want to understand this and are refusing to process any transactions. This makes business very hard in this industry. Businesses are unable to open a bank account. This is a huge obstacle for investors.”

RETAIL TRADE AND SERVICE COMPANY

“This is a painful topic. We understand we need to carry all of this out to avoid grey listing, but we have gone too far. This is limiting business growth now. We need a unified database that will have the necessary information on ultimate beneficiaries and other information, otherwise, the law imposes many obligations with no tool to carry these out. Now each bank has its own rules, clients are not happy, banks are not happy.”

REAL ESTATE COMPANY

“Although we fully support the compliance requirements, in practice we also see bureaucratic and overcomplicated standardised procedures applied by the banks to formally comply with all the requirements e.g. to identify a beneficiary of the client etc, at the same time not being able to reasonably handle a situation, if the particular case differs from a standard, which unfortunately suggests that on many occasions compliance with the form (procedures) is above the contents of the particular compliance requirement.”

SERVICE COMPANY



## STABILITY OF THE FINANCIAL SECTOR

“With the CPCB functioning properly, it has become apparent that the Prosecution Office is the weak link in the justice system. This should be improved.”

RETAIL TRADE AND SERVICE COMPANY

“Generally speaking, we are on the right track. FIU is doing a good job. However, the progress has to be communicated both internally in our country and internationally. We often lack this component.”

CONSULTANCY AND ICT COMPANY

“The overseeing of the SMS/fast lending industry is ridiculous. This industry should be supervised by the same regulator as the banks. They should face much stricter requirements.”

CONSULTANCY AND ICT COMPANY

“There should be a clear focus on investigating, prosecuting and adjudicating large-scale crimes, which would bring the biggest effect. This includes criminal investigations and prosecutions against individuals behind large-scale cases.”

FINANCE AND BANKING COMPANY

“I think the public institutions have to be more proactive in terms of explaining the regulatory requirements and providing guidelines. Otherwise each bank has its own interpretation, which is slightly different, and this creates a lot of confusion and inefficiency.”

PROFESSIONAL ASSURANCE AND  
ADVISORY SERVICES COMPANY

“We understand that changes were needed in Latvia’s financial industry. We also know that we need to do everything to keep Latvia off the grey list. However, when that is accomplished, the first thing we need to do is to readjust the AML/KYC regulation and make it proportionate. When we evaluate a client, currently the AML/KYC risks are more important than credit risks. This is not a healthy situation. Everyone is afraid of their own shadow.”

FINANCE AND BANKING COMPANY

“We have to squeeze through the Moneyval pinhole, no question about it. But we also have to find a way to make the banks friendlier to businesses. We are a very open and export-driven economy. If banks are refusing transactions which involve non-domestic partners, it is a very serious obstacle for any exporter, especially those companies, which are doing business outside the EU. In our case, the rigidity of banks is hurting the business more than the challenges of finding enough workforce.”

REAL ESTATE COMPANY



## QUALITY OF HIGHER EDUCATION

“Infrastructure is now in an excellent shape (LU, RTU campuses). Now universities have to focus on a much more challenging task: improving the quality of higher education.”

RETAIL TRADE AND SERVICE COMPANY

“The education system lacks an economic mindset and endeavours for efficiency. It also lacks vision: what are our strengths and our priorities, where are we investing?”

RETAIL TRADE AND SERVICE COMPANY

“53 universities in Latvia – sounds bonkers. I question the rigor of university qualifications, if you can have so many universities with a small number of professors, who are overworked and students working and studying at the same time.”

SERVICE COMPANY

“The governance structure of our universities is absurd, and it raises the question: why do universities exist – for students and development purposes, or for the comfort of professors? At least the new generation of politicians have ambitions to change this.”

FINANCE AND BANKING COMPANY

“We have far too many universities. I feel that there is a certain circle of people who are standing in the way of progress and excellence in universities, because they are afraid that they are uncompetitive. Which they are. We have to get rid of them.(...)”

RETAIL TRADE AND SERVICE COMPANY

“One of the main problems - the content of education does not correlate with the needs of business.”

SERVICE COMPANY

“Currently Latvia’s higher education system is outdated and there is low quality education, that is relatively inexpensive. There is a need to attract international, well-known universities to open branches in Latvia, reduce the number of state-run universities, thus providing quality rather than quantity, improve the salaries of teachers and lecturers, expect more from lecturers and introduce more guest and international lecturers.”

RETAIL TRADE AND SERVICE COMPANY

“We are much too afraid to attract foreign faculty staff for universities. Also, something is not right with the primary education. How are we supposed to fill 3000 engineering vacancies if only 220 pupils per year take a physics exam when they graduate high school?”

CONSULTANCY AND ICT COMPANY



## QUALITY OF HIGHER EDUCATION

“(…) The higher education system needs to be dynamic and modern. Once the system is dynamic, structural changes will happen relatively quickly. Higher education institutions need to be able to react more quickly to changes around them. People need to focus on their areas of strength – if you’re good at teaching, then teach, if you’re good at managing, then manage. We need to escape the middle-income trap. We need to realise and understand the necessary changes internally, we need to communicate these externally, and we need to adapt the education system accordingly.”

PROFESSIONAL ASSURANCE AND  
ADVISORY SERVICES COMPANY

“We have to change the methods of how we teach and involve the students. The content should be modernised as well. Anyone who has had the opportunity to see how the best schools work will say that the way in which they teach and interact with students is totally different. In many ways the content is the same, but the methods of teaching are what makes the difference.”

FINANCE AND BANKING COMPANY

“Academic education in Latvia is very good. However, it seems that the university curriculum lacks a practical component. As a consequence, after hiring a university graduate, the employer has to put in a lot of training before the employee is able to reach optimal productivity.”

CONSULTANCY AND ICT COMPANY

“Reduce the number of universities, change the rigor of courses and increase the value of degrees.”

SERVICE COMPANY

“Start changes with the higher education institution governance reform, and move on to the financing model. Talent needs to remain in Latvia, fewer people will leave the country, meaning more people will choose to build their careers in Latvia: we need to look at attracting the “stars” here – in academia and in local businesses.”

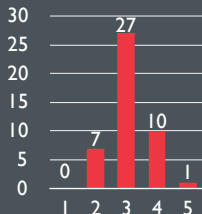
PROFESSIONAL ASSURANCE AND  
ADVISORY SERVICES COMPANY



## TAX SYSTEM

### ASSESSMENT OF THE PREVIOUS TAX REFORM

3.1



Scale 1-5, where  
'1' – very unsuccessful,  
'3' – average and  
'5' – very successful

“Progressivity of labour tax rates is the right decision, however, the threshold is quite high and therefore progressivity is rather symbolic.”

RETAIL TRADE AND SERVICE COMPANY

“Our tax system is still less competitive in comparison with Lithuania and Estonia. If the salary is, for example, EUR 1500, after taxes the employee in Latvia gets the least amount of money in the bank account.”

CONSULTANCY AND ICT COMPANY

“It is not acceptable that policy-makers announce significant changes in several taxes only 2– 3 months before their implementation and at the beginning of the next financial year.”

MANUFACTURING COMPANY



“The tax system has become more complicated. No big improvements or mistakes from our perspective.”

WHOLESALE AND RETAIL COMPANY

“12 months after the changes were introduced, it was still unclear how some of the new requirements should be applied. There was too much room for interpretation and no clear guidelines from the Ministry of Finance or SRS. That is not good.”

RETAIL TRADE AND SERVICE COMPANY

“For us predictability is very important. We heard promises from the government that after the previous tax reform, the system would be left in peace for a few years. However, now there are sudden adjustments on unemployment benefits.”

CONSULTANCY AND ICT COMPANY

“The recent change in the Corporate income tax law has generated both positive and negative impacts – reinvested profit boosts development, but decreased support to the NGO sector from business can also create long-term damage to some industries.”

MANUFACTURING COMPANY



## TAX SYSTEM

“My main concern is the stability of the system. There shouldn't be changes each year. The ideal situation would be to adjust taxes once every five years.”

CONSULTANCY AND ICT COMPANY

“Availability of workforce is a very worrying issue. In the next set of tax adjustments, we should think how to address this issue from a tax perspective by motivating people to become involved in the job market and remove obstacles for bringing in workers from other countries.”

RETAIL TRADE AND SERVICE COMPANY

“Simplify the personal income tax. I am in favour of progressive tax. The current progressivity doesn't really work in real life. Low wage earners are not benefiting from it and high wage earners haven't lost anything.”

RETAIL TRADE AND SERVICE COMPANY

“I think we should continue to shift the tax burden from labour to property and consumption. My guess would be that those people, who are buying luxury cars and apartments are not the same people, who are paying the solidarity tax.”

REAL ESTATE COMPANY

“Combating tax avoidance is very important. There are still industries in Latvia where your competitive edge is not determined by the quality of your product or service, but whether or not you pay taxes. This is unacceptable.”

FINANCE AND BANKING COMPANY

“You should liquidate the micro-company tax regime. It is distorting the market and competition.”

RETAIL TRADE AND SERVICE COMPANY

“The SRS should prioritise and focus their activities on riskier businesses, and put more trust into honest taxpaying companies.”

RETAIL TRADE AND SERVICE COMPANY

“I was hoping to see more being done on minimising inequality, the discussion is taking place, however not much action has been taken. People who have a larger tax burden based on their income; not much has been done to change that. Everything aimed at minimising inequality would be the right step.”

PROFESSIONAL ASSURANCE AND  
ADVISORY SERVICES COMPANY



## PRODUCTIVITY OF WORKFORCE

“The extent to which policy-makers can contribute to improving productivity, I think, is very limited and indirect. Companies know best what new technologies they need and to what extent they can automate processes. As a country, we do have a good number of production businesses, but we don’t have many R&D centres yet. Improvements in higher education could help us to be more successful in competing for R&D centres.”

FINANCE AND BANKING COMPANY

“There are huge problems with availability of labour, productivity, predictability. These issues need to be addressed. The Government needs to be more connected with the business environment.”

CONSULTANCY AND ICT COMPANY

“The job market is very tough. One way or another, we need to bring in workers from abroad. There is a limit to how much we can grow with the labour resources we have. Also, there is a limit to how much we can invest in new technologies and reasonably expect it to pay off. Bottom line – we need more workers.”

RETAIL TRADE AND SERVICE COMPANY

“Labour costs are growing much quicker than productivity.”

RETAIL TRADE AND SERVICE COMPANY

“In the public sector, introduction of principles like ‘consult first’ is a step in the right direction. It will improve the dialogue between regulatory and supervision institutions and their subjects, as well as improve efficiency in these institutions.”

RETAIL TRADE AND SERVICE COMPANY

“We need to re-evaluate the efficiency and the build-up of the public sector, including salaries, so we can attract the best and brightest to work for our country.”

PROFESSIONAL ASSURANCE AND  
ADVISORY SERVICES COMPANY

“The public sector has to introduce robotics and automation solutions as well. (...) There are a lot of routine processes in the public sector which should be reviewed with a clear focus on the outcome. In a lot of cases the outcome is inadequate or no longer relevant.”

MANUFACTURING COMPANY

“Municipality reform should bring improvements to public sector efficiency, if it is done properly. It could even free up some of the workforce for businesses.”

RETAIL TRADE AND SERVICE COMPANY



## PRODUCTIVITY OF WORKFORCE

“On an individual level, policy-makers could work on developing the skill sets of workforce. This could be done through better education. Further improvements in productivity could be reached through developing better infrastructure, promoting diversity, reviewing labour regulation.”

RETAIL TRADE AND SERVICE COMPANY

“False sick-leave certificates are a huge problem. We have production companies where 1/3 of workforce is on sick leaves. It is theft and corruption, we have to eradicate it at all levels.”

REAL ESTATE COMPANY

“We have to think much more about re-educating and re-training our workforce to help them be competitive in the fast-changing job market. Digital technologies have to be much higher on the priority list of the government. Currently this responsibility is within the Ministry of Environment and Regional Development, which is ridiculous.”

PROFESSIONAL ASSURANCE AND  
ADVISORY SERVICES COMPANY

“We have to pay adequate salaries. Do a functional audit. The public sector has to become service-oriented.”

FINANCE AND BANKING COMPANY

“The labour market is shrinking, demographic trends are negative. As a country we have been very closed in terms of inviting people from other places to come and live here. Maybe this policy used to work before, but currently it is hurting the economy. We need to be able to bring in more people, so companies can have more workers and more clients. We have to become more open. We are too small to be alone.”

CONSULTANCY AND ICT COMPANY

“We have twice as many employees in our public sector than Estonians. We don’t have twice as many people as Estonia. Now is the best time to downsize the public sector, because the private sector will welcome them with open hands.”

WHOLESALE AND RETAIL COMPANY

“We have to submit very similar information to different state institutions, for example, the SRS and Statistics Bureau. I think state institutions should find a way to cooperate with each other so that the info we give to the SRS can be used by other institutions as well.”

RETAIL TRADE AND SERVICE COMPANY

“Number one – education. Concentrate your resources and go for quality. Number two – smart immigration. It is currently very problematic to bring in workforce from other countries. And when you do, no bank will take them as clients. Number three – digitalise and automate.”

CONSULTANCY AND ICT COMPANY

# IMMINENT CHALLENGES



QUALITY OF  
LEGISLATION



FAIR COMPETITION AND  
SHADOW ECONOMY



DEMOGRAPHY  
AND HEALTHCARE



VISION FOR  
LATVIA



QUALITY OF  
LEGISLATION

“We need a predictable environment, which would allow us to plan in the long-term. We should avoid rush and sudden changes in the tax system. The government should consult businesses in a constructive way.”

MANUFACTURING COMPANY

“In the process of developing public policies in our industry, the analytical part, sadly, is very weak. This is a big problem. State policies often lack proper impact assessments and ex-post assessments. In many cases market players have to fulfil this role, which is the wrong approach.”

RETAIL TRADE AND SERVICE COMPANY

“Many companies finalise their next year budgets in September-October. Meanwhile, the State budget is approved in November-December, and it often includes tax adjustments. For this reason, many companies have to change their plans after state budget is approved. The business community would appreciate it if the government could do its budgetary planning in a timelier manner.”

PROFESSIONAL ASSURANCE AND  
ADVISORY SERVICES COMPANY





## FAIR COMPETITION AND SHADOW ECONOMY

“The micro-company tax regime and similar ‘light’ tax regimes are products of the previous financial crisis. They have served their purpose and should now be liquidated. The micro-company regime is distorting the business environment and fair competition. Moreover, they are also undermining the economic welfare of people who use this regime in the long run, because their pension capital will be insufficient.”

FINANCE AND BANKING COMPANY

“We need very clear signals that unethical behaviour such as corruption or avoiding taxes is no longer acceptable, and honest and transparent business is appreciated.”

FINANCE AND BANKING COMPANY

“As a country we have reached the level where we can actually promise foreign investors a level playing field and fair competition. However, sometimes this does not prove to be true. We need to give assurances that if businesses do encounter unfair competition or corruption, these issues will be dealt with swiftly and professionally.”

PROFESSIONAL ASSURANCE AN  
ADVISORY SERVICES COMPANY

“Enforcement is improving, but the culture (avoid taxes, bribe, cheat, etc.) hasn’t changed yet.”

RETAIL TRADE AND SERVICE COMPANY



## DEMOGRAPHY AND HEALTHCARE

“Investment in the healthcare system is essential. We need a healthy workforce to sustain the economic development, especially since we know that all of us will have to work longer before we can retire. We need evidence-based policymaking in the health system.”

WHOLESALE AND RETAIL COMPANY

“Everybody knows that the demographic situation is bad, but nobody seems to know what to do about it. It feels like we are giving up.”

RETAIL TRADE AND SERVICE COMPANY

“Insufficient financing in healthcare, lack of reforms. The situation is partly rescued by private medical services, which are developing quickly, but they are not affordable for the majority of our society.”

RETAIL TRADE AND SERVICE COMPANY

“Good progress in terms of re-emigration. No progress in the birth rate.”

FINANCE AND BANKING COMPANY



## VISION FOR LATVIA

“Certainty and stability are crucial values for investors, as they create trust. We must remember that broken promises will make investors reluctant, and we cannot expect them to keep on investing, not knowing if any changes will be implemented, or if the policy will take an unexpected turn for the worse.”

PROFESSIONAL ASSURANCE AND ADVISORY  
SERVICES COMPANY

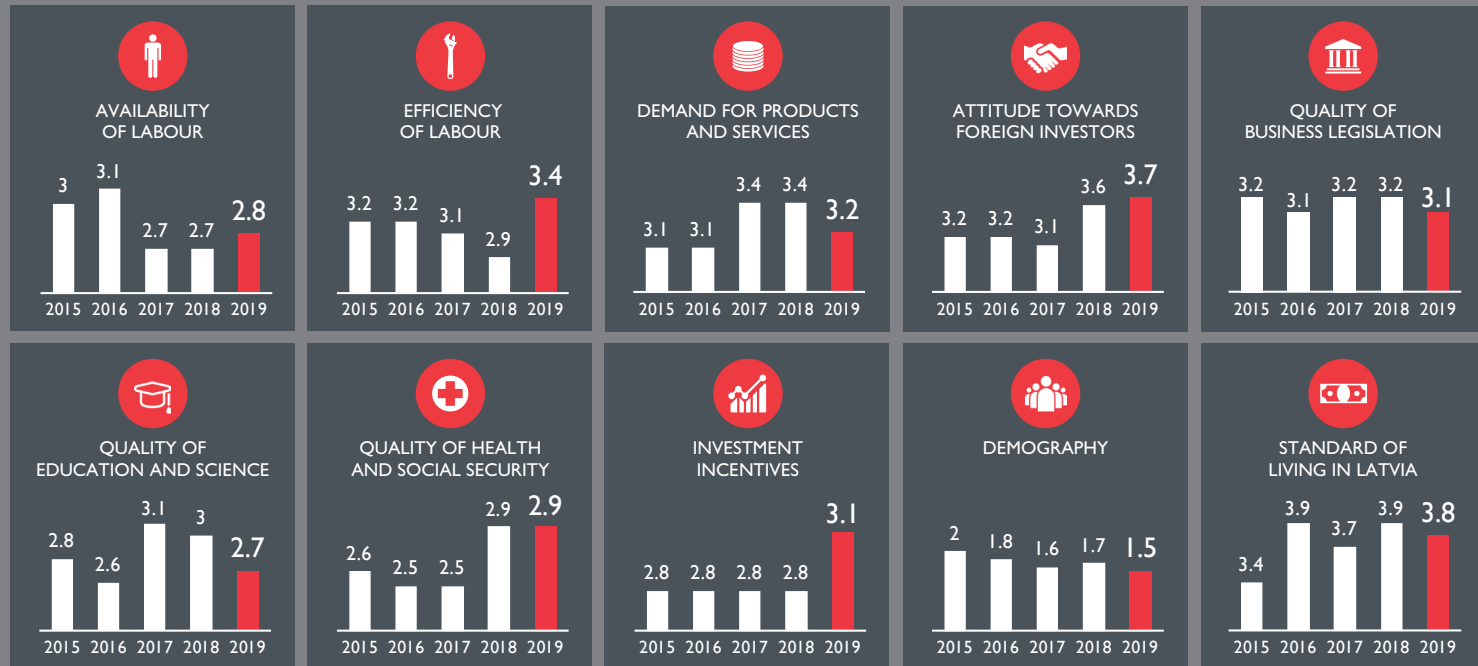
“We need to have a clear strategic focus for our country: what is our plan, what do we want to achieve, what are our strengths? Otherwise, from the outside we appear uncoordinated and chaotic. It is easier to follow if there is a clearly defined target.”

CONSULTANCY AND ICT COMPANY

“We have to work with Latvia’s image. Estonia has done an excellent job of marketing itself as an IT country, but if you look below the surface, actually, in many areas we are ahead of them. Lithuania has been very successful in positioning itself as a country for shared services centres. What is our profile?”

PROFESSIONAL ASSURANCE AND  
ADVISORY SERVICES COMPANY

# FOREIGN INVESTORS' ASSESSMENT OF THE POTENTIAL DRIVERS OF ECONOMIC COMPETITIVENESS OF LATVIA



SCALE 1-5, WHERE '1' REPRESENTS LOW COMPETITIVENESS AND '5' REPRESENTS HIGH COMPETITIVENESS



## DIGITALISATION

### ASSESSMENT OF ECONOMIC COMPETITIVENESS IN DIGITALISATION

3.4

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

“Productivity needs to be taught in the public sector as well. Are the public sector officials capable of adapting to digitalisation and use new technology, rather than just reproducing the same processes that they have for the past 10 or 20 years?”

PROFESSIONAL  
ASSURANCE AND  
ADVISORY SERVICES  
COMPANY

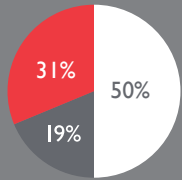
“We are working in this direction, but the majority of work is still ahead of us. We are now launching 5G technology. If previous generations have mainly changed the behaviour of customers, this technology will mainly change the behaviour of industries, and it will drive a new wave of innovation.”

CONSULTANCY AND ICT COMPANY

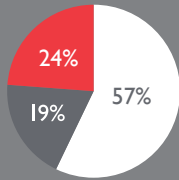
“For our company, automation and digitalisation solutions are important, not just because the job market is tight, but also because labour costs are increasing. Digital solutions boost efficiency. We are working on artificial intelligence, software robotics and other solutions. In Latvia, we have a shared services centre with approximately 200 people who are providing IT solutions to all 25 countries within our group.”

PROFESSIONAL ASSURANCE AN  
ADVISORY SERVICES COMPANY

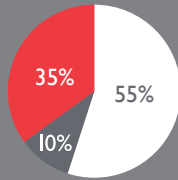
# FURTHER INVESTMENT PLANS



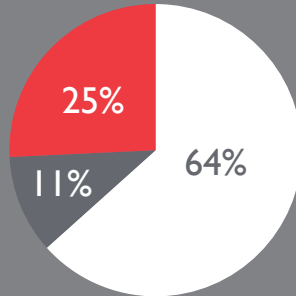
2016 (N=32)



2017 (N=42)



2018 (N=40)



2019 (N=47)

- YES, WE PLAN TO INCREASE INVESTMENT
- NO, WE DO NOT PLAN TO INCREASE INVESTMENT
- NOT DECIDED, DEPENDS ON CIRCUMSTANCES OR NO NEED



## YES, WE PLAN TO INCREASE INVESTMENT



Several tens of millions of euros in the next three years.

MANUFACTURING COMPANY



We continue to invest, looking to grow the company, but nothing significant. An ongoing matter – we invest 5-6 million euros a year to upgrade our business.

SERVICE COMPANY



We are preparing for a huge investment. Our industry is tightly connected with the progress of technologies. During the next cycle (5G) we will invest hundreds of millions of euros.

CONSULTANCY AND ICT COMPANY



## NO, WE DO NOT PLAN TO INCREASE INVESTMENT



All of our investment funds are at a stage where we are not considering new projects. However, we are doing the groundwork for the next cycle of new projects.

REAL ESTATE COMPANY



No plans at the moment.

CONSULTANCY AND ICT COMPANY



No, not in Latvia. (...) Latvia is not a desirable market.

CONSULTANCY AND ICT COMPANY





## NOT DECIDED, DEPENDS ON CIRCUMSTANCES OR NO NEED

The planned capital investment in the next 5 years exceeds 60 million euros, however, before the final investment decision, the current investment climate, significantly increased uncertainty, a lack of clear and reliable long-term national plans (development, climate, waste management plants etc.), as well as the tax situations and the latest developments thereof will need to be carefully assessed again and may impact upon the investment decision.



SERVICE COMPANY



If geopolitical conditions improve, we could invest more in the future.

SERVICE COMPANY



We are planning currently, but everything depends on the available projects, the tax system and fair competition.

REAL ESTATE COMPANY

# COMPANIES THAT TOOK PART IN THE STUDY



ALTOGETHER, THESE



COMPANIES (INCLUDING  
THEIR SUBSIDIARIES)  
CONTRIBUTE TO\*

23%



OF TOTAL  
TAX REVENUE

9%



OF TOTAL  
PROFIT

11%



OF TOTAL  
WORKFORCE

\*CONTRIBUTION AS COMPARED TO COMPANIES ABOVE A 145000 EUR TURNOVER AND 50% FOREIGN CAPITAL, SOURCE: LURSOFT, 2018

Foreign Investors' Council in Latvia (FICIL ) is a non-governmental organisation that brings together the largest foreign companies in Latvia, the foreign chambers of commerce and the Stockholm School of Economics in Riga.

FICIL actively searches for and proposes solutions to improve and develop the business and investment environment in the country in cooperation with the Government of Latvia.

Full FICIL Sentiment Index report available at

[www.ficil.lv](http://www.ficil.lv)



Government of the  
United States



Iceland  
Liechtenstein  
Norway grants



Norwegian Embassy