



# **FICIL Sentiment Index 2015 - 2019**

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

**Arnis Sauka**



FOREIGN INVESTORS  
COUNCIL IN LATVIA

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## Foreword

The 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 Jēkabsone  
Foreign Investors' Council in Latvia  
Chairperson of the board

## Executive Summary

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), to foster evidence-based policy decisions and promote a favourable investment climate in Latvia. This is the fifth FICIL Sentiment Index report, following the four reports written in 2015, 2016, 2017 and 2018.

The key aim of this report is to address the following issues: (i) How do investors evaluate the government's efforts and current policy initiatives aimed towards improving the investment climate in Latvia? and (ii) To provide an in-depth exploration of the main challenges and concerns for the foreign investors, both by identifying problems and offering solutions. As in previous studies, this report draws on a survey: mini case studies of foreign investors in Latvia. 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 the 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).

The results of the 2019 study suggest that, even though the assessment of foreign investors with regard to the investment attractiveness of Latvia and the work of policy-makers to improve the investment climate in Latvia is still on the level of 'average', it shows some positive tendencies. Namely, on a scale from 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 2019 was evaluated as '2.6' ('2.5' in 2018 and 2017). Furthermore, in both the 2017 and 2018 studies, using a scale of 1-5, where '1' and '2' were fail and '5' was excellent, investors scored the policy-makers' efforts to improve the investment climate in Latvia at '2.9', whereas in 2019 it was '3.1'.

Similarly to the previous years, foreign investors were asked to assess the investment climate in Latvia, as well as evaluate whether there has been any progress within the key areas of concern as identified in 2015. The results of the most recent study suggest that *demography* is still a key challenge. Namely, on the scale from 1-5 (where '1' means that the indicator is not competitive and '5' means that the indicator is very competitive for the investment climate in Latvia) investors assessed the demographic situation of Latvia with only '1.5' in 2019. Furthermore, as many as 35 (out of 47) foreign investors stated that they have not seen any progress in this area over the past 12 months.

According to the viewpoints of the foreign investors in Latvia, *quality of education and science*, and *availability of labour* are also among the key areas of concern. On a 5-point scale, the quality of education and science was evaluated with '2.7' in 2019 ('3.0' in 2018, '3.1' in 2017) and 30 out of 47 investors interviewed have seen no progress in the development of education and science in Latvia over the past 12 months. Availability of labour, however, was evaluated with '2.8' in 2019 ('2.7' in 2018 and 2017); investors scored *availability of blue-collar labour* with '2.4' in 2019 ('2.3' in 2018, '2.5' in 2017) and *availability of labour at management level* with '3.1' ('3.0' in 2018, '2.9' in 2017). The majority, i.e. 39 of 47 investors have also seen no progress with regard to the access to labour during the past 12 months. In this context, however, it should be emphasised that efficiency of labour is increasing in Latvia, according to foreign investors: in 2018 it was assessed with '2.9', yet in 2019 investors evaluated the efficiency of labour in Latvia with '3.4'

out of 5.

*Quality of health and social security* is yet another indicator of the competitiveness of the investment climate in Latvia that has been evaluated below '3.0': '2.9' in 2019 ('2.9' in 2018, '2.5' in 2017 and 2017). 33 of 47 investors have seen no progress with regard to improvement of the *healthcare system in Latvia* over the past 12 months. *Quality of business legislation*, however, was evaluated with '3.1' in 2019 ('3.2' in 2018 and 2017). The results of the FICIL Sentiment Index also suggest that, according to foreign investors, *attitude towards foreign investors* is gradually improving in Latvia: from '3.2' and '3.1' in 2016 and 2017 to '3.6' in 2018 and reaching '3.7' in 2019. The overall *standard of living* is evaluated as '3.8' in 2019 which is a similar level to the previous three years.

The foreign investors in Latvia who took part in the 2019 study also expressed an expert opinion with regard to whether there has been any progress during the previous 12 months in the other areas of concern. In this light, the progress of *uncertainty* should be highlighted, since as many as 25 (out of 47 investors) have seen no progress in this area, 16 have seen partial progress and 6 stated that there has been progress in reducing uncertainty. The *court system of Latvia* is another area where many foreign investors have seen no progress, i.e. 22 said 'no progress', 23: 'partial progress' and only 1 that there has been progress in the development of the court system in Latvia.

Apart from assessing the investment climate in Latvia (scale 1-5) and evaluating the progress within the key areas of concern, investors also commented on each of the areas that are of major importance to the overall investment climate in Latvia. These comments are provided in the report in the form of quotes. We strongly recommend that policy-makers in Latvia consider these opinions and take them into consideration in their efforts to further improve Latvia's investment climate.

In the 2019 study we also initiated an in-depth exploration related to four key issues of concern discussed between foreign investors and Latvia's government during the FICIL High Council 2019 spring meeting. These are: (i) tax system, (ii) stability of the financial system, (iii) quality of higher education and science, and (iv) productivity of workforce. Foreign investors were asked to comment on the current situation and whether progress has been made over the past years, as well as to provide suggestions to the policy-makers in order to improve the situation in the particular area.

The recent past and near future of the *tax system in Latvia* was among the most discussed topics during the 2019 FICIL High Council meeting. The most recent tax reform was implemented in 2018, and the newly elected government has announced that the next reform will take place in 2021. Therefore, this year we asked investors to evaluate the results of the previous tax reform in Latvia. We also asked investors to comment on whether the recent tax reform has brought any benefits to their company and the overall economy of Latvia. On average, foreign investors scored the results of the previous tax reform in Latvia with 3,1, i.e. slightly above the average.

Overall, at least one part of the foreign investors who took part in the 2019 studies highlighted that the previous tax reform was a step 'in the right direction'. In particular, the zero-rate on reinvested profit was highlighted by a large number of investors as a very positive improvement. In some cases investors also praised the progressivity of labour tax rates. However, a number of foreign investors highlighted that the tax system has actually become more complex after the reform. Investors also expressed suggestions for further steps to improve the tax system in Latvia, and these are as follows:

*Avoid uncertainty.* Stability and predictability of the tax system is what the majority of the foreign investors wish to see. In essence, this means fewer changes to the tax system.

*Simplify and explain.* Investors highlight that paying taxes should be a “simple task” and easy to understand. According to the viewpoints of foreign investors, there is also the potential for improvement with regard to how the responsible organisations, such as the State Revenue Service, communicate changes in the tax system to the private sector.

*(Continue) the shift from taxing labour to consumption.* Some of the investors that took part in the 2019 studies see that the process has been initiated by the previous tax reform and recommend continuing in this direction.

*Stability of the financial sector in Latvia* was another topic that was discussed both during the FICIL High Council meeting 2019, as well as throughout the year. To address this issue, we first asked foreign investors to assess the progress with regard to the effectiveness of combating economic and financial crime in Latvia. On average, foreign investors evaluated the progress with regard to the effectiveness of combating economic and financial crime in Latvia as above average, i.e. with 3.2. We then asked foreign investors whether they have felt any negative effects on their companies with regard to the situations in the financial sector over the past 2 years. We received some positive opinions, yet the negative ones prevailed. Namely, foreign investors highlighted the reputation risks of Latvia that often impact upon the operation of their companies and create challenges when working with foreign banks. The quotes that have been provided in the report speak for themselves and we hope policy-makers in Latvia will consider them when working further on the development of the financial sector in the country.

Another topic that was intensively discussed during 2019 by FICIL experts was the *quality of university education and science in Latvia*. Hence, foreign investors were asked to reflect upon whether they were aware of any activities that policy-makers have carried out during the past year to improve the situation. On a positive note, a number of investors mentioned the recent development of the University of Latvia and Riga Technical University’s campuses in Torņakalns and Ķīpsala, as well as the project in IT and business studies, which was jointly implemented by Riga Business School, the Finance Latvia association and the government. Some investors also highlighted that the reform, as initiated by the Ministry of Education and Science, to change the governance model of higher education institutions, was a good step towards improving the quality of higher education and science in Latvia. However, we also received a number of negative opinions, such as “Nothing has been accomplished, just talking”.

Asked “What changes would you suggest to improve the quality of education and science in Latvia and why? How would this help the business environment, e.g. companies such as yours?” foreign investors emphasised the following:

*Higher education (and science) is too local, fragmented and outdated.* In essence, investors have pointed out that there are simply too many higher education institutions in Latvia, that they work with outdated methods and are afraid (with no good reason) to open up internationally - also by attracting top quality foreign staff.

*Change the governance of higher education institutions in Latvia* is another strong request from foreign investors in Latvia. Many investors believe that changes in the financing model should also follow.

*Improved connection between education and science and the world of business* was yet another important aspect which was highlighted during the FICIL Sentiment Index 2019 interviews, but also strongly emphasised in the previous studies.

The issue of *productivity of workforce in Latvia* has also been widely discussed throughout the year. It was also emphasised during the FICIL High Council meeting and thus we paid particular attention to this topic in this report. In most cases, investors responded that they were not aware of any activities by policy-makers to improve the overall level of workforce productivity in Latvia.

We further sought investors' opinions on what policy-makers could do to improve the productivity of workforce, as well as to suggest the main priorities - activities that policy-makers should implement in Latvia. Flexible solutions for attracting foreign workers, further improvement of life-long learning programmes, adjusting to digital transformation, as well as improving the overall education system were the key factors highlighted in this regard. Foreign investors also suggested what should be done by the policy-makers to improve productivity of workforce in the public sector. The main suggestions included paying adequate salaries, introducing digital solutions, as well as improving communication between various state organisations. In many cases, investors also expressed an opinion that the municipal reform would play a positive role in improving the efficiency of the public sector.

Finally, we also asked investors "Is your company working on digital solutions to reduce the negative effects of workforce shortage in the job market?" As exemplified by quotes that are provided in this report, the answer was mostly "yes, we are".

Asked whether, and under what conditions, investors plan to increase their investments in Latvia, as many as 30 of the 47 investors interviewed answered with 'yes' (in the 2018 study 22 of 40 interviewed answered with 'yes'), 12 said 'no' (14 in the 2018 study) and 5 answered that 'it depends on the circumstances' (5 in the 2018 study) or that they have not yet decided.

Finally, we invited foreign investors 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 address them. These messages, similarly to the findings of the 2019 FICIL Sentiment Index study, also highlight the need to continue policy-makers' efforts to improve the investment climate in Latvia. We hope that, similarly to the four previous reports, this report will 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 is improved. We also hope that it will continue to foster further constructive communication between foreign investors and the government of Latvia.

## Table of Contents

<b>1. Introduction and methodology</b>	<b>9</b>
<b>2. Attractiveness of the investment climate in Latvia</b>	<b>11</b>
<b>3. Assessment of the work of Latvian policy-makers: what has been done to improve the investment climate in Latvia during the previous year?</b>	<b>13</b>
<b>4. FICIL Sentiment Index 2015-2019</b>	<b>15</b>
<b>5. Key challenges faced by foreign investors in Latvia: progress or regress?</b>	<b>19</b>
<i>Demography</i>	20
<i>Access to Labour</i>	21
<i>Level of Education and Science in Latvia</i>	21
<i>Quality of the Business Legislation</i>	21
<i>Quality of the Tax System</i>	22
<i>Support from the Government and Communication with Policy-makers</i>	22
<i>Unethical or Illegal Behaviour by Entrepreneurs, Unfair Competition</i>	22
<i>Uncertainty</i>	23
<i>The Court System in Latvia</i>	23
<i>The Healthcare System in Latvia</i>	24
<b>6. In-depth discussions on four challenges of major concern to foreign investors: problems and solutions</b>	<b>24</b>
6.1. Tax system in Latvia	24
6.2. Financial sector stability in Latvia	31
6.3. Quality of higher education in Latvia	37
6.4. Productivity of workforce in Latvia	41
<b>7. Further investment plans of foreign investors in Latvia and the proportion of their investments into Latvia</b>	<b>45</b>
<b>8. Mr. Prime Minister, you've got mail!</b>	<b>47</b>
<b>Appendix 1: Guidelines for the interviews, 2019</b>	<b>52</b>
<b>Appendix 2: Foreign investors that took part in the 2019 study</b>	<b>56</b>

## 1. Introduction and methodology

This is the fifth FICIL Sentiment Index report, following the four previous reports written in 2015, 2016, 2017 and 2018. 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 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.

The current report aims 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 any progress with regard to the policy initiatives to meet the main challenges as identified in the previous studies? In addition, in this report we provide an in-depth exploration of some of the main challenges discussed during the FICIL High Council 2019 meeting.
- (2) How do investors evaluate the government's efforts and current policy initiatives aimed towards improving the investment climate in Latvia?

As in 2015, 2016, 2017 and 2018, this report draws on a survey: mini case studies of foreign investors in Latvia. 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 with an annual turnover above 145 000 EUR and 50% foreign capital (data from Lursoft, 2018). A short introduction to the companies that were involved in the study is presented in Appendix 2. All responses have been anonymised, and in the results sections of this report the companies' names have been replaced with the industry they represent.

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, by FICIL board members. The guidelines for the interviews are presented in Appendix 1 and consist of the following key parts:

- *Assessment of whether, according to foreign investors, the investment attractiveness of Latvia has improved during the past 12 months.*

- *Assessment of the work of Latvian policy-makers in improving the investment climate in Latvia during 2019.*
- *Evaluation of the key drivers of Latvia's economic competitiveness – the FICIL Sentiment Index 2019.*
  
- *Evaluation of progress in the major areas of concern identified by foreign investors in Latvia in 2019, 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
  - the court system in Latvia
  - the healthcare system in Latvia.

Furthermore, in the 2019 study we included questions related to some of the key issues discussed between foreign investors and policy-makers during the FICIL High Council 2019 spring meeting. In particular, we asked for the in-depth opinion of key foreign investors in Latvia with regard to (i) the tax system, (ii) stability of the financial sector, (iii) quality of higher education and science as well as (iv) productivity of workforce in Latvia. Foreign investors were asked to comment on the current situation, whether progress has been made over the past years, as well as provide suggestions on how to improve the situation in the particular area.

As in previous years, we also asked foreign investors whether, and under what conditions, they plan to increase their investments in Latvia.

Finally, similarly to previous years, in the 2019 study we also asked foreign investors in Latvia to write a short 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 promised to deliver this message along with the report.

The report has been structured accordingly and, whenever possible, investors were asked to provide more detailed opinions and examples. We hope that similarly to the previous reports, this report will also provide policy-makers with better grounds for making informed policy decisions to improve the overall competitiveness of the investment climate in Latvia.

## 2. The attractiveness of the investment climate in Latvia

One of the key aims of the FICIL Sentiment Index is to measure the progress of the investment climate development in Latvia. To do so, similarly to previous years, investors in the 2019 survey were 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 the 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 1: Investment attractiveness of Latvia: development over the past 12 months: 2016, 2017, 2018 and 2019 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; 2019: n = 47

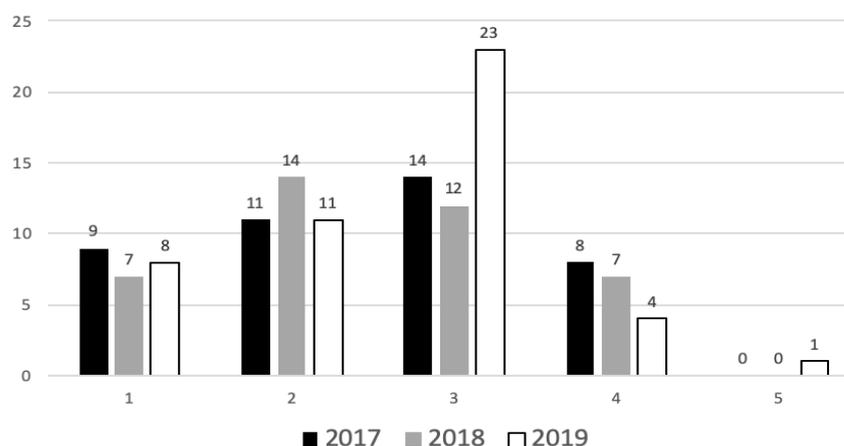
<i>year</i>	<i>rank</i>
<b>2019</b>	<b>2.6</b>
<b>2018</b>	<b>2.5</b>
<b>2017</b>	<b>2.5</b>
<b>2016</b>	<b>2.0</b>

Source: FICIL Sentiment Index 2015- 2019

**Figure 1: Has the investment attractiveness of Latvia improved during the past 12 months? Distribution of responses, 2017- 2019.**

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

2017: n = 42; 2018: n = 40; 2019: n = 47



Source: FICIL Sentiment Index 2015- 2019

***On average, the investment attractiveness of Latvia over the past year was evaluated by foreign investors with ‘2.6’, which is slightly better than compared to the assessment a year ago*** (see Table 1). In most cases, foreign investors evaluated the development of investment attractiveness with ‘3’, i.e. that there have been some positive improvements (see Figure 2). Furthermore, one respondent answered with ‘5’ in 2019, i.e. that investment attractiveness has improved significantly (see Figure 1).

We also asked investors to justify their assessment and received the following opinions, some of which are quite negative:

*“I need to explain to our investors on a regular basis why we can’t develop new projects in Latvia, it is pretty sad.” (Real estate company)*

*“The financial sector situation is still a worry.” (Service company)*

*“The further we go with our investment plan, the more problems we face.” (Manufacturing 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)*

*“My shareholders value the competence of our people, but we are getting more expensive from the viewpoint of the investor. Our costs are already at the same level as, for instance, Finland or Spain.” (Consultancy and ICT company)*

*“Very negative- only because in the last 12 months we’ve seen elections with a chaotic result, populists joining the parliament. And now we see that populists cannot deliver on their promises. Looking at Mr. Kariņš’ government, based on the setup – they are doing remarkably well.” (Professional assurance and advisory services company)*

... however, we also received a number of very positive opinions:

*“The positive thing though - looking back through history, we haven’t had a Prime Minister and a President at the same time who are highly respected in the international arena, who are well-spoken and can give their opinion on issues. This is a positive sign for investors. We should support our Prime Minister and President more when they are abroad.” (Professional assurance and advisory services company)*

*“Latvia’s economy is doing well. Private consumption is good, and consumers are still positive, especially if we compare with the situation elsewhere in Europe.” (Consultancy and ICT company)*

*“Dialogue with the Ministry of Health has improved.” (Wholesale and retail 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)*

*“A new head of FCMC has been selected. Let’s see what changes she will bring.” (Finance and banking company)*

*“Latvia is gradually maturing as a country and as a society.” (Wholesale and retail company)*

### 3. 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 and 2018 studies, we asked foreign investors in Latvia to assess the work of the Latvian policy-makers: 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, 2018 and 2019 studies are summarised in Table 2.

*On average, foreign investors evaluated policy-makers' efforts to improve the investment climate over the past year with 3.1 out of 5 in 2019, which is a slightly better result compared to previous years: 2.9 in 2018 and 2017 and 2.3 in 2016 (Table 2). Distribution of the answers is provided in Figure 2.*

**Table 2: Foreign investors' assessment of policy-makers' efforts to improve the investment climate over the past year: 2016- 2019 studies**

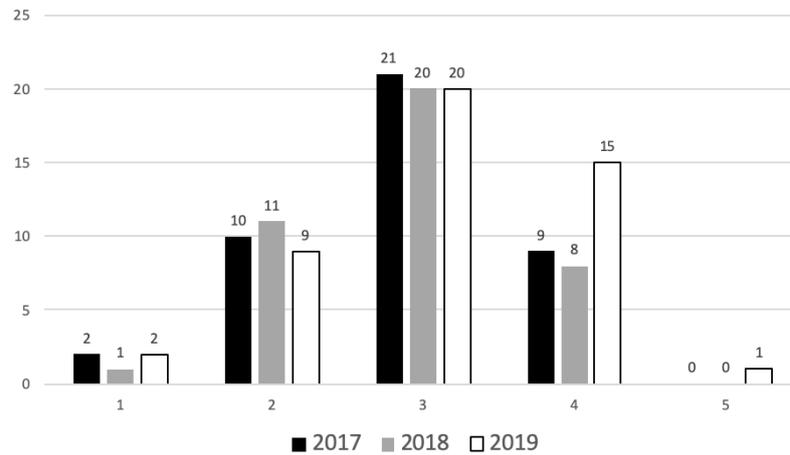
*Scale 1 to 5, where '1'-fail, '3'- average' and '5'- excellent  
2016: n = 30; 2017: n = 42; 2018: n = 40; 2019: n = 47*

<i>year</i>	<i>rank</i>
<b>2019</b>	<b>3.1</b>
<b>2018</b>	<b>2.9</b>
<b>2017</b>	<b>2.9</b>
<b>2016</b>	<b>2.3</b>

Source: FICIL Sentiment Index 2015- 2019

**Figure 2: Foreign investors' assessment of policy-makers' efforts to improve the investment climate over the past year. Distribution of responses, 2017- 2019.**

*Scale 1 to 5, where '1'-fail, '3'- average' and '5'- excellent  
2017: n = 42; 2018: n = 40; 2019: n = 47*



**Source: FICIL Sentiment Index 2015-2019**

Figure 2 suggests that, similarly to the previous years, the majority of respondents in the 2019 study also evaluated the government’s efforts to develop the investment climate in Latvia, as ‘3’ – average. However, in 2019 we also see more scores of ‘4’ (see Figure 3). This is also reflected in many positive comments that we received from the foreign investors that took part in the 2019 study:

*“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)*

*“If we didn’t have the Moneyval risk, I would put a 5. Mr. Kariņš is stating publicly that his No.1 priority is attracting investments to Latvia.” (Real estate company)*

*“The financial system is improving; a lot has been done to stay off the grey list.” (Finance and banking company)*

*“... the Prime Minister and Moneyval. We can see that there is a lot of support and a unified stand in timely implementation of Moneyval recommendations. At the same time, the coalition seems strange, they are still behaving like it’s the pre-election season, not like a unified team working together in tackling their priorities.” (Professional assurance and advisory services company)*

*“There are positive signals in the area of policy implementation (for example, performance of CPCB), however, no decisive improvements in the area of policymaking come to mind.” (Consultancy and ICT company)*

*“I have heard many good proposals from the government. Now we need to see some results.” (Retail trade and service company)*

*“They have done a few certain things to improve the situation.” (Consultancy and ICT 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)*

*“There are positive signals, however, they have been eclipsed by the many scandals” (Retail trade and service company)*

*“The new government give reasons for optimism.” (Wholesale and retail company)*

However, a number of negative comments were also received:

*“Unfortunately, in our industry populism still prevails.” (Service company)*

*“I see that the composition of the coalition prohibits the government from moving ahead faster and in a more purposeful and coordinated fashion.” (Retail trade and service 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 government is still very new.” (Service company)*

*“As an industry of shared service centres, we haven’t been organised during the previous 10 years. One of the reasons for this is that it seems that the country hasn’t noticed our existence, although our industry’s annual turnover is EUR 300 million, and hasn’t tried to communicate with us as an industry. Now we have created our association and will try to build a dialogue with the policy-makers.” (Consultancy and ICT company)*

*“Things have been done, but we could always do more. There are too many negative aspects investors have faced over the last year.” (Real estate company)*

#### **4. FICIL Sentiment Index 2015-2019**

This section presents the FICIL Sentiment Index 2015-2019 – 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 main factors that potentially influence the competitiveness of Latvia 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**

In 2019, a new category was added to the list: **digitalisation**. 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, 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. In 2019, some more foreign investors joined the study, resulting in 47 interviews.

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 3 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, 40 and 47 respondents took an active part in evaluating the indicators in the 2016, 2017, 2018 and 2019 study, respectively. The results are presented in Figure 3.

It is, however, important to highlight that the numbers in the FICIL Sentiment Index should be interpreted considering that (i) mostly relatively large investors took 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 foreign investors in Latvia.

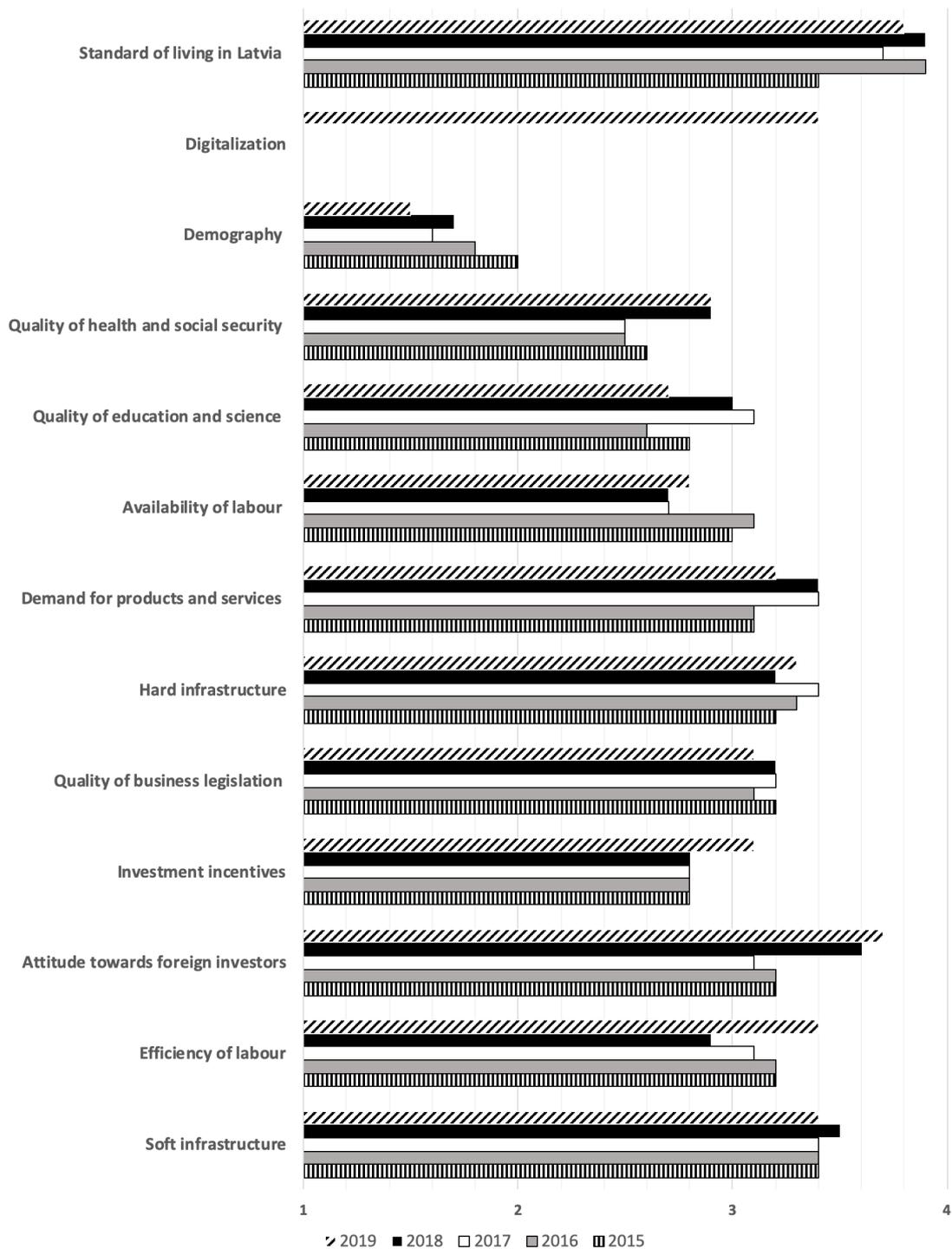
As illustrated by Figure 3, for all five years (2015, 2016, 2017, 2018 and 2019 studies) foreign investors in Latvia mostly evaluated the potential drivers of the economy as above the average. More specifically, in 2019, we see a further increase in the evaluation of the indicator ‘attitude towards foreign investors’, which has been evaluated as high as 3.7 out of 5 (as compared to 3.6 in 2018, 3.1 in 2017 and 3.2 in 2015 and 2016). Similarly to previous years, in 2019 investors are also relatively satisfied with the ‘soft infrastructure’, measured as ‘business culture in Latvia’ (3.4 out of 5 in 2019, 3.5 in 2018 and 3.4 in previous years of the study), whereas evaluation of the ‘demand for products and services’ has decreased by 0.2 points (from 3.4 out of 5 in 2018 to 3.2 in 2019).

Investors are, however, still least satisfied with ‘demography’ where the evaluation has gradually decreased from 2015-2017 (i.e. from 2.0 out of 5 in 2015, 1.8 in 2016 to 1.6 in 2017), then slightly increased in 2018 (1.7 out of 5) and has decreased again in 2019: to 1.5..

**Figure 3: FICIL Sentiment Index 2015-2019**

*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; 2019: n = 47



Source: FICIL Sentiment Index 2015-2019

The investors' assessment of the quality of the 'health and social system' in 2019 has also remained at the level of 2018, i.e. 2.9. However, in 2019, we can observe a substantial decrease in the evaluation of the 'quality of education and science' (2.7 in 2019 as compared to 3.0 in 2018).

In 2019, as compared to 2018, a major increase can be observed in 'efficiency of labour' (from 2.9 to 3.4, accordingly) and 'investment incentives' (from 2.8 to 3.1). Furthermore, a slight increase

in 2019 can also be observed with regard to the evaluation of the ‘availability of labour’ (from 2.7 in 2018 to 2.8 in 2019) and ‘hard infrastructure’ (from 3.2 in 2018 to 3.3 in 2019). However, we also see a slight decrease in the assessment of the ‘quality of business legislation’ (from 3.2 in 2018 to 3.1 in 2019).

‘Digitalisation’ has been evaluated with 3.4 out of 5. Finally, the standard of living in Latvia has been evaluated with 3.8 out of 5 in 2019, which is a 0.1 decrease as compared to 2018 (See Figure 3 and Table 3).

**Table 3: Components of the FICIL Sentiment Index 2015- 2019.**

*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; 2019: n = 47

	2015	2016	2017	2018	2019
<b>Soft infrastructure</b>	<b>3,4</b>	<b>3,4</b>	<b>3,4</b>	<b>3,5</b>	<b>3,4</b>
business culture in Latvia	3,4	3,4	3,4	3,5	3,4
<b>Efficiency of labour</b>	<b>3,2</b>	<b>3,2</b>	<b>3,1</b>	<b>2,9</b>	<b>3,4</b>
efficiency of labour	3,2	3,2	3,1	2,9	3,4
<b>Attitude towards foreign investors</b>	<b>3,2</b>	<b>3,2</b>	<b>3,1</b>	<b>3,6</b>	<b>3,7</b>
<b>Investment incentives</b>	<b>2,8</b>	<b>2,8</b>	<b>2,8</b>	<b>2,8</b>	<b>3,1</b>
<b>Quality of business legislation</b>	<b>3,2</b>	<b>3,1</b>	<b>3,2</b>	<b>3,2</b>	<b>3,1</b>
monetary policy	4,0	4,1	3,9	3,7	3,5
tax system	3,1	2,8	2,8	3,1	3,0
legal system	2,6	2,6	2,8	2,9	2,8
<b>Hard infrastructure</b>	<b>3,2</b>	<b>3,3</b>	<b>3,4</b>	<b>3,2</b>	<b>3,3</b>
defence	3,4	3,6	3,6	3,6	3,8
low production costs	3,3	3,2	3,2	2,9	2,9
infrastructure (roads, electricity, etc.)	3,1	3,1	3,3	3,2	3,5
energy resources	2,8	3,3	3,4	3,0	3,0
<b>Demand for products and services</b>	<b>3,1</b>	<b>3,1</b>	<b>3,4</b>	<b>3,4</b>	<b>3,2</b>
domestic demand	2,8	2,6	2,9	2,8	2,8
external demand (exports)	3,3	3,3	3,7	3,8	3,5
industry traditions	3,4	3,5	3,5	3,6	3,4
<b>Availability of labour</b>	<b>3,0</b>	<b>3,1</b>	<b>2,7</b>	<b>2,7</b>	<b>2,8</b>
availability of labour at management level	3,4	3,5	2,9	3,0	3,1
availability of blue-collar labour	2,7	2,8	2,5	2,3	2,4
<b>Quality of education and science</b>	<b>2,8</b>	<b>2,6</b>	<b>3,1</b>	<b>3,0</b>	<b>2,7</b>
education and science / innovation	2,8	2,6	3,1	3,0	2,7
<b>Quality of health and social security</b>	<b>2,6</b>	<b>2,5</b>	<b>2,5</b>	<b>2,9</b>	<b>2,9</b>
health system	2,5	2,4	2,4	2,7	2,6
social security	2,8	2,5	2,6	3,0	3,2

<b>Demography</b>	<b>2,0</b>	<b>1,8</b>	<b>1,6</b>	<b>1,7</b>	<b>1,5</b>
demography (population growth)	2,0	1,8	1,6	1,7	1,5
<b>Digitalization</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>3,4</b>
<b>Standard of living in Latvia</b>	<b>3,4</b>	<b>3,9</b>	<b>3,7</b>	<b>3,9</b>	<b>3,8</b>

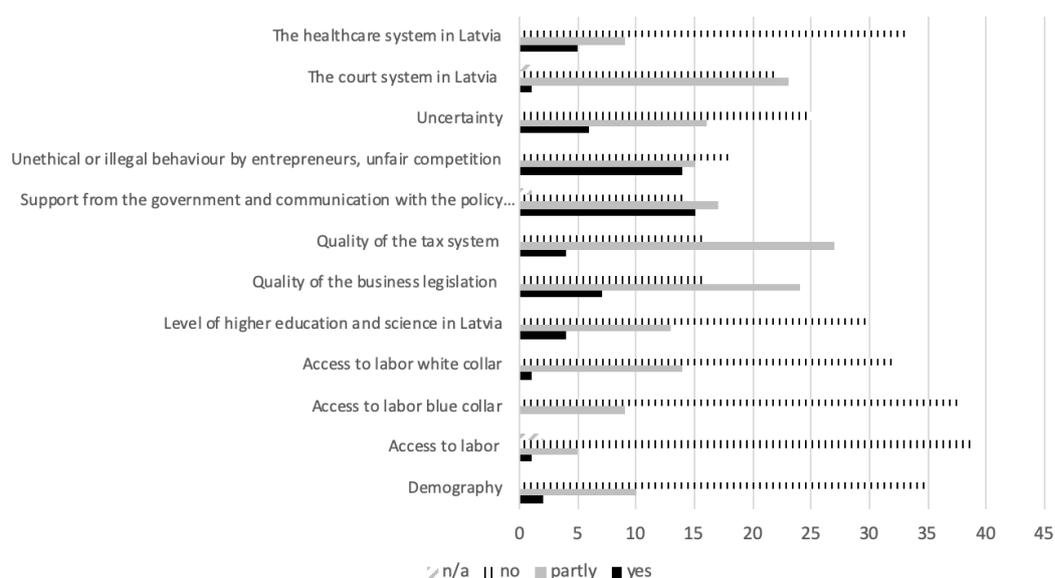
Source: FICIL Sentiment Index 2015-2019

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

Apart from calculating the FICIL Sentiment Index, traditionally we also ask foreign investors to assess whether there has been progress or regress with regard to various key challenges identified in the previous FICIL Sentiment Index studies. In particular, 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 and the healthcare system in Latvia. In the 2019 survey, we asked foreign investors whether, in their opinion, there has been any progress during the previous 12 months within these areas of concern. The findings from the 2019 study are summarised in Figure 4.

**Figure 4: 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 2019**

Respondents were offered to evaluate each unit assessing whether there has been an improvement by answering: 'yes', 'partly', or 'no'. n=47.



Source: FICIL Sentiment Index 2019

As exemplified by Figure 4, *access to labour* seems to be one of the key challenges in 2019: as many as 39 (of 47) foreign investors that were interviewed in 2019 report that there has been no

progress in this area. The situation seems to be slightly better with regard to the access to ‘white collars’ than ‘blue collars’ - but only slightly (Figure 4). Furthermore, as many as 35 (of 47) foreign investors in 2019 have also not seen progress over the past 12 months with regard to the situation in *demography*; 33 with the *healthcare system* and 30 with regard to *education and science in Latvia*. In 2019, at least half of the interviewed foreign investors have also not seen progress with regard to *uncertainty*. Almost half of the interviewed investors have seen no progress with regard to the development of the *court system in Latvia*. These are all indeed among the key concerns that have been previously expressed by foreign investors as those that seriously affect the attractiveness of the investment climate in Latvia - seeing progress in these areas is arguably one of the predeterminants for the inflow of new investment into the country.

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***

*“Everybody knows that the 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)*

*“Latvian nationals who have been living abroad are returning to Latvia. Despite the limitations more and more people from other countries are coming to Latvia.” (Consultancy and ICT company)*

*“Crucial matter in terms of both - workforce availability and client base. Unfortunately, the demographic situation in Latvia continues to decline and no sufficient measures are being taken by the policy-makers.” (Service company)*

*“Net migration is close to zero – fewer people are leaving, more people are coming back. “Latvija strādā” is a good initiative.” (Real estate company)*

*“We need better access to foreign labour for blue collar workforce. As for white collar workforce the situation is actually not too bad.” (Service company)*

*“Not capable of making brave decisions.” (Professional assurance and advisory services company)*

*“If people preparing to welcome their 2<sup>nd</sup> or 3<sup>rd</sup> child have some state protection, that could improve things. Because currently the child support payments are very frugal. Otherwise people wanting to expand their families have to deal with the uncertainty of income.” (Professional assurance and advisory services company)*

*“The progress is negative. At some point we will have to raise the retirement age.” (Wholesale and retail company)*

*“The progress is very slow.” (Consultancy and ICT company)*

*“I see only pre-election campaigns, but no real effort to change things.” (Manufacturing company)*

*“Good progress in terms of re-emigration. No progress in the birth rate.” (Finance and banking company)*

*“The situation is gradually worsening, and I don’t see any signs for optimism.” (Consultancy and ICT company)*

## **Access to labour**

*“Labour costs are growing much quicker than productivity.” (Retail trade and service company)*

*“We have more foreign workforce, because we can’t get workers from this region. We do believe they are better, the locals, it’s not about pay, the pay is the same, but people just don’t want to carry out these jobs.” (Service company)*

*“It is impossible to attract foreign workers without qualified external help. It shouldn’t be like this. If a fairly large company, like ours, has to employ external experts to bring in foreign workers, I would imagine for a small or medium-sized company it is mission impossible.” (Consultancy and ICT company)*

*“Qualified people (white collar) are returning to Latvia from abroad.” (Retail trade and service company)*

*“It has worsened.” (Wholesale and retail company)*

*“Lately we have especially seen lack of blue collar workforce.” (Service company)*

*“In our industry we lack the middle management layer.” (Real estate industry)*

*“In general, the situation is getting worse.” (Finance and banking company)*

*“The situation is worsening. The labour market is shrinking.” (Consultancy and ICT company)*

## **Level of Education and Science in Latvia**

*“The current situation is not acceptable. University of Latvia’s campus in Torņakalns is good, but the recent governance scandal has overshadowed it completely.” (Retail trade and service company)*

*“The situation is gradually worsening.” (Consultancy and ICT company)*

*“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)*

*“Because of the program accreditation on an international level. And the issues surrounding the University of Latvia created pressure to finally examine governance of universities.” (Professional assurance and advisory services company)*

*“We are lagging behind. At least there’s some discussion about it after all.” (Finance and banking company)*

*“One of the main problems- the content of education does not correlate with the needs of business.” (Service company)*

## **Quality of the Business Legislation**

*“The new government and Parliament are much more open for dialogue with the businesses. However, important decisions are still made without consulting the industry.” (Retail trade and service company)*

*“Mistakes are being corrected.” (Real estate company)*

*“The situation in the insolvency processes has improved vastly during the past few years.” (Service company)*

*“Commercial law required amendments, the judicial system could be improved in this matter.” (Professional assurance and advisory services company)*

*“Legislation as such is on a good level, but interpretation and application thereof by the authorities is still a concern. Also, sudden amendments are made more and more often lately.” (Service company)*

### **Quality of the Tax System**

*“We haven’t become more competitive in the Baltic region.” (Retail trade and service company)*

*“There are things that work well, a lot of things need to be improved.” (Professional assurance and advisory services company)*

*“The current government is open, the Prime Minister is open, but it’s incredibly difficult to balance this.” (Service company)*

*“It hasn’t improved or deteriorated, it’s just different.” (Consultancy and ICT company)*

*“The tax system is one of the main elements of the attractiveness of the investment regime. We look forward to constructive solutions to be developed in the upcoming tax reform in close cooperation with the stakeholders.” (Service company)*

*“Stability is very important. The government didn’t raise taxes for next year’s budget, I respect that.” (Finance and banking 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)*

### **Support from the Government and Communication with the Policy-makers**

*“I see openness for dialogue. There are noticeably more ministers and MPs that understand the business language than used to be the case.” (Retail trade and service company)*

*“FICIL holds a dialogue with the government; here we could emphasise the government’s commitment to implementing the Moneyval recommendation.” (Professional assurance and advisory services company)*

*“Just like before, we are meeting and talking.” (Consultancy and ICT company)*

*“Unfortunately, transparency, predictability and timely communication has tended to decline.” (Service company)*

*“I feel that situations where government institutions or civil servants are communicating from positions of power are becoming rarer. Usually we talk as equal partners.” (Consultancy and ICT company)*

*“We have had positive experiences in terms of collaborating with SRS.” (Service company)*

*“The dialogue is there.” (Real estate company)*

### **Unethical or Illegal Behaviour by Entrepreneurs, Unfair Competition**

*“There still are some industries where unethical or illegal behaviour is common practice” (Retail trade and service company)*

*“Items such as the shadow economy are being taken into account, but the addressing of this issue is slow.” (Retail trade and service company)*

*“Unethical competition is not happening because people are more scared of the consequences.” (Professional assurance and advisory services company)*

*“The fight against corruption is active. The tone from the top is visible.” (Professional assurance and advisory services company)*

*“Enforcement is improving, but the culture (avoid taxes, bribe, cheat, etc.) hasn’t changed yet.”*  
(Retail trade and service company)

*“Performance of CPCB is now at a new level. I have a feeling that the situation where somebody is above the law is no longer accepted.”*  
(Consultancy and ICT company)

*“Many loud arrests, but no court verdicts.”*  
(Wholesale and retail company)

*“Clear closure of two banks. The amount of dodgy people driving around in expensive cars – it can’t be good.”* (Service company)

*“The cartel in construction industry has been exposed. Still, the secondary market of flats is not regulated by anyone in terms of AML. A certain share of properties, even in the new projects, is being sold for cash. This can clearly be seen in the data systems, but nobody does anything about it.”* (Real estate company)

*“The situation in our industry is good.”*  
(Consultancy and ICT company)

### **Uncertainty**

*“Even if the Prime Minister and Minister of Finance make a promise, they might not be able to keep it, because they only control 9 votes in the parliament.”* (Retail trade and service company)

*“The government doesn’t respect its own decisions, for example, to raise the salaries of medical personnel.”* (Wholesale trade and retail company)

*“Unfortunately, unpredictability has significantly increased during the last year, which is especially troublesome in an industry requiring long term investments.”* (Service company)

*“Uncertainty has not increased; it feels like amendments to the law will not happen just because. Prime Minister Kariņš is the voice of reason on what we can and can’t do.”*  
(Professional assurance and advisory services company)

*“From our perspective, the environment is predictable. Our approach is to rely on ourselves and not blame things we can’t change.”*  
(Consultancy and ICT company)

*“Predictability of taxes for three years (2018-2021) is a significant improvement.”*  
(Consultancy and ICT company)

### **The Court System in Latvia**

*“Specialised courts promoted by Mr. Bordāns are a good initiative. Long court terms are still not ok.”* (Retail trade and service company)

*“Because the discussion surrounding specialised courts is positive. Also, court digitalisation is a good thing.”* (Professional assurance and advisory services company)

*“Efficiency tends to increase slowly. Another element to be improved is the quality - education of judges, quality of decisions etc.”* (Service company)

*“The progress is slow.”* (Real estate company)

*“No progress.”* (Finance and banking company)

*“A lot can be improved; however, we can see steps being taken, changes will happen over a longer period of time. It seems like the efficiency is being tackled.”* (Professional assurance and advisory company)

*“Speed is a massive issue. Creates uncertainty.”*  
(Service company)

*“We have progress in terms of establishing a Court of Economic Affairs.”* (Consultancy and ICT company)

*“The lengthy litigation process in our courts is not acceptable. Our company has a court dispute with the Competition Council, which started 7 years ago. Presently we are at the same point where we started.”* (Consultancy and ICT company)

*“I don’t feel any progress.” (Retail trade and service company)*

*“I hear good proposals from Ministry of Justice.” (Manufacturing company)*

### ***The Healthcare System in Latvia***

*“The Minister of Health has made many promises, but it is too early to judge the results.” (Retail trade and service company)*

*“No changes, everything has stopped.” (Professional assurance and advisory services company)*

*“Needs serious reforms and immediately.” (Service company)*

*“We are approaching a critical situation in the healthcare system, when there will be not enough people to provide services.” (Wholesale and retail company)*

*“It is ok.” (Consultancy and ICT company)*

*“It is getting worse.” (Manufacturing company)*

*“We should find more money for decent salaries. Hospitals are being modernised, they are specialising.” (Real estate company)*

*“The situation is gradually worsening – both in terms of availability of medical staff and quality of services.” (Consultancy and ICT company)*

*“It is getting worse. Insufficient financing, 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)*

## **6. In-depth discussion on four challenges of major concern to foreign investors: problems and solutions**

During the previous FICIL High Council meeting in 2019 we discussed a number of issues that are of a priority to foreign investors in Latvia and policy-makers agreed to prioritise their efforts to address them as soon as possible. Even though only just over six months have passed since the meeting, when we interviewed foreign investors, we still asked their opinion about the situation and progress with regard to some of those issues. In particular, we talked about (i) the tax system, (ii) stability of the financial sector, (iii) quality of higher education and science as well as (iv) productivity of workforce in Latvia.

### **6.1. Tax system in Latvia**

The recent past and near future of the tax system in Latvia was among the most discussed topics during the FICIL High Council meeting in May 30-31, 2019, in particular because of the recent tax reform as well as public announcements by the newly elected government about changes that are planned in this regard. Needless to say, the tax system has a major impact on the business

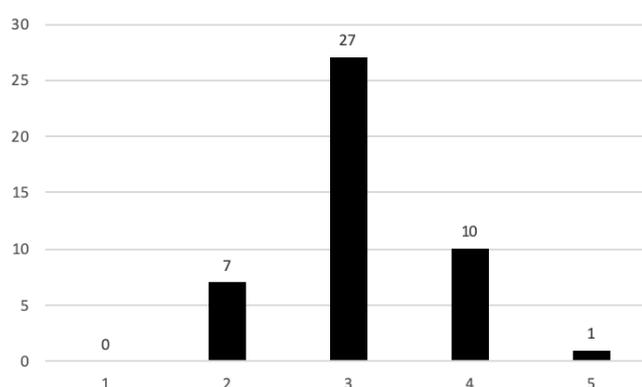
ecosystem in any country. Previous FICIL Sentiment index studies show that the quality and predictability of the tax system in Latvia is also a major concern for foreign investors in Latvia.

For this reason, this year we asked investors that took part in the FICIL Sentiment Index 2019 study to evaluate the results of the previous tax reform in Latvia. We also asked investors to comment whether the recent tax reform has brought any benefits to their company and Latvia's economy in general.

Investors were asked to evaluate the results of the recent tax reform on the scale from 1 to 5, where '1' is 'very unsuccessful' and '5' is 'very successful'. **On average, foreign investors evaluated the results of the previous tax reform in Latvia with 3.1**, i.e. above the average. The distribution of responses is further presented in Figure 5.

**Figure 5: Foreign investors' assessment of the previous tax reform. Distribution of responses, 2019.**

*Scale 1 to 5, where '1'- very unsuccessful, '3'- average' and '5'- very successful*  
2019: n = 45



**Source: FICIL Sentiment Index 2015-2019**

Comments with regard to whether the recent tax reform has brought any benefits to their company and Latvia's economy in general can be described with the following keywords: 'good direction', 'uncertainty', 'complexity', 'taxes have increased (for certain sectors)', 'no major changes', 'too early to judge', and 'other'. Quotes from the interviews with the foreign investors in Latvia speak for themselves:

### ***Good direction***

*"The concept of the reform was good, although it came 20 years too late. I suppose the current tax environment has improved for banks."*  
(Finance and banking company)

*"It was successful. It has improved Latvia's attractiveness for investors and stimulated the economy."* (Consultancy and ICT company)

*"Zero-rate on reinvested profit is a positive improvement. In our experience, communication with SRS about the application of changes was very good. However, there was a feeling that the decisions about the tax reform were made at the last minute."* (Professional assurance and advisory services company)

*“The direction was good. Zero-tax rate for reinvested profits was a good decision.”  
(Service company)*

*“Zero-tax rate for reinvested profits was a good decision, which will facilitate investment and development.” (Retail trade and service company)*

*“I think that the reform was rather good. Zero-tax rate for reinvested profits was a good decision. The only complaint I have is that the implementation was rushed and in January, when changes had to be applied, there was uncertainty about how it should be done.” (Real estate company)*

*“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)*

*“Zero tax rate for reinvested profit is a positive signal. As a profitable and growing company, we appreciate this decision, and it motivates us to invest more. We support the idea of progressive income tax, however, it is now quite complex and should be simplified.”  
(Consultancy and ICT company)*

*“Zero tax rate for reinvested profits is a correct decision.” (Manufacturing company)*

## **Uncertainty**

*“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)*

*“There is a lot of uncertainty. Businesses are price-, performance- and efficiency-based regardless of the tax policy in certain countries. We can actually not pay out dividends, that is really not our main goal. We are not looking at Latvia as a hopeful place, the local market is what it is. Latvia’s main advantage is resources, not tax policy.” (Consultancy and ICT company)*

*“You have to give tax reforms a 5-year window, otherwise it is counterproductive. Explain the successes of the previous reform, if you were targeting certain groups of people then explain if this was actually achieved. Predictability and stability are key.” (Service company)*

*“The result is good. What worries me is the talk that the next tax reform is planned for 2021.”  
(Finance and banking company)*

*“... for us predictability is very important. In this sense the recent and sudden changes in excise tax for sweetened beverages was a very unpleasant surprise. The law was opened to change tax rates for fuel used in agriculture, all of a sudden, a group of MPs came up with a proposal to raise the rate for sweetened beverages as well. There was no dialogue with our industry.” (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)*

*“My suggestion would be to prolong the period of stability by a year each time there is a tax reform. For example, the next tax reform includes a provision that no changes will be made for 3 years, after that the following reform includes a provision that the tax system will not change for 4 years and so on.” (Consultancy and ICT company)*

## **Complexity**

*“Complexity of the system increased as a result of the reform. We didn’t notice any changes in our cash flow.” (Wholesale and retail company)*

*“The tax system has become more complicated. No big improvements or mistakes from our perspective.”  
(Wholesale and retail company)*

*“I noticed that shortly after the reform was introduced, there were questions from employees and unclarity how some changes should be applied.” (Retail trade and service 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)*

### **Increased taxes (for certain sectors)**

*“The reform foresees another hike in excise tax for fuel in 2020, which will add 4-5 cents per litre to the fuel price.” (Retail trade and service company)*

*“We are not happy about corporate income tax for the service sector, because 640 people work here. We are just providing a service, we are not producing, with the new rate increase from 15 to 20 percent, we are reducing our dividend amount and are paying more tax. We are training our staff, we are investing in innovation. The service sector lost out through this reform. We are investing in training, but this has not seemed sufficient. If Latvia doesn't want to lose service companies, this is an issue; we have to pay out profit to our investors, but we still also invest in people.”  
(Service company)*

*“The change of excise tax rates this summer was illogical. From our perspective, it's the result of lobbying by strong alcohol producers. Even before the changes Latvia had the lowest tax rate on strong alcohol, but the policy-makers decided to decrease it even more, while the excise tax rate on beer was left unchanged.”  
(Manufacturing company)*

*“... excise tax rate changes for strong alcohol, which were changed twice within the past 12 months. Next March will bring another change to the rate. Also, excise tax was recently applied to sweetened beverages. This affects our business in a very direct way and complicates long-term planning for our business.”  
(Manufacturing companies)*

*“Tax reform increased the overall taxes that an organisation has to pay” (Retail trade and service company)*

### **No (major) changes**

*“For us the tax system hasn't really changed that much. We work in the service industry, which means we don't have to invest so much in equipment or real estate. For us, labour taxes are important.” (Consultancy and ICT company)*

*“Generally, Latvia's tax system has been pro-growth. What Dana Reizniece-Ozola did was change one good setup for another one, which is just as good – maybe marginally better, it depends on the industry you're in.” (Finance and banking company)*

*“No fundamental changes from our perspective. One positive change is the introduction of digital work time-keeping in the construction industry.” (Manufacturing company)*

*“No major changes for our company. Zero-tax rate for reinvested profits is a good step, but for us it is not a major incentive.” (Retail trade and service company)*

## **Too early to judge**

*“It is too early to judge the effect of the zero-tax rate on reinvested profits.” (Finance and banking company)*

*“I think it is still too early to make conclusions about the previous tax reform. A zero-tax rate for reinvested profits has worked in Estonia for a long time, and on some occasions, it has helped them to gain a competitive edge for new investments within our group.” (Manufacturing company)*

*“It is still too early to judge. In general, the changes were in the right direction. A zero-tax rate for reinvested profits was the right decision.” (Consultancy and ICT company)*

## **Other**

*“I come from the US, and in comparison with its tax system, Latvia has a very simple and understandable tax system.” (Real estate 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)*

We also asked foreign investors in Latvia what changes in the tax system (types of taxes, size of taxes, etc.) they would suggest to the government and why. In particular, we also asked them to highlight what, in their opinion, policy-makers should definitely not do! The answers in the form of quotes from interviews are summarised below:

## **Avoid uncertainty**

*“In general, the fewer changes in the tax system, the better.” (Finance and banking company)*

*“The best strategy would be to leave the tax system as it is for 5 years and not change it. Of course, we will adjust to all changes and continue to work, but more predictability and stability in terms of the tax system would go a long way.” (Retail trade and service company)*

*“The tax system has been changed much too often.” (Retail trade and service company)*

*“Think long-term. I know the government cycle is 4 years; investors aren’t thinking about investment in the 4-year term, we are thinking long-term. Investors need more predictability.” (Real estate company)*

*“Keep the tax system stable. Predictability is key.” (Consultancy and ICT company)*

*“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)*

*“Most of the large companies finalise their budgets for the next year 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 the State budget is approved. I think the business community would appreciate it if the government could do its budgetary planning in a timelier manner.” (Professional assurance and advisory services company)*

*“Don’t change the zero-rate for reinvested profit. Don’t complicate labour taxes. They used to be fairly simple, but the previous reform made them harder to understand and process.”*

*“I am beginning to worry about the scale of the 2021 tax reform. Hopefully, the scale will not be as large as the 2018 reform.” (Real estate company)*

*“We are changing our tax system much too often. Our plea would be not to make another large-scale reform. Before anything can be done, we should evaluate the consequences of the previous reform and base our decisions on these findings. A certain period of time is necessary for the consequences to manifest, and I think it is still too early to judge. (Consultancy and ICT company)*

*“Stability is priority No.1! The tax system shouldn’t be changed too often. When you do that, you should allow enough time for companies who are operating in good faith to adapt to the changes.” (Retail trade and service company)*

### ***Simplify and explain***

*“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)*

*“They should simplify the whole process for the general public.” (Professional assurance and advisory services company)*

*“Simplify personal income tax. In terms of excise tax we need two things: predictability and proportionality against Lithuania and Estonia.” (Manufacturing company)*

*“The reverse VAT system causes a lot of difficulties for us due to its complexity. It should be simplified. We are providing energy efficiency improvement services for our clients, which involve dealing with reverse VAT.” (Service company)*

*You should try to simplify them.” (Consultancy and ICT company)*

*“Frequent substantial changes in tax regimes are not welcomed by global business communities as they generate unclarity in the economic course of the government, thus we do not suggest performing another substantial corporate income tax (CIT) reform. Several other improvements should be considered:*

- Simplification of the personal income tax (PIT) legislation;*
- Introduction of additional PIT benefits for households and young employees, introducing more detailed gradation of PIT rates;*
- Reintroduction of previously existing CIT benefits.” (Professional assurance and advisory services company)*

*“With regard to subsequent adjustments in the tax system, you should make sure SRS is able to provide the necessary support in terms of explaining the changes to companies. You should consider digital tools and solutions which would make it easier for companies to understand and introduce changes.” (Professional assurance and advisory services company)*

*“Paying taxes should be an easy task. In many aspects, currently this is not the case. There are three important questions for each taxpayer, which determine their motivation to pay taxes: how much do I have to pay, how easy is it to pay my taxes, and how efficiently is the government spending the taxpayers’ money? The second part – ease of paying taxes can and should be improved.” (Consultancy and ICT company)*

*“In general, Latvia’s tax system is quite complex. If I compare it with the UK tax system, in the UK processes are much simpler.” (Retail trade and service company)*

### ***(Continue) the shift from taxing labour to consumption***

*“I believe we should shift the tax burden from labour to consumption. For our business, the excise tax and natural resources tax are the most important. As a producer, we are responsible for the packaging of our product, and we are paying a certain rate to a waste collection company to collect it. However, they are not delivering the necessary result. This needs to be fixed.” (Retail trade and service company)*

*“In Latvia, property taxation is very low and simple. Real estate taxation to private individuals is extremely low. So there is some potential to shift some of the tax burden from labour taxation towards the taxation of property.” (Consultancy and ICT 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)*

*“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)*

*“We should continue the shift from taxing labour towards taxing property.” (Retail trade and service company)*

### ***Fix (mistakes of) the previous tax reform***

*“Policy-makers should fix the mistakes they have made regarding financing of sports organisations. They should keep the zero-tax rate for reinvested profits. They shouldn’t change the structure of the system, but some adjustments can be made.” (Finance and banking company)*

*“Decreased VAT rates for individual industries is the wrong tool. There are better tools for addressing social inequality.” (Finance and banking company)*

*“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)*

### ***Other***

*“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)*

*“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*

*“There should be more alignment between taxes within the Baltics for various products (excise tax, for example), more work should be done on tax administration to make it easier for companies to work with policy-makers and to be transparent. In addition, because workforce is an issue across the country, there should be a review of taxation (size/type) for employee benefits, sustainability policies, gifts, etc.” (Retail trade and service company)*

*or not you pay taxes. This is unacceptable.”  
(Finance and banking company)*

*“Excise tax rates should be aligned with CO2 emissions. For example, there are excise deductions for propane gas, but no incentives for natural gas, which is much cleaner than propane. This creates misguided motivation for end-users.” (Service company)*

*“We should not touch those things, which were introduced or changed in the previous reform, such as the zero-tax rate for reinvested profits.”  
(Finance and banking company)*

*“There are too many tax regimes for individual employment, and most of them include huge risks for people in terms of social guarantees when they retire. This should be addressed – otherwise we are creating a ticking time bomb.”  
(Finance and banking company)*

*“I think we should continue raising the retirement age to 70 years.” (Real estate company)*

*“Before the reform companies which had issued bonds could allocate their interest income to eligible expenses, which were not taxed. The reform took this away. If we wish to have a developed economy where companies are not dependent solely on bank loans to finance their development, we should motivate companies to utilize the opportunities of debt market. From the perspective of a developed capital market, the tax reform was a step in the wrong direction. Policy makers should fix it.” (Finance and banking company)*

*“You shouldn’t raise taxes. They are already quite high, especially labour taxes.” (Service company)*

*“We need to increase the non-taxable minimum. This would contribute to better conditions for low-paid workforce.” (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 government should also update the tax exemption limits according to today’s situation for transportation and accommodation services, which companies are providing for their employees.” (Retail trade and service company)*

*“If we talk about labour taxes, the changes were in the right direction, but the scale was purely symbolic. We have a differentiated non-taxable minimum, so now there’s progressivity from both ends. This is a very complicated setup. We should drop the differentiated non-taxable minimum and go for the progressivity in income tax rates. We can keep 33% as the highest rate and lower the threshold where it is applied.”  
(Finance and banking company)*

*“Reverse VAT works well for our industry; however, I know that the EU is against it. For us it gives certainty that our partner pays his VAT.” (Real estate 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)*

### **Financial sector stability in Latvia**

Stability of the financial sector in Latvia was another hot topic that was discussed both during the FICIL High Council meeting 2019, as well as throughout the year. Given the importance and potential impact of the stability of the financial sector to maintaining and attracting foreign investment, and also development of Latvia’s economy in general, we asked the opinion of foreign investors in Latvia during FICIL Sentiment Index 2019 study.

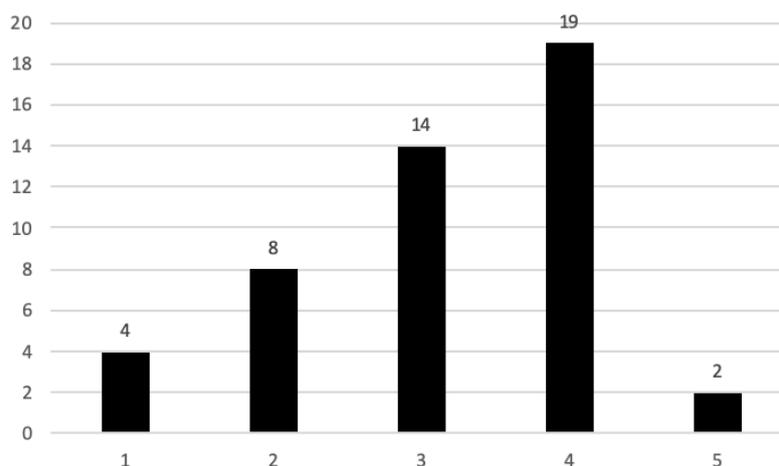
In particular, we asked foreign investors to assess the progress with regard to the effectiveness of combating economic and financial crime in Latvia. A scale from 1-5 was provided, where ‘1’ is

‘no progress’ and ‘5’- ‘a lot of progress’. **On average, foreign investors evaluated progress with regard to the effectiveness of combating economic and financial crime in Latvia with 3.2**, which, given the circumstances, is a relatively good indicator. The distribution of responses is further presented in Figure 6.

**Figure 6: Foreign investors’ assessment of the progress with regard to the effectiveness of combating economic and financial crime in Latvia, 2019.**

Scale from 1-5, where ‘1’ is ‘no progress’ and ‘5’- ‘a lot of progress’

2019: n = 47



Source: FICIL Sentiment Index 2015-2019

We subsequently asked foreign investors “Have you felt any negative effects on your company with regard to the situations in the financial sector over the past 2 years?” The opinions we received can be broadly defined as ‘(somewhat) positive’ and ‘negative’- unfortunately there were much more negative opinions than positive ones:

### ***(Somewhat) positive opinions***

*“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)

*“Progress in the capacities of institutions to identify and combat economic and financial crimes has increased a lot.”* (Professional assurance and advisory services 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*

*“As a country, I think we are financially very stable. Look at the sharp decline of deposits in our system during the last two years! In other circumstances, there would have been a crisis! The level of private and company savings is now higher than ever before.”* (Wholesale and retail company)

*“On the bright side, I think we can safely assume that the risk of Latvia’s name appearing in future laundering scandals is non-existent. That, of course, is good for our reputation.”*  
(Finance and banking company)

*“The largest players in Latvia’s financial sector have made enormous progress. In some of the*

*of AML procedures, a reporting culture hasn't been fully installed. (Professional assurance and advisory services company)*

*"No (negative effects)" (Retail trade and service company)*

*small banks the progress is still too low." (Finance and banking company)*

## **Negative opinions**

*"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)*

*"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)*

*"10 years ago, when our company made the decision to invest in Latvia, geopolitical considerations played an important part in this decision. Our group has another location within the EU, and from time to time we return to the topic – why are we still in Latvia, and do we need to maintain two locations in Europe? The negative background of information about Latvia in the international media is not helping us." (Consultancy and ICT company)*

*"Cooperation with banks has become much more complex and bureaucratic. The business mindset has disappeared, regulatory requirements dominate. I have very strong doubts whether the current regulatory requirements, which are extremely strict, justify the pragmatic goals we have to reach."*

*"The Financial Intelligence Unit is still dealing with historical issue: the question is whether they have the capacity, the recourses and necessary infrastructure in place. Another question is – do judges fully understand economic and financial crime and, are prosecutors educated enough? These issues should have been tackled many years ago, at this point we don't have time, we just have to forge ahead." (Professional assurance and advisory services company)*

*"We are experiencing very negative consequences. All of the banks are pushing us out, closing our accounts. We cannot get leasing services. It is getting increasingly hard to run our business. The attitude from banks makes no sense! Changes in the financial sector have been ongoing for two years already. When will they be over? Nobody can explain. We have to look for other ways to handle our transactions, through Austrian or Swiss banks. They can even offer us Latvian-speaking account managers! Anyway, the attitude of local banks makes no sense at all! It has nothing to do with AML or Moneyval. They don't want to take any risks at all. This is very bad for business." (Service company)*

*"The many turbulences – ABLV, arrest of the governor of Bank of Latvia, change of FCMC leadership, Moneyval, haven't gone unnoticed by our shareholders. This has left a negative impact on the reputation of our country." (Retail trade and service company)*

*"Each shock in the financial sector has consequences. We have the sense that there is no stability in the financial sector. I think it is one of the reasons why the number of clients is shrinking. We also feel that a recession is approaching. The general sentiment is not good." (Retail trade and service company)*

*(Professional assurance and advisory services company)*

*“Banks are closing – that is not good. Latvijas Krājbanka, ABLV. We see the news about laundering Russian money. But I have a feeling that the situation is improving.” (Manufacturing company)*

*“More regulations – we now have to carry out certain AML checks. We lose as a country; the reputational crisis was severe. We started questioning whether we should always use non-Latvian banks; this affects competition.” (Service company)*

*“Of course, given the scale of these changes, a lot of collateral damage has been done to normal businesses as well. Banks are very inflexible, they do not engage in complex transactions. This is a serious problem. As a result of the ‘holy AML-KYC war’ we are waging, life has become very difficult for many companies who are doing business outside the EU. We must remember that after all we are a very open and export-driven economy.” (Finance and banking 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)*

*“It did decrease the trust that investors and people have in Latvia, significantly. If the president of the Bank of Latvia can be arrested and subsequently simply return to work – it is ridiculous. It is difficult to pinpoint the real issues sometimes, for example, if we stopped the flow of illegal money through Latvia, isn’t it just flowing through a different country now? If the goal is to combat crime, then the ECB should take the lead role, because the location of the crime is the Eurozone.” (Consultancy and ICT company)*

*“Multinational companies like ours are competing internally with other countries for*

*“Where we have had a negative impact is a certain bank that has become incredibly difficult with due diligence. We pay our people in dollars, and suddenly we are having issues with these transactions. The pressure on banks with AML regulations is causing a headache.” (Service company)*

*“Banks are no longer working as commercial institutions. They are managed by risk managers instead of business people.” (Manufacturing 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)*

*“As I see it, we are now combating our economy. I know that it has become very hard for our clients to do normal transactions. Banks are very inflexible. They are refusing to do transactions, refusing to open accounts. This has a very negative impact on our business. As a country, we have to find a sensible middle ground where businesses can operate again.” (Real estate company)*

*“We have been clients of one bank in Latvia for more than 20 years. Last summer we were questioned by them as though we were strangers. Requirements from the banks are exaggerated. Normal businesses are unable to open accounts. It undermines Latvia’s competitiveness. Businesses are moving away from Latvia to Poland etc. It is painful to watch. Banks are unwilling to accept even the slightest risks.” (Finance and banking company)*

*“In terms of KYC (know your client) requirements, FCMC is going the extra mile and several more. Requirements and procedures have become unproductive. It takes 30 days for the Register of Enterprises to verify the legal address. It seems as though state institutions are waiting until the last possible day to give their answer, even though the answer is ready on day 3.” (Consultancy and ICT company)*

*new initiatives aimed at giving back to the local community. Loud scandals often cause dramatic damage for the image of our country, and make it much harder for us to gain trust and defend our ideas.” (Consultancy and ICT company)*

*“Control and overseeing have obviously not been good enough, because two banks have failed recently. Latvia has far too many banks. 4-5 banks should be enough for the local market – similar to Estonia and Lithuania.” (Retail trade and service company)*

We further asked the foreign investors in Latvia whether they were aware of any activities that policy-makers have carried out during the past year to improve the situation and what changes they would suggest to further improve the situation. The answers have been summarised in the form of quotes and we strongly recommend that the policy-makers of Latvia pay particular attention to each one of them:

*“I think there are no major changes at the moment, at least we haven’t seen an overhaul. What we do see is fire extinguishing. The policy-makers could certainly do more and be more proactive. Right now, it feels like they are doing it just because they were told to. With regard to closing certain banks and not even fully checking others – is it done fairly and objectively? It makes one wonder.” (Consultancy and ICT company)*

*“Closing some of the banks could have a long-term benefit, but causes instability when it happens. It is a long-term benefit – short-term pain.” (Service company)*

*“I would like to see Latvia more independent, rather than jumping when the US calls. In Britain, they have an unexplained wealth act. This is a good initiative, and maybe a place to start for Latvia.” (Service company)*

*“Investigation institutions are doing their job. Courts, especially the judges, are the weak part. Judges lack the necessary knowledge to be able to make fair decisions. Form is often more important than essence, for example, in court decisions on releasing frozen assets.” (Finance and banking company)*

*“The anti-corruption bureau is working much better. Many cases have been initiated, however, they will take a certain length of time to investigate and prosecute.” (Retail trade and service 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)*

*“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)*

*“I am wondering why law enforcement agencies which are combating money laundering, are not picking the low hanging fruits. Anyone can review real estate transactions, for instance, in Mārupe, and check those transactions with suspiciously low sales values. These are the ones where an unseen part of the deal in cash is probably involved.” (Professional assurance and advisory services company)*

*“It’s important not to have this as a carpet-bombing situation – destroy everyone and then rebuild from the ground up. We lack information and experience on how to deal with transactions and dealings with non-resident clients. Typically, these are manufacturing companies who operate outside of the EU, we might be scaring away legitimate businesses based on our approach currently. We need to let the true companies survive.” (Professional assurance and advisory services company)*

*“I think the public institutions have to be more proactive in terms of explaining the regulatory*

*“The overseeing of the SMS/fast lending industry is ridiculous. This industry should be supervised by the same regulator as the banks.*

*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)*

*“If banks are not willing to finance development, the government should provide alternative sources of financing. For example, by developing the capital market and encouraging companies to attract financing by listing their shares on the stock exchange or by issuing bonds.” (Manufacturing company)*

*“Strict monitoring of banks.” (Manufacturing company)*

*“If we talk about reducing risks, the changes have been tectonic. The export of financial services has been halted by throwing out both bad and good clients.” (Finance and banking company)*

*“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)*

*They should face much stricter requirements.” (Consultancy and ICT company)*

*“The scale of transformations in the financial sector is huge. The share of non-resident deposits in the system has dropped from 50 to 17 percent. However, it is important not to exaggerate with over-regulation and not to start hindering the operation of normal, transparent and fair businesses with foreign ownership. Currently we are on the verge of this.” (Finance and banking 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)*

*“I know that the FIU, since Ilze Znotiņa was appointed as its head, is doing a lot of good work.” (Wholesale and retail company)*

And finally, we asked the foreign investors that took part in the FICIL Sentiment Index 2019 study to assess whether activities that were implemented recently to react to the Moneyval recommendations have influenced their company and the overall business climate in Latvia, either positively or negatively. Here are the answers we received:

*“No negative impact, because companies are now using services regarding the AML procedures that previously weren’t.” (Professional assurance and advisory services company)*

*“We are not too worried about Moneyval. I think that as a country, we are doing far more than is necessary in this regard.” (Manufacturing company)*

*“We have not felt a direct impact on our business. With respect to the business climate in Latvia in general, it is too early to assess the impact and a lot of work remains to be done. It also remains to be seen what the priorities, actions and results will be by the FCMC after*

*“No, it didn’t really affect us.” (Consultancy and ICT company)*

*“I know that the banks have become very inflexible. This is not encouraging for investors, especially for those who are considering entering Latvia. Banks have gone too far in terms of their requirements and refusal to accept any level of risk. It is not a good sign.” (Consultancy and ICT company)*

*“There was too much attention on putting Latvia in an unfavourable light as an investor-friendly country. Activities implemented will ensure Latvia’s competitiveness going forward.” (Retail trade and service company)*

*election of the new management.” (Service company)*

### **Quality of higher education and science in Latvia**

Another topic that was intensively discussed during 2019, and not without involvement from FICIL experts, is the quality of higher education and science in Latvia. Foreign investors have emphasised in all previous FICIL Sentiment Index studies that the quality of people is one of the keys for the success of the economy of Latvia, or almost any other country willing to develop further, and here higher education and science plays a major role.

Given the somewhat negative opinions about the quality or progress of higher education and science in Latvia that we have heard from foreign investors during the previous FICIL Sentiment Index studies, we started by asking the question: “Do you know of any activities that policy-makers have carried out during the past year to improve the situation?”

On a positive note, a substantial number of respondents answered that **“yes, they do” and the overall direction for improving the quality of higher education and science is ‘the right one’:**

*“The direction is correct. Banks and Riga Business School created and financed a new IT studies programme in 2019. Private universities are showing excellent results in attracting foreign students. However, on a global scale our universities are invisible. On a regional scale, SSE Riga is very competitive, as is RSU with their medical education.” (Finance and banking company)*

*“Difficult to say. We can find the people we need and we don’t have problems with workforce. The quality is good. SSE Riga graduates are really good – all companies in the Baltics know this. In general, I think other universities are not very advanced.” (Manufacturing companies)*

*“The governance reform of universities and higher education institutions has gained traction and needs to be completed. Investors should be allowed to have more involvement in the business and strategic development of higher education institutions.” (Professional assurance and advisory services company)*

*“University campuses in Ķīpsala and Torņakalns are developing really nicely. A modern and convenient environment is very important for education. I think the good infrastructure will help to attract students. We*

*“The new BITs programme (by RBS, the Finance Latvia association and the government) is a good initiative, a good example of a public-private partnership.” (Consultancy and ICT company)*

*“I know that the government is putting effort into promoting the commercialisation of science.” (Real estate company)*

*“The reform the Ministry of Education is trying to carry out with changes in university governance is a good idea. If we increase the quality of education, we will become more competitive. Rectors need to be responsible for the quality of education students receive. I hope the attitude towards teachers in schools changes; we need to appreciate their work and what they are doing – they are shaping our future.” (Real estate company)*

*“The minister is taking the right steps and she seems determined.” (Finance and banking company)*

*“There is some progress in terms of reforming the governance model of universities. So far we have lacked strategic planning and specialisation in the higher education industry.” (Real estate company)*

*need to attract more foreign lecturers.” (Retail trade and service company)*

*“I think it is good that the infrastructure is being improved – LU and RTU campuses in Riga. A convenient environment is very important for students.” (Service company)*

*“The need to significantly improve the quality of university education has been brought to the government’s attention. It has been discussed in the media supporting faster changes.” (Retail trade and service company)*

However, as reflected by the following quotes, there were also a number of **negative opinions**:

*“Not really, 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)*

*“I don’t see any improvements. We used to have 3 universities in the TOP 1000, now we have just one. Knowledge-intensive industries seem to be developing without assistance from science. Companies tend to create a lot of knowledge and know-how even without science.” (Finance and banking company)*

*“Nothing has been accomplished, just talks”.*  
*(Consultancy and ICT company)*

*“At this point it’s more talk than action, however the work needs to be there in terms of the governance model changes. The University of Latvia’s governance should change, as should the rest of the public universities.”*  
*(Professional assurance and advisory services company)*

Given both positive and negative reactions to the question above, we subsequently asked: *“What changes would you suggest to improve the quality of education and science in Latvia and why? How would this help the business environment, e.g. companies such as yours?”*

When talking about necessary changes, foreign investors highlighted the key challenges of higher education and science, and the most important ones, according to the results of the FICIL Sentiment Index 2019 study are: **local, fragmented and outdated** (higher education and science in Latvia):

*“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 people per year take a physics exam when they graduate high school?” (Consultancy and ICT company)*

*“Faculty staff is the most important factor. The old generation of lecturers in most cases lack the knowledge and skills which are required in today’s job market.” (Retail trade and service 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*

*“Latvia still has a heritage Soviet-style education system. It is inefficient, uncompetitive and mainly run by the State. In the UK, for example, nearly half of the high schools are privately owned and operated. Latvia could also look in this direction. There are several ways of doing this. You can attract international schools or investors.” (Consultancy and ICT company)*

*“Reduce the number of universities, change the rigor of courses and increase the value of degrees.” (Service company)*

*“We should consolidate educational institutions in Latvia, first of all, and then also across the Baltic States. There are not enough people here for us to have so many average specialities. We*

*in universities, because they are afraid that they are uncompetitive. Which they are. We have to get rid of them. Why can Tartu University be in the Top 300 and we can't?" (Retail trade and service company)*

*"The higher education industry is very fragmented. There are too many universities. We have to concentrate our resources to get better results." (Retail trade and 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)*

*"In many respects our education system is still Soviet-style. It is outdated, out of sync with the demands of today's business environment. The education process includes a lot of elements which do not add any value." (Retail trade and service company)*

*need to look more broadly. Collaborate amongst the Baltic States in creating excellent universities across the three states, with deeper cooperation." (Consultancy and ICT 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)*

*"We don't have a strategy for our higher education industry: what is our aim, where are our strengths? In our industry there is a very strong emphasis on automation. This will leave a profound impact on the way people will work in the future. It seems that in some areas we are educating people for professions which will no longer exist in 5 or 10 years." (Consultancy and ICT company)*

### **Furthermore, a number of foreign investors we interviewed called for **changing the governance of higher education institutions in Latvia:****

*"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)*

*"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)*

*"The governance of universities is very poor. In terms of governance, our universities are*

*"I think there should be a rotation in senior management positions in the public sector, including universities. We simply have to introduce the best practice, which is available for us through OECD or BICG." (Finance and banking company)*

*"The university governance model needs modernising." (Professional assurance and advisory services 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)*

*similar to mafia clans.” (Finance and banking company)*

Furthermore, foreign investors call for **linking education and science with the business world:**

*“Finding qualified employees is not a problem. However, if we hire a university graduate with no work experience, we have to invest a lot in training, because they lack the practical skills.” (Retail trade and service 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)*

*“Science and research should be linked much closer with businesses. There are some excellent examples, but they are exceptions, not general trends.” (Consultancy and ICT company)*

*“There should be an obligation to carry out an internship (a real one) not just for a grade, for example in the Marine Academy you have to have at least a few internships to receive a diploma. This should be the case for most educational institutions. We should link businesses and the education sector with mandatory internships.” (Service company)*

*“We need good faculty staff, and we won’t have any if we do not pay adequate salaries. We also need to involve industry players in educating specialists. Otherwise, we end up with graduates with academic and theoretical knowledge, but no practical skills. Such an employee has to be re-trained by the employer. In the UK a lot of lecturers have a background in business.” (Manufacturing company)*

*“In general, I think that the education system is disconnected from business. It shouldn’t be like this.” (Professional assurance and advisory services company)*

*“Education institutions need to go to the employers more to understand what companies need, what is the essential link between education and the labour market. From our perspective, and looking at some of the universities, it seems that the government is always talking about a competitive education system, but there are no stimuli, no willingness to improve things.” (Consultancy and ICT company)*

Foreign investors also suggested a number of other directions that could potentially increase the quality of higher education and science in Latvia:

*“I have heard that the higher education system has become increasingly politicised. This, of course, is holding back development. I would suggest that the policy-makers be as pragmatic as possible.” (Wholesale and retail company)*

*“The Ministry of Education and Science has made a lot of enemies. I think their tactics are ill-advised.” (Finance and banking company)*

*“Quality of education is not merely an issue of the education industry. It is an issue of the long-term sustainability of our economy and our country.” (Finance and banking company)*

*“We have to start lower in the school system. More emphasis should be placed on a professional education, so we have both schools, we can offer both professional and academic education.” (Service company)*

## Productivity of workforce in Latvia

The issue of productivity, in particular productivity of workforce in Latvia, has also been widely discussed throughout the year. It was also emphasised during FICIL High Council meeting and thus we paid particular attention to this in the FICIL Sentiment Index 2019 study.

In particular, we asked foreign investors that took part in the study “*Do you know of any activities that policy-makers in Latvia have carried out during this year to improve the overall level of the productivity of workforce in Latvia?*” Interestingly enough, in some cases investors clearly said that they **either have no problems with regard to the productivity of workforce in Latvia or this is not even an issue that should be addressed by the policy-makers:**

*“We take responsibility for our own productivity. We are responsible for providing our employees with the necessary training and education, work environment and other tools, which are necessary so they can be productive.” (Consultancy and ICT company)*

*“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)*

*“We don’t have any problems finding blue collar workers. We have some 160 employees in Latvia. In Estonia the situation is worse in this area. We are not bringing in workforce from other countries, because we can find people locally.” (Manufacturing company)*

There were also some **positive comments:**

*“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)*

*“I appreciate the administrative-territorial reform by the Ministry of Environmental Protection and Regional Development which went ahead despite so many objections.” (Consultancy and ICT company)* However, mostly we still received opinion such as **“we have not heard anything”** or **“there is no progress”**:

*“No, I haven’t heard. At the same time, workforce in Latvia is looking for higher salaries disregarding their own productivity.” (Consultancy and ICT company)*

*“No progress. Employers invest in their workforce, but the rights of employees are very strong, the rights of the employers aren’t. We have had to make difficult decisions regarding certain people, but people can hold you to ransom. This isn’t fair on businesses. There is no balance between employer and employee. Employees can hold businesses to ransom.” (Service company)*

*“In general, I think productivity is not improving. One of the obstacles is the outdated legislation on trade unions. It is out of balance, skewed 100% in favour of trade unions. We provide a lot of benefits for our employees. Trade unions have only two demands from us: convert variable bonuses to fixed ones and pay a 13<sup>th</sup> salary.” (Consultancy and ICT company)*

*“No, our policy is not correct when it comes to productivity. The non-banking sector or organisations tasked with facilitating development (ALTUM) do not finance productivity-increasing opportunities. The investment required to increase productivity is significant, many businesses can’t afford these activities on their own. It would be difficult to finance automation for smaller businesses. They don’t have the skills or knowledge to carry it out. Productivity needs to be taught, digital upscaling should be a part of every sector.” (Professional assurance and advisory services company)*

*“In our company, people create extremely high value, because they are being educated all the time, and we provide mentoring and coaching, the right working environment and the right tools.” (Consultancy and ICT company)*

We continued by asking **“In your opinion, what can policy-makers do to improve productivity of workforce?”** In addition, we asked foreign investors whether they could **suggest main priorities - activities that policy-makers should implement in Latvia to improve the productivity of workforce.** The answers are summarised below:

*“Lifelong learning is very important. In terms of digitalisation, the construction industry is lagging behind. The financial sector and mass media have adjusted to digital transformation, we haven’t.” (Manufacturing company)*

*“Politicians should revise the Labour Law, because it is essentially obsolete and does not keep up with the changes of the labour market. I think one of Latvia’s biggest problems is the lack of dialogue between the government and trade unions. By giving trade unions veto rights, you will not achieve anything. Productivity should be improved directly by veto cuts and wage increases because currently the supervisory bodies are relatively underpaid and unproductive.” (Consultancy and ICT company)*

*“The non-taxable minimum should be increased considerably to motivate people to work and earn a wage.” (Finance and banking 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.”*

*“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)*

*“We need flexible solutions for attracting foreign workers. We have a good experience with employees from Sri Lanka. We are losing franchisees because they grow tired of being unable to find workers and keep their shops open.” (Retail trade and service company)*

*“More resources need to be available for businesses that want to go through upscaling exercises, financial programs where they can receive assistance.” (Professional assurance and advisory services company)*

*“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)*

*(Professional assurance and advisory services 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)*

*“School reform is incredibly difficult to get right with a shrinking population. They need to speed up that reform to get higher quality people into the workforce later. We have had fantastic interns. Do people lose their brilliance during university? It feels like it.” (Service company)*

*“The food production industry in Latvia sees consolidation. I believe that the right way to improve productivity is to motivate companies to automate production processes, bring in new technologies and more efficient solutions, and pay competitive salaries to people.” (Retail trade and service company)*

*“We need more balanced relations with trade unions. The government should revisit and update legislation, which covers trade unions.” (Consultancy and ICT 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)*

Apart from talking about productivity of workforce in Latvia in the private sector, foreign investors also expressed opinions on ***what the policy-makers should do in order to improve productivity of workforce in the public sector.***

*“The public sector has to introduce robotics and automation solutions as well. There are many processes which can be automated. Function and process reviews are an inherent part of introducing robotics solutions. It is important to do this on a regular basis. 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)*

*“Reduction of bureaucracy. Getting building permission and all the paperwork related to construction is very complicated and takes a long time.” (Manufacturing 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)*

*“The smaller the public administration is the more efficient it has to be. We should start with an audit of functions. There are still a lot of papers circulating in Construction boards – a*

*“Municipal reform will improve efficiency in the public sector. Today the number of jobs we have is the same as in 2005, when we had many more people in the country. One big change is that today we have 15% fewer jobs in the public sector. The quicker our economy grows, the louder ‘Help! Our business is crashing!’ screams we will hear from the weak and inefficient companies, because more efficient businesses will outperform them.” (Finance and banking company)*

*“We have to pay adequate salaries. Do a functional audit. The public sector has to become service-oriented.” (Finance and banking company)*

*“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)*

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

*lot of those could be digitalized, I think. In areas where it is applicable, I would suggest trying the Agile methodology. It certainly wouldn't work everywhere, but in some areas, it can bring excellent improvements in efficiency.”*  
(Real estate company)

*“Change workforce structure, promote diversity, introduce more advanced technologies, invest in R&D. Revisit necessary amount of workforce in the public sector.”*  
(Retail trade and service company)

*“An important aspect in productivity in the public sector is communication – it seems like they don't communicate with each other.”*  
(Professional assurance and advisory services company)

*workforce for businesses.”* (Retail trade and service 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)

*“The salary level in many public administration organisations is inadequate. This restricts their ability to attract and retain talented, efficient people.”* (Retail trade and service 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)

Finally, given the digitalisation trend, we also asked **“Is your company working on digital solutions to reduce the negative effects of workforce shortage in the job market?”** As exemplified by quotes below, the answer is mostly “yes, we are”:

*“Yes, our company is working in order to develop digital solutions. Such solutions take time to develop as well as requiring considerable investments. It is worth noting that some of the digital solutions are not very straightforward to introduce due to Latvian tax requirements and legislation (for example, the legal requirement to have printed receipts for a purchase).”* (Retail trade and service company)

*“We continue to invest in IT tools. However, in our line of business we cannot replace people with robots.”* (Service company)

*“We are very efficient. There are two key elements for efficiency: following the execution process from A-Z, and investing into people and motivating them. We invest a lot in technologies, but people are our main asset.”* (Consultancy and ICT company)

*“We are not doing enough in this area. Our record-keeping and document circulation have*

*“We are doing a lot, because our customers demand convenient digital solutions. However, if we become 100% digital, then price becomes the only competitive factor. We don't want to end up there. We are looking for new ways to improve insurance services by integrating other services as well.”* (Finance and banking company)

*“We are trying, we are automating more processes, we also have a long way to go.”* (Professional assurance and advisory services company)

*“We are 100% digital. You will not find paper printouts in our office.”* (Consultancy and ICT company)

*“Increasing productivity is one of my priorities. Automation and digitalisation are some of the tools we are using to ensure continued profitability.”* (Professional assurance and advisory services company)

*been digitalised, which is very efficient. We hire young people and let them implement their ideas and initiatives.” (Real estate 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)*

*“There is a lot of potential, it is related to infrastructure, we are limited, with potential, but we are trying to reduce the problems caused by labour shortage. We are atomising certain specialisations, certain jobs. In the last year we had a 100% staff turnover.” (Service company)*

*“We can address the turnover of employees by standardising processes and looking for tools to replace human labour.” (Consultancy and ICT company)*

*“That is a big part of our work. For the past 4-5 years we have been using artificial intelligence systems to simplify the work of programmers.” (Consultancy and ICT company)*

*“We are developing automation solutions since 2011. Our company’s productivity has grown greatly, with the same number of employees. We are automating support functions and processes, decreasing circulation of paper documents.” (Wholesale and retail 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 and advisory services company)*

*“We are introducing new tools in the AML control area – automation of processes, machine learning.” (Finance and banking company)*

## **7. Further investment plans of foreign investors in Latvia**

As in the previous FICIL Sentiment Index studies, in the 2019 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 30 from the interviewed 47 investors answered with ‘yes’ (in the 2018 study 22 of 40 interviewed answered with ‘yes’; in the 2017 study: 24 of the 42 said ‘yes’), 12 said ‘no’ (as opposed to 14 who said ‘no’ in the 2018 study) and 5 answered that ‘it depends on the circumstances’ (5 in the 2018 study) or that they have not yet decided.**

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. 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***

*“Several tens of millions of euros in the next*

*“Yes, we have increased over the last year,*

*three years.” (Manufacturing company)*

*“For the past two years we have been investing around 30 million euros annually. In 2020, we plan to invest another 15 million euros. We are expanding our presence.” (Real estate 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)*

*“If geopolitical conditions improve, we could invest more in the future.” (Service company)*

*“Yes, we have plans to increase investment, we are planning on developing more, the amount and time frame is confidential.” (Professional assurance and advisory services company)*

*“We intend to grow and expand, because we see potential. At this point we have some 400 partners in Latvia, and there’s room for many more. Our mission is to develop the ecosystem, and we are putting special efforts into helping local IT companies to become exporters.” (Consultancy and ICT company)*

*especially with regard to the topic of stability of the financial sector, we are now expanding our operations orientated to abroad. We could even invest more potentially in the near future.” (Professional assurance and advisory services 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)*

*“We are planning quite a large investment. We are only limited by our caution concerning the situation in the global economy. We have a few large investment projects in our pipeline for the next 3-4 years.” (Retail trade and service company)*

*“Yes, we are growing. We will invest in working capital and in new facilities. During the next few years we plan to invest approximately 10 million euros.” (Wholesale and retail company)*

*“We are planning to expand our loan portfolio at a quicker pace than the overall economy (projected GDP growth rate).” (Finance and banking company)*

### ***No, we do not plan to increase investment***

*“Our company is currently going through a consolidation process with our organisation in Poland.” (Retail trade and service company)*

*“No plans at the moment.” (Consultancy and ICT company)*

*“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)*

### ***It depends on the circumstances***

*“We are planning currently, but everything depends on the available projects, the tax system and fair competition.” (Real estate company)*

*“Yes, 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)*

*“We are investing a lot as we speak, 70 million euros into new developments. We have an ambition to invest more. It’s more about finding investment opportunities, it’s difficult, because of the business cycle and competition. Access to finance, the status of the financial sector is important, taxation is important. If you feel the excessive taxation of commercial real estate, the project goes back to the boardroom for consideration. It’s not easy to find right opportunities.” (Real estate company)*

## **8. Mr. Prime Minister: you’ve got mail**

Finally, we asked foreign investors that took part in the FICIL Sentiment Index 2019 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:

*“Stand for reforms in favour of society not individuals, so improving fair competition. Go for rational, fact-based recommendations in a consistent way aligned between different ministries. Be a great conductor for the Cabinet of Ministers so listeners (society) can enjoy the symphony.” (Retail trade and service company)*

*“We should find a way to cooperate and work in a pragmatic manner with Eastern markets as well. Of course, it has to be done on terms which are acceptable for us. Now it seems that we are ignoring that we have neighbours on the Eastern side, which we can trade with and sell our products and services to. Meanwhile, Estonia and Lithuania are doing this, and benefiting from this cooperation.” (Service company)*

*“The most important thing is to maintain our direction towards integration in Europe. This creates a foundation for long-term business: European values, OECD standards and procedures. We should work more to reduce social inequality.” (Retail trade and service company)*

*“The coalition has one goal, so the government needs to pull it together. There is no need to focus on who is promising what and how, but focus on your own ministry and do as much good as possible. I trust Mr. Kariņš, he has good ideas and the right values, I hope he doesn’t lose focus. One person is not a fighter, when you have people around you who share your value system and are professionals, you can achieve more. We need to build a professional public sector with similar values to the Prime Minister. 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)*

*“You need to keep a straight back. The elections are behind us, and businesses are now expecting politicians to move from speeches to action. We need to work hard to be able to compete.” (Consultancy and ICT company)*

*“Latvia has one vote in many organisations: Latvia should actively fight for a free market, for the flow of the free market. As a country we have reached the level where we can actually promise foreign investors a level playing field, 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. A message to the Prime Minister – if we look at the waste management industry, fairness didn’t play a big role. We had foreign investors, but they all disappeared. Why? Because they realised it’s not possible to develop their businesses in this type of environment. We need to show investors that we understand the problem as a country and that we are dealing with it, transparency should be number one.” (Professional assurance and advisory services company)*

*“The level of taxes is not the most important thing. There are many countries where taxes are even higher. The problem is how these taxes are used. Being an entrepreneur, I am very frustrated to see how inefficiently public funding is often used, because I know that it could be used so much better. The main thing that has to be ensured is that tax money is used for the benefit of the whole society, not for the benefit of political parties, narrow interest groups or some oligarchs.” (Retail trade and service 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)*

*“Investment in the healthcare system is essential. We need 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. State institutions should accumulate more data and share them with the private sector.” (Wholesale and retail company)*

*“Our capital market is underdeveloped, and it holds a lot of potential. I think this is a good moment to put it to use. The government should list the minority shares of its companies in the stock exchange. There are major benefits. The government will not lose control. It will get additional money and, most importantly, a completely different mindset in the management of state-owned companies. The government is a very poor shareholder, and there is no pressure for efficiency and productivity in state-owned companies. Listing them on the stock exchange would inject pressure for increasing value and improving efficiency.” (Finance and banking company)*

*“Make it easier for companies to attract foreign workers.” (Service company)*

*“We need to fix the justice system. The Prosecution Office and courts are the weak links in the chain, and we need political will to fix it. Everyone – society, entrepreneurs, investors, international partners expect quick and efficient results. Merging the FCMC with the Central Bank is a good idea for such a small country.” (Finance and banking company)*

*“The government can be far removed from the real issues businesses are facing sometimes. So I hope the government gets the chance to really pay attention to the tax payers in their country. There are huge problems with availability of labour, productivity, predictability. These issues need to be addressed. They need to be more connected with the business environment.” (Consultancy and ICT company)*

*“You should have a clear strategy: what is the plan for Latvia? It will give everyone more clarity and predictability. You should continue fighting corruption. This will ensure businesses with a level playing field. Be progressive. Learn the best practice from elsewhere and apply it in Latvia. Keep your talent in Latvia.” (Retail trade and service company)*

*“We have to think about addressing inequality in our society. The divide between those who have a good job and retired or socially unprotected groups is becoming too wide. It is not sustainable. We have to be very intolerant against any attempts to pursue the business interests of the few at the expense of the entire society. It takes a lot of guts, I know. But cutting out such things will actually free up more resources for other things. For foreign investors, Riga is the first touchpoint. It is currently the only capital in our region, which is shrinking in terms of its people. There must be good reasons why people don't want to live in Riga. It should act as a magnet for people and businesses.” (Wholesale and retail company)*

*“Fix the studies financing system, so that the students can focus full-time on their studies, instead of working full-time, as is the norm currently. Otherwise we will never be able to compete with countries where students are studying full-time. In the short-term – we have to have more flexibility in attracting skilled people from abroad. The Investment and Development Agency of Latvia (IDAL) is responsible for attracting foreign investments. The first thing any foreign investor will ask – ok, how many people can I hire in Latvia? IDAL has no tools to address investors’ needs in terms of workforce. To me, this is a very inefficient setup, because most of the time the conversation with investors ends here. No-one is taking responsibility for properly addressing the workforce issue, and I think in this case the Prime Minister has to take this responsibility. It is the same problem with demography issues. No-one is taking the responsibility to do something about it.” (Consultancy and ICT company)*

*“You should simplify the income tax. Keep progressivity, but it has to be simple and sensible.” (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)*

*“In managing state-owned companies, you shouldn’t mix business with politics. For us as a foreign investor, the answer that the right decision that everyone agrees on will not be made due to political reasons, is an alarming signal. If the political agenda starts to dominate business logic, business will suffer, and it is already suffering. In the telecommunications industry we have to create an integrated operator like all other markets in Europe have done. It will bring huge synergies and tens of millions of euros to the state as a shareholder.” (Consultancy and ICT company)*

*“My opinion is that whenever I meet with public officials from the Ministry of Economics, it feels like they are living on another planet, they are so far removed from the real problems we deal with in the construction industry. Please make decisions based on people’s experiences, have a look around, see what is actually happening. Companies have so much information and statistics available; please make informed and balanced decisions, based on best practice, data, information and experience. Please talk to real people who deal with certain issues every day, they will give you a better idea of what needs to happen than public officials.” (Real estate company)*

*“You should review the tax system, focusing on corporate income tax, especially for service companies. Otherwise we are just paying more tax without any benefits. This works very well for companies that produce, but companies that provide services do not see any real benefits.” (Service company)*

*“Fix the excise tax. We feel that the lobbying by strong alcohol producers is very powerful. Latvia currently has the highest excise tax on beer between the Baltic countries. The beer industry employs many more people than the strong alcohol industry, and from a tax perspective we should incentivise people to choose light alcohol instead of strong alcohol.” (Manufacturing company)*

*“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. We have to fix the education system. Currently businesses have to re-train graduates before they are actually able to work. This is very inefficient.” (Manufacturing company)*

*“We should have a clear vision as a country. What are our priorities and our strengths, in which direction are we heading? We have to work with Latvia’s image. Estonia has done an excellent job in 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 service centres. What is our profile? That is the first thing we should do. When we have a clear vision of our own, we should work very closely with Lithuania and Estonia to market the Baltic region globally. Separately we*

*are very small, but we can be noticed if we act together.” (Professional assurance and advisory services 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)*

*“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)*

*“The government should pay attention to what businesses are saying, and be very clear in this dialogue. For businesses, uncertainty is worse than a ‘no’. We need clear communication and traceable follow-up on initiatives that both sides agree to implement.” (Consultancy and ICT company)*

*“In general, we still hold the view that Latvia needs reforms. They will not always be beneficial for pleasing everyone, but I would urge the Prime Minister to be bold and take risks. Decisive reforms, courage to go for forward-looking and long-term solutions!” (Consultancy and ICT company)*

*“Intensify structural reforms, to make the economy more efficient, to free up labour capacity. At the moment there is too much public sector spending and bureaucracy, which should be sped up for more productive use. The Investment and Development Agency of Latvia should have KPIs, how much investment is attracted for the number of people they currently employ. Benchmark innovation and technologies, best practices, no need to re-invent the wheel. Reforms are so needed in Latvia, more than in other countries. When the country is experiencing good times, reforms need to happen. Recession is a bad time for reforms.” (Real estate company)*

*“Bring back the brains and leaders who have left the country during previous years. Ensure equal treatment for investors and local companies.” (Wholesale and retail company)*

*“We now feel a very acute lack of workforce. Next, we will start to experience falling turnovers because there will not be enough consumers. This leads to a downward spiral. We have to find a way to break this trend. We know that demographic trends cannot be turned around in a year or two. But this problem will not solve itself! Obviously, before we have more babies and more people returning from abroad, we have to attract working hands from abroad – at least as a temporary measure.” (Retail trade and service company)*

*“Don’t be afraid of reforms. Less compromise, and more focus on long-term benefits for our economy. Stay in your job. Companies trust you.” (Retail trade and service company)*

*“One of the main topics of concern is higher education and science in Latvia. Our request to the government would be to first focus on those areas that are clearly lagging behind, for example the governance of universities. 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)*

*“Finish what you have started. You have thrown a lot of balls in the air, now you need to catch them. Finish the municipal reform. Avoid the grey-list. Address the lack of workforce. Improve governance of universities.” (Finance and banking company)*

*“I would like to see more trust from the public sector in honest businesses. I think the government should apply the Pareto principle by putting 80% of resources to control the 20% of companies who are*

*dishonest, and 20% of resources to control the 80% of companies which are honest. Our main priority should be looking for the best ways to develop and improve the talents of our people. This depends very much on the quality and competitiveness of our education system.” (Consultancy and ICT company)*

*“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. Predictability and clarity are key expectations from the public sector for many investors.” (Professional assurance and advisory services company)*

*“Stability and sustainability of decisions. Fierce and non-compromised elimination of the shadow economy, corruption and ensuring judicial independence. Further improvements in governmental and especially municipal efficiency and reasonable implementation of regional reform (generally positive, but importance of reasonable implementation is crucial).” (Manufacturing company)*

*“As a small country, we can’t afford to do things inefficiently. We arrive at inefficient solutions through agreeing to too many compromises. We need more courage to opt for the best choices. And we need more courage to fix things that are not working. I see many inefficiencies in terms of solving social problems through IT systems. We need to be better at assessing the impact of decisions in the public sector. So far, the analytical part in making major decisions in most cases is shockingly primitive.” (Service company)*

*“If we wish to be taken seriously about combating economic and financial crime, we need to fix the Prosecution Office and courts. Inefficiency of these institutions undermines the whole justice system. In general, the Prosecution Office and courts are the weak links where all processes seem to get stuck. Please fix it ASAP. You should probably start by changing the mindset in these organisations. Replace old, stagnant people with young, ambitious and results-driven people.” (Finance and banking company)*

*“We should push for digitalisation in the construction industry. Construction information system is one tool for this purpose. The government should find a way to support the introduction of digital solutions in the construction industry. This will unlock new potential for our competitiveness. It is time for our industry to change its habits.” (Manufacturing company)*

*“Education is the most important thing. In higher education we need less fragmentation and a much stronger accent on practical application of knowledge and skills. We should be much smarter and more demanding in distributing taxpayers’ money in the education system. We have to teach exact subjects (mathematics, physics, biology, etc.) in a much more attractive and interesting way. Otherwise we will never have enough graduates in STEM sciences.” (Consultancy and ICT company)*

*“Return to basic foundations - stability, predictability and transparency, accompanied by a constructive and timely dialogue with the industry and stakeholders.” (Service company)*

*“We expect stability of the tax policy or at least confidence that new taxes or tax burdens will not be created for business. Also, the number of sick leave certificates is growing. Employees realise that there are no strict controls, so they start to use it as a kind of ‘vacation’. We would suggest analysing the experience of other Baltic countries, reviewing the process of issuing sick leave certificates in Latvia and verifying the justification. However, our main challenge is the availability of workforce. We see that this could be addressed through bringing in seasonal workers, setting up minimum requirements, including salary, for industries, and simplifying immigration control processes.” (Manufacturing company)*

## Appendix 1. Guidelines for interviews: 2019 study

### FICIL Sentiment Index 2015-2019

#### Interview Guidelines

1. During the previous FICIL High Council we discussed a number of issues that are of a priority to foreign investors and policy-makers agreed to find solutions for most of them. Even though only just over six months have passed since then, we would still like to ask your opinion about the situation and progress with regard to some of those issues:

- a. Tax system in Latvia

**Please evaluate the results of the previous tax reform in Latvia** Scale 1-5, where ‘1’ is unsuccessful and ‘5’ is very successful

*Please comment: Has it brought any benefits to your company and the economy of Latvia in general? Please be as specific as possible.*

*What changes in the tax system (types of taxes, size of taxes, etc.) would you suggest to the new government and why? Please also highlight what, in your opinion, policy-makers should definitely not do!*

- b. Quality of university education and science in Latvia

*Do you know of any activities that policy-makers have carried out during the past year to improve the situation?*

*What changes would you suggest to improve the quality of education and science in Latvia and why? How would this help the business environment, e.g. companies such as yours?*

- c. Financial sector stability in Latvia

**Please assess the progress with regard to the effectiveness of combating economic and financial crime in Latvia**

Scale 1-5, where ‘1’ is no progress and ‘5’ is a lot of progress

*Have you felt any negative effects on your company with regard to the situations in the financial sector over the past 2 years?*

*Do you know of any activities that policy-makers have carried out during the past year to improve the situation?*

*What changes would you suggest in this regard? Please be as specific as possible.*

*Please assess whether activities that were implemented recently to react to the Moneyval recommendations has either positively or negatively influenced your business and the business climate in Latvia in general?*

- d. Productivity of workforce in Latvia

*Do you know of any activities that policy-makers in Latvia have carried out during this year to improve the overall level of the productivity of workforce in Latvia?*

*In your opinion, what could policy-makers do to improve productivity of workforce? Could you please suggest the main priorities - activities that policy-makers should implement in Latvia to improve the productivity of workforce?*

*In your opinion, what should policy-makers do in order to improve productivity of workforce in the public sector?*

*Is your company working on digital solutions to reduce the negative effects of workforce shortage in the job market?*

2. 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 uncompetitive) – ‘5’ (very competitive)
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	
Digitalisation	
Energy resources	
<i>Other (please specify)</i>	

3. 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 an improvement: (i) yes- Y, (ii) partly- P, (iii) no-N, and ask for a very brief comment)*

				<i>Comment: how crucial are these issues, are there any good initiatives that have been implemented by policy-makers, is there a 'light at the end of tunnel'?</i>
Demography				
Access to Labour				
-Blue collar				
-White collar				
Level of higher 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				

**4. Please assess the work of the Latvian policy-makers that has been done to improve the investment climate in Latvia during the previous 12 months on a scale of 1 to 5 (where '1' is fail, '3' is average and '5' is excellent)**

1	2	3	4	5
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**Comment:**

**5. Overall, from your investor's perspective 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:*

**6. Does your company plan to increase investment in Latvia? If yes, under what circumstances and in what period/ amount? If no, why?**

*Comment:*

**7. Your message to the Prime Minister that we deliver in a sealed 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 2019 study.**

**Accenture** is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialised skills across more than 40 industries and all business functions – underpinned by the world’s largest delivery network – Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With more than 394,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives.

### **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.

### **All Media 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.

**Amber Beverage Group** (ABG) is a leading producer, distributor, logistics provider and retailer of beverages. It operates internationally from its head office in Luxembourg and through its production and distribution companies in Russia, Mexico, the UK, Australia and the Baltics, its historical home. ABG produces, bottles, markets, distributes, exports or retails a comprehensive range of beverages of more than 600 own and third party brands. It has its own brand portfolio of over 200 brands, and exports its global brands as Riga Black Balsam®, Moskovskaya® Vodka, Cross Keys Gin®, Rooster Rojo® tequila and Cosmopolitan Diva® to over 70 active global markets.

### **Balta** (part of PZU Group)

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 (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.

**BITE** is the fastest-growing mobile communication operator in Latvia, for already more than fourteen years providing modern, innovative mobile communication services matching the customers' desires and needs. Currently, more than 20 000 companies have chosen BITE as their information technology and telecommunication services provider. BITE annually invests approximately 10% of its turnover in development of its network infrastructure and services. Currently, the powerful BITE 4G Internet is already available for 99.99% of the country's residents, this is also a reason for introduction of the 5G network. BITE's first 5G station was built in June 2019.

### **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 addition, under licensing agreements, approximately 2,250 stores are operated under the Circle K banner in 16 other countries and territories (Cambodia, China, Costa Rica, Egypt, Guam, Honduras, Hong Kong, Indonesia, Jamaica, Macau, Mexico, Mongolia, New Zealand, Saudi Arabia, the United Arab Emirates and Vietnam), which brings the worldwide total network to more than 16,000 stores.

### **Citadele**

Citadele's mission is to modernise the banking sector and offer more opportunities to individuals and businesses throughout the Baltic. We aim to become the Baltic banking champions. Alongside classic banking services, Citadele offers its clients a range of services based on next-generation financial technology, including its modern app, contactless payments and instant payments. We are the first in the Baltics launching an opportunity to open an account with a selfie, and using the Bank of Latvia's Instant Link registry to pay to mobile numbers. Citadele is the third largest bank in Latvia by number of clients, and second by number of business clients. The Citadele group is managed from Latvia. Its subsidiaries and branches operate in Latvia, Lithuania and Estonia.

### **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.

**Cognizant** is one of the world's leading professional services companies, transforming clients' business, operating and technology models for the digital era. Our industry-based, consultative approach helps many of the best-known organisations in every industry and geography envisage, build and run more innovative, efficient businesses. We help clients get digital done at scale and speed—the scale needed to transform their complex organisations to capitalise on the tremendous opportunities made possible by the latest technologies and at the speed expected by their customers, partners and owners. When we do digital at scale for clients, we systematically rethink how they create value everywhere in their organisations. Cognizant Latvia is one of the latest editions of the Cognizant delivery network in Europe, where the focus area is to deliver a full cycle of IT services from nearshore locations in Europe. Cognizant Latvia engages major European companies to deliver on the customer's partner strategy for vendor consolidation and Business Support Services (BSS) stack application transformation to enable digital vision.

### **Emergn**

From the start, Emergn has sought to create lasting, positive change by supporting the people who drive innovation forward. Over the years, we've added new talent, capabilities and services so that we can continue to deliver exceptional work to global corporations. Our consultants understand the strategies, tools, and processes that enterprises often want to adopt, and rather than recommend generic bolt-on solutions, we take an inside-out approach to implement long-lasting change from the ground up.

We bring that change to life in innovative products and services that we co-create with our clients. Our engineering team has more than two decades of experience delivering tailor-made solutions across a variety of technology platforms and languages. Today, the Emergn team is based in the U.S. (Boston and Bentonville), Ireland (Dublin), the UK (London), Latvia (Riga, Jelgava, Liepaja and Ventspils), Ukraine (Dnipro) and Russia (St Petersburg and Nizhny Novgorod).

**Enefit** is a subsidiary company of the largest electricity producer in the Baltics, Eesti Energia. Enefit is the second largest energy trader in Latvia with more than 10 years of experience. In addition to a wide range of energy products, Enefit offers technical solutions and support tools for boosting energy efficiency.

### **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** 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 69 offices and 34 countries. This year Eversheds Sutherland Bitāns celebrated its 20 years anniversary in Latvia. The law office provides full service legal assistance in all areas of business law.

**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 7,500 people with a majority being based in Latvia, Georgia and Malta. The parent company is domiciled in Sweden.

**Fortum** is a leading clean-energy company that provides its customers with electricity, heating and cooling as well as smart solutions to improve resource efficiency. Fortum wants to engage its customers and society to join the change for a cleaner world. Fortum has operated in Latvia since 2007, and since 2008 is the district heating operator in Jelgava city. Electricity produced in Jelgava power plant is sold in the 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.

**Intrum** is the industry-leading provider of Credit Management Services with a presence in 24 markets in Europe. Intrum helps companies prosper by offering solutions designed to improve cash flows and long-term profitability and by caring for their customers. To ensure that individuals and companies get the support they need to become free from debt is one important part of the company's mission. Intrum has circa 10,000 dedicated professionals who serve around 80,000 companies across Europe. In 2018, revenues amounted to SEK 13.4 billion. Intrum is headquartered in Stockholm, Sweden and the Intrum share is listed on the Nasdaq Stockholm exchange.

### **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 250 production facilities and sales organisations in over 86 countries and 35 000 employees worldwide. The Latvian branch of the company was established in 1994 and employs 196 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 153 countries. Collectively, they employ more than 207 000 people across a range of disciplines. In Latvia, KPMG was established in 1994 and it operates within KPMG in Central and Eastern Europe.

### **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 centre 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 700 million euros.

**Luminor** is the third-largest provider of financial services in the Baltics, with approximately 1 million clients, 2500 employees, and a market share of 16.8% in deposits and 19.5% in lending as at the end of the third quarter of 2019. The total shareholders' equity amounts to 1.6 billion euros and Luminor is capitalised with a CET1 ratio of 18.7%.

### **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 40 000 employees in five countries – Lithuania, Latvia, Estonia, Poland and Bulgaria.

**Microsoft** enables digital transformation for the era of an intelligent cloud and an intelligent edge. Its mission is to empower every person and every organisation on the planet to achieve more. Microsoft refers to Microsoft Corp. and its affiliates, including Microsoft Mobile Oy, a subsidiary of Microsoft. Microsoft Mobile Oy develops, manufactures and distributes Nokia X mobile phones and other devices..

### **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.

**Narvesen** is the leading retail franchise network, which provides a convenient opportunity to purchase everyday goods and services to quickly restore energy. Since 1997, Narvesen has been a successful convenience store chain with 235 stores in 36 cities. Narvesen offers a diverse range of fresh and tasty dishes, refreshing drinks and a wide selection of the latest press editions. 75% of people living in Latvia visit Narvesen daily. In Latvia, the franchise network offers a workplace for more than 650 people, including franchisees. Today, after 21 years of experience, Narvesen is perceived as a high value brand in Latvia. Narvesen is a fast-growing retail shop network and a market leader in the convenience sector, and will continue its growth also in 2020, when "Coffee Inn" (owner of the coffee shop chain "Caffeine Roasters") will join "Narvesen Baltija".

**Nasdaq Baltic** operates three stock exchanges – in Estonia, Latvia and Lithuania – and the Nasdaq CSD under one Baltic roof, providing the capital market infrastructure across the whole value chain – from listing, trading, and market data to clearing and settlement and safe-keeping of securities. Nasdaq Baltic exchanges are a part of the world's largest exchange group Nasdaq, Inc., thus ensuring great confidence in the Baltic securities market for international investors, offering a market infrastructure in accordance with the international industry standards, the world's fastest trading platform and high listing standards.

### **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 75 fuel stations in Latvia.

**Orkla Latvija** – is one of the leading fast-moving consumer goods organisations in the Baltic States. Orkla Latvija combines two companies – “Orkla Confectionery & Snacks Latvija” Ltd and “Orkla Foods Latvija” Ltd, with a total turnover of EUR 116.1 million in 2018. The company represents the following brands: Laima, Selga, Staburadze, Ādažu Čipsi, Spilva, Gutta, Everest, Latplanta, Pedro as well as managing Laima Chocolate Museum. Orkla Latvija employs more than 1200 employees, exports goods to over 30 countries and currently has 5 factories. The company is building a new factory for the most beloved food brand in Latvia – Laima, and announced it will build a biscuit and wafer competence centre in the country by 2022.

### **PricewaterhouseCoopers**

At PwC, the purpose is to build trust in society and solve important problems. PwC is a network of firms in 157 countries with more than 276 000 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 four chains – Rimi Hyper, Rimi Super, Rimi Mini and Rimi Express. The company employs over 11 200 people in all three Baltic countries. Rimi Latvia currently operates 124 stores and employs more than 5000 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.

**SCHWENK Latvija** is a leading building materials producer and the only cement producer in Latvia, since 2019 – part of the SCHWENK Building materials group. SCHWENK Group was founded in 1847 in Ulm, Germany, by Eduard Schwenk and is still a family owned business. Apart from being among the oldest in the industry, it is also one of the most innovative ones.

### **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 33 000 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 Centre and provides a variety of services to Solvay Group, such as Accounting, IS helpdesk, Data management, Customer Services, etc.

### **Swedbank**

Swedbank's roots are firmly entrenched in Sweden's savings bank history, the cooperative agricultural bank tradition and Hansabank's major role in the Baltic countries. We serve everyone, from customers with basic needs to those who require advanced banking services. We work to develop close relationships with our seven million private customers and 600 000 corporate customers. To support their businesses, Swedbank also has operations in Norway, Finland, Denmark, the US, China, Luxembourg and South Africa.

**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 21 countries, 76 airports, and serves around 1 million flights with more than 152 million passengers. In Riga International Airport TAV Airports Holding is represented by six TAV group companies - TAV Latvia is operating in commercial areas, ATU - Duty Free, BTA - Food & Beverage, TAV Operation Services - Business Lounge, HAVAŞ - Ground Handling and TAV IT - Solutions, with approximately 650 employees in total. TAV Latvia is in charge of all commercial areas of RIX that are 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.

### **TIETO Latvia**

With more than 750 employees, Tieto Latvia ranks among the leading information technology companies in Baltics. Our company specialises in complex, large and vital information system development, implementation, integration, customisation and maintenance - enterprise resource planning (ERP) systems to optimise and automate processes by introducing self-and other online services, web solutions, data warehouse development, business intelligence solutions as well as software product development for issuing payment cards, acquiring, processing, u-commerce, terminal network management, scoring, risk management, loyalty and reporting. In Latvia, 3 of Tieto's major business areas are represented - Financial Services, Digital Experience as well as Hybrid Infra; each of these providing value added services to our customers - public and government institutions, private companies-utilities, retail and logistics, banks and financial institutions in the Baltics, Europe, Russia, CIS and Africa. Furthermore, Tieto Latvia houses Tieto Global Shared Service Centre which is one of the first shared service centres in Latvia.

**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 Tet 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 Group** is an international real estate organisation with over 30 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** (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.

**Visma** delivers software that simplifies and digitises core business processes in the private and public sector. With presence across the entire Nordic region along with Benelux, Central and Eastern Europe, Visma is one of Europe's leading software companies.

The Visma group consists of over 200 companies across 16 countries worldwide, employing more than 10 000 people and serving more than a million customers. The company's headquarters are located in Oslo, Norway. Visma Group is represented by 3 companies in Latvia. Visma Enterprise is the market leader in the field of ERP, BI and HRM 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 more than 200 specialists.

**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.