



SSE RIGA

# FICIL Sentiment Index 2015 – 2021 ELECTION EDITION

Arnis Sauka



FOREIGN INVESTORS  
COUNCIL IN LATVIA

## About the author



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## Foreword

There has been a string of various challenges coming our way over the last few years starting with a global pandemic that changed the way we carry out mundane tasks to how we plan business ventures. Currently, we are mostly preoccupied with the ongoing war in the region. Russia's senseless aggression and invasion of Ukraine has severely impacted the whole region, it is vital that companies currently lend a hand in whatever way possible to help all those affected.

We will not be able to escape the fact that we have an upcoming election only in a few months, many different topics come into the forefront when discussing what and how needs to be changed in the country. FICIL has always been a critical friend to the Government and public sector, putting forward recommendations on how to improve the business environment so we can increase the amount of investment in Latvia.

More focus should be put on investment security and predictability of the investment climate. Foreign investors are still the ones who contribute greatly to the state budget, and with all the upcoming challenges that Latvia will have to deal with – we need to look more at how we will make up the necessary resources to carry out various reforms and plans that are currently in place. EU Green Deal goals are at the top of the list, with a specific focus on energy independence, energy security. Combatting shadow economy should also be one of the main topics being tackled with comprehensive action that brings real change. Society as well as investors need to see tangible change that can increase trust in public sector representatives, including politicians.

We see public sector transformation as a precondition for further positive changes and economy development. Competent, fairly-compensated professionals that can tackle cross sectoral issues at a high quality and responsibility level – this should be the basis for our public sector transformation. It is time we reevaluate if the system that was created decades ago can serve Latvia, as we head into the next years with unprecedented challenges for everyone, society, public and private sector.

FICIL Sentiment Index serves as a temperature measurement each year to let our cooperation partners know what are the most pressing issues at the forefront and solutions the business community can identify for various issues. This time we asked the investors to evaluate the Governments work since the last election that took place in 2018. It is understandable that many larger reforms and transformations that need to take place, can not be carried out in one or two years, but it is vital that we see movement in the right direction. It is also important that the representatives in Saeima and the Government can manage solving long standing problems alongside of any crisis that may come along. FICIL would like to see Latvia as the most attractive and secure place for investment in the Baltic Sea region, and we believe cooperation based on expertise and problem-solving, would achieve economic development for Latvia.

Zlata Elksniņa-Zaščirinska  
FICIL Chairperson of the Board

## Executive Summary

This is the seventh FICIL Sentiment Index report, following the six previous reports written from 2015 to 2020. 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. Given, that on October 1, 2022, the elections of the 14<sup>th</sup> Parliament of Latvia will take place, the focus of this report is to evaluate the Government's efforts towards improving the investment climate in Latvia during the previous 4 years, as well as to provide suggestions to the incoming Government of Latvia.

The FICIL Sentiment Index draws on a survey: mini case studies of foreign investors in Latvia. From December 2021 to February 2022, we interviewed 53 senior executives representing companies that are key investors in Latvia. Altogether, these companies (including their subsidiaries) contribute to 25% of Latvia's total tax revenue and employ 15% of the total workforce of companies with an annual turnover above 145 000 EUR and 50% foreign capital (data from Lursoft, 2020). The guidelines for the mini case studies were developed by Professor Arnis Sauka (SSE Riga) with input from the FICIL office. The interviews were conducted by the FICIL board members.

One of the key aims of the FICIL Sentiment Index is to measure the progress of the investment climate development in Latvia. Investors are asked to assess whether the investment appeal of Latvia has improved over the past 4 years, using a 5-point scale, where '1' means that the investment appeal has not improved at all, '3' means that there have been some positive improvements, and '5' means yes, investment appeal has improved significantly. ***Our findings reveal that on average, the investment appeal of Latvia over the past 4 years (2018-2021) was evaluated by foreign investors with '2.9'.*** This is slightly better than the assessment in the previous years, where investors were asked to evaluate whether the investment appeal of Latvia had improved in the previous 12 months.

Our findings also show that ***on average, foreign investors evaluate the efforts of policy-makers to improve the investment climate over the past 4 years (2018-2021) as 2.9 out of 5 (where 5 is excellent).*** In previous FICIL Sentiment Index studies, between 2016-2020, however, this figure ranged from 2.3 in 2016 to 3.1 in 2020.

Traditionally, in the FICIL Sentiment Index study, we 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.*** Given the focus of this report, in the 2021 survey, we asked foreign investors whether, in their opinion, there had been any progress in the previous 4

years within these areas of concern. The results of 2021 FICIL Sentiment Index study suggest that foreign investors have seen the least progress within the following three areas: *demography* (with 41 out of 53 investors reporting no progress), *access to labour* (with 37 out of 53 investors reporting no progress), and *uncertainty* (30 reporting no progress). 22 investors see no progress in the *level of higher education and science* in Latvia, whereas 14 think that partial progress has been achieved and 18 investors that took part in 2021 study believe that progress has been achieved in the previous 4 years in the level of higher education and science.

We also asked foreign investors in Latvia for *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 and emerged from in-depth discussions within the FICIL Sustainable Economic Development Work Group in 2015. 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 - the FICIL Sentiment Index was calculated as a simple average for each indicator.

Our results suggest that for all seven years (2015, 2016, 2017, 2018, 2019, 2020 and 2021 studies) foreign investors in Latvia mostly evaluated the potential drivers of the economy as above average. More specifically, in 2021, we see that the evaluation of the indicator ‘*attitude towards foreign investors*’, which was evaluated as high as 3.6 out of 5, has remained at a similar same level to that in 2020 and 2019 (both: 3.7, as compared to 3.6 in 2018, 3.1 in 2017 and 3.2 in 2015 and 2016). Similarly to previous years, in 2020 investors were also relatively satisfied with the ‘*soft infrastructure*’, measured as ‘*business culture in Latvia*’ (3.5 out of 5 in 2021 as compared to 3.5 in 2020 and 3.4 in 2019). Also, the evaluation of the ‘*demand for products and services*’ and ‘*quality of business legislation*’ remained at the same level in 2021, as in 2020 (3.4 and 3.3, accordingly). Yet investors continue to be least satisfied with ‘*demography*’, which was evaluated by foreign investors as low as 1.8 out out 5 in 2021 (2.0 out of 5 in 2020, 1.5 out of 5 in 2019).

The investors’ assessment of the quality of the ‘*health and social system*’ and ‘*quality of education and science*’ in 2021 has decreased slightly as compared to 2020 (from 3.0 to 2.9). The *efficiency of labour*’ evaluation, however, increased slightly - from 3.1 in 2019 to 3.2 in 2020, whereas the indicator ‘*investment incentives*’ remained at the same level (2.8). Evaluation of the indicator ‘*hard infrastructure*’ dropped from 3.4 in 2020 to 3.0 in 2021, mainly driven by a sharp decrease of the sub-indicator ‘*energy resources*’ (from 3.5 to 2.6). The evaluation indicator ‘*availability of labour*’ also decreased substantially: from 3.1 in 2020 to 2.7 in 2021. Finally, the ‘*standard of living in Latvia*’ has been evaluated with 3.5 out of 5 in 2021, which is lower than in 2020 (3.8).

In the 2021 Sentiment Index study we asked foreign investors to identify up to 3 of the best decisions or policy initiatives, as well as up to 3 of the worst policy initiatives introduced by the

Latvian Government or Parliament over the previous 4 years, that, accordingly, had a positive or negative impact on the business environment of Latvia.

***Progress in the tax system***, in particular implementation of 0% tax on reinvested profit, improved predictability of the tax system and was mentioned as one of the key best decisions or policy initiatives that have been introduced over the previous 4 years by the Government of Latvia. Other key best decisions, according to foreign investors of Latvia, are: ***the commencement of and, in some cases, also progress with the higher education reform; improved efficiency of various state organisations and processes*** - including digital transformation of the public sector, progress in the work of the State Revenue Service, Competition Council and Latvian Investment and Development Agency, positive changes in the civil servant recruiting process, ***implementation of administrative territorial reform***. A considerable proportion of foreign investors that took part in the 2021 study also appreciate the ***support to business that has been provided during the Covid-19 crisis, Covid-19 crisis management*** as well as the ***work of the government institutions to improve the financial sector stability in Latvia, and introduction of the economic court***.

To a considerably less extent, foreign investors also named a number of other best decisions or policy initiatives, such as, Rail Baltica, mandatory vaccination, rent law, deposit system, merging of the Bank of Latvia and the Financial and Capital Markets Commission, introduction of start-up legislation, port governance changes, as well as a number of other policy initiatives.

Some of the decisions or policy initiatives that appeared among the best, however, were also highlighted by many foreign investors as being the **worst ones** to have been implemented over the past 4 years. Namely, foreign investors are ***not satisfied with the effectiveness of governance and planning within the work of Parliament over the past 4 years***. In this light, the inability to focus on the long-term issues and the inability to set clear goals, short-term thinking and a lack of strategic focus, a lack of support from the policy-makers to improve the investment climate and overall business climate in Latvia are highlighted, cooperation practices of the Government with the private sector, a lack of expertise, as well as problems with regards to the implementation of the recovery and resilience plan are all highlighted as major shortcomings. Not least, investors clearly highlight major challenges with regards to the ***availability of a labour force and the skillset of people***, including challenges in the availability of labour in general, problems with regards to hiring labour from other countries – an ineffective immigration policy, policies for attracting qualified experts, policies to up-skill the labour. To a similar extent, investors seem to be unhappy with regards to the ***Covid-19 policy*** as implemented by the Latvian government - many changes, often hastily made decisions that are hard to understand, the speed of response, and often also a lack of decision-making in the crisis situation.

A considerable number of foreign investors that took part in the 2021 study are also unsatisfied with the recent ***tax reform*** and ***changes in the anti-money laundering legislation*** - in particular the overly stringent banking regulation. Other important areas where, according to foreign investors, the Government made bad decisions, include the ***health system*** (remuneration, lack of

optimisation, providing funding), the **Green Deal** (a lack of clarity about what it is and what will be done, no clear strategy, inconsistency), a **lack of progress to solve the Mandatory Purchase Component** (OIK) issue, governance of state owned companies, as well as a number of other decisions or policy initiatives.

As in the previous FICIL Sentiment Index studies, in the 2021 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, 35 of 53 investors answered with ‘yes’ (in the 2020 survey this figure was 30 from the 44 interviewed, in 2019 - 30 from 47, in 2018 - 22 out of 40 answered with ‘yes’; in the 2017 study - 24 of the 42 said ‘yes’), 11 said ‘no’ (as opposed to 12, 12, and 14 who said ‘no’ in the 2020, 2019 and 2018 studies respectively) and 8 answered that ‘it depends on the circumstances’ (compared to 2 in the 2020 study, 5 in 2019 and 5 in 2018) or that they have not yet decided.

One of the key aims of the current FICIL Sentiment Index study is to provide suggestions to the policy-makers of Latvia from the foreign investors in Latvia with regards to the top priorities that should be implemented in order to improve the state of the Latvian economy. We recommend including these suggestions in the economic development programmes of the political parties and, more importantly, implement them over the next four years. Namely, in the 2021 study we asked foreign investors in Latvia: “Please name 3-4 priorities that the next Government of Latvia should implement during the next 4 years to improve the state of the Latvian economy?” We summarised the answers depending on how often investors named each of the priorities, and also whether it was mentioned as a 1<sup>st</sup>, 2<sup>nd</sup> or 3<sup>rd</sup> priority.

The top priority that stands out, is dealing with the **availability and qualifications of the labour force in Latvia - as many as 19 from 53 investors that took part in the interviews emphasised this issue as priority number 1, but 5 and 1 mentioned it as priority 2 and 3**. Namely, foreign investors highlight the need to focus on improving accessibility to the workforce in general, increasing the remigration of Latvians who live abroad and resolving immigration issues to attract labour to Latvia. Investors also highlight the need to solve demographic issues, which is, of course, closely linked with the availability of labour in Latvia.

Next, **improving the education standards in general and labour force qualifications or requalification**, is highlighted as the second most important activity that needs to be addressed by the next government over the coming 4 years. Not least, investors draw the attention of the next government towards working on the **Green Deal implementation** and also highlight the need **to improve the investment appeal of Latvia**.

Furthermore, **implementation of the public sector reform, taking care of the healthcare system, diversification of energy resources**, and **ensuring better cooperation** - between the ministries and public sector institutions, as well as the public sector and private sector, are highlighted as important aspects that should be addressed during the next 4 years. Other issues mentioned by the

foreign investors in Latvia are *addressing the shadow economy, implementing the Rail Baltica project*, working on *competitiveness of the tax system* and the *digital agenda*, as well as *other activities* that are summarised in Appendix 4 in the form of quotes from the interviews in 2021.

During the 2021 FICIL Sentiment Index interviews we also asked the foreign investors in Latvia to evaluate the current efforts of the Government of Latvia to implement the “European Green Deal” strategy in Latvia. Evaluation was offered on the scale of 1 to 5, where ‘1’ is fail, ‘3’ is average and ‘5’ is excellent. ***On average, foreign investors evaluated these efforts with 2.2, thus, relatively low.*** Three priorities that should be implemented by the policy-makers in order to introduce the Green Deal were mostly highlighted by the investors that took part in the 2021 study: *clear plans and proper governance of the Green Deal; involving experts, educating policy-makers, setting clear KPIs, making data-based decisions: educate, create awareness and support companies and individuals; develop renewable energy resources.*

Finally, we asked foreign investors that took part in the FICIL Sentiment Index 2021 to post a message to the Prime Minister of Latvia: one to two paragraphs 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 2021 FICIL Sentiment Index study, also highlight the need to continue the efforts by policy-makers 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.

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## 1. Introduction and methodology

This is the seventh FICIL Sentiment Index report, following the six previous reports written in 2015, 2016, 2017, 2018, 2019 and 2020. 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.

Traditionally, the FICIL Sentiment Index report aims to explore whether, according to foreign investors in Latvia, there has been progress in the development of the investment climate in Latvia. This FICIL Sentiment Index report is an election edition. Namely, given that, on October 1, 2022, the elections of the 14<sup>th</sup> Parliament of Latvia will take place, the focus of this report is to evaluate the Government's efforts towards improving the investment climate in Latvia during the previous 4 years, as well as to provide suggestions to the incoming Government of Latvia.

The FICIL Sentiment Index draws on a survey: mini case studies of foreign investors in Latvia. From December 2021 to February 2022, we interviewed 53 senior executives representing companies that are key investors in Latvia. Altogether, these companies (including their subsidiaries) contribute to 25% of Latvia's total tax revenue and employ 15% of the total workforce of companies with an annual turnover above 145 000 EUR and 50% foreign capital (data from Lursoft, 2020). The 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 FICIL office. The interviews were conducted by the FICIL board members. The guidelines for the interviews are presented in Appendix 1 and consist of the following key parts:

We started the FICIL 2021 Sentiment Index survey by asking the key foreign investors whether there has there been any progress during the previous 4 years within the following major areas of concern, as expressed by the foreign investors in Latvia previously, with respect to development of their business in Latvia:

- 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

In addition, investors were asked to evaluate each of the key drivers of Latvia's economic competitiveness: 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 (which the 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, and energy resources.

We continued with the investors' assessment of the work of Latvian policy-makers in improving the investment climate in Latvia during the previous 4 years and an assessment of whether, according to foreign investors, the investment appeal of Latvia has improved during the previous 4 years. Furthermore, each investor that took part in this study was asked to identify up to 3 best decisions or policy initiatives, as well as up to 3 worst policy initiatives introduced by the Latvian Government or Parliament over the previous 4 years, that, accordingly, had a positive or negative impact on the business environment of Latvia.

As in previous years, we asked foreign investors whether, and under what conditions, they plan to increase their investments in Latvia. This year we also asked investors to name 3-4 priorities- that the next Government of Latvia should implement during the next 4 years to improve the state of the Latvian economy. In addition, this year foreign investors were asked to evaluate the current efforts of the Government of Latvia to implement the "European Green Deal" strategy in Latvia and name up to 3 priorities that should be tackled by the Government or specific ministries within the next 4 years to successfully implement the Green Deal in Latvia.

Finally, similarly to previous years, in the previous studies we asked foreign investors in Latvia to write a short message to the Prime Minister of Latvia: one or two paragraphs 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 provide policy-makers with better grounds for making informed policy decisions to improve the overall competitiveness of the investment climate in Latvia.

## 2. The appeal of the investment climate in Latvia: 4 years' perspective

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, investors in the 2021 survey were asked for their perspective on whether the investment appeal of Latvia has improved over the past 4 years. Investors could evaluate the improvement of the investment appeal of Latvia using a 5-point scale, where '1' means that the investment appeal 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 appeal has improved and '5' means yes, investment appeal has improved significantly.

*Our findings reveal that on average, the investment appeal of Latvia over the past 4 years (2018-2021) was evaluated by foreign investors with '2.9'.* This is slightly better than the assessment in the previous years, where investors were asked to evaluate whether the investment appeal of Latvia had improved over the previous 12 months (Table 1). As exemplified by Figure 1, 5 out of 53 investors answered this question with "1" (investment appeal has not improved at all), 14 with "2", 18 with "3" and 17 with "4" (yes, investment appeal has improved). Not a single investor who took part in the 2021 FICIL Sentiment Index study, however, evaluated the improvement of investment appeal in Latvia with '5', i.e., that investment appeal has improved significantly.

**Table 1: Investment appeal of Latvia: development over the past 4 years: 2021 studies.**

*Scale 1-5 where '1': investment appeal has not improved at all; '5': investment appeal has improved significantly.*  
2016: n = 32; 2017: n = 42; 2018: n = 40; 2019: n = 47; 2020: n=44; previous 4 years (2018-2021): n=53

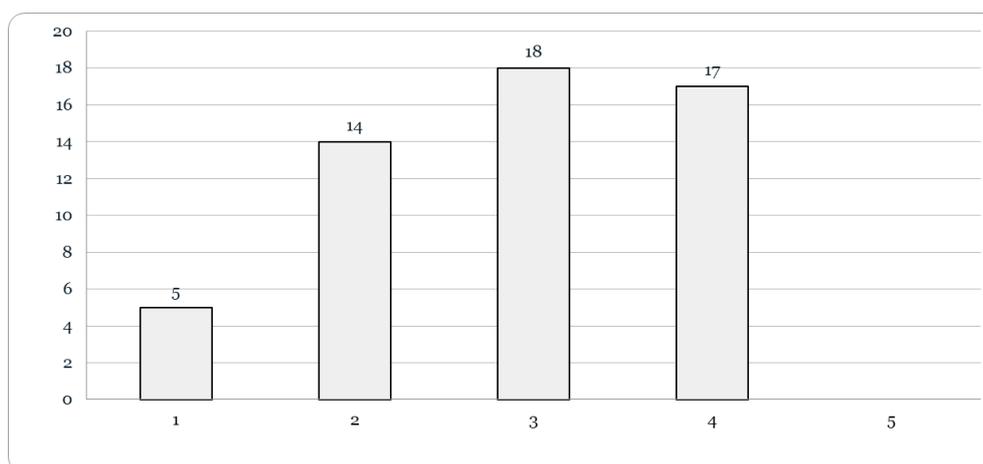
| year             | rank       |
|------------------|------------|
| <b>2018-2021</b> | <b>2.9</b> |
| <b>2020</b>      | <b>2.7</b> |
| <b>2019</b>      | <b>2.6</b> |
| <b>2018</b>      | <b>2.5</b> |
| <b>2017</b>      | <b>2.5</b> |
| <b>2016</b>      | <b>2.0</b> |

Source: FICIL Sentiment Index 2015- 2021

**Figure 1: Has the investment appeal of Latvia improved during the past 4 years? Distribution of responses, 2021.**

Scale 1-5 where '1': investment appeal has not improved at all; '5': investment appeal has improved significantly.

Previous 4 years (2018-2021): n=53



Source: FICIL Sentiment Index 2015- 2021

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

*“It’s worsened for us and our industry, a few years ago the investment appeal looked much better than now. In the outskirts of Riga, the same issue remains, there is no improvement in areas outside of Riga. Business development is only happening in Riga and much less outside of Riga which is unbalanced and not good for our business.” (Manufacturing company)*

*“With uncertainty, it is really not that attractive. Uncertainty is a reason not to push forward for investment. It is not easy to make big investments in Latvia. Why can’t we have a big wind-farm in Latvia? It’s not possible because of underlying issues, not in the public opinion but whoever starts the public opinion.” (Retail trade and service company)*

*“In marketing campaigns yes, but in real life not really. LIAA Polaris is doing something in the right direction, but are they successful? The marketing works to attract completely new investors, but to improve the*

*“Main problem is the labour unavailability. Another problem is related to the inability to make decisions regarding immigration regulation improvements, this damages potential investment.” (Finance and banking company)*

*“There is a lot of PR, but I do not see any specific changes” (Retail trade and service company)*

*“We are not the most interesting country to invest in, also looking from the perspective of labour availability or labour costs. Natural resources, know-how or a factory that has existed here before remains our unique factor. The State lacks strategy. Covid came and so we were left without a strategy.” (Finance and banking company)*

*“To invest into real estate in Latvia, the markets are very small and competitive.*

*climate for the existing ones is more challenging.” (ICT company)*

*“My shareholders are buying a lot in Estonia and Finland, but in Latvia there is not that much expansion and growth.*

*I really have to convince shareholders to do more business in Latvia.” (ICT company)*

*“Altogether Latvia as a country is not very attractive because of the lack of a skilled workforce.” (ICT company)*

*“Mainly because nothing is being done to solve workforce availability issues.*

*There is this marvellous will from the Government’s side to just ignore this issue and not solve anything in a meaningful way.” (ICT company)*

*“We don’t have many advantages here, we have red tape that politicians have set up without dealing with the underlying issues – people do not seem to want to move back here, remigration isn’t happening, but we are also not doing anything to solve workforce problems.” (Finance and banking company)*

*“The shadow economy in the construction industry and cement imports. Less investment in RMX and AGG as a result. Latvian remains comparable according to European values to e.g. Poland, Hungary.” (Manufacturing company)*

*“I don’t see what the unique reason is for investors to come here? What have we worked hard at over the last few years to bring Latvia ahead of other countries and to show the potential? What is our advantage?” (Professional assurance and advisory services company)*

*Demand is lacking. There is a lot of money to be invested, we want to invest, but it is just hard to do it.” (Real estate company)*

*“Regarding the forestry business, there haven’t been any developments during these years that would make investments more attractive. Quite the opposite – there have been initiatives on the table, for example, to raise real estate tax at cadastral level that has been frozen by now. Also state fees in the Land Register have been raised.” (Service company)*

*“It’s a very risky decision to enter the Latvian market because of the absolute lack or availability of labour.” (ICT company)*

*“With respect to real estate development – if I did not already have active projects here, I would not invest anymore. 4-5% profit is too low. Construction costs are higher than people can afford to spend for properties. Still, from the state there has been some movement and attempts to improve matters.” (Real estate company)*

*“There is stability in the tax system currently, which is great, that does wonders for the appeal of an investment climate. The question remains: when will the policy-makers’ patience run out before they start to drag us around again with an ever-changing tax system?” (Wholesale and retail company)*

*“We work alongside our Estonian and Lithuanian colleagues, we see many new investment projects going to neighbouring countries because the investment climate is better. We also see some investors closing shop in Latvia and moving to one of the others.” (Professional assurance and advisory services company)*

*“Baltic States. The cartels, the financial sector, the total lack of transparency in procurement processes – this negatively affects not only potential investors, but also existing investors. Regarding procurement – we have a deformed system where the only thing that matters is the lowest price. We also have a nature audit going on, this significantly reduces activity levels. It feels like many decisions have been made without*

*thinking through the actual effects they would have.” (Professional assurance and advisory services company)*

... however, we also received a number of very positive opinions as well as suggestions on how the investment appeal of Latvia could be improved:

*“We need to focus on the shadow economy, we have a very good workforce which is highly motivated and productive, but a lot of people in Latvia sin when it comes to paying taxes.” (Real estate company)*

*“Riga city and governance have made huge progress, though there is still work to do to clean up previous wrongdoings. Court system, banking system improvements. Access to labour issue is No 1. LV needs to make up its mind how to position itself: “What we offer”... “This is the place for...”. (Finance and banking company)*

*“I would be happy to see more policies for attracting foreign investors. Maybe the Government and politicians should be braver and louder with their policies. But I can see why politicians are hesitant.” (Manufacturing company)*

*“We see the education level and quality of workforce has improved, we get high quality employees, it is more connected with the economy, not so much the tax system.” (Manufacturing company)*

*“Green investment area - we buy similar green companies. There are some legal initiatives and incentives that could potentially create and grow the green investment. If they adopted the Neto Energy Payment we could then create some investment projects.” (Manufacturing company)*

*“We conducted our own research, and the main conclusions are that Latvia is still attractive for investments, however, this appeal will decrease in the future. Investors do not feel that the country wishes to attract new investment. In comparison, investors in Lithuania and Estonia feel that these countries are doing more work to attract investment.” (Professional assurance and advisory services company)*

*“We invested in Latvia recently, we wouldn't have done that if the investment climate was not attractive.” (ICT company)*

*“There are improvements. Latvia has better access to EU funds than neighbouring countries.” (Manufacturing company)*

*“There is delay in increasing investment appeal but of course there have been some improvements in the last 4 years.” (Wholesale and retail company)*

*“Transparency has improved, not everywhere, but it is moving in the right direction. The change of governance in Riga was a good step as well.” (Wholesale and retail company)*

*“Latvia is still an interesting place for investment, and we are also planning to continue expansion. We also see that foreign investors are choosing Latvia as a place for investment. However, from the media it seems that investment in Estonia and Lithuania is greater.” (Retail trade and service company)*

*“We attracted huge investments, our HQ is in Latvia, it helps that we are a part of the EU.” (ICT company)*

*“We are heavily investing in Latvia, we have convinced our shareholders that this is the best place for investment, we just need more workforce.” (Manufacturing company)*

*“We believe that Latvia is a great country with good potential to develop technology and innovation industries.” (ICT company)*

*“I feel that the corruption level is decreasing slightly. Taxation is also not much worse.” (Manufacturing company)*

*“The appeal is based on the factor of whether it is possible to make a profit in Latvia and*

*“It has increased but not to the level expected.”  
(ICT company)*

*“For us, questions of the overall state reputation are important. Over the last 4 years, the question of financial reputation was very topical, however, it was resolved. The international reputation has not deteriorated, instead it has improved.” (Retail trade and service company)*

*“It has improved slightly, but not to a great extent. Education reform will improve the appeal, but we do not see the effects yet.” (ICT company)*

*“It is not that we have stood still for 4 years and nothing has changed in that time, but there is room for improvement. For example, talking about start-ups, I believe Latvia is the only place according to law in the Baltics where parts of the company can be given as a bonus to employees. I know start-ups that only start in Latvia because of this. I would ask for policymakers to please at least look at Baltic level in future and explore their approach, so at least we are competitive with Lithuania and Estonia. We should create a clear plan, so that we know what areas to move forward in.”  
(Service company)*

*currently there is. The pandemic has impacted our industry less.” (Service company)*

*“We are in the EU, NATO, have shown our sustainability, haven’t had any political wars.”  
(ICT company)*

*“Yes, there are positive signals, we are slowly moving in the right direction. Based on the opinion of people from other countries, for them it is evident that Latvia is following the EU values more, and with regard to a lot of questions/topics there is no Soviet Union mentality anymore.” (ICT company)*

*“In my sector there has been action on improving the effectiveness of court systems and this directly impacts on investment protection. Also changes in regulations, such as in commerce, incentivises the flow of capital inside Latvia. I am happy that FCMC is now trying to balance their overseeing role (their safeguarding role) with an open regulation to foster development. In Latvia, capital markets still have one of the lowest capitalisation levels in Europe. A good thing for investment appeal is the evident attempts of local investors in Latvia to become more involved lately, which is a very good sign.” (Professional assurance and advisory services 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 4 years?**

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 4 years? The policy-makers’ contribution was evaluated on a scale of 1 to 5 (where ‘1’ is fail, ‘3’ is average and ‘5’ is excellent).

***On average, foreign investors evaluated the efforts of policy-makers to improve the investment climate over the past 4 years (2018-2021) with 2.9 out of 5.*** Assessment of the policy-makers’ efforts to improve the investment climate over the past year in 2016-2020 is summarised in Table 2 and ranges from 2.3 in 2016 to 3.1 in 2020. Distribution of the answers with regard to the 2021 study findings, i.e., evaluation of policy-makers’ efforts to improve the investment climate over the past 4 years, is provided in Figure 2.

**Table 2: Foreign investors’ assessment of policy-makers’ efforts to improve the investment climate over the past 4 years: 2021 study**

*Scale 1 to 5, where ‘1’- fail, ‘3’- average’ and ‘5’- excellent*

2016: n = 30; 2017: n = 42; 2018: n = 40; 2019: n = 47; 2020: n=44; previous 4 years (2018-2021): n=53

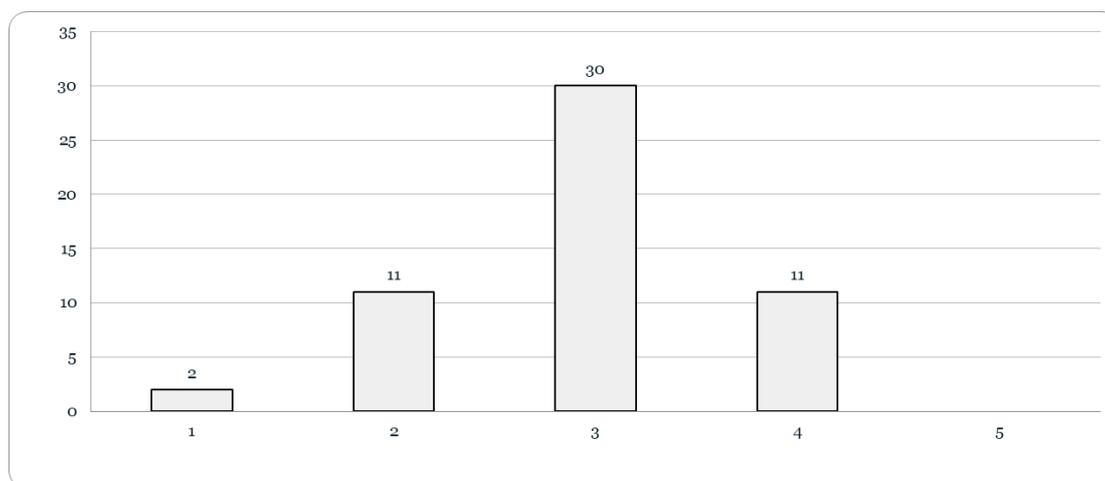
| <i>year</i>      | <i>rank</i> |
|------------------|-------------|
| <b>2018-2021</b> | <b>2.9</b>  |
| <b>2020</b>      | <b>3.1</b>  |
| <b>2019</b>      | <b>3.1</b>  |
| <b>2018</b>      | <b>2.9</b>  |
| <b>2017</b>      | <b>2.9</b>  |
| <b>2016</b>      | <b>2.3</b>  |

Source: FICIL Sentiment Index 2015- 2021

**Figure 2: Foreign investors’ assessment of policy-makers’ efforts to improve the investment climate over the past 4 years. Distribution of responses.**

*Scale 1 to 5, where ‘1’- fail, ‘3’- average’ and ‘5’- excellent*

Previous 4 years (2018-2021): n=53



Source: FICIL Sentiment Index 2015-2021

Evaluations of the foreign investors that took part in the 2021 FICIL Sentiment Index study are reflected in the following quotes, some of which are positive or relatively positive:

*“I like the three-year plan for excise increase, it brings clarity. In general, such clarity is good for us, we can plan.” (Manufacturing company)*

*“I see from my business that there is enough support from the Ministry of Foreign Affairs and*

*“It has improved compared to the past, but mostly there is the illusion that actions are being taken or credit is taken for actions carried out by others. It’s not getting worse, but not improving a lot either.” (Manufacturing company)*

*LIAA. Policy-makers are doing enough to make the investment climate better and help the new foreign investors. But not everything is great - of course there are ways to improve.” (Service company)*

*“We have a great Prime Minister with western thinking, we are in a good spot. AML questions are still a bit painful.” (ICT company)*

*“A huge step forward is the change in LIAA leadership, Mr. Rožkalns seems to be giving a completely new drive to the organisation, we appreciate the activity level.” (Professional assurance and advisory services company)*

*“There are definitely improvements, the Prime Minister is highly qualified. I have the impression that decisions are being made in a more transparent manner, selfish interests have been left behind - that’s how it seems.” (Wholesale and retail company)*

*“Corporate income tax has increased, in that sense the tax burden increased. Positive assessment must be given to support mechanisms. There is positive cooperation with the government and LIAA.” (Manufacturing company)*

*“I would not say that my managers are very happy about what is happening in Latvia right now.” (ICT company)*

*“There is new leadership in LIAA, in the Prosecutors Office, Bank of Latvia – new energy with experts taking leadership roles – this is very good and highly appreciated.” (Real estate company)*

*“In our industry, the policy-maker actions have had a positive effect on the investment climate. Property owner and developer alliance proposals have been taken into account and there are noteworthy adjustments in the regulation on renting. The AML issues are still problematic, however, but this might affect third country investors more in a negative way.” (Real estate company)*

*“I do not have full confidence that there are actions and real improvements behind the words. We invest a lot, pay all the taxes, but putting forward any recommendations is very difficult.” (Real estate company)*

*“There is a general cooperative attitude from the Government that Latvia is an attractive country for investment. Still, there is a lot of work to do, and improvements must be made.” (Real estate company)*

*“Whenever there is a foreign company that wants to enter Latvia through LIAA, the reaction from LIAA is very quick. There is a desire for new investors. There are good examples of companies coming into Latvia with the support of LIAA. However, in comparison to Estonia and Lithuania, we still have not defined what sort of investments exactly we want to attract.” (Finance and banking company)*

*“Not excellent, but above average. Still room for improvement. Foreign investment attraction is getting more focus than previously and there are policies coming into place.” (Manufacturing company)*

*“There are some changes in a positive direction, but there is still so much to do and policy-makers need to continue their efforts to improve stability and predictability in the investment climate, so it is important to keep an ongoing dialogue and active cooperation between FICIL and government institutions.” (ICT company)*

*“Positive aspect – reforms in the banking sector related to money laundering issues. This gives a positive signal to foreign investors that such problems are being addressed in Latvia. However, this can also give bad signals to third country foreign investors that might be operating legally. Cooperation with municipalities is often very difficult. They unnecessarily prolong our new projects and expansion processes. In comparison, we do not have this issue in Lithuania where our communication with municipalities is very easy – a project is agreed quickly, and development happens without large obstacles.” (Retail trade and service company)*

*“Some work has been done, courts, education system, tax changes (upgrade), however, for the last 2 years Covid took up too much time. PR communications for LV as a place for investment are very weak. LV stands out negatively compared to its peers in all major parameters of wellbeing. State admin sector is*

*“There is still a lack of a workforce, the policy-makers need to make it easier to attract a foreign workforce.” (Manufacturing company)*

*“We don’t see big, structured things happening.” (Retail trade and service company)*

*“Changes to taxes are good when it comes to investment. Changes in education are good as well. But there are a lot of things that have not been addressed.” (ICT company)*

*“Some improvements have been made, but other important issues have stalled. It looks like this Government is more open, the public sector seems to be more willing to work with the private sector.” (Professional assurance and advisory services company)*

*“The question is how do you measure improvements in the investment climate? Previously, it was measured with an increasing number of buildings and infrastructure, but there is also a need to take into account who is coming in and the businesses that are coming to do business in Latvia. I have seen that in my industry the competition has come to Latvia which is a good sign that there is improvement in the investment climate and growth of economic development.” (ICT company)*

*generally weak and not business minded. Overall - not many systemic reforms made (except higher education) to make the country more efficient/productive/straightforward.” (Finance and banking company)*

*“Before the pandemic, the Prime Minister was very active in attracting foreign investors. But still the availability of a workforce is a huge problem.” (Finance and banking company)*

*“Some time ago doing business showed problems with insolvency and bureaucracy in construction. Insolvency has been solved, construction is still a disaster.” (Service company)*

*“There are some improvements and work has been done by policy-makers but a lot more could be done. It feels like the policy-makers prefer to go to some large events and create PR campaigns about the investment climate rather than creating real tools to improve the investment climate.” (ICT company)*

*“I wouldn’t say there isn’t any progress, sometimes it feels like they take 4 steps forwards and 3 back. Like Moneyval – they are taking steps to address it, but then making it so difficult that it feels like taking steps back.” (Retail trade and service company)*

However, a number of negative comments were also received:

*“We are talking more than actually doing things. Vilnius has changed over three years – built huge offices and business parks.” (ICT company)*

*“There are unfulfilled expectations. During the first year when the coalition was formed, everyone was quite happy. There was hope that these people will understand the reality, but that did not really happen. If this was the previous government, I would say “good.” (Retail trade and service company)*

*“Look, this is all to do with the availability of a work force. It seems like most actions taken are just formalities, but there is nothing real at the end of the day to offer to businesses to help deal with the lack of labour force issue. The public sector is quick to be proud of new*

*“We could have done more to improve the investment climate. It seems like Latvia is trying to define what our main goals are, what our main attraction point is – but we still haven’t seen the results. Invest Lithuania are very aggressive in attracting investment, to be honest I also have a hard time coming up with an elevator pitch for Latvia. Estonia is the digital country, Lithuania is the business service centre country, then Latvia has several different directions and all lack a workforce. We do not know how to sell Latvia, we don’t know how to give ourselves praise, because we are all over the place. We still haven’t defined why large investors should look at Latvia.” (Wholesale and retail company)*

*“When policy-makers talk out loud, of course they say we want to attract investment, but do*

manufacturing companies being developed here, but the question remains – who will work there? We have visible cases where municipalities are blocking potential investors, which is a very bad signal. All of these issues go back to the quality of the education system – people need to be able to make rational decisions for themselves. But this is not a question where businesses can act, this is a problem for the policy-makers to solve.” (Wholesale and retail company)

“Business growth is closely linked to the available labour force. Absolutely nothing has happened in the last few years to comprehensively solve this problem, but this is not a new issue. Tax burden hasn’t been reduced; we still can’t attract a foreign workforce. Ignoring the problem won’t make it go away, it might make investors go away, but then you lose good tax payers.” (ICT company)

“In principle, the Government had a good thing going with the green course, however, it seems like we don’t even know how to measure much related to our green goals. One big reason why it is tough to invest in Latvia is – we currently appear to be a slightly better model of Belarus. We are not dealing with any real problems – like the complete lack of human capital and investment protection.” (Manufacturing company)

“Green energy production, the industry that I work at, has been discredited and there are attempts to try to stop its development and growth, and now we all see the results of this in the prices of electricity. Our energy markets are not diversified, and we do not fulfil the EU set criteria for green transition. There are industries that want to reorganise and start producing something else (for example, from biogas to biomethane) but unfortunately, there are no regulations and laws in place for them to make this transition, there has been a fight for over 2 years to correct the appropriate regulation but there is no change. Unfortunately, they are not going forward now because of the legal challenges.” (Manufacturing company)

“Based on tax regimes and instability, as well as support programs during Covid – the uncertainty doesn’t help at all.” (Retail trade and service company)

they actually attempt to show the opportunities for investors? There is a feeling that there is no real desire from the policy-makers. Also, the way we plan the budget is not sustainable, we cannot plan year to year if we want long-term positive changes. Everything is being addressed by looking at fixing smaller pieces of the bigger issues, there is no wider outlook. Also, a large investment is being spent on improving the infrastructure and there is a lack of investment in improving Latvia’s human capital (the population).

1) The Government should define clear key performance indicators (KPIs) of what we want to achieve and not produce long texts, but actually write clearly defined KPIs.

2) Clear strategic communication with the population and investors. Policy-makers say that we need to attract investors and make changes, but there is no talk of how to do this, they also avoid taking any decisions sometimes because it might create a conflict of interests.” (Wholesale and retail company)

“In general, there is no progress, there are only minor improvements, mostly related to increasing stability and reduced uncertainty. Some improvements in tax system. What is good for our sector is that in the last years we have created a shared services association and are being listened to. There is a lack of a clear strategy and not enough is done to promote a strategy or vision. Perhaps a lot has been done and the Government is constantly working on this, but they just don’t talk about it, in this case, there should be much broader popularisation of their work. Also, the last two Covid-19 years have really worsened the larger outlook, because it has prioritised Covid-19 over other initiatives.” (ICT Company)

“Any decision taken today will play out in the next 15 years. So I don’t understand how these important decisions can be put off for so long and just get reviewed without any real progress. We have this issue in the education system which is a good example. DESI index shows problems with basic digital skills – this is a critical situation in schools. If IT teachers in schools are nearing their pension, then what levels of knowledge can we expect. Kids use technology for entertainment, we don’t teach programming, we don’t teach digital literacy.” (ICT company)

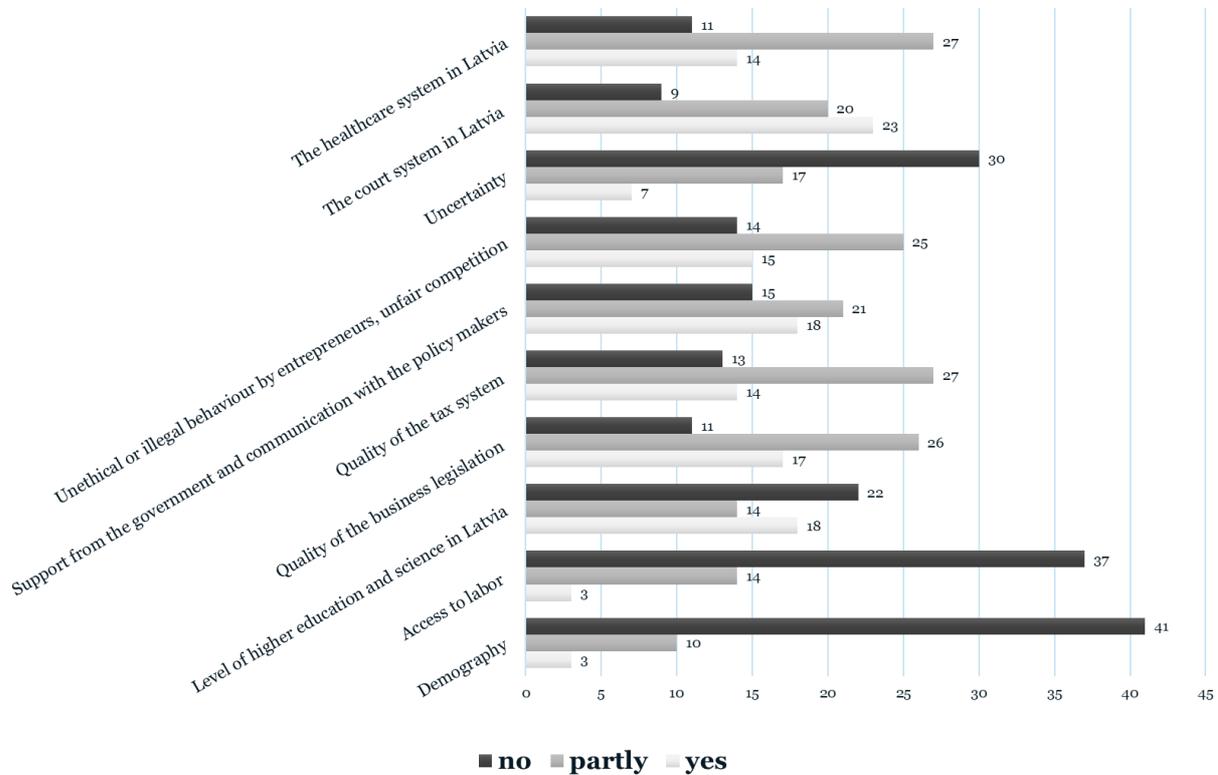
*“From the policy-maker perspective there might be improvements but not for us, we have not seen that much improvement. There is a lot of homework for policymakers that has not been done. It’s hard to say whether it’s improved or worsened. Some things may have improved but some things have still not been done.”*  
(Manufacturing company)

#### **4. Key challenges faced by foreign investors in Latvia during the previous 4 years: progress or regress?**

Traditionally, in the FICIL Sentiment Index study we 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. Given the focus of this report, in the 2021 survey, we asked foreign investors whether, in their opinion, there has been any progress during the previous 4 years within these areas of concern. The findings are summarised in Figure 3.

**Figure 3: Foreign investors' assessment of the progress over the past 4 years with regard to the key areas of concern as identified in the 2015 and 2016 studies: findings from 2021**

Respondents were offered to evaluate each unit assessing whether there has been an improvement by answering: 'yes', 'partly', or 'no'. n=53.



Source: FICIL Sentiment Index 2021

The results of the 2021 FICIL Sentiment Index study reveal (see Figure 3) that foreign investors have seen the least progress within the following three areas: *demography* (with 41 out of 53 investors reporting that there is no progress), *access to labour* (with 37 out of 53 investors reporting that there is no progress), and *uncertainty* (30 reporting no progress). 22 investors see no progress in the *level of higher education and science* in Latvia, whereas 14 think that partial progress has been achieved and 18 believe that progress has been achieved during the previous 4 years in the level of higher education and science.

*Support from the Government and communication with the policy-makers, quality of business legislation, unethical or illegal behaviour by entrepreneurs and unfair competition, the healthcare system and the tax system* are areas where a considerable proportion of investors that took part in the study have seen progress (18, 17, 15, 14 and 14, accordingly), and even more foreign investors have seen partial progress in the areas. Furthermore, as many as 23 and 20 foreign investors have observed progress with regards to the development of *the court system* in Latvia, whereas 9 reported that there is no progress and 2 did not provide an answer to this question.

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 4 years is provided by quotes from the interviews:

### **Demography**

*“We see support mechanisms for new families. For example, loan support.” (Finance and banking company).*

*“This is the number one concern, if we look long-term – this is the basis for everything.” (Service company).*

*“During Covid-19 there has been a higher birth rate (last year). But as an industry we see a great challenge with a limited number of young people and will mostly likely feel this in future.” (ICT company).*

*“We can see that politicians are thinking about this, it’s a great issue for politicians to sell to voters. We are more sceptical when looking at what demographic questions actually resolve for the problems that business, labour force and the economy are facing currently. The fact that both parents can split parental leave is a good thing, so people can choose not to leave work for too long, however this should not be so closely regulated – they should leave the decisions to individual people.” (Professional assurance and advisory services company).*

*“Nothing positive seen here. This is a long-term question that needs a long-term solution. The number of new persons entering Latvia or entering the job market is smaller than the people who are leaving for retirement. At least the migration of locals from Latvia is lower right now. When investors decide on investment, they look at this aspect; they also look at the specific place and cities, for example Riga.” (Real estate company).*

*“Problem No.1 for Latvia in the coming decades.” (Finance and banking company).*

*“No progress, as far as I can see. I get this question from the Board all the time – what is the progress with demography? We have been a long-term investor for the last 20 years and we would like to stay for another 20, but demography is a reason why we might have to stop our investments.” (Real estate company).*

*“This has become worse, or nothing has changed. It is very difficult to find employees now, we have had a lot of available unfilled vacancies, especially in the last two years.” (ICT company).*

*“Statistics do not lie. If I am correct, Estonia is the only neighbouring country with positive demographics. Subjectively I see more children on the streets, but statistics show a different story. In the last 4 years there has been no large change and no improvements.” (Service company).*

*“There is still emigration. The country is still losing people.” (Manufacturing company).*

*“The population is shrinking. The welfare of the country can be judged based on its attitude towards children and the elderly.” (Service company).*

*“4 years ago, there were attempts by the state administration to perform some activities and to bring back professionals from abroad. In some cases it succeeded, but these are individual cases. No policies concerning demographic improvements have been developed during this time. Then Covid came and*

*negatively affected the demography in a very direct way. There are no good tendencies, in the best case – just stagnation.” (Retail trade and service company).*

### **Access to labour**

*“From the banking side we see that there is a better qualified workforce. 4 years ago, entry-level employees had to be trained more thoroughly, now they are ready much sooner.” (Finance and banking company).*

*“Some small initiatives have taken place, but what was the point if the problem is bigger than ever? This topic of red tape needs to stop during the election years, give us a solution to the problem.” (Finance and banking company).*

*“In tech- this is our main field of operation. For high tech, access to labour is crucial. On a positive note – changes in migration procedures for highly qualified professionals have allowed us to relocate specialists to Latvia more easily that fit into the criteria of highly skilled professionals.” (Manufacturing company).*

*“It depends on the position. It has become more accessible in some positions, but for some, like IT and forestry workers (labour and machine operators), there is a lack of specialists. Needs greater investment.” (Service company).*

*“In my industry I cannot complain about this, there are enough new lawyers, and we can find quality personnel. I would recommend for universities, when preparing lawyers, to focus more on training practical application and learning and understanding methods. Sometimes it feels like the new lawyers do not have basic skills to actually work in a real-life setting.” (Professional assurance and advisory services company).*

*As a company we are adapting to access labour. Currently, we have decided to employ people who work fully remotely and will never come to the office. This way we can attract employees from the whole of Latvia. In Jelgava, it was impossible to find employees that would come to the branch.” (ICT company).*

*“Regulations that prevent unvaccinated persons from working is very unreasonable. To work is an inherent right for people. The result of this will be that people will leave Latvia altogether or go towards working in sectors with a shadow economy. It will be very difficult to get these people back to work and reduce their shadow economy activities.” (Real estate company).*

*“Our industry is in a lot of danger- the demand for labour is 3 to 4 times higher than supply. Right now, a university graduate with a year of experience is asking for a 2500 EUR starting salary. Because of this shortage of labour, there is very high salary inflation, and we are getting closer to Scandinavian salaries.” (ICT company).*

*“It has become more difficult for people who want to work part-time to do so successfully, due to bad regulations.” (Retail trade and service company).*

*“It is very crucial, but I think the situation has gotten worse. We see the Ministry of Transport is downsizing, which also helps to free up labour resources, but the situation is still bad.” (Real estate company).*

*“This is really at a breaking point. The need for labour is just increasing, because of a lack of a comprehensive workforce policy in Latvia, economic growth is stagnating now.” (19).*

*“This has got significantly worse on all levels, at highly qualified and lower skilled work force level. We have over 60 vacancies on a regular basis. Because of the lack of a labour force, I’m forced to move the company holdings to another country.” (Manufacturing company).*

*“The labour cost increase is not adequate. Specialists who live in Latvia have started to work remotely for companies abroad. It is an element of globalisation, but, looking locally, access to labour has become worse.” (Professional assurance and advisory services company).*

*“Workforce shortage is a catastrophe.” (ICT company).*

*“We have to realise that the market in Latvia is small, we are lacking people who can carry out necessary tasks for business growth. Many young people prefer remote work. The quality of work and productivity does not match the artificially inflated salaries that we have because we simply don’t have enough workforce.” (Professional assurance and advisory services company).*

*“Overall – the human resource topic is a politically sensitive topic, so nothing of substance is being done to deal with the issue. Human capital is a painful issue for investors – both local workforce and foreign workforce.” (Wholesale and retail company)*

*“No significant changes. Population is shrinking. Currently, it is difficult to attract a foreign workforce to Latvia because of legal challenges. There has been no change during the 4-year period.” (Service company).*

*“It has become worse when it comes to IT. There is higher competition and demand for IT specialists. The Government could do more from a policy and immigration perspective.” (ICT company).*

*“We face increasing problems with access to labour and people ageing. We need to look at more ways of getting people from other countries. Open the borders.” (Retail trade and service company).*

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

*“There have been improvements here. The higher education reform has been accepted. We need to focus on creating more competitive persons in future.” (Professional assurance and advisory services company).*

*“Increasingly more people want to get a better education, improve their knowledge and competencies so that they do not have to do manual labour. Research in forestry science is close to international level.” (Service company).*

*“Definitely improved. Universities are developing. Developing on a large-scale - some new facilities, new campuses. Investment in facilities is a good long-term investment, as it will attract foreign students. For our industry, we train specialists ourselves in any case. No programmes that teach genetic sequencing at the moment in Latvia. From our side we would encourage policies related to increased funding of universities. To possibly develop joint programmes with companies to help update the existing programmes. We are glad to provide some scientists/lecturers to universities. We would encourage more opportunities for universities.” (Manufacturing company).*

*“What has been done is beneficial.” (Service company).*

*“We have “great” heads of higher education institutions, driving in Lexus jeeps and receiving high salaries, but I do not see any benefits in education. What I like is the approach of the University of Latvia regarding the new buildings and programmes for natural sciences. There are some movements towards consolidation.” (Service company).*

*“Reforms have started, we will see about progress.” (Finance and banking company).*

*“It is good that we have a reform in higher education, but this needed to happen years ago already. We need to make better decisions and need to be firm. The quality of education around schools in Latvia is a major concern, to be a good student at university you have to learn the basics at school. This needs a lot of improvement.” (Wholesale and retail company).*

*“There is a decline in those graduates who receive an education that is practical for employers, there are often difficulties for them to actually go and work in professions straightaway. There is a low choice of core professions at education level.” (Retail trade and service company).*

*“Higher education reform is a positive. We need time to see the actual results, but the direction is the right one.” (Service company).*

*“There have been some changes in how these institutions are being governed. There is an initiative to merge them. In that sense there has been some progress.” (Real estate company).*

*“With higher education reform we are moving in the right direction, but we still have to carry it through. At least we see the political will to fix this.” (Wholesale and retail company).*

*“Decisions are going in the right directions, but the impact is yet to be seen.” (ICT company).*

*“Scandals regarding the University of Latvia and the rector elections come to mind.” (ICT company).*

*“At least there were attempts to attract funding for science. There was an attempt to take care of the governance model in higher education, which is currently in its implementation phase. That, of course, is positive. However, recent events surrounding councils of higher education institutions are raising concerns. A new education standard was introduced which has brought changes. I would like to think that the reform of schools and higher education institutions will bring some results. The homework that should have been done 10 years ago has not brought its results yet.” (Retail trade and service company).*

*“Before, there was a feeling that persons who come out of universities had a stronger basic knowledge than now, right now it feels as though we have to teach the basics to graduates (of course not all of them). For example, a new system analyst does not even know how documents should look, and we have to teach them that. We are working on educating our employees for the long-term and it is actually expensive because it costs to educate them, and we are paying a high salary while doing so. The new regulations on competence based learning is potentially a good step, but it is important how this is implemented.” (ICT company).*

*“There seems to be a bit of a mess with School 2030.” (Real estate company).*

*“The bottleneck is the inability for teachers to try new ways of teaching, we see that teachers are ageing, and we have fewer young people willing to go into this profession.” (Service company).*

*“We see that many young people choose to study abroad, so I think that answers the quality of education question.” (ICT company).*

*“Universities are working, but there is still a lack of competitiveness with other Universities in the world and in the EU. I looked at the top 100 and 200 and there were no Universities on the list from Latvia. Probably the first one would be an Estonian university. Currently, there has been little change in the last 4 years. In future, we should aim to be in the top 100 or 200 at least.” (Service company).*

*“Remote studying is contributing significantly to the drop in quality.” (Retail trade and service company).*

### ***Quality of the Business Legislation***

*“Problems are shrinking. We are facing increasingly fewer issues. The insolvency system has been taken care of.” (Service company).*

*“Start-up legislation, commercial law, share options, insolvency legislation has been improved. The courts dealing with business legislation is still lacking.” (Professional assurance and advisory services company).*

*“Stock options were a good decision.” (ICT company).*

*“There have been attempts to change the Commerce Code Law. For example, attempts to change the competency of councils, supervisory boards. Councils potentially also serve a strategic role, not just an overseeing one. There has been progress in the Parliament on this.” (Finance and banking company).*

*“Ministries are at least trying to include businesses in work groups, but the questions remain – is the opinion of businesses and expertise reflected in the documents that come out of these work groups?” (Service company).*

*“Progress can be seen in various areas. There are no negative tendencies. Laws on business legislation are good, the problem is with implementing them.” (Professional assurance and advisory services company).*

*“Positive. In everyday work, my workplace does not face any significant legal obstacles.” (Service company).*

*“If we look at the 4-year period, then there have been some improvements. We have seen work from the Ministry of Justice and the Commerce Law work group and for moving the cooperative governance question forward. The regulation on part categories for Ltd. companies has been implemented. This allows investors that have different investment aims to converge into one capital company. Also, now the share option has been introduced in Ltd. companies, which can give out part of the shares, then leading to greater motivation for mid to senior level management. Reorganisation regulation improvements, there is ongoing work on this happening now, there are still issues as it takes a long time to go from a Ltd. to a public company, often more than 4 months. Also, the Ministry of Justice has provided a good soft basis in preparing projects, for example Latvia’s corporate governance code has been prepared, that signals good guidance guidelines for others. Also, FICIL leadership in fixing insolvency administration issues, there has been improvement in this area in the last 4 years.” (Professional assurance and advisory services company).*

*“For example, the Economic Court has been introduced. I see this as a positive thing. In situations regarding AML issues, there is a problem with confiscation of assets right away, this could be done differently... there is news in the media afterwards that certain cases could have been looked at differently. The AML regulation structure at present is unreasonable and not balanced towards all actors that should conduct it, for example, smaller brokers should not be expected to conduct the same degree of activities as the large banks... Even the current EU regulation says there has to be a balanced approach for these checks. Also, there are precedents with confiscation and freezing of assets without prior notice, this makes sense, but then to reverse this decision is complicated and takes a very long time and often the person who is accused is not even provided the reasons for it until they get to court. This can create a situation where assets are confiscated, and the case is being looked at but you do not see the end of the case. Moreover, it is often impossible to see the end of the court cases and it feels like they are never*

*concluded. All this repels third country investors. Also, regarding AML checks - we have a large project involving all the Baltics to create properties for rental, together with another reputable Western European company, however, it has taken a long time for us to open a bank account (more than a month) - this is not a good signal for us and delays our project development.” (Real estate company).*

*“There have been positive changes. Accounting regulation has finally been approved; this is long overdue. The regulation finally establishes clear definitions that are appropriate to modern times.” (ICT company).*

*“A lot of unclear things in our industry. Accreditation and safety related - there is no clear overview about what kind of permit we need. Also there is no one regulatory act that we need to follow. From one side, we are a new industry, while on the other hand of course this is an issue. If we ask questions to the ministries, they prolong the process, and ask for official letters and take a very long time to answer. A lot of footbaling between policy-maker departments about responding to us. Ministries could be more open and engaged. Also, there is a language barrier, for example submitted documents about accreditation of laboratories in Denmark which are in English, but this can't be done here and would be much easier if it could. We spend unnecessary amounts of money on translating documents. The SRS's work has greatly improved in the last few years. A lot of progress has also been made with easier residence permit applications, so we can get highly qualified staff. Migration policy still, however, poses issues – we have a lot of specialists from 3rd countries, and it's difficult to communicate with the immigration office with regard to their relocation to Latvia. Also, there are issues with Covid-19 certificates for these persons, who sometimes cannot gain the relevant certificate months after being in Latvia and as a result cannot access resources and services.” (Manufacturing company).*

*“Certain improvements have been made, such as the provisional protection which was incorporated into the Civil Procedure Law in 2021, and may also be applied in claims of a non-financial nature that is essential for intellectual property matters, etc. However, interpretation and application of legislation is often formal, therefore the use of the principle of reasonable application of legal provisions should be improved. For instance, in accepting the electronic signature of Member States by commercial register etc.*

*With respect to the language barrier for foreign business:*

- 1. Availability of laws in English has progressed, however the speed of providing the translations could be improved and also the status of those translation should be considered (official translations), enabling the government bodies to rely on these translations;*
- 2. Also, from the business perspective, Latvian language as the only working language for State authorities and institutions creates an administrative burden and additional costs for foreign entrepreneurs. It is understandable that due to the historical and social background this might be a sensitive topic for the lawmakers, however appropriate ex-ante research should be carried out to identify the opportunities for future improvements.” (Professional assurance and advisory services company).*

*“Implementation of legislation on different digital solutions that speed up daily legal routines should still be accelerated.” (Service company).*

*“In recent years we have seen some improvements, however, the question remains – the regulations have improved, but what about applying the regulations? Annotations of legislation play a major role.” (Professional assurance and advisory services company).*

*“In some places there are improvements, in others there are not. Cooperation with state and municipal institutions is still difficult. It is difficult to achieve any changes in regulation.” (Real estate company).*

*“We haven't encountered any issues, it's embedded in our DNA that we are law abiding and we work with law abiding partners.” (ICT company).*

*“Too many papers, too bureaucratic, too complicated for no reason.” (Real estate company).*

*“In FICIL we are always talking about the Estonian example. But even Lithuanians are better now.”  
(Service company).*

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

*“Tax system is OK. During the pandemic there have been some problems communicating with the State Revenue Service and to understand what state support you qualify for, but I think they are doing their best.” (Service company).*

*“Working with the SRS is difficult. But 0% on reinvestments is a great thing.” (ICT company).*

*“This Government has held its promise; they haven’t really changed around the tax system which is a good thing. Some industry specific taxes have been changed but the overarching taxes haven’t. There is the OIK question, that hasn’t been dealt with yet. When it comes to the Green Deal, we can use carrots or sticks, and I’m afraid the stick is going to be increased taxes to those companies that already pay huge taxes. There should be more focus on reducing the shadow economy.” (Manufacturing company).*

*“A unified account for tax purposes is a good thing.” (Retail trade and service company).*

*“The fact that the tax system wasn’t changed much was a positive thing, however it is still expensive to be in Latvia as a company; other places in the European Union are cheaper and more competitive. The tax system does not entice businesses to come here.” (Manufacturing company).*

*“If I compare Latvia’s quality of tax system to Australia’s, this is a much better tax system than it is over there. A lot of people would be surprised but this is true. It is not completely perfect and not all the problems have been addressed, however, there have been some improvements.” (ICT company).*

*“Improvements are happening. Regarding potential VAT reductions – I do not think that the benefits would reach the end consumer. There was confusion when the progressive income tax was introduced, but overall, the direction is positive. I would like to see the State Revenue Service as an advisor, instead of a penaliser.” (ICT company).*

*“There were reforms during the time that Mr. Kučinskis was the Prime Minister; you would expect the Government now to tweak aspects of part of the reforms, but nothing like this has been done. A lot of uncertainty for small businesses that are constantly being threatened with changes in tax laws, however, even small businesses are business, and we need to support them instead of threaten them with tax reforms. There is a need for stability in the tax system, changing constantly is not good.” (Real estate company).*

*“Legislation is ok; we have problems with tax administration. We need more developed data analysis by the State Revenue Service. They should focus more on combatting the shadow economy so that the burden doesn’t keep increasing for those who pay their taxes honestly.” (Professional assurance and advisory services company).*

*“Tax system at a high level is competitive when looking at the total burden and main elements of competitiveness, but the administration and lack of proactive interpretation for consistent application of laws creates an administrative burden for both the state sector, as well as companies. A more service-oriented mindset in tax administration would be needed.” (Professional assurance and advisory services company).*

*“The tax system could be better balanced between what is needed for growth and for the needs of the state. Shadow economy is still a huge issue.” (Service company).*

*“A good change is that you can reinvest without being taxed.” (ICT company).*

*“There are both good and bad sides. Positive – reinvested capital is not taxed. But the fact that taxes are being increased does not make any company happier.” (Service company).*

*“At least they haven’t played with the tax system too much. Most recently there was talk of changing taxes because they needed to try to close the huge deficit in the budget.” (Wholesale and retail company).*

*“FICIL’s work group on taxation presents quality, good ways of how the Government should approach the taxation topic in the future. Everything that is related to self-employed persons is not done very well, theoretically the reform has started but nothing has been brought to an end yet, nor is there any end in sight. As a self-employed person currently, you face a lot of uncertainty and do not clearly see a long-term policy.” (Professional assurance and advisory services company).*

*“The tax regulations are still one of the most difficult in Europe so there is nothing to be proud of. They are communicating but is there a purpose for this communication? The question is – are the painful topics taken care of? Systematically, the feeling is that the painful topics are not addressed.” (ICT company).*

*“It seems to be getting more complex, the labour market has been made less flexible with tax changes.” (ICT company).*

*“Current tax changes are very negative for the industry. Changes are not managed well. Sometimes changes are too slow, sometimes too fast and are surprising. The system is heavy and very complex for businesses to handle.” (ICT company).*

*“In our area there are still problems. It feels like small businesses are not supported.” (Retail trade and service company).*

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

*“Sometimes they communicate just to tick a box, sometimes they listen. You never know what you are going to get. When it comes to RRF – that was a political decision, industries were not involved in a substantial manner. That was a bad decision.” (Finance and banking company).*

*“This has improved. We have regular meetings with LIAA. For large companies it is easier – the Government is interested in cooperation. There have been cases where good responses have followed as well.” (Manufacturing company).*

*“100% yes, from my experience in other countries, FICIL has its advantages in the reputation that has been built. There aren’t many countries where the Government is so open to talk to investors.” (Manufacturing company).*

*“Always improving; a great job done by some institutions – LIAA - to keep communicating. SRS is also improving. Sometime a one-stop approach does not work, especially regarding legislation related to Covid-19. Active dialogue about Covid-19 with the Ministry of Health is difficult sometimes.” (Manufacturing company).*

*“The Government has been very supportive and giving during Covid. I’m not really sure where the money is coming from and how society will have to pay it back. How is it decided who qualifies for getting support?” (Service company).*

*“FICIL is a good example of the correct idea of “lobbying”, the ideas are brought forward and never based on just one case or one person’s issue, but rather the larger issues that foreign investors face. This is a very good way to communicate issues to policy-makers from the private sector, however, often the policy-makers have this over-expectation, where they expect NGOs or associations to bring everything to them – the reasoning, the research, policy drafts etc. This should not be done by NGOs or the private sector; the main purpose is to bring ideas and then the public sector and policy-makers prepare the legislation and do the research on the proposal.” (Professional assurance and advisory services company).*

*“There are opportunities to meet and discuss certain issues.” (Manufacturing company).*

*“There are talks and they listen. Whether any actions follow – here we can return to the quality of legislation. Formally, there is LIAA’s green corridor, however, in reality there is a large administrative burden.” (Retail trade and service company).*

*“We have seen support from policy-makers in our field and we have achieved positive progress in the proposed initiatives for our sector. Covid-19 has only highlighted those decisions that have been taken and are often taken without being thought through. Support mechanisms for businesses related to Covid-19 restrictions came too late. The control mechanisms on the support mechanisms were much stronger and more expensive than the support itself.” (Real estate company).*

*“The reality is that compromises often take away from the goal. The system is still not the most efficient. Sometimes civil servants are the ones blocking progress.” (Retail trade and service company).*

*“We feel that we are not heard enough by policy-makers.” (Wholesale and retail company).*

*“As a company we do not receive or qualify for any support, however, in terms of communication everything has been clear, even in Covid times. Compared to other countries, in Latvia support was available sooner and the Government, together with ALTUM, did a good job.” (Professional assurance and advisory services company).*

*“We see partial improvements because the tendency is to explain decisions being made, this is good. But when we talk about communications with experts or social partners – it feels like this is very formal and unless you agree with the Ministry decisions, you are not taken seriously.” (Professional assurance and advisory services company).*

*“Still a lot of things that could be improved in communication, however, there seems to be the desire to improve this from various ministries and the Prime Minister.” (Wholesale and retail company).*

*“There is good dialogue, for example, with LIAA, especially through the chambers of commerce. But it has already been good over the last 5-6 years. It does not matter if all the tools are there, if we do not sell it. To LIAA and RITA – if I compare how Invest Lithuania is doing, there is more interest in what the investors think. Seems like LIAA and RITA are not interested in what the current investors have to say. It is not clear how they plan to grow if they don’t know the current situation. It is easier to grow existing businesses than create new ones. It is easier to get investors to expand than to attract new investors.” (ICT company).*

*“There have not been significant changes. There have been some examples where communication is lacking, for example, in the port governance reform. Public discussion on certain regulations or laws is often done just for the sake of it, rather than to improve it.” (Service company).*

*“Occasionally, there is a feeling that there are too many documents being sent from the public sector. There are too many parties involved, so there is no end result. Also, sometimes it seems that organisations are expected to write the laws themselves.” (Finance and banking company).*

*“Scattered and there is no consistency. We do not see consistency, if this is subjective or objective that’s a good question. There is a lot of inconsistency.” (Manufacturing company).*

*“Up until the Covid-19 crisis, communication and cooperation with the Government was great, however the communication during the Covid-19 crisis was not where it needed to be.” (Wholesale and retail company).*

*“During the last year communication has been extremely bad. If in the past it at least felt like associations were being listened to, then now it feels like even those are ignored. For example, I am asked to participate in the crisis management meetings, however, there is no acknowledgment of the input I provide at the meetings, there is really no reason for me to participate in them other than to show that I am present. At the moment, when trust towards the Government is low, communication should be a priority.” (Retail trade and service company).*

*“We can’t deny that a lot of support has been offered to businesses, however the questions remain – how much of this support has furthered business development? It seems like the support offered only furthered inactivity. It seems like taxpayers’ money was spent on buying votes during the next election.” (Manufacturing company).*

*“I have not seen any improvements. In the last 2 years since I have lived here, I have no knowledge about what the Government does for the company I work at. In my network, I have met advisers to influential policy-makers and politicians, and it is surprising and unfortunate how narrow their field of vision is.” (ICT company).*

*“The Government’s cooperation with working groups, associations etc. is just to tick a box. After countless meetings, the industry still feels that its arguments are not taken into account. Publicly it is shown that third parties are being involved in decision-making, but are they really being heard?” (ICT company).*

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

*“We feel there are some improvements in certain areas when it comes to tenders and execution of tenders. There has been more fairness, from the perspective of our industry.” (Manufacturing company).*

*“It has improved, but we are far from getting rid of unethical behavior.” (Retail trade and service company).*

*“Hopefully the country is not tending to oligarchs anymore.” (Finance and banking company).*

*“The amount of “loud” cases has gradually decreased. The Competition Council is being strengthened. There is higher public support against unethical or illegal behavior. Still, the society has a rather high tolerance towards working around the system and avoiding taxes. It is seen as a part of the game rules.” (Professional assurance and advisory services company).*

*“Our industry has been very well cleaned up, especially among the larger companies. But this was the case beyond the 4 year period.” (Manufacturing company).*

*“No issues encountered daily. With the Covid-19 situation (we have know-how in this area), sometimes because of poor communication about Covid-19 it seemed like there was an unfair situation with the purchase of masks, tests etc. Very difficult to communicate with Covid-19 policy-makers and get in touch with them.” (Manufacturing company).*

*“One thing which is important for us in the construction sector – cartels. We have always been concerned about how the construction industry in Latvia operates. In Estonia it is easier to work. Now that there is the initiative to break up the cartels, there has been some progress.” (Real estate company).*

*“Bad example here is with Mandatory Purchase Component (OIK) policy, which has been declared the worst thing, but actually in reality there are a number of companies that are working in goodwill on this and who believed the Government’s policy related to OIK and prepared their business plans based on this. Now to punish everyone who has carried out illegal activities related to OIK would be a bad signal from the Government and creates uncertainty and impacts retroactively on the law. If they do decide on changes, they have to provide compensation to the companies that used OIK in goodwill and according to the rule; the Government can’t just tarnish the whole sector as abusing OIK.” (Professional assurance and advisory services company).*

*“There are some improvements, of course I believe the work in this area will never be finished, but I have seen some improvements and action taken to change illegal behavior and processes that lead to it. Foreigners see this and it is important for them. My company board also looks at this. The problem is that they [government agencies] often go for the small fish and analyse their wrong doings, while the big fish are left alone, possibly getting away with violations. Moreover, KNAB spends a lot of time analysing numbers rather than looking at what impact they could actually achieve with their actions.” (ICT company).*

*“There are improvements in the insolvency topic, however we have a few cartels. The question is – where was the evidence, did no-one really notice it? I have a hard time believing that. Procurement processes are still happening, and those same companies which are in cartels are still participating in those – when are we going to learn?” (Professional assurance and advisory services company).*

*“Everything is in our own hands at the company. I feel that the Government should be involved in business as little as possible. Communication is at an adequate level. I would of course like to see quicker and more effective communication with ministries. The issue I see is that the Government continues to want to be a part of businesses. This involvement of the Government in businesses and competition is slowing the growth of businesses and creating unfair competition. We have enough tools in our hands to fight illegal behavior, but is the Government using them effectively?  
Also, for KNAB – a lot of cases have been started, but how many have been concluded? This is problematic.” (Service company).*

*“The construction cartel was discovered but the problem is that there is no movement in solving the underlying issue. Still we see unfair competition and various unfair methods being used.” (Real estate company).*

*“Unfair competition is not an issue in the food industry. There are individual disputes, but those are a part of the normal commercial process. Overall – during the last 4 years the Competition Council has come out with very big cases, which show that there is no real progress. There is progress in the awareness of society, but no improvements in the situation.” (Retail trade and service company).*

*“State and municipality tenders are still an area for improvement.” (Finance and banking company).*

*“Nothing good here. The biggest scandal we have seen is the construction cartel news, there was a loud case of unfair competition. The tools for the Competition Council and KNAB need to be effective and strong to prevent unfair competition and illegal behavior.” (Real estate company).*

*“We are moving away from cooperating with the public sector because of unfair competition and non-transparent public procurement processes.” (ICT company).*

*“Shadow economy in construction and the ready-mix concrete industry prevail, incl. unfair behavior.” (Manufacturing company).*

*“We are at the very beginning of this fight. Society is starting to catch on to the idea that everyone needs to pay taxes, we still have cartels and unfair competition, we still have VAT schemes – it doesn’t seem like there is a systematic fight against unfair competition practices. We can start with state procurement processes, even there we don’t see a fight with this.” (Professional assurance and advisory services company).*

*“There have been some cases shown in the media where authorities discovered unfair competition, but no improvements regarding prevention have been heard of. Whenever there is a case, there is lack of follow-up of what the Government will do to fix this issue and prevent it in the future.” (Service company).*

*“We see municipalities really wanting to do everything that the private sector is doing, it would be better if municipalities lived by fair competition rules.” (Service company).*

### **Uncertainty**

*“Uncertainty is decreasing. With the current government at least there is some predictability.” (ICT company).*

*“Compared to the last year, then this year it is more positive. We are more positive for the future.” (Retail trade and service company).*

*“4 years ago, there was a lot more uncertainty. There is improvement in both active and passive thinking of the Government and policy-makers.” (ICT company).*

*“In the last couple of years we have seen uncertainty, most primarily due to energy resource prices. Also, with Covid-19 we are seeing constant new regulations that are difficult to follow often because they change so rapidly.” (Real estate company).*

*“Let’s deduct Covid-19 from here. The uncertainty is decreasing. The Government is understanding that this is an important factor and is trying to address it.” (ICT company).*

*“Uncertainty is appearing. In our industry it is related to the Green Deal – how will the availability of resources affect our business? How will Latvia interpret the Green Deal?” (Manufacturing company).*

*“Regarding Covid-19, the Government has done a decent job, this has been a difficult situation for everyone, and Latvia is not an exception, there is a lot of uncertainty regarding Covid-19, and decision-making is more complex here. Therefore, the Government needs to also focus on policies that they can control and fix the problems we face in other policy areas. Certainty is the cornerstone for investment protection and an extremely important factor for investors.” (Professional assurance and advisory services company)*

*“Super high uncertainty in our industry. This is related to EU legislations that are creating high uncertainty for us. A lot of new policies and changes to these are coming into force from February, and this could crush our business in certain areas.” (Manufacturing company).*

*“Definitely there is uncertainty, it has been bad and no improvement her, especially lately with the Government regarding Covid-19 restrictions and then changing constantly.” (ICT company).*

*“Uncertainty has increased, Covid is a factor, but that is understandable. There is geopolitical uncertainty as well.” (Service company).*

*“We lost our market to the Lithuanians, now the number of passengers is higher in Lithuania.” (Service company).*

*“That’s not just Latvia, this is a global phenomenon. A lack of stability can be seen everywhere.” (Wholesale and retail company).*

*“We are already getting used to living in uncertainty. Even if the Government communicated well and have high levels of trust due to Covid-19, there would still be a degree of uncertainty. The Government and policy-makers should give sufficient notice of changes in regulations sooner, so that companies have time to implement these effectively (during the Covid-19 pandemic we had to implement changes at extremely short notice, which was problematic). Also, the Government should ensure that regulations are implemented before announcing new regulations.” (Retail trade and service company).*

*“There is Covid, there is the Green Deal, there is the geopolitical situation – there are a lot of questions.” (Professional assurance and advisory services company)*

*“Uncertainty has definitely increased, not just to do with the pandemic, the political situations world-wide increase uncertainty. Sometimes we seem too agile, we compromise too much, for example in the case of the financial sector. A company registered in Latvia could be worth less than the same company registered in Estonia or Lithuania precisely due to uncertainty.” (Manufacturing company).*

*“A significant problem. There is a lack of a clear government plan for where we are going in the next 10 years. Some incoherent texts have been published, but there is no clear understanding or aims that we are going for. A lack of long-term aims. Ministries and ministers are afraid to take accountability, and everything is then put on the Prime Minister, which is not effective. In business, if managers did not take accountability for their bad performance, they would be replaced.” (Service company).*

*“Decisions are coming too late, investors are not exactly sure about what is waiting for them in the coming future.” (Service company).*

*“Uncertainty is large. It is difficult to plan business. The tax amount for drinks producers has been very volatile over the last 3 years.” (Retail trade and service company).*

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

*“There is improvement. The Economic Court is now operating, some subjectively saying this is bad, but actually we had a real case in this court, and it was looked at very professionally. One of our hopes did not materialise, that the vacancies for the Court would be very popular and we hoped for the highest-level experts to apply for this role.” (Real estate company).*

*“The Court of Economic Affairs has started operating, the first results show higher quality and faster decisions. This is great.” (Real estate company).*

*“(Positive progress) because we have the Court of Economic Affairs.” (Manufacturing company).*

*“We have very little interaction with the court system. The latest example is related to the deposit system – the other competitor went to court with an appeal, however, the court did very well to take into account the circumstances of the case and everything was fine. Many are excited about the Economic Affairs Court. There are many procedural matters that require improvements.” (Retail trade and service company).*

*“Major developments, digitalisation is also moving along. The Court of Economic Affairs currently looks like it is doing its job. Another question is what will happen when an appeal takes place, and the case is thrown back into the old courts – what will the result be?” (Professional assurance and advisory services company).*

*“There have been reforms. The Economic Court is now functioning. This Court looks at cases in 6 months and the appeals of court decisions are lower in comparison to other cases which is a good signal. The cases are looked at by the Court quicker and there is visible competency from the Court. Policy-makers should not get involved in managing court systems too much, because the courts have to be independent and apolitical. The main aim is to gain justice for people. We are users of the court system, and it must serve justice and fairness for people.” (Professional assurance and advisory services company).*

*“The system is still fucked up. It can be influenced both from the political side and private side.” (Retail trade and service company).*

*“There is progress here. For example, the cases are being looked at faster and of e-cases have been introduced. Now at least all the court processes can be done digitally.” (ICT company).*

*“There are these weird fights among the head of the Supreme Court and judges – it seems unprofessional.” (Finance and banking company).*

*“The main issues are speed and the dynamics of cases moving forward. These issues are still present. The Economic Court might be a good thing; however, it is difficult for me to comment on this because we have not had any contact with it.” (Retail trade and service company).*

*“The Court of Economic Affairs is a positive step. E-cases are not going as planned.” (Professional assurance and advisory services company).*

*“Luckily, we haven’t had much experience with courts. But there was a case going for 10 years, showing that the court system is still inefficient and there is a lack of capacity and competence. On the other hand, the verdict in the Lembergs case was a big thing, if not revolutionary, for Latvia.” (Real estate company).*

*“Positive – the Economic Court was established. Negative – the cases are still taking too long before a hearing.” (Service company).*

*“Digitalisation of the court system is needed and long awaited, however certain quality issues of the process delivery may result in infringement of the right to a fair trial, if not properly addressed in a timely manner.” (Professional assurance and advisory services company).*

*“To get a hearing in court takes an extremely long time.” (Manufacturing company).*

*“Very long court proceedings.” (Real estate company).*

*“This is going backwards. In my opinion, if comparing to US, Australia, UK the relationship between policy-makers and the jurisdiction is still too close.” (ICT company).*

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

*“In this area I believe the Government is working in goodwill. Yes, there was a situation with concerns related to public procurement for masks, vaccinations or other protective equipment related to Covid-19, but I also understand that this had to be done very quickly and might have not gone through all the long standard procedures before the procurement.” (Professional assurance and advisory services company).*

*“I am confident that doctors are earning enough money and their workload is adequate. Similarly, nurse salaries are also good for Latvia’s average level, of course the work is very difficult. There is still a place for growth in infrastructure development (hospital equipment, building quality etc.).” (Service company).*

*“We have a pretty decent healthcare system because actually there are problems everywhere in the world, and Latvia is not the worst case.” (Finance and banking company).*

*“Covid-19 should be deducted. During the time of Minister of Health Mr. Pavļuts there were attempts towards positive developments, also moving towards an e-health system.” (ICT company).*

*“There is a visible start of the promises being actually fulfilled, however, most likely the 20% increase of financing for healthcare that has been promised is not sustainable. Because of Covid-19 there have been improvements in the healthcare sector. The salaries are larger, currently although requiring less education nurses earn more than other public sector employees, such as teachers, for example. Because of this there are large discrepancies of salaries between different sectors of public service which is not good. Also, public procurements have not always been transparent.” (Real estate company).*

*“Covid enabled investments, but reforms are needed.” (Finance and banking company).*

*“No significant issues. I have heard bad things about sick leave certificates but have not had bad incidents with employees in the company and no employee abuses them. Healthcare is receiving more funding, which is a good sign, but it would be better if this occurred not only because of Covid-19.” (Manufacturing company).*

*“Given the budget constraints, the work done is good. The situation has improved, although there is still room for improvement. For example, the process around sick leave certificates could be improved.” (ICT company).*

*“The financing for healthcare has increased. Currently it’s not perfect but also not bad. The pandemic highlighted the problems in the health sector. A lot of mistakes were made by the Government with regard to vaccination and communication.” (Service company).*

*“Facilities have improved, thanks to EU structural funds. In terms of physical infrastructure, there has been some progress.” (Real estate company).*

*“There is no long-term plan to improve human capital in the healthcare sector. Also, there is a feeling that the health sector cannot defend its goals and plans. Why is it that health development plans for the Government are constantly put on paper, but in reality, there is little improvement and progress in this area. Latvia is significantly lacking when it comes to the financing of healthcare.*

*Covid-19 has changed the salaries, but is this a long-term solution and will it stay? The Ministry of Health is proposing some positive changes, but there are large setbacks from the government who do not want to finance implementation of these plans. There is a lack of clear analysis on what we should implement and why we should implement these from the Government.” (Wholesale and retail company).*

*“Room for improvement, are we assigning the money to the right fields.” (Manufacturing company).*

*“We are living in strange times now. Personally, we feel access to healthcare is worsening and the speed of appointments and doctors being able to address health-related issues is also become worse due to the overload of Covid-19.” (Manufacturing company).*

*“No large improvements. Large part of healthcare safety measures for people are due to health insurance. These insurances also contribute to the working capacity of healthcare systems. If we look at the healthcare system that a person can get for free, it is very limited.” (Retail trade and service company).*

*“The Covid crisis and its management showed that there haven’t been improvements in the healthcare system. A lot of restrictions that did not make sense, but more importantly Covid-19 highlighted that a lot of issues underlined the weak healthcare system.” (Service company).*

*“Human resource vs infrastructure – what is our priority in this? Structural reforms need to be carried out once and for all.” (Service company).*

*“Huge amounts of money have been pushed into the system, but it seems like nothing has changed, no real problems have been solved. We need to change governance and transparency. How does financing take place if there are no visible changes over the last 4 years?” (Manufacturing company).*

*“The same mess that was there years ago is still visible. It seems like they are fighting from year to year, from budget to budget, from procurement to procurement.” (Wholesale and retail company).*

*“The progress does not match the level that could be reasonably expected. Financing (salaries for doctors, nurses) is not adequate. Looking globally, this is one of the biggest risks for the economy. If the healthcare system does not fulfil its function, then the society can take a big hit. It is being said that we have free healthcare, however, the queues for state-funded appointments are not reasonable.” (Professional assurance and advisory services company).*

## **5. Assessment of the economic competitiveness of Latvia by foreign investors**

This section presents 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 and 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, whereas 44 foreign investors were interviewed in the 2020 study and 53 investors participated in the recent, 2021 study.

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. The results are presented in Table 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. We therefore recommend 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 Table 3, for all seven years (2015, 2016, 2017, 2018, 2019, 2020 and 2021 studies) foreign investors in Latvia mostly evaluated the potential drivers of the economy as above the average. More specifically, in 2021, we see that the evaluation of the indicator ‘attitude towards foreign investors’, which has been evaluated as high as 3.6 out of 5, has remained at a similar level as that in 2020 and 2019 (both: 3.7, as compared to 3.6 in 2018, 3.1 in 2017 and 3.2 in 2015 and 2016). Similarly to previous years, in 2020 investors are also relatively satisfied with the ‘soft infrastructure’, measured as ‘business culture in Latvia’ (3.5 out of 5 in 2021 as compared to 3.5 in 2020 and 3.4 in 2019). Also the evaluation of the ‘demand for products and services’ and ‘quality of business legislation’ has remained at the same level in 2021, as in 2020 (3.4 and 3.3,

accordingly). Yet investors are still least satisfied with ‘demography’, which is evaluated by foreign investors as low as 1.8 out of 5 in 2021 (2.0 out of 5 in 2020, 1.5 out of 5 in 2019).

The investors’ assessment of the quality of the ‘health and social system’ and ‘quality of education and science’ in 2021 has slightly decreased as compared to 2020 (from 3.0 to 2.9). ‘Efficiency of labour’ evaluation, however, has slightly increased - from 3.1 in 2019 to 3.2 in 2020, whereas the indicator ‘investment incentives’ remained at the same level (2.8). The evaluation of indicator ‘hard infrastructure’ has dropped from 3.4 in 2020 to 3.0 in 2021, mainly driven by a sharp decrease of the sub-indicator ‘energy resources’ (from 3.5 to 2.6). Also, evaluation indicator ‘availability of labour’ has decreased substantially: from 3.1 in 2020 to 2.7 in 2021. Finally, the standard of living in Latvia has been evaluated with 3.5 out of 5 in 2021, which is lower than in 2020 (3.8) (See Table 3).

**Table 3: Components of the FICIL Sentiment Index 2015- 2021.**

*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; 2020: n=44; n= 53

|  | 2015       | 2016       | 2017       | 2018       | 2019       | 2020       | 2021       |
|--|------------|------------|------------|------------|------------|------------|------------|
| <b>Soft infrastructure</b>                 | <b>3,4</b> | <b>3,4</b> | <b>3,4</b> | <b>3,5</b> | <b>3,4</b> | <b>3,5</b> | <b>3,5</b> |
| business culture in Latvia                 | 3,4        | 3,4        | 3,4        | 3,5        | 3,4        | 3,5        | 3,5        |
| <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> | <b>3,1</b> | <b>3,2</b> |
| efficiency of labour                       | 3,2        | 3,2        | 3,1        | 2,9        | 3,4        | 3,1        | 3,2        |
| <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>3,7</b> | <b>3,6</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>2,8</b> | <b>2,8</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> | <b>3,3</b> | <b>3,3</b> |
| monetary policy                            | 4,0        | 4,1        | 3,9        | 3,7        | 3,5        | 3,8        | 3,5        |
| tax system                                 | 3,1        | 2,8        | 2,8        | 3,1        | 3,0        | 3,0        | 3,2        |
| legal system                               | 2,6        | 2,6        | 2,8        | 2,9        | 2,8        | 3,0        | 3,2        |
| <b>Hard infrastructure</b>                 | <b>3,2</b> | <b>3,3</b> | <b>3,4</b> | <b>3,2</b> | <b>3,3</b> | <b>3,4</b> | <b>3,0</b> |
| defence                                    | 3,4        | 3,6        | 3,6        | 3,6        | 3,8        | 3,9        | 3,7        |
| low production costs                       | 3,3        | 3,2        | 3,2        | 2,9        | 2,9        | 2,7        | 2,7        |
| infrastructure (roads, electricity, etc.)  | 3,1        | 3,1        | 3,3        | 3,2        | 3,5        | 3,3        | 3,1        |
| energy resources                           | 2,8        | 3,3        | 3,4        | 3,0        | 3,0        | 3,5        | 2,6        |
| <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> | <b>3,4</b> | <b>3,4</b> |
| domestic demand                            | 2,8        | 2,6        | 2,9        | 2,8        | 2,8        | 2,9        | 2,8        |
| external demand (exports)                  | 3,3        | 3,3        | 3,7        | 3,8        | 3,5        | 3,5        | 3,7        |
| industry traditions                        | 3,4        | 3,5        | 3,5        | 3,6        | 3,4        | 3,7        | 3,7        |
| <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> | <b>3,1</b> | <b>2,7</b> |
| availability of labour at management level | 3,4        | 3,5        | 2,9        | 3,0        | 3,1        | 3,5        | 3,1        |
| availability of blue-collar labour         | 2,7        | 2,8        | 2,5        | 2,3        | 2,4        | 2,7        | 2,2        |
| <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> | <b>3,0</b> | <b>2,9</b> |

|  |            |            |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|------------|------------|
| education and science / innovation           | 2,8        | 2,6        | 3,1        | 3,0        | 2,7        | 3,0        | 2,9        |
| <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> | <b>3,0</b> | <b>2,9</b> |
| health system                                | 2,5        | 2,4        | 2,4        | 2,7        | 2,6        | 3,0        | 2,7        |
| social security                              | 2,8        | 2,5        | 2,6        | 3,0        | 3,2        | 3,0        | 3,1        |
| <b>Demography</b>                            | <b>2,0</b> | <b>1,8</b> | <b>1,6</b> | <b>1,7</b> | <b>1,5</b> | <b>2,0</b> | <b>1,8</b> |
| demography (population growth)               | 2,0        | 1,8        | 1,6        | 1,7        | 1,5        | 2,0        | 1,8        |
| <b>Digitalisation</b>                        | <b>n/a</b> | <b>n/a</b> | <b>n/a</b> | <b>n/a</b> | <b>3,4</b> | <b>3,5</b> | <b>n/a</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> | <b>3,8</b> | <b>3,5</b> |

Source: FICIL Sentiment Index 2015-2021

We also received a number of further comments with regards to the drivers of the economic competitiveness of Latvia that are summarised in Appendix 3.

## **6. Best decisions or policy initiatives and worst decisions or policy initiatives that have been introduced by the Latvian Government or Parliament over the previous 4 years: assessment of foreign investors in Latvia**

In the 2021 Sentiment Index study we asked foreign investors to identify up to 3 of the best decisions or policy initiatives, as well as up to 3 of the worst policy initiatives introduced by the Latvian Government or Parliament over the previous 4 years, that, accordingly, had a positive or negative impact on the business environment of Latvia.

*Progress in the tax system*, in particular implementation of 0% tax on reinvested profit, improved predictability of the tax system, was mentioned as one of the key best decisions or policy initiatives that have been introduced over the period of the past 4 years by the Government of Latvia. Other key best decisions, according to foreign investors of Latvia, are: *the start of and, in some cases, also progress with higher education reform; improved efficiency of various state organisations and processes*- including digital transformation of the public sector, progress of the work of the State Revenue Service, Competition Council and Latvian Investment and Development Agency, positive changes in the recruiting process of the civil servants; *implementation of administrative territorial reform*. A considerable proportion of foreign investors that took part in the 2021 study also appreciate the *support to business that has been provided during the Covid 19 crisis, Covid-19 crisis management* as well as the *work of the government institutions to improve the financial sector stability in Latvia, and introduction of the economic court*.

Even though to a considerably less extent, foreign investors named a number of other best decisions or policy initiatives, Rail Baltica, mandatory vaccination, rent law, deposit system, merging of the Bank of Latvia and the Financial and Capital Markets Commission, introduction of start-up legislation, port governance changes, as well as number of other policy initiatives, that are all further summarised in the quotes below:

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## Tax system

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*“Reinvested capital from profit is not taxed.” (Service company)*

*“No tax on reinvested profits.” (ICT company)*

*“0% on reinvested profit.” (ICT company)*

*“No tax on reinvested profit.” (ICT company)*

*“A decision that you do not have to pay taxes on profits that are reinvested and not taken out of business. Now more of the profit is reinvested which is good for business growth, we can invest now more in automated services.” (Service company)*

*“The policy that does not tax the re-invested profits. Very good policy and encouraging for the industry that works on production.” (Manufacturing company)*

*“0% tax on reinvested profit.” (Real estate company)*

*“Positive impact can be seen regarding reinvested profit – transformed from company income tax to dividend tax.” (Service company)*

*“Stability of the tax system (enterprise tax).” (Wholesale and retail company)*

*“Stable tax system without major changes.” (Manufacturing company)*

*“Predictability of the tax policy – the government kept its promise.” (Manufacturing company)*

*“Three-year plan on excise tax – no surprises.” (Manufacturing company)*

*“No cardinal changes in the tax system – stability.” (Service company)*

*“Reduced tax on fruit and vegetables. This is a positive experiment and should be further developed by the Government.” (Retail trade and service company)*

*“Abolished tax on micro-companies- this created a large grey area for our company. Of course, there were some bad consequences for certain micro-companies but for us this was a good thing.” (ICT company)*

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## Higher education reform

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*“Decisions taken and progress started regarding higher education reforms.” (Finance and banking company)*

*“Higher education reform – going in the right direction, I hope that I will see at least one of the higher education institutions in Latvia in lists of Top100.” (Service company)*

*“The start of the higher education reform.” (Wholesale and retail company)*

*“Initial decisions about the higher education system in Latvia, where further initiatives should be developed.” (Professional assurance and advisory services company)*

*“Higher education reform regulation – this is now in effect; however, we are yet to see the results of this.” (Professional assurance and advisory services company)*

*“Higher education reforms started.” (Finance and banking company)*

*“Higher education reform.” (Retail trade and service company)*

*“Higher education reform.” (Professional assurance and advisory services company)*

*“Higher education reform.” (Manufacturing company)*

*“Higher education reform.” (ICT company)*

*“Higher education reform – centralisation and reducing the number of higher education institutions.” (Real estate company)*

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*“The new overall education standard”. (School 2030). (Retail trade and service company)*

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*“Competence based education in schools.” (ICT Company)*

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## Improving efficiency of various state organisations and processes

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*“The law is being enforced better and more stringently. The general behaviour from policy-makers is becoming cleaner, the policy-makers and Government are sticking to the rules more.” (Manufacturing company)*

*“Digitalisation of the public sector and digitalisation of the court system.” (Professional assurance and advisory services company)*

*“There is a positive tendency in relation to digital transformation, at least at planning level. VARAM is showing a willingness to work towards this and proposing some initiatives. However, we need to think in future what our country’s’ success story is - there is a desire and capacity to think but no clear vision on how to achieve our ambitions. The Ministry of Health is proposing and introducing an e-health system service pilot project for cancer patients, this is a very good signal for the e-health system, and we will see how this develops.” (Wholesale and retail company)*

*“All decisions made that enable distant e-signatures and access to public databases.” (Finance and banking company)*

*We highly regard the e-signature and other digital possibilities that have been developed recently, it has facilitated business.” (ICT company)*

*“Progress in the work of public institutions such as the State Revenue Service, Competition Council.” (Professional assurance and advisory services company)*

*“Organisation of the State Revenue Service, their internal reforms. The internal reforms have proved to be very good, and their service has drastically improved for the better.” (Manufacturing company)*

*“Communication from state institutions has seemingly improved, for example the State Revenue Service.” (Real estate company)*

*“Working with the SRS has become easier in the last years (also because of digital systems). Also, the speed of communication has improved.” (ICT company)*

*Initiative of the golden status to good companies from the SRS - to the honest and good companies this gave the extra incentive to do better.” (ICT company)*

*“The strengthening of public sector institutions like the Competition Council etc.” (Finance and banking company)*

*“Decisions to change civil servants who have been in the public sector for many years and haven’t produced results.” (Professional assurance and advisory services company)*

*“The recruitment process in the public sector has improved, it is more visibly based on competencies and more often skilled personnel can be seen.” (ICT company)*

*“The state’s actions in the right direction to foster good governance and capital development initiatives.” (Professional assurance and advisory services company)*

*“Corporate governance code – the fact that policy-makers are taking and implementing this for ISO and municipal companies and large companies. Financial reporting has become obligatory.” (Finance and banking company)*

*“The restart of LIAA in terms of attracting investment.” (Professional assurance and advisory services company)*

*“Restart of LIAA.” (Manufacturing company)*

*“Green corridor for large investments established by LIAA- works most of the time, sometimes PMLP slows it down, but the green corridor needs to be kept as a long-term solution.” (ICT company)*

*“LIAA green corridor.” (Wholesale and retail company)*

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*“The Prime Minister is open to conversations and exchange of opinions.” (Finance and banking company)*

*“The Government has worked towards adapting more to the EU standards. There is greater EU directive implementation at Latvian level. There is great adherence to EU policies.” (ICT company)*

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### **Administrative territorial reform**

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*“Regional reform and reducing public administration.” (Service company)*

*“It is good that regional reform has been taken forward. The previous territorial layout was very problematic. We are not affected by this.” (Service company)*

*“Regional reform – this is not a popular decision by the Government, but from a structure point of view this was necessary. It also signals that the Government is not afraid to accept and implement unpopular decisions. Also, it shows that the Government is thinking about these sorts of things and changes in general. The effect of this reform is still not clear, but the idea of it is good for more effective governance.” (ICT company)*

*“Regional reform was a good step.” (Retail trade and service company)*

*“Regional reform - state more efficient.” (Finance and banking company)*

*“Regional reform: because of trying to use resources more effectively.” (Finance and banking company)*

*“Initiatives to work on structural changes as such from the Government side – including Healthcare. Implementation is also quite efficient compared to many other countries.” (Real estate company)*

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### **Support to businesses during the Covid-19 pandemic, Covid-19 crisis management.**

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*“Support to businesses during the Covid-19 pandemic/Covid-19 crisis management. (Service company)*

*“The initial reaction to the Covid pandemic in the first wave was good, we all seemed to be on the same page.” (Wholesale and retail company)*

*“Programmes to help businesses during Covid.” (Manufacturing company)*

*“Support programmes for companies.” (Manufacturing company)*

*“The Government’s action in regard to managing the Covid-19 pandemic (relating to subsidies, furlough), in my opinion, this has been mostly good. It is not an initiative but rather multiple decisions. The Government has been able to pull all the different areas together to address this, there is a balance in decision-making.” (Professional assurance and advisory services company)*

*“For example, compared to UK, Australia that often either miss the right time for restrictions or have had a very strong lockdown policy that does not work for prolonged periods of time. There needs to be a balanced approach to restrictions and Latvia has tried to have this.” (ICT company)*

*“Government response to Covid – our manufacturing facilities could work the whole time.” (ICT company)*

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*“Crisis management of Covid (quick reaction regarding support for companies).” (Wholesale and retail company)*

*“One good initiative is the working from home compensations that employees can ask from their employers (amounting to 30 EUR) the employer did not have to pay taxes on this amount. This was beneficial for us.” (ICT company)*

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### **Financial sector overhaul**

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*“Focus and active management of AML issues.” (Finance and banking company)*

*“Financial sector overhaul.” (Professional assurance and advisory services company)*

*“Financial sector overhaul.” (Manufacturing company)*

*“The financial sector overhaul was a great thing (positive decision in the long-term). There are many investors who really appreciate the steps taken in AML issues in Latvia, this is a must have to even start discussing increasing investment in Latvia.” (Service company)*

*“Financial sector overhaul led by Mrs. Znotiņa (also the decision to change the leadership at FCMC).” (Professional assurance and advisory services company)*

*“Cleaning of financing market. Grey economy. AML.” (Finance and banking company)*

*“Progress in financial sector and legal system.” (ICT company)*

*“Financial Intelligence Unit and FCMC reorganisation (some think it is quite the opposite, but one needs to look at the longer-term perspective).” (Finance and banking company))*

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### **Economic Court**

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*“Economic Court implementation.” (Professional assurance and advisory services company)*

*“Creation of the Economic Affairs Court.” (Professional assurance and advisory services company)*

*“Establishment of the Economic Court.” (Professional assurance and advisory services company)*

*“Establishment of the Economic Affairs Court.” (Real estate company)*

*“Economic Court. Potentially a good incentive, but let’s see how it does in practice.” (Finance and banking company)*

*“Court of Economic Affairs.” (Wholesale and retail company)*

*“Court of Economic Affairs.” (Manufacturing company)*

*“Court of Economic Affairs.” (Real estate company)*

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### **Rail Baltica**

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*“Support to implementation of RB rail project.” (Professional assurance and advisory services company)*

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*“Implementation of EU structural funds (e.g. Rail Baltica) - improves the economy, stimulates production. Reconstructing the central station is good.” (Real estate company)*

*“Rail Baltica implementation.” (Service company)*

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### **Mandatory vaccination**

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*“Mandatory vaccination for front line employees. It was a hard political decision, but it was brave, and we appreciate it. (This is the smallest one).” (Retail trade and service company)*

*“Mandatory vaccination.” (Manufacturing company)*

*“Allowing the dismissal of people who are not vaccinated.” (Manufacturing company)*

*“Mandatory vaccination.” (Real estate company)*

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### **Rent law**

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*“Regulation regarding the lease of residential property.” (Real estate company)*

*“Rent law (finally).” (Finance and banking company)*

*“Noteworthy changes in regulation around rent legislation – this gives new opportunities for us when investing, we are planning significant investments, and more than half of this will be in Riga.” (Real estate company)*

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### **Deposit system**

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*“Implementation of the deposit system.” (Manufacturing company)*

*“Introduction of the deposits system is a good initiative; it has been difficult to reach but a good initiative in general.” (Retail trade and service company)*

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### **Merging of the Bank of Latvia and the Financial and Capital Markets Commission**

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*“Merging of the Bank of Latvia and the Financial and Capital Markets Commission – a good signal with regard to reducing the administrative apparatus and consolidation of professionals. A good end to the overhaul of the financial system.” (Retail trade and service company)*

*“Strengthening of the Bank of Latvia, integration of FCMC.” (Real estate company)*

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### **Start-up legislation**

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*“Creation of start-up legislation.” (Real estate company)*

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*“Start-up visas and start-up policy.” (ICT company)*

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### **Port governance change**

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*“Port governance change was a good decision.” (Real estate company)*

*“Port governance reform is the right direction.” (Service company)*

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### **Other**

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*“Introducing a ‘green corridor’ in the building authority.” (Real estate company)*

*“Insolvency system issues have been solved.” (Professional assurance and advisory services company)*

*“Holding NATO course, defence capabilities.” (Manufacturing company)*

*“Liberalisation of the gas market.” (Service company)*

*“Digitalisation.” (ICT company)*

*“The “Consult first” initiative.” (ICT company)*

*“Minimum salary increase is good.” (Retail trade and service company)*

*“EU grant availability for businesses as well.” (Manufacturing company)*

*“Stock option legislation.” (ICT company)*

*“The switch from age to diameter criteria in allowing tree harvesting. In Soviet times availability of harvesting was calculated on the tree maturing (age of the tree), however, in practice this did not always apply, sometimes the tree developed faster due to soil etc. However, you can now also use the diameter system (whichever is faster diameter or the age).” (Service company)*

*“Media policy implementation (2015-2021) – Latvia has been the best in implementing guidelines compared to the other Baltic States. Media policy described what the media ecosystem should look like and what should be done to achieve that. Public media exiting the commercial advertisement market. Creation of the Media Support Fund.” (ICT company)*

*“Illegal commerce law – the law applied to all parts of the supply chain and not only the seller.”  
(Retail trade and service company)*

*“Resolving issues of employing people with disabilities. Before, the regulation made it very difficult to replace these workers if they did not meet the competencies to fulfil the job, and in turn the regulation actually prevented employers from hiring people with a disability. Now it has changed, and it has increased the hiring of people with a disability in the workplace, that also positively contributes to their integration in wider society.” (Retail trade and service company)*

*“There is currently progress in Parliament on the Secondary Data regulation which would be very beneficial for health data and potentially lead to greater investment in Latvia from the health sector.”*

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*Hopefully, this can progress quickly, and it would be very good if Parliament approves it.” (Wholesale and retail company)*

*“Stock options framework possibilities for employees.” (Finance and banking company)*

*“Direction towards reducing OIK, refunds for energy efficient companies.” (Manufacturing company)*

*“Child support benefits.” (ICT company)*

*“It’s good that Lembergs is behind bars, not a government decision, but still a good thing.” (Retail trade and service company)*

*“Changes in construction regulation – both in law and in guidelines. Now there is clear accountability for all participants of the construction industry and a lot more amendments to the 2014 regulations after the Maxima tragedy which caused very swift and illogical rules to be adopted (high bureaucratic process introduced unnecessarily), but fortunately, now there have been positive changes that makes the regulation clear.” (Real estate company)*

*“Reduced fee for the Land Register – if a company is buying property or apartments for rent then these fees are lower and are clearer.” (Real estate company)*

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Some of the decisions or policy initiatives that appeared amongst the best, however, were highlighted by many foreign investors also as being the **worst ones**, being implemented over the past 4 years. Namely, foreign investors are ***not satisfied with the effectiveness of governance and planning within the work of Parliament over the past 4 years***. In this light, an inability to focus on the long-term issues and inability to set clear goals, short-term thinking and a lack of strategic focus, a lack of support from the policy-makers to improve the investment climate and overall business climate in Latvia are highlighted, cooperation practices of the Government with the private sector, a lack of expertise as well as problems with regards to the implementation of the recovery and resilience plan are all highlighted as major shortcomings. Not least, investors clearly highlight major challenges with regards to the ***availability of the labour force and skillset of people***, including challenges in availability of labour in general, problems with regards to hiring labour from other countries - ineffective immigration policy, policies for attracting qualified experts, policies to up-skill the labour. To a similar extent, investors seem to be unhappy with regards to the ***Covid-19 policy*** as implemented by the Latvian government - many changes, often hasty decisions that are hard to understand, speed of reaction, and often also a lack of decision-making in the crisis situation.

A considerable amount of foreign investors that took part in the 2021 study are also unsatisfied with the recent ***tax reform*** and ***changes in the anti- money laundering legislation*** - in particular the overly stringent banking regulation. Other important areas where, according to foreign investors, the Government made bad decisions include the ***health system*** (remuneration, lack of optimisation, providing funding), ***Green Deal*** (lack of clarity about what it is and what will be done, no clear strategy, inconsistency), ***lack of progress to solve the Mandatory Purchase Component*** (OIK) issue, governance of state owned companies, as well as a number of other

decisions or policy initiatives that are presented by the quotes from the foreign investors in Latvia from the interviews.

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**Effective governance, planning: investment climate and overall business ecosystem development related**

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*“The inability of the Government to focus on long-term issues, very Covid focused (not so much a critique of the Prime Minister or ministries, these issues stem deeper).” (Wholesale and retail company)*

*“Inability to have clear goals as to what the country wants to achieve economically.” (Manufacturing company)*

*“Short-term thinking, thinking in 4-year terms means we lack strategic focus. Every government erases the previous government’s KPIs and starts from scratch which is not good.” (Manufacturing company)*

*“There is no clear long-term planning, there is a feeling that the public sector is only addressing the daily issues they face, and there is a lack of a clear long-term plan with achievable aims.” (Wholesale and retail company)*

*“For the past 2 years the Government has been focused on Covid decisions, not on developing the economy. They will always end up being the Covid government, not the government for development. They paralysed themselves.” (ICT company)*

*“The Latvian Government is not doing enough in order to improve the financial conditions for running business in Latvia, it’s too expensive and not competitive compared to other countries.” (Finance and banking company)*

*“Insufficient promotion of investment, attraction of large investors.” (Professional assurance and advisory services company)*

*“It is difficult for companies to enter Latvia from abroad. For example, out of 150 Belarusian IT companies, only 20 (5 large) transferred to Latvia. We are similar to Lithuania, but something is not right if we were not attractive enough. An audit is necessary to understand the main issues. We need to be able to react faster.” (ICT company)*

*“A lack of action to increase business environment competitiveness in the region. (Manufacturing company)*

*“There have not been any mega projects where the state has said “this was our strategy, and we were going for it”.” (Finance and banking company)*

*“There is a lack of clear PR for Latvia, the question policy-makers and the Government should think about is what Latvia has to offer and create a Latvia ‘booklet’. I know LIAA is doing this, and there have been positive changes to their team, but more work could be done by LIAA, they should be working proactively in attracting investment.” (ICT company)*

*“There is also a fear of cooperating with the private sector and accepting initiatives from the private sector.” (Wholesale and retail company)*

*“Communication with experts on various topics was lacking, how we explain certain decisions is not ok. Very little data-based decision-making.” (Wholesale and retail company)*

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*“Not being able to admit when your decision (by the Government) is wrong and try to hold on to the wrong decisions, you have to fix it as soon as possible.” (ICT company)*

*“Not copying the Estonian model. They are very attractive for foreign investors - digital transactions, everything is very easy. No reaction to Lithuania taking the market. There should be a long-term state strategy that does not depend on the government. Decisions are needed, we are losing time.” (Service company)*

*“Public service effectivisation. There is a lack of responsibility from the Government, it is always easier to say no. This is because when the time comes to talk about action and implementation, they can always just say no it was not for us to do.” (Service company)*

*“We don’t notice excellence and expertise. We didn’t have a state-wide public sector reform. Inability to explain hard decisions.” (Finance and banking company)*

*“In certain areas of public services, there is a lack of transparency when it comes to spending their finances. Also, when asked they cannot say exactly how this money will be spent and what it will be allocated towards. There is also a delay in communicating this information to the public and decisions related to this.” (Wholesale and retail company)*

*“The allocations of finances in the public sector seems to be an issue.” (Real estate company)*

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*“Recovery and resilience facility plan (RRF) which was very low quality and was thrown back by the European Commission.” (Retail trade and service company)*

*“Recovery and resilience plan – could have been tailored more to improve the healthcare and education systems, not focusing so much on hard infrastructure projects. If we don’t have healthy and educated people- we won’t have people that will be able to use the infrastructure being built.” (Wholesale and retail company)*

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### **Lack of labour force and skillsets of people**

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*“The complete lack of a desire to solve the workforce issues in Latvia. We are increasing salaries very unnaturally because we have to buy employees from other companies. Emigration is also high – what’s being done about any of this?” (ICT company)*

*“There are no actions that are making things worse, but there are things that are not being addressed at all and the harm comes from that. For example, in the accessibility of labour, there are challenges in hiring foreign labour. It is partially due to Covid, but also partially due to the slow system - it takes up to 7-8 months to get all permits, we are losing people during this process. The problem is not with the actual laws. The problem is with the interpretation, execution and will. If there are a lot of documents to supply and there is a mistake somewhere, the majority of people will simply make a rejection on the very last day without trying to fix the problem together with the company.” (ICT company)*

*“The decision not to deal with a lack of labour force and skillsets of people.” (ICT company)*

*“It is not as easy to start investing in Latvia. There are workforce issues and a clear lack of up-skilling of employees. For example, we go to universities directly to discuss how we can help the students to improve their practical skills and also work with them so they are ready to go into work after finishing. There is a significant lack of IT specialists in Latvia. In future, we want to see proactive initiatives from*

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*the Government for preparing students for future jobs and the marketplace, especially in areas where we are lacking.” (ICT company)*

*“Ineffective and bad immigration policy, there is no policy for either the blue collar or the white-collar workers coming in. Immigrants are coming in through different set-ups, and as a result this policy is not effective.” (Finance and banking company)*

*“The policy for relocating highly qualified specialists. There could be improvements in this of course. For example, sometimes profession classifications are incomplete, and we have to look for the closest thing. Often a highly qualified workforce for our company is very hard to find and there only a limited number of specialists in the region.” (Manufacturing company)*

*“The immigration procedure to bring foreigners to Latvia has still not changed. This has been an issue and it has still not been addressed, we understand it might not be a very popular decision politically but the idea is not to bring low-skilled (builders, for example) to Latvia but rather highly qualified workers.” (ICT company)*

*“Labour availability – there is a lack of decisions that would solve a problem that everyone knows exists. Our shareholders are asking – why are we making the biggest investments in the company’s history in Latvia if there is a huge lack of workforce?” (Manufacturing company)*

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*“I do not see the demographic issue being addressed and the demography in the country is still in decline.” (Manufacturing company)*

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### **Covid-19 policy**

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*“The fight against Covid-19 only highlighted how badly the public administration works in crisis situations. There was a lot of indecisiveness and slow responses. The way the Government has dealt with the pandemic has brought no positive impact to business.” (ICT company)*

*“The Covid policy negatively impacted the whole country, the economy of the country, we had many wrong decisions that were not corrected.” (ICT company)*

*“Covid-19 governance has been poor and unsuccessful. The legislations that indirectly prevent work for the unvaccinated is poor and I have not heard of any such decisions in other countries. I spoke to my colleagues in Finland who explained that in Finland if you are unvaccinated there are not even any restrictions for you to work in the healthcare sector.” (Real estate company)*

*“Instability created by the many changes in Covid decisions. Companies seem to be able to find a way to work very quickly, but the Government keeps changing the rules all the time.” (Retail trade and service company)*

*“The Covid regulation has often been very unclear. Adoption of the regulations by the companies required a lot of time and resources that otherwise could have been spent in more productive activities.” (Professional assurance and advisory services company)*

*“Slow responses when it comes to dealing with Covid-19. There was poor communication, decisions were not taken fast enough. It would be good if communication was better, and decisions taken much quicker. We also wanted to assist the Government in organising a campaign to advocate wearing masks in public, but the public sector declined this private-public campaign and later decided to do the campaign independently, which was not done very successfully.” (Wholesale and retail company)*

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*“Hasty decisions regarding the Covid crisis.” (Finance and banking company)*

*“Back and forth with the Covid policy and vaccination. Communication on Covid changed often.”  
(Manufacturing company)*

*“Lack of decisions in a crisis. Delaying positive policies that we have heard about in the media or elsewhere. Low decision-making, understandable that it is difficult with 5 or more parties, but still, that has to work. Some companies have received a lack of support, subsidies.” (Manufacturing company)*

*“The Sputnik vaccination decision seemed very short-sighted.” (Real estate company)*

*“Covid restrictions on labour force movement.” (ICT company)*

*“There was a lot of inconsistency regarding Covid-19 restrictions. There was not enough time given to adapt to changes for business and they were accepted without much notice. We would like to see a more long-term approach on this.” (Manufacturing company)*

*“Lack of transparency in how money was distributed during Covid times. (Manufacturing company)*

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## **Tax reform**

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*“Pseudo tax reform.” (Retail trade and service company)*

*“The tax system has created more shadow economy.” (Professional assurance and advisory services company)*

*“No clear vision and actions by the Government related to tax policy. For the self-employed it is still very difficult, and time consuming to do both taxes and receive social security guarantees. I know the SRS system is developing but there is still significant room for improvement.” (Professional assurance and advisory services company)*

*“There are taxes changing all the time, uncertainty with this.” (ICT company)*

*“The new initiative to amend the taxation system. Predictability in the tax system is very important. Changes must be made only when truly required. It is negative to start amending the tax system so close to previous amendments.” (Real estate company)*

*“The complexity of the tax system.” (ICT company)*

*“Not addressing issues of social security coverage for part-time employees. This needs to be resolved and we need to maintain flexibility. There is a large proportion of people who would be willing to work part-time but regulation makes it difficult now.” (Retail trade and service company)*

*“High taxes related to packaging. These are now going down a bit, but initially they were very, very high.” (Manufacturing company)*

*“Tax reform, increase of the corporate income tax – not good for large investors. Might be beneficial for smaller investors who reinvest.” (Manufacturing company)*

*“Raising excise taxes was quite a big change for fuel and now we are less competitive.” (Retail and trade service company)*

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*“Back and forth with reversed VAT.” (Manufacturing company)*

*“Real estate cadastral value tax reform.” (Finance and banking company)*

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### **Anti-money laundering legislation changes, banking regulation**

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*“Different decisions regarding anti-money laundering legislation changes, so bank demands are quite strict. However, the anti-money legislation is coming from Brussels, so it is also problematic in Estonia and Lithuania.” (Service company)*

*“Over-exaggerating with the banking regulation – the requirements are much higher than in neighbouring countries. Because of this the foreign companies that are working in goodwill suffered as well.” (Service company)*

*“When they were doing this financing clean-up, it was overdone and then it became too strict. You make a payment and all the payments got stopped. For example, it is very difficult to open a bank account. I think the Latvian government has understood the story and know it needs more of a balance.” (Finance and banking company)*

*“It is very good that Latvia has been able to take the measures to prevent being grey-listed. But now these measures are a bit excessive. This can create complications for businesses. For example, there are excessive requirements for UBO listing – extensive requirements for documentation. They need to be better balanced. Latvia can be very cumbersome and bureaucratic. In Estonia things are so much easier. The Government should find a better balance not to overcomplicate the business environment.” (Real estate company)*

*“Financial sector overhaul, not possible to deal with dollars anymore because of FCMC rules for banks.” (ICT company)*

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### **Healthcare system**

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*“Not fixing the remuneration in healthcare.” (Real estate company)*

*“No structured approach to improvement of health services (I fully appreciate for the last 2 years Covid has rightly been the focus, however during the years before Covid no progress was made.” (Finance and banking company)*

*“Not taking care of the healthcare system, where nothing has been done over the last 4 years.” (Finance and banking company)*

*“Dealing with healthcare system failures is very slow, we seem to just create more problems.” (Wholesale and retail company)*

*“Financing of healthcare. Discussions continue on whether family doctors’ offices should have financing of third persons, patients etc. There could be improvements in this area.” (Finance and banking company)*

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*“The promised pay rise to medical personnel that didn’t really happen was a very bad move.” (Real estate company)*

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### **Green Deal**

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*“Lack of clarity on what the European Green Deal means for Latvia.” (Finance and banking company)*

*“A lot of things have been delayed in relation to green transition. The Green Deal is very topical and impactful for our industry and all the regulations that are related to it. Resource availability for the future, this topic is not being addressed at the moment. A lot of investors are discouraged to come because of this uncertainty with regulations.” (Manufacturing company)*

*“Inconsistent and slow approach to climate change and respective policy planning – a lack of clear and ambitious plans, coordination among various institutions involved, and monitoring of the results of policy implementation.” (Professional assurance and advisory services company)*

*“No clear strategy on sustainability and the Green Deal. There is a large division of tasks between ministries and no one person or ministry is responsible for this, lack of accountability.” (Finance and banking company)*

*“Legislation regarding the green economy has been put on a standstill. Lack of vision and strategy to achieve Green Deal goals.” (Retail trade and service company)*

*“We haven’t created any strategies that work – not for transport, not for innovation and science, not for building renovation regarding the Green Deal.” (Professional assurance and advisory services company)*

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### **Mandatory Purchase Component (OIK)**

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*“Mandatory Purchase Component (OIK) - there is still no clear understanding on what will happen on this matter.” (Service company)*

*“(Lack of progress with regards to) OIK.” (Retail trade and service company)*

*“Hectic actions related to Mandatory Purchase Component (OIK) and its cancellation efforts, in this area the Government is showing uncertainty and unpredictability, this way the Government is demonstrating an unclear vision and it does not foster investment protection.” (Professional assurance and advisory services company)*

*“Poor managing of OIK matters in the energy sector.” (Professional assurance and advisory services company)*

*“OIK, energy resource policies – a complete failure.” (Manufacturing company)*

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## **Governance of state-owned companies**

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*“Indecisiveness related to centralised governance of state-owned companies –policy-makers still cannot decide on the development of capital companies although there are steps towards improvement in this area.” (Finance and banking company)*

*“Latvia has a horrible practice of picking out Council members for public sector companies. Corporate governance is still lacking. It seems like people can do as they wish from ministry to ministry, from public sector company to public sector company and there are no consequences of poor performance.” (Wholesale and retail company)*

*“Decisions regarding state company listings in the stock exchange have been put off – this is a negative.” (Professional assurance and advisory services company)*

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## **Digitalisation**

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*“A lack of progress / decisions regarding progressing the whole digital agenda (innovation and skills).” (Finance and banking company)*

*“The decision not to deal with electronic infrastructure issues.” (ICT company)*

*“Not enough support and investment in the STEM area – I have talked with a lot of people and there is a problem that the Government (for more than 4 years) is not investing and giving money to develop STEM competencies and education. There is a shortage of young people going towards technology, IT and science areas. The Government is investing a lot in art, literature, history which is good for Latvia’s cultural development, but this is not very forward-looking growth and development wise. I see now that companies need to invest themselves a lot to improve STEM areas and to attract skilled employees and this is expensive.” (ICT company)*

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## **Port reform**

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*“Port governance reform – not sure who really needed this reform and what it will achieve. The defined goals can be achieved without this reform. Port independence from municipalities is not good – they are both interdependent. Some of the investment has been stopped until there is more clarity.” (Service company)*

*“Port reform law dragged on too long.” (Finance and banking company)*

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## **Other**

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*“Putting the responsibility on the developer regarding damage to third parties during the construction process.” (Real estate company)*

*“Cashier system registration/certification. For big businesses this is problematic, where they create their own cashier systems (we create our own cashier systems for transactions). Now due to changes*

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*we needed to spend at least 150,000 EUR to change our own cashiers' systems in all of the DPD parcel terminals, to fit with the SRS requirements." (Service company)*

*"Register of Enterprises policy changes." (Professional assurance and advisory services company)*

*"Lack of action regarding the energy sector." (Professional assurance and advisory services company)*

*"We need to consolidate more higher education institutions." (Real estate company)*

*"Waste management issues. Currently, we have a central logistics service that coordinates deliveries. We are taking our cardboard boxes and plastic back to the central logistics, so it can then be compressed and thrown out to be alternatively re-used, the policy-makers want to change this which would mean we would have to throw out the cardboard in containers, but there is a serious lack of storage for containers for the amount of cardboard we are using." (Retail trade and service company)*

*"Not doing enough against the shadow economy, has got worse instead of better." (Manufacturing company)*

*"Restrictions applicable to forests and availability of resources." (Manufacturing company)*

*"This is a more political issue, but the regulation allowing residency permits in the EU in exchange for investments. This was changed at the end of 2014 and the programme is not effective anymore, but have we actually thought about any other ways of encouraging this and attracting investment? On the LIAA website there are examples of incentives for foreign investors, such as the green corridor principle, and assurances that they will be supported, however, no one from LIAA or elsewhere can actually tell me what practical support these investors will receive. In Lithuania there is a list of concrete ways that foreign investors will be supported and where they should go for such support. We are trying to say a lot of things but are we actually giving practical information?" (Real estate company)*

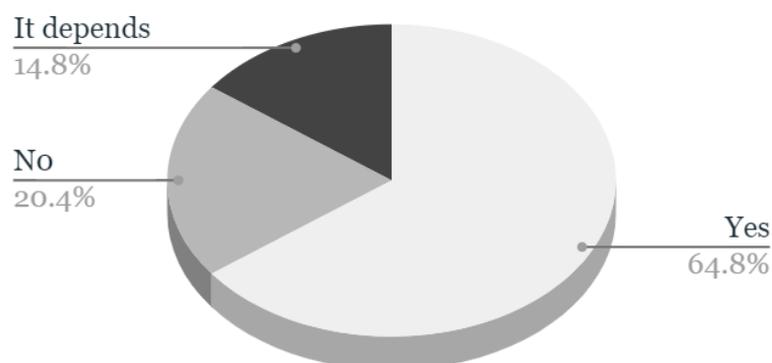
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## **7. Further investment plans of foreign investors in Latvia**

As in the previous FICIL Sentiment Index studies, in the 2021 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, 35 of 53 investors answered with 'yes' (in the 2020 survey this figure was 30 from the 44 interviewed, in 2019 - 30 from the 47 interviewed, in 2018, 22 of the 40 interviewed answered with 'yes'; in the 2017 study - 24 of the 42 said 'yes'), 10 said 'no' (as opposed to 12, 12, and 14 who said 'no' in the 2020, 2019 and 2018 studies respectively) and 8 answered that 'it depends on the circumstances' (2 in the 2020 study, 5 in 2019 and 5 in 2018) or that they have not yet decided.

**Figure 4: Further investment plans of foreign investors in Latvia: findings from 2021**  
n=53.



**Source: FICIL Sentiment Index 2021**

There are both very positive and also relatively negative opinions with regard to further investment plans, yet there are considerably more positive cases than negative ones. Overall, 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***

*“This is an investment-friendly country. Also, there are investment plans for the upcoming year, but no specific amounts currently.” (ICT company)*

*“Our demand is growing so we are planning higher investments in the next two years of at least 10 million.” (Service company)*

*“We stopped in the Covid-19 period. But now, yes, we are planning to invest 8- 11 million. We still believe in the industry, want to be a leader in the market. We invest money mostly in our network – new sites, rebuilding our shops, introducing a new concept, maintaining our pumps, maintaining buildings.” (Retail trade and service company)*

*“Will invest in technology solutions. We plan to invest about 10 million euros in the next 5 years. DPD package terminals are increasing. We will also invest in automated processes.” (Service company)*

*“We do plan to increase investment but cannot mention specific amounts. Today, our office in*

*“We do plan to invest. We have a long-term strategy which includes investing further into Latvia. We have two concrete investments in Riga that we will implement in the next 2-3 years, where we will invest about 50 million euros. Then, hopefully, another 50 after that. It depends on the market balance going forward.” (Real estate company)*

*“Around 100 million in the next few years.” (Manufacturing company)*

*“We invest in Latvia on a regular basis, opening new manufacturing locations.” (ICT company)*

*“We see the Baltics as a good market to develop new ideas and create prototypes.” (Professional assurance and advisory services company)*

*“We are planning to increase investments. We are investing a certain amount each year. Our plans are much bigger than we will probably realise. One obstacle for us is often the municipalities. For us investment in equipment*

*Riga has around 150 people, the target is to grow to 500 people. There is no strict timeline for this currently. Investment is hampered by the accessibility of labour.” (ICT company)*

*“We plan to increase investments. Our value is our people so we will invest in them.”  
(Professional assurance and advisory services company)*

*“We are planning further investment and growth, already looking for ways to diversify our knowledge and services. Also, in future ESG will be one topic that will be increasingly important, and we are planning to pay more attention to it. In this year we are planning to invest up to a million just on increasing skills and education for our staff.” (Professional assurance and advisory services company)*

*“We are planning to increase investment. In the consulting business, investments are a bit different – we invest in employees, in their training and development. We are considering options to grow the team not just for the needs of the Latvian market, but also for projects abroad (export needs).” (Professional assurance and advisory services company)*

*“In the next several years we are planning to invest around 100 million.” (Service company)*

*“We have an asset allocation plan for Latvia for this financial year which would be changed only if the Government decisions regarding property investments for foreigners are affected.”  
(Service company)*

*“In the next 3 years we plan to invest significantly.” (Manufacturing company)*

*“We plan to invest in Latvia to develop centres of excellence for delivery of cyber security, data and analytics, technology enablement and compliance, and other services, by establishing sizeable teams to deliver these services for clients in Sweden, other Nordic countries and Germany.” (Professional assurance and advisory services company)*

*for reducing CO2 and modernisation in general will continue. The investment will certainly be more than 10 million per year. We will also invest in IT innovations and digitalisation tools.” (Retail trade and service company)*

*“We will invest over 34 million in two years. However we will only make bigger investments in climate neutrality when CBAM is implemented..” (Manufacturing company)*

*“We are investing in the next four years. If nothing out of order happens in Latvia, if the Government is not led by pro-Russian politicians. Every year we evaluate our plans.”  
(ICT company)*

*“We plan to increase investments by around 15%. This is related to a shift to a new generation of technologies. In the upcoming three years, we will invest more until this shift is completed.” (Service company)*

*“Yes, we are planning to. If we could find greater resources in Latvia for our business, we have a lot of plans in mind. There is theoretically a big plan, but it is unlikely that we will realise it practically. There is a limited and restricting market in Latvia.” (ICT company)*

*“We are planning to increase investments. We have an investment plan up to 2030. We want to develop our business more outside of Riga, but are cautious because of the declining demography and lack of infrastructure etc. We would also want to invest in training and developing our staff but again we see no plans from the Government and are hesitant to spend a lot on this right now. We are delaying some plans at the moment.” (Manufacturing company)*

*“1) We are not planning to change our fixed capital (47 million currently). The company owners believe in the company and Latvia’s market right now which is good. 2) However, we are planning to increase construction projects, the apartment market is growing, and we are finding opportunities so investment in new projects is planned. Also, there is still space for construction of offices in Latvia and the market is not as saturated as in other Baltic countries for example.” (Real estate company)*

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

*“We were looking at new projects before Covid. Taking into account the increase in construction costs, currently new projects are not being reviewed. We want to finish up the existing projects. Certainly, no investments planned for next year. Perhaps, in the next 4 years.” (Real estate company)*

*“We have no plans to invest further. We will continue investing at a normal level in transportation, warehousing etc., but no more. This market is not very interesting, very low profitability.” (Manufacturing company)*

*“(No), due to current volatile market conditions.” (Finance and banking company)*

*“Not investing more in Latvia, if anything we are looking to decrease exposure in Latvia, too many uncertainties.” (Manufacturing company)*

*“We look at other companies in Latvia that we can buy, but not investment in green areas ourselves, because there is a lack of legal framework and priorities in this area by Latvia. 80% of the company was purchased by a US investment fund, they are planning to grow quickly. In Latvia we see opportunities for growth related more to buying the already existing companies. The growth is limited, for example the biomaterial development sector in Latvia, but we chose Estonia because there is support for green investment and in their strategy biomaterial and forestry is a set priority which will have a positive impact on our investment.” (Manufacturing company)*

*“Every year we invest in the infrastructure of the banking system. 70 million euros across all the Baltic countries and that is just to be compliant with the regulator’s demands. These investments do not bring any additional benefits, returns, profit. They are just to fulfil the requirements.” (Finance and banking company)*

*“Downsizing of market, no potential customers in future. If there is no clear vision on how to reduce and control labour market costs, we can’t implement digital solutions. This is the first time we have decided to decrease our investment.” (Retail trade and service company)*

*“Related to previous decisions to develop the service sector and competencies centres, we missed the development of this in Latvia and now we have developed this centre in Vilnius, Lithuania which is doing well and has over 500 employees.” (Finance and banking company)*

*“We need to see opportunities that align with our strategy.” (Wholesale and retail company)*

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

*“We can create big synergies with airports in other countries where our group companies operate. We can increase the total number of passengers. For this we need a PPP model. We are ready to work under the management of the State. All big airports or those that want to become big are using the PPP model. We are ready to make investments for the long-term benefit. Globally, there are PPP projects spanning over 25 years.” (Service company)*

*“Investments are related to logistics chains and employees. Future investments will be related to the greening of processes. For example, investments in car parks. Previously, improvements in the warehouses were finalised, making it more energy efficient. However global investments, such as opening*

*a production plant, are not being planned. It is very much related to uncertainty.” (Retail trade and service company)*

*“It depends on the circumstances, these investments are tied to energy transition, the regulatory part of the energy system is preventing the building of solar farms and wind plants, the old-style system is still kept in place.” (Retail trade and service company)*

*“We are acquiring new companies; we want to consolidate the market. We see opportunities to move further into the media business. If there is an adequate offer, we want to expand. No specific investment amount has been defined.” (ICT company)*

*“We are trying to grow in Latvia as fast as possible, but progress is hindered because of a lack of a skilled workforce, we have potential clients and work, but we lack employees. We are forced to look at employees outside of Latvia (looking at Romania now for example), just because there is a lack of workforce here. Employees in Latvia are very good and productive, but there are not enough of them. We are also growing (last year by 20%). A lack of IT specialists is a global problem, but in Latvia we need to find a solution that works for us and address the issue foremost in Latvia, so that we can move forward.” (ICT company)*

*“Only if we have more workforce in Latvia.” (ICT company)*

*“We have already increased investment in Latvia and are building a new state of the art facility and laboratories for genome-sequencing. We may continue to increase investment in future. More incentives for existing investor, would be useful. It would be good to have support mechanisms for relocation of high-quality specialists and employees to Latvia – this can also be informative help with housing and other information etc.” (Manufacturing company)*

*“We are not sure about the future yet. We have made large investments already in previous years, renovated our building. We do not produce our products in Latvia. We want to work and see opportunities to improve the healthcare sector system and improve the patient experience.” (Wholesale and retail company)*

*“We are evaluating the future investment now. We are debating whether to stay with 2 centres in the EU, or do we make 1 consolidated centre? Latvia’s investment climate will not have a significant effect on our decision for this.” (ICT company)*

*“We invest every year and are planning to continue the investments. The size of investments depend on the priorities and plans at the group level.” (Manufacturing company)*

*“We have plans, but unfortunately not so many opportunities. IT products that we can use in Latvia are low because we have a low population and a small market. We have a good start-up culture in Latvia, but not all investors want to buy and invest in start-ups. Yes, we are planning that if there is something worthwhile and established to buy, we would be ready to buy it and expand.” (ICT company)*

## **8. Top priorities of the next Government of Latvia during the next 4 years to improve the state of the Latvian economy: suggestions from the foreign investors in Latvia**

One of the key aims of the current FICIL Sentiment Index study is to provide suggestions to the policy-makers of Latvia from the foreign investors in Latvia with regards to the top priorities that should be implemented in order to improve the state of the Latvian economy. We recommend including these suggestions in the economic development programmes of the political parties and, more importantly, implementing them in the next 4 years.

In the 2021 study we asked foreign investors in Latvia: “Please name 3-4 priorities - what should the next Government of Latvia implement during the next 4 years to improve the state of the Latvian economy?” We summarised the answers depending on how often investors named each of the priorities, and also whether it was mentioned as a 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> priority.

The top priority that stands out is dealing with the *availability and qualifications of labour in Latvia - as many as 19 from 53 investors that took part in the interviews emphasised this issue as priority number 1, but 5 and 1 mentioned it as priority 2 and 3*. Namely, foreign investors highlight the need to focus on improving accessibility to the workforce in general, increasing remigration of Latvians who live abroad, resolving immigration issues to attract labour to Latvia. Investors also highlight the need to solve demography issues that are, of course, closely linked with the availability of labour in Latvia.

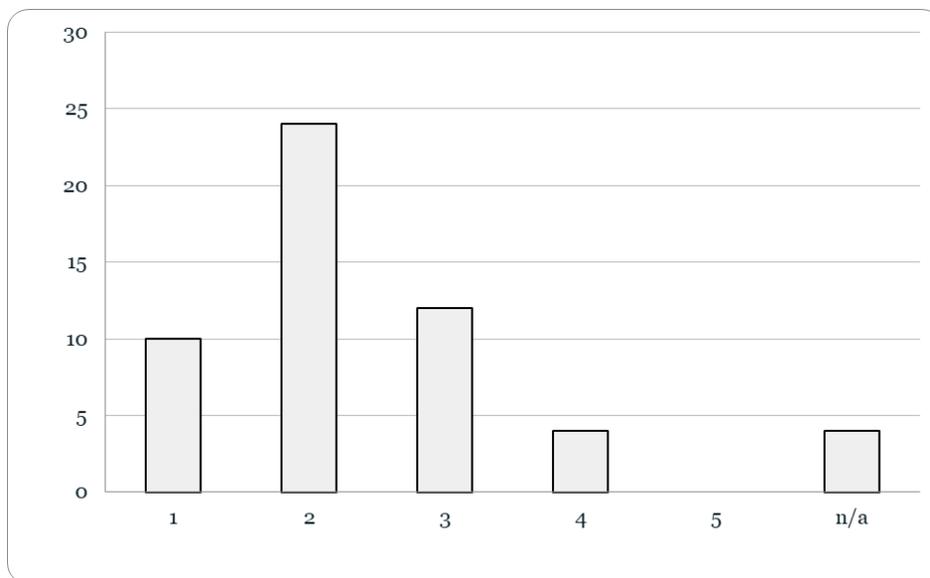
Next, *improving education standards in general and labour force qualifications or requalification*, is highlighted as the second most important activity that needs to be addressed by the next government over the next 4 years. Not least, investors draw the attention of the next government towards working on the *Green Deal implementation*, as well as highlighting the need *to improve the investment appeal of Latvia*.

Furthermore, *implementation of public sector reform, taking care of the healthcare system, diversification of energy resources, and ensuring better cooperation-* amongst ministries and public sector institutions, as well as the public sector and private sector, are highlighted as important aspects that should be addressed during the next 4 years. Other issues mentioned by the foreign investors in Latvia are *addressing the shadow economy, implementing the Rail Baltica project*, working on *competitiveness of the tax system* and the *digital agenda*, as well as *other activities*.

**9. The current efforts of the Government of Latvia to implement the “European Green Deal” strategy in Latvia: evaluation and suggestions by the foreign investors in Latvia.**

During the 2021 FICIL Sentiment Index interviews we asked foreign investors in Latvia to evaluate the current efforts of the Government of Latvia to implement the “European Green Deal” strategy in Latvia. Evaluation was offered on the scale of 1 to 5, where ‘1’ is fail, ‘3’ is average and ‘5’ is excellent. *On average, foreign investors evaluated these efforts with 2.2, thus, relatively low.* Figure 5 summarises the distribution of the responses.

**Figure 5: The current efforts of the Government of Latvia to implement the “European Green Deal” strategy in Latvia: findings from 2021**  
n=53.



Source: FICIL Sentiment Index 2021

We also asked foreign investors to name up to 3 priorities that should be implemented by the policy-makers in order to introduce the Green Deal. The answers are provided below:

**Clear plans and proper governance of the Green Deal**

| Priority 1:  | Priority 2:   | Priority 3:   |
|--|---|---|
| <p><i>“There must be a clear view, long-term direction.” (ICT company)</i></p> <p><i>“A clear strategy to implement the Green Deal in Latvia.” (Real estate company)</i></p> | <p><i>“Most large companies employ Chief Sustainability Officers. Someone needs to hold this role to lead it forward and coordinate. Maybe there should be a CSO equivalent in the Government.” (Real estate company)</i></p> | <p><i>“Regulations should be created efficiently and effectively so that when investors want to invest, they do not meet bureaucratic hurdles.” (Manufacturing company)</i></p> |
| <p><i>“Policy-makers need to develop a strategy for Latvia on how we will achieve the Green Deal. How are</i></p>  | <p><i>“Need a clear plan with clear</i></p>   | <p><i>“Develop incentives for the advanced green technologies that would ensure the competitiveness</i></p>   |

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|   |  |   |
|---|--|---|
| <b><i>we going to exist within the Green Deal and what are our priorities in this area?” (Finance and banking company)</i></b>  | <i>priorities for the future.” (Service company)</i>   | <i>of Latvia in the medium and long term.” (Professional assurance and advisory services company)</i>   |
| <b><i>“Energy strategy. Many things related to green transition should come from the Energy Strategy. A green course is just a small part of the larger energy strategy. We need to clearly define our mid- to long-term goals.” (Manufacturing company)</i></b>  | <i>“Clear roadmap of how to reach goals and what investments and infrastructure are needed - wind and solar should be promoted much more.” (Manufacturing company)</i>   | <i>“Develop comprehensive green finance strategy in line with the EU requirements.” (Professional assurance and advisory services company)</i>  |
| <b><i>“Make it a cross-sectoral priority, a broad plan covering everyone, regulations have to be changed, the energy model and energy business will change and current regulations would not fit with the new system, there needs to be much more flexibility of the energy market.” (Retail trade and service company)</i></b>     | <i>“Set up proper governance for the topic and upgrade the state plan for the Green Deal (From goals to actions and “what does it mean practically?” for LV to reach those goals).” (Finance and banking company)</i>  | <i>“Outlining our goals.” (Real estate company)</i>   |
| <b><i>“If we want to gain some benefits from the Green Deal, then Latvia must set clear priorities, and what they want to spend the money on clearly.” (Manufacturing company)</i></b>  | <i>“Concrete proposals for Latvia’s green goals.” (ICT company)</i>  | <i>“Effective and meaningful activities by the National Energy and Climate Council.” (Retail trade and service company)</i>   |
| <b><i>“Clear laws on green transition, so as to create stability and generate investment.” (ICT company)</i></b>  | <i>“Strategy on how to limit the largest producers of emissions.” (Manufacturing company)</i>  | <i>”A holistic approach to create a better controlled system. The state needs to be the policy-maker to develop solutions for the problems that the Green Deal will bring – we can predict these now, but we are putting our heads in the sand like we do with a lot of issues.” (Professional assurance and advisory services company)</i> |
| <b><i>“Create a concrete plan for Latvia for green transition/deal. If there is no plan, we are like paper sheets in the wind just blowing by, but this is not an effective way forward. It should also be a long-term plan, not just for the next 4 years.” (Service company)</i></b>  | <i>“Be more firm in setting the course and more transparent in the decision-making process about why certain decisions are made that don’t ultimately serve the purpose of achieving green goals.” (Service company)</i>   | <i>“There is pain from actions by Riga Municipality with policies about resources and gas heaters which is not good at the moment.” (ICT company)</i>   |
| <b><i>“A clear plan of what is expected.” (Retail trade and service company)</i></b>  | <i>“This should be a project that clearly states who will be responsible from each ministry. Also, one person should be responsible for coordinating this further and asking for accountability from other ministries with a clear mandate to fulfil this.” (Service company)</i>  |   |
| <b><i>“A sustainability strategy that is tailored for Latvia given the natural resources, structure of the economy and social circumstances and includes both incentives for green alternatives across various sectors and restrictions for non-green alternatives.” (Professional assurance and advisory services company)</i></b> | <i>“Unified and efficient control over the process. The Government and ministries have a bad track record with holding a unified approach and carrying out complicated tasks. Don’t turn the Green Deal into a green mess. Let’s not overreact, let’s not turn this into a never-ending discussion and an extra administrative burden.” (Wholesale and retail company)</i> |   |
|   | <i>“Develop a strategy for renewable energy resources.” (Finance and banking company)</i>  |   |
|   | <i>“Waste sorting, recycling, we need a comprehensive system, business</i>   |   |

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|--|--|
| <p><b>“Create a comprehensive strategy that goes beyond compliance and looks at implementing a competitive advantage for Latvia. Position Latvia as a country where the investors want to invest because of the infrastructure, education etc. Create an ecosystem for green investments. Need to have someone who drives it.” (Real estate company)</b></p> <p><b>“Need a long-term strategy that clearly indicates what will be the most beneficial green sector for us. For example, commercial transport? No clear understanding of what will give us as a country the most benefit when applying the Green Deal. Foremost, we need to understand the systematic benefits for us.” (ICT company)</b></p> | <p><i>created system again.” (Retail trade and service company)</i></p> <p><i>“Very concrete action plan with KPIs that can be adjusted and flexible in regard to innovation taking place. Who is responsible for what?” (Real estate company)</i></p> <p><i>“Energy law and green transport implementation.” (Retail trade and service company)</i></p> <p><i>“Understandable and clear plans and what results are expected.” (Manufacturing company)</i></p> |
|--|--|

**Involving experts, educating policy-makers, setting clear KPIs, making data based decisions**

| <b>Priority 1:</b>   | <b>Priority 2:</b>   | <b>Priority 3:</b>   |
|--|--|--|
| <p><b>“Involvement of experts, not politicians, in making decisions, clear KPIs.” (Manufacturing company)</b></p>  | <p><i>“Data driven decisions.” (Retail trade and service company)</i></p> <p><i>“Data based decisions.” (Manufacturing company)</i></p>  | <p><i>“Education of the public sector.” (Retail trade and service company)</i></p>               |
| <p><b>“Progressive cooperation among public sector institutions. Some are still in a defensive position. Climate change and the Green Deal is not a debate – it is a reality.” (Finance and banking company)</b></p> | <p><i>“Involvement of experts in decision-making.” (Finance and banking company)</i></p>   | <p><i>“Data based decision-making.” (Manufacturing company)</i></p>                              |
| <p><b>“Massive investments in research, new services and new products, innovation development.” (ICT company)</b></p>  | <p><i>“Involving experts in decision-making, using up to date data.” (Wholesale and retail company)</i></p>  | <p><i>“Use of up-to-date data.” (Finance and banking company)</i></p>                            |
| <p><b>“Just be more pragmatic, listen to up-to-date data and science!” (Wholesale and retail company)</b></p>  | <p><i>“Educating everyone, from the public to the public sector officials, to the politicians who will be in charge.” (Professional assurance and advisory services company)</i></p> | <p><i>“Education of public sector officials involved.” (ICT company)</i></p>                     |
| <p><b>“Cooperation and understanding of the public sector need to be improved.” (Service company)</b></p>  | <p><i>“Improving the necessary infrastructure to reach these goals.” (ICT company)</i></p>   | <p><i>“Data gathering system, traceability and its usage.” (Finance and banking company)</i></p> |
| <p><b>“Reduce the fragmentation in the public sector and assign one ministry which can override other</b></p>  |  |  |

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*ministries when it comes to Green Deal issues.” (Retail trade and service company)*

*“Coordination of all activities regarding the Green Deal (Climate Council).” (Manufacturing company)*

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### **Educate, create awareness and support companies and individuals**

| <b>Priority 1:</b>  | <b>Priority 2:</b>  | <b>Priority 3:</b>  |
|---|---|---|
| <i>“Informing society and communication with people.” (ICT company)</i>   | <i>“Educate businesses and highlight the opportunities.” (ICT company)</i>  | <i>“Communication with society on what decisions mean.” (Manufacturing company)</i>   |
| <i>“Make sure that the Green Deal goes hand-in-hand with other topical issues that need to be resolved within industries. For example, in combination with energy questions. The competitiveness of the country must be maintained.” (Professional assurance and advisory services company)</i> | <i>“Engage with businesses and society to make the Green Deal relevant for people.” (Finance and banking company)</i>   | <i>“Consistent approach, so all sides know what to expect.” (ICT company)</i>   |
| <i>“Communication with all stakeholders (including society and business).” (Real estate company)</i>  | <i>“Communication about the Green Deal and implementation strategy is not good and needs to be improved.” (ICT company)</i>   | <i>“Support mechanisms for implementing the green targets.” (ICT company)</i>   |
| <i>“Increase awareness and competence in government sectors and in the general public.” (Finance and banking company)</i>   | <i>“Initiatives for the population and businesses, who want to get involved in green transition.” (ICT company)</i>   | <i>“Implement the Green Deal in a smart way. For example, when protecting forests, listen to the industry, not just blindly tick a checkbox.” (Manufacturing company)</i> |
| <i>“Sustainable Development Goal implementation – every municipality, company, individual should work on it. Everybody should be aware about the goals, they should be put into business plans.” (Service company)</i>  | <i>“Public opinion has to change, start to look at opportunities not difficulties. There is a lot of fear that energy prices will go up, but if we don’t change then energy prices will go up. Communication with the public needs to be extensive.” (Retail trade and service company)</i> |   |
| <i>“Support for companies and individuals to promote use of green energy.” (Manufacturing company)</i>  | <i>“Support mechanisms for individuals transitioning to renewable energy resources.” (ICT company)</i>  |   |
| <i>“Building awareness.” (ICT company)</i>  | <i>“Don’t stand in the way of companies who themselves are taking up some initiatives and will want to do more than the state requires. The state should refrain from bureaucratic obstacles.” (Professional assurance and advisory services company)</i>                                   |   |
| <i>“Informing the public and communicating clearly.” (Professional assurance and advisory services company)</i>   | <i>“Communication internally with society and companies – they will have to make the change, people still don’t understand why and how to do it and what their contribution</i>   |   |
| <i>“Need to invest in understanding of the Green Deal and communicate</i>   |   |   |

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*(in simple language) the practical side of it to society, companies, investors. There needs to be more public discussions involving stakeholders on the practical side of the Green Deal. The private sector should be involved in this communication process.”*  
*(Professional assurance and advisory services company)*

*“Support to develop infrastructure to incentivise green transportation (ports, railroads).*

*There will be EU regulations introducing compulsory electric supply to all ports, this will require millions worth of investment.”*  
*(Service company)*

*“Raise the awareness/education level of the society regarding green topics.”* *(Finance and banking company)*

*is, if people and companies are not going to change their behaviour it's not going to happen.”* *(ICT company)*

*“A support system to implement the Green Deal. There needs to be some support mechanisms to encourage implementation of the Green Deal and also the legislation relating to it should be very clear.”* *(Manufacturing company)*

*“Legislation changes to allow large green economy developing projects to go forward without setbacks at later stages of the project.”* *(Real estate company)*

## Develop renewable energy resources

| Priority 1:  | Priority 2:  | Priority 3:  |
|--|--|--|
| <p><i>“Develop renewable energy resources.”</i> <i>(ICT company)</i></p> <p><i>“Forestry and alternate energy NGOs should be more involved and should have more trust from the Government.”</i> <i>(Service company)</i></p> <p><i>“Renewable energy availability (need solutions), support for production of alternative energy, and increase in availability.”</i> <i>(Retail trade and service company)</i></p> <p><i>“Prices of energy resources, creating more alternative energy initiatives.”</i> <i>(Wholesale and retail company)</i></p> <p><i>“We need to safeguard our green resources. Need government investment and subsidies to companies for alternative energy and electric transport. Fix regulations for compensation of employees for charging company’s electric car at home.”</i> <i>(Wholesale and retail company)</i></p> | <p><i>“Evaluate options and viability for creation of renewable energy or at least specialise in areas to support renewable energy.”</i> <i>(Finance and banking company)</i></p> <p><i>“Solar panel installations, more climate friendly technology.”</i> <i>(ICT company)</i></p> <p><i>“Decisions should be taken to accelerate legislation changes that would speed up wind and solar park development. One of our portfolios is related to alternative energy, we have a big wind park in another Baltic country but in Latvia this is not moving forward as fast.”</i> <i>(Service company)</i></p> <p><i>“Increase the share of energy produced from renewable energy resources.”</i> <i>(Professional assurance and advisory services company)</i></p> | <p><i>“Renewable energy resources should be increased.”</i> <i>(Real estate company)</i></p> |

***“Energy resource independence, green energy and renewable energy is at the top.” (Service company)***

## Other suggestions

| Priority 1:   | Priority 2:  | Priority 3:  |
|---|--|--|
| <p><b><i>“Wider and better waste recycling.” (Real estate company)</i></b></p> <p><b><i>“Must start with the basics. For example, in other countries it is possible to sell food for which the expiry date has passed. In Latvia such food must be thrown out.” (ICT company)</i></b></p> <p><b><i>“To prove that the country could be climate neutral and to take a pioneering role in this. I want Latvia to be at European level, so that Latvia is the first country to be energy neutral.” (Finance and banking company)</i></b></p> <p><b><i>“In agriculture and forestry, the priority must be finding a compromise so that we do not turn into a natural park. Balance as a priority.” (Retail trade and service company)</i></b></p> <p><b><i>“Continue the road to biofuel, electric cars, greening of transport and production industry. Greening of manufacturing is important and should be looked at. We also need more discussions about electric cars and the necessary infrastructure for this. As citizens we can become green and there can be many promotions for greener living, but we need to look at industry and business progress in becoming greener and more sustainable, because they will be the key drivers. The Government needs to think, how it will assist them to become green and what incentives it will offer. As a company we are looking at this now ourselves. The answer to why businesses do not do it, is because usually it is more</i></b></p> | <p><b><i>“More thorough assessment regarding the greening of cities – bike lanes, traffic reduction etc. – all of it needs to be more meaningful.” (Real estate company)</i></b></p> <p><b><i>“Latvia could be an exporter.” (Finance and banking company)</i></b></p> <p><b><i>“Increasing the popularity of vehicles run by alternative energy resources. Promotion through subsidies. Increasing the appeal of electric vehicles in corporate car parks.” (Retail trade and service company)</i></b></p> <p><b><i>“My personal thought is that we should also understand the value of our forests and green areas. How important are Latvian forests (both private and state owned), we need to prevent illegal deforestation and selling of these, also what fine is imposed on those who commit illegal acts in this regard. Government should aim to secure and control the forests to prevent illegal activities.” (ICT company)</i></b></p> <p><b><i>“Understand and work on implementing and understanding the topics of ESG better to increase competitiveness.” (Professional assurance and advisory services company)</i></b></p> <p><b><i>“Focus on the future areas where employees will be needed. To improve their qualifications and to make programmes for these future experts so that in future we have workers in these areas and create added value.” (Manufacturing company)</i></b></p> <p><b><i>“Biomass – we need to realise all</i></b></p> | <p><b><i>“Energy resources question – how are we going to solve this problem? We produce around what – 40% of energy ourselves, in the near future we need to turn off cooperation with Russia in this sense, and everything new that is produced needs to be green – but technology is not there yet. We have potential in wind and solar. We need to incentivise investment projects that will produce alternative energy resources. We will gain more business and energy independence. This is a very important question for the nation, but it doesn’t seem like there is cooperation at the moment.” (Wholesale and retail company)</i></b></p> <p><b><i>“Keep balance in mind.” (Professional assurance and advisory services company)</i></b></p> <p><b><i>“Green transport use (electric cars etc).” (Service company)</i></b></p> <p><b><i>“Improve disclosure of ESG data among the public sector institutions and state-owned companies, as well as incentivise the private sector through active implementation of the upcoming Corporate Sustainability Reporting Directive (and in case of it being postponed – broadening the scope of application of the Non-Financial Reporting Directive in Latvia). Defined data needs corresponding to the sustainability strategy and in line with the EU Taxonomy and other significant requirements.” (Professional assurance and advisory services company)</i></b></p> <p><b><i>“LIAA should be assigned with a task to attract this exact type of</i></b></p> |

|  |   |   |
|--|---|---|
| <i>expensive, therefore, there should be some incentives offered.” (ICT company)</i>   | <i>potential avenues for use.” (Service company)</i>  | <i>investors. Must provide real incentives for transition. Norway made strong incentives for EV purchase, now 70% of vehicles in Oslo are electric.” (Real estate company)</i>  |
| <i>“Natural resource tax – involve stakeholders in the decision-making process.” (Manufacturing company)</i>   | <i>“Waste management – not just from the cost perspective, but how can we motivate customers to change their behaviour. It seems like we are just trying to fix a system that was created in the 90s, but we should be developing a whole new system with an open market.” (Professional assurance and advisory services company)</i> | <i>“Food waste, the procedure to donate food is so complicated, from a storage point of view they are not able to manage that. More flexible legislation to donate food. Too much focus on bureaucratic things without added value.” (Retail trade and service company)</i> |
| <i>“More concrete information on what to do with fabric leftovers, and how we can recycle it.” (ICT company)</i>   | <i>“Data centre optimisation, they use electricity a lot.” (ICT company)</i>  | <i>“Introduce obligatory ESG for climate impact reporting for SMEs (will speed up general awareness).” (Finance and banking company)</i>  |
| <i>“Energy sector needs to be cleaned up, climate neutrality. How can investors invest in this sector in Latvia?” (Professional assurance and advisory services company)</i>   | <i>“Relax a little bit, Latvia is a small country, we shouldn’t go overboard. The biggest polluters in Europe are Germany, Poland, UK. We don’t have to chase every idea that comes out of Europe, that’s why we need data to clearly evaluate what needs to be done.” (Real estate company)</i>                                      | <i>“Reduction of CO2 emissions.” (ICT company)</i>  |
| <i>“What we need is a more effective system to process hazardous waste.” (Service company)</i>   |   |   |
| <i>“It is good that we ask for the Green Certificates now, this is progressive.” (ICT company)</i>   |   |   |
| <i>“Improving housing stock that produce a lot of co2, residential real estate is often inefficient and old. Poland for example renovated these buildings. These building are swallowing up resources, we need to come up with a plan.”. (Real estate company)</i> |   |   |

We also received a number of additional comments from the investors that are presented below, and classified as *negative*, *neutral* and *positive*.

### **Negative:**

*“I do not feel such strategy being implemented now. We need to have a clear strategy for implementing the Green Deal, such strategy where all of the society is involved and is driving this forward.*

*Also, the legislation now blocks development of large projects, for example, if you wanted to invest and create a large wind energy park on the coast, it would be complex because you would have to go through multiple institutions to get this approved and a municipality might suddenly decide that it does not want such project and a lot of time would have been wasted; this is inefficient for investors and prevents investment.*

*Regarding electric transport, it is a good sign that the Government introduced a subsidy of 4500 euros for purchasing EVs, however, right now due to their lifecycle it would still not be efficient for me to buy an EV. There are also regulations that are still to be adjusted to make EVs more accessible, for example, if I want to charge my work EV at home, how can my company*

*compensate the electricity prices. In other countries they have a good system in place for this, but here there is no such thing.*

*I do not completely understand the Riga Municipality decision on banning gas boilers for heating. The emission in Riga is not created by gas heating boilers, the main source of emissions is the transport sector in Riga - at least 90% comes from the transport sector, so instead they should look for ways to reduce transport CO2 emissions.” (Real estate company).*

*“We are really running against a brick wall right now, it’s not good at all.” (Manufacturing company)*

*“We would like to see a more proactive approach, planning from inside. There are always small steps you can take to move the ship along. Companies are transforming their activities; the public sector need to do the same – and in a more timely fashion.” (Service company)*

*“Our IT sector is already relatively green. How we are operating as country – not sustainable in the long-term and we need to think how to be sustainable. If we look at the strategy from the Government, there is no clear vision.*

*I do not understand the banning of gas heaters in Riga.*

*Is there actually a big strategy? I believe there are only small, coordinated efforts that hope to bring results in the long-term.*

*Why do we not support alternative energy generation for the private sector and also on private territory?” (ICT company)*

*“We are lagging behind in the renewable energy sector, we don’t seem to be moving in the right direction and sometimes it is because of ridiculous issues such as municipal red tape.” (ICT company)*

*“The Government is currently focusing on how to spend EU funds, not on how to achieve certain goals and KPIs. Do we even have KPIs? We need long-term forward-looking decisions made by experts. We need massive investments in research, new services and new products will be needed everywhere in the EU, we can develop solutions and deliver to the EU, we can create a golden ticket for Latvia out of this Green Deal.” (ICT company)*

*“An example, for us, we had to choose an office recently, and were asking if there are any requirements when doing so, because there are no clear guidelines on how to choose an energy efficient office. Also, with electric vehicles, in the EU there are countries that are doing a lot already, but what are Latvia’s incentives and support for electric vehicles? Also, there is a lack of infrastructure for electric vehicles (and this is moving forward too slowly). Moreover, energy resource prices have grown and what does Latvia do to support alternative energy generation? We would like to have more clarity about future sustainable renewable energy development, there is some work done on this by the Government, but it still lacks progress.” (ICT company)*

*“Feeling that part of the public service sees this as something extra to do and more paperwork rather than an opportunity. How does the Government support the persons, what incentive does the Government provide for the public and companies to go for green transition?*

*Possibly the Government should communicate more about this and what support they will provide. I do not know a lot of details of the EU’s Green Deal. Maybe we could sell renewable energy that we create in future, this would be an opportunity.*

*The Government has not done enough on this. As a company we actually discussed implementing solar panels when building retail stores.*

*In our sector, the drive comes from mother companies and shareholders rather than the Government’s policies, the goal of sustainability comes from companies’ plans rather than the Government pushing this forward.*

*Is there actually a concrete Government plan to build green development in future? This would be an important document.*

*We need some kind of motivation or legal framework for this. We should also take up how much green energy should be used.” (Retail trade and service company)*

*“A lack of ambition regarding the Green Deal. The Ministry of Finance pointed out that to undergo this green transition, we will need roughly 16 billion euros – it’s not clear where that money will come from. What tools will we use? What roles does everyone play in this?” (Professional assurance and advisory services company)*

*“It’s hard to evaluate what we have tried to accomplish in the Green Deal issues because we don’t really see much being done.” (ICT company)*

*“Knowingly or unknowingly, we have bit off more than we can chew. I believe we don’t fully understand what the 2030 goals mean for the economic transformation. Many companies have no idea what we need to do to achieve these goals that we have set. The government is very slow to outline a plan and we will be left with penalties that Latvia will have to pay and that will come out of the pockets of the large taxpayers. Long story short – we can’t say no to the Green Deal, but we don’t have to be No. 1 everywhere, maybe let’s try planning, and work on creating understandable policies, KPIs and communicating with all parties that will be affected.” (Manufacturing company)*

*“The current efforts are all over the place, very fragmented. Different ministries are all trying to shift in their own little world – Ministry of Economics, Ministry of Transport, VARAM, Ministry of Finance – they need to work as a team to achieve the necessary result together. It seems like each has their own priorities and interests, which means ultimately the overall goal will not be reached because nobody is paying attention to the big picture. Who is the leader here?” (Retail trade and service company)*

*“We don’t have a lot of information, we don’t know what we are supposed to be doing, what’s coming up in the next few years, where to find the information. Everything is currently just talk, no action.” (Real estate company)*

*“Sustainability is high on our agenda – Latvia is the last one with practices in place. Green energy availability, availability of sorting disposable packaging. There is a long way to go, from a bureaucracy point of view, they are rushing with legislation and putting all costs on businesses.” (Retail trade and service company)*

*“Except for announcing that the problems will be solved with electric vehicles, we have not done anything. There are no support systems in place. We will not be able to reach the targets with electric vehicles alone. There have not even been small steps regarding renewable energy resources.” (Finance and banking company)*

*“The general public has no clue what the EU Green Deal will mean and how it will be implemented, so there is a lot of work ahead.” (Manufacturing company)*

*“In comparison to Estonia – which cooperates with the state a lot -it is very important to communicate with the state – landowners. This information that the Government receives can then be further relayed to Brussels. Can result in 10 or 20% less harvesting in Latvia, so there is a great risk to employees and employers. There needs to be good communication.” (Service company)*

*“There are a lot of fast developments in this topic, so the public sector really should cooperate more with the business sector which has been researching these issues for years. Questions that need to be emphasised will change rather quickly. Currently, there is just too much misunderstanding and unresolved questions.” (Service company)*

*“Outlining any sustainability goal without economic incentives is demagoguery. Money needs to be invested through efficiency and high-quality results – in Latvia politicians and the public sector usually do the opposite. Instead of creating a high quality and sustainable, green public transport system, in Latvia we subsidise electric cars. What is the reasoning behind this? So many questions – what was the point of Latvia’s representation at the Glasgow conference? What was achieved, what were the objectives? Just to go there for a trip and talk a little? What does this mean for the political agenda, where is the implementation agenda and economic agenda? No one from the politicians or public sector has the intellectual capacity to move this forward in a meaningful manner.” (Manufacturing company)*

*“Information on what is planned by Latvia has not reached the media industry. The bits and pieces that are seen show a lack of the overall picture, chaotic action. Requirements and plans for the telecom industry are already in place, but media is lagging behind.” (ICT company)*

*“The support on the Green Deal is only empty talk, no real plans and support mechanisms. With the EU’s support they are developing roads, but on ship transport and railroads there are no improvements. Infrastructure usually goes in front of other developments, but in Latvia that is not the case. Here, the business starts developing and investing and only then the infrastructure is developed... Need a clear plan and financial support.” (Service company)*

*“The Green Deal is currently a hot potato. Personally, I am not convinced about how green the Green Deal actually is. For example, the movement towards electric vehicles. Opinions differ. This seems very forced, with no common sense behind it. If we truly want to be green, support for individuals is needed.” (ICT company)*

*“We don’t see strategic thinking here. What we want to achieve, where we want to the country go in this Green deal, where focus areas will be for us, what we will do for fossil Fuel. We need to have a logical plan where we as a country are going and then by knowing this, we as an entrepreneur we can think also, what role do we play here. Where do we invest?” (Retail trade and service company)*

*“There is not much work on implementation. We are occupied with expressing our national positions. We have the National Energy and Climate Plan, which includes targets, however, there is no roadmap. If there is no roadmap, how can we move towards the targets? Implementation is of a low quality. It is a cross-sectoral problem for which a solution must be found. There should be an institution that reports directly to the Prime Minister.” (Retail trade and service company)*

*“No clear understanding of the advantages of the Green Deal... What is the advantage of this? Right now for our company the electric buses that we have are actually more expensive than diesel fuel. A possible solution could be - two tier taxation, one tier for those who support green transition and another for those who do not. The Government should look for incentives for companies, either reduced taxes or financial support for companies that implement this. We need clear priorities of the Government.” (Service company)*

*“There is a lot of talk, no action. The Government doesn’t know what it is supposed to be doing, public sector officials do not pay enough attention, their knowledge base is limited, which is understandable. Some things are taken too literally, some things are completely missed. Informing people on what is expected is very important. Even if you know what you are looking for – it’s still hard to find clear communication on the issue from the Latvian public sector.” (Professional assurance and advisory services company)*

*“Not going as well as it might. There is a plan and desire for this, but is it being implemented in the right way? It is done too slowly and not efficiently enough. Renewable energy should be addressed and we need to think of how to make energy resources sustainable so that we are independent. Gas and electricity comes from abroad to Latvia, we need to think of developing this area ourselves, so it is effective and to avoid being dependent on others.” (ICT company)*

*“It’s moving along so slowly, looks very hectic. Some people recycle waste all the time, some people don’t even pay attention – it’s a simple example to show that the understanding is just not there. It seems like this topic is marked with scandal – who will make more money based on the Green Deal, not - what do we need to do to really become greener? This doesn’t seem to be a priority at all.” (ICT company).*

### **Neutral:**

*“In some spaces we are overreaching and sometimes we are ignoring necessary actions, so it’s hard to tell. And then a lot of times we don’t have the information needed. We need one place where we can read all the relevant data and information.” (Rea estate company)*

*“I support the Green Deal and moving towards green transition. There needs to be a balanced and measured approach. But the Government cannot just accept things and directives that we are not ready for. The Government and policy-makers have the tendency to approve all the directives and even throw some extra initiatives on top of these, just so it seems they are doing a lot, but the businesses then need to implement this and all the hardship falls on them.” (ICT company)*

*“Data is the biggest question. Green data and other available data in the country, how it is analysed together. The Green Deal means we are using our future generation’s money to create a country that is habitable for them. The biggest sin would be to take our future generation’s money and waste it on bad decisions and ineffective reforms just to imitate progress rather than do the hard work – politicians please listen to this.” (Finance and banking company)*

*“The Government has not seen opportunities with the Green Deal, they should and could improve. Implementing the Climate and Energy Council in an effective manner would be beneficial. VARAM should take the lead but they have so many priorities.” (Manufacturing company)*

*“Policymakers need to develop a strategy for Latvia on how we will achieve Green Deal. How are we going to exist within Green Deal and what are our priorities in this area?” (Finance and banking company)*

*“There is some action and development by companies and associations that I am a part of in relation to green transition. There are some policy-makers that participate in these association meetings and are very interested to bring the ideas of green transition forward.” (Manufacturing company)*

*“I want to see Latvia as one of the leading countries. The country, companies, people – everyone needs to think about how to become greener. We are building a car parking lot with 550 spaces – it will have charging stations, we also use solar panels. But at country level things are quite bad. Regulation changes have come into force, which say that all new*

*buildings must be energy efficient with almost zero energy loss. If the loss is zero, then the building is like a vacuum – there are noises, a lack of fresh air etc. To fix this, we have to use technologies that make everything 20% more expensive. People are not ready to pay for this extra cost.” (Real estate company)*

*“We are not in a situation where we are being forced to do this, so now we are running and tripping over ourselves. The Green Deal costs money, it’s about creating an environment where our kids could thrive. Economically – this will be a challenge, but we need to learn how to strike a balance and be pragmatic, we don’t need to step into another black hole as well. There are many questions – how quickly will our competing economies move along with Green Deal issues? What kind of environment are they creating? We need to be very smart about where we invest this money.” (Wholesale and retail company)*

### **Positive:**

*“Latvia is being criticised unfairly. Latvia is actually already quite green and we have a lot of forests. The Government is not talking about the Green Deal very actively, but you cannot blame them, because there is a lack of interest in the society as well.” (Service company)*

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

Finally, we asked the foreign investors that took part in the FICIL Sentiment Index 2021 to post a message to the Prime Minister of Latvia: one or two paragraphs on what should be done to improve the business climate in Latvia, from the viewpoint of a foreign investor:

*“I wish that the Prime Minister would not only listen to FICIL but would also implement the recommendations. FICIL members have huge experience outside Latvia and it would be ridiculous not to use it. It is like having free consultations.” (Real estate company).*

*““NATO”, “West”, “U.S.” are the words that should be important for the Government. The least important words are “East”, “Russia”, “Belarus”. (Manufacturing company).*

*“Consistency in decisions and more transparency. There cannot be too much transparency when it comes to public money. Good governance must be implemented in the entire public sector.” (ICT company).*

*“Thank you for your efforts in managing a coalition through the Covid crisis. To build trust; transparent communication and delivery of agreed promises on aligned key priorities is required, whilst building a long-term vision in policy-making”. (Finance and banking company).*

*“Be brave enough to make the tough decisions that are in Latvia’s interests and don’t only focus on political decisions. Politicians think about the next election, but statesmen think about the country first!” (Service company).*

*“I am a supporter of the current Prime Minister but with a fair share of criticism. With part of my heart I understand the burden that the Government and Mr. Kariņš currently have. I would never want to be in Mr. Kariņš place. But I like his calmness, understanding and composure - not panic or radicalism. I wish for him to continue on the same path.” (ICT company).*

*“He needs to focus on infrastructure development and taking care of investment pay offs in*

*Latvia. If he solves these problems and makes them a real priority, other problems will subsequently be resolved – it's about demography, the labour market. It would be nice to see that there are so many open positions, that people are moving to Latvia again.” (Finance and banking company)*

*“We need to have brave decisions on the demographic situation. To develop a clear green energy strategy and game plan.” (Retail trade and service company)*

*“The fundamental question is consistency of decisions. The Prime Minister is trying to apply this. Of course, we have four coalition parties and the Prime Minister has a certain role as a moderator. However, I would like to see more consistency.” (ICT company)*

*“On an individual level, Mr. Kariņš, I wish you would knock around your ministers a bit more, in a constructive manner, of course. You have to be more active in your personal communication, people trust you, you make sense. I understand the cards you have been dealt – it is tough, but I would like to see you be more active. You are great at keeping the peace and holding the balance, but sometimes, to get things done – you need to rock the boat. To be more precise, you need to stand for more, we hear your own opinion very rarely. It's better to have an opinion that part of the society doesn't appreciate, rather than leaving everyone confused because we don't understand what you are thinking.” (Wholesale and retail company)*

*“Dear Prime Minister, continue communicating with the public, that's very good. We need to focus on investing in people's well-being. Motivation for people to stay and develop in Latvia is important. People are our biggest treasure – that's the priority are that we need to invest in, everything else will follow.” (Professional assurance and advisory services company)*

*“We need to invest heavily in education – STEM. We used to be known as a technical hub but are losing the race in the Baltics, Europe. We have to be the global tech leader and continue to look forward, not just in the next few years but in the next 10 to 20 years. As we re-establish ourselves as a technical centre of excellence, the diaspora will return, top talent will attract more top talent who will bring back global insights and experience and increase the population to further accelerate the IT sector. This of course will need teachers, investment in education and reaffirmation that schools, high schools, and universities are the best for continuing the education. Otherwise, all the nice buildings that have been built will continue to be empty.” (ICT company)*

*“Please talk more to rational social partners. A lot of businesses have the experience and are willing to share, but you can't expect us to do everything for you, the public sector has to participate in the creation and implementation of good ideas.*

*The labour force issue keeps growing and growing. This needs to be resolved, your lack of willingness to do anything about it makes it seem like you don't fully realise how detrimental this is to investors. We understand that Covid took focus, but we can't put off these problems any longer, we are talking about developing the economy of Latvia. A lack of workforce will stall economic development. If the crisis has been taking place for about two years then maybe it's not a crisis anymore but our new reality? So we need to be able to deal with many issues at the same time.” (ICT company)*

*“Overall, the Government needs to reach a situation where Latvia stands out due to investment appeal, due to objective factors and due to communication. Latvia needs to become recognisable and must become a priority destination for investment.” (Professional assurance and advisory services company)*

*“Responsible lobbying needs to be the key. If we look at what’s happening, there is a chance Šlesers could make it into Saeima, which from the business perspective seems absurd. We saw many low-quality decisions being made and shady argumentation – this is where a lot of the trust was lost. We need to have a closer look at how decisions are being made and who they serve?” (Manufacturing company)*

*“Nothing much has changed over the years. There are no big finances available for Latvia itself to finance and create big strategic projects. However, this can be done by attracting local and foreign investors who will then invest in big strategic projects. Importantly, investors before investing need to feel safe that they can spend their money, and they can invest with no real risks. Policy-makers and the Government need to listen to investors and take note of what they say and what they want.” (Manufacturing company)*

*“Well the main point is education. Education of our society – this is not doable in 4 years, but politicians need to stop thinking in 4-year terms. We need to look at the bigger picture – what type of country do we want to live in. I know politicians have to win elections, but if they remain selfish, we will never move forward to any meaningful developments.” (Service company)*

*“Latvia should work more on a long-term vision on how it sees the development of economics, tax etc. and should work on more direct, understandable and clear communication regarding that. It would be very helpful for businesses to plan ahead if we knew what the Government will be spending/investing in certain aspects of the country, for example, infrastructure.” (Service company)*

*“We need to have more transparency and explanations on why certain decisions are made, what are the next steps, why a decision was made, based on what data and what information. More clarity and more transparency.” (Manufacturing company)*

*“Clear and data-based decisions in policy planning and decision-making, not based on the principle of the “lesser evil” (something a consensus can be reached on) but rather on the best development opportunities for Latvia in the long run to become a prosperous country which uses its human capital in the best way possible.” (Professional assurance and advisory services company)*

*“The increased pace of disruptive changes should be used as an opportunity for the Latvian small economy. Create the necessary framework for innovation and technological change as well as sustainable business practices and TALK ABOUT IT EVERY DAY.” (Real estate company)*

*“I wish the Prime Minister to become a head that encourages others to create a state strategy. It does not have to be the Prime Minister himself who creates the strategy, but he must know how to encourage others. Companies are here to support Mr. Kariņš – we are all in the same boat.” (Finance and banking company)*

*“Gradual improvement is very visible each year, that is a positive sign, and this is appreciated by companies and industries.*

*Suggestion related to different platforms and working groups, similar to what FICIL is doing – this is a good way to encourage positive engagement. The Government should allocate more resources for this communication and engagement.*

*This could be either LIAA or the Ministry of Economics – but we would recommend increasing resources in attracting foreign investment in Latvia. We would recommend getting more highly qualified specialists to work on this task – attraction, development of policies to ensure continuity and to have in future active efforts to improve existing incentives, this will*

*also lead to a better business environment.*  
*Suggest being brave and take a brave approach to create highly effective investment policies. It is not a good time, Latvia is ready to compete, a lot of countries create good policies. These policies can also be temporary or permanent.*  
*Look at the possibility to develop R&D hubs and clusters and engage existing companies. Look for funding approaches also.*  
*In my opinion, investment attraction is one of the quickest ways to increase the standard of living and also tax revenue.” (Manufacturing company)*

*“There are several issues in the Labour Law, that makes Latvia’s labour market less attractive for investors. The right for new fathers to take 1.5 years paternity leave, even if the mother stays with their child at the same time; the right for new fathers to take 30min breaks to feed their child every four hours (or combine two breaks into one, so the employer has to pay the full salary for a 7h workday, even if the mother is with child at that time) and especially the new incentive to “force” new fathers to be away from work for two months (otherwise their family would simply lose two months of paid leave - <https://www.la.lv/obligats-berna-kopsanas-atvalinajums-tetiem>) are giving the wrong signals to investors regarding the constant availability of a highly skilled workforce.” (ICT company)*

*“We see that the public sector has very formal policies in place as mechanisms to cooperate with experts and businesses. This needs to change if we want to achieve real progress, it is only normal that public sector officials can’t be experts in every single question – then please just ask and listen. You can’t fake the Green Deal, you can’t fake availability of labour – solve these problems. Last minute changes to legislation and last-minute consultations with those who will be affected by legislation is very bad practice, it reduces trust.” (Retail trade and service company)*

*“Decisions of the Government need to be communicated and explained to the public. There is a need for better dialogue with society.*  
*There is a need for the PM to be available for discussions on TV, radio and other media. He needs to be a frequent visitor so there is a chance for him to explain his decisions and actions.*  
*There needs to be greater accountability and taking responsibility for all the actions and also, inactions.” (Finance and banking company)*

*“Stick to your decisions, be consequential, so people can trust that you know what you are doing. Law-abiding citizens find it difficult to hear more uncertainty than certainty from elected officials. The communication culture needs to take a few steps forward, explain decisions based on comprehensible data and information you have used.” (Real estate company)*

*“As hard as the Prime Minister’s job has been over the last few years, I would like to see our Prime Minister be a bit more decisive, without trying to please everyone. Sometimes weak compromise is not the best thing. Even if some issues aren’t resolved to everyone’s liking, at least we can make decisions in a timely fashion. Quick and decisive actions by the leader of the Government can go a long way. You have a good team around you, gather information, look at relevant data and act. During the pandemic and also looking at the problems we will have to solve in the future – like the lack of a workforce in Latvia – quick and decisive decisions will play a huge role. We can’t afford to put off extremely important decisions anymore.” (Retail trade and service company)*

*“Our most recent investments have totaled around 300 million. On behalf of the team at our company, I would like to say thank you to the Latvian government for building up the investment environment in Latvia. Despite a very tough and unpredictable time, there is a*

*positive dynamic on a number of issues of action taken by the Government – tax system predictability, the availability and distribution of EU grants. We highly appreciate the willingness of policy-makers to engage in a dialogue with businesses.*

*At the same time, we are aware that growth and development is a process, and we need to take further steps to promote the competitiveness of companies operating in Latvia. We would like to highlight some priorities for the future in areas where improvements are needed to continue business growth and sustainable development:*

*- Availability of labour*

*For decades there has been a problem, this poses huge challenges, we see a potential solution by introduction of seasonal workers, simplification of immigration control processes.*

*- Research and development*

*R&D is an important component to the development of many companies. Innovation can be supported through various State initiatives, the potential to solve many issues can be realised using different financial instruments.*

*- Digitalisation*

*We see increasingly the need for digitalisation of various public sector processes. Both large and small companies can benefit from EU funds to further digitalisation, larger companies often have added internal resources, both human and financial, to develop digital solutions that can add to the economy.*

*- Sustainability and the Green Deal*

*The ambition that Latvia has expressed calls into question the public sectors' understanding of the importance and depth of the green transformation and how it will affect the economy of Latvia. We have to look at the availability of Latvia to deliver these commitments and results within a reasonable time frame, without imposing disproportionate and unforeseeable tax burdens on companies and on society. Informed and dialogue-oriented green policy-making in Latvia requires timely involvement of all stakeholders, including companies.” (Manufacturing company)*

*“We should put more people in positions of power who have the relevant qualifications to be in these positions, who have relevant experience, not political connections. I feel we have too many people in Latvia in high level positions who are not subject matter experts. This diminishes trust.*

*If we talk about the pandemic for a little bit – we should have focused more on organising the medical system.” (ICT company)*

*“Data based decision-making goes a long way – creates a more predictable environment for all. Good communication also plays into it a lot. It seems like politicians are sometimes scared to get involved in discussions about certain questions, but it is necessary to build trust. I wish to see the Government acting like a team, not as different political party representatives who don't care about the big picture. As tough and as unpopular some decisions are, it would be even more unpopular to pay fines from taxpayers' money when certain deadlines aren't met. I mean, the decision regarding mandatory vaccinations was a huge help to businesses, we had clear directives.” (Professional assurance and advisory services company)*

*No single one of us is better than all of us together. If the Government would adopt this saying and resolve issues with that in mind we would move forward better and resolve issues more efficiently.*

*There is often a feeling that we as a country do not know what we are doing. Instead, we should do much more and involve more people.*

*The public service should think about involving all relevant parties, come together and come up with good ways of resolving the issues we face. Right now, the feeling is that this is not the case.” (Retail trade and service company)*

*“We need to work on communication with businesses and society in an attempt to eliminate the “we know better” attitude. We are all partners, businesses pay taxes, society pays taxes, we need to listen to different opinions and communicate better. Communication is key to improve trust and mutual respect, I know it can be tiring, but we need to keep explaining why things are done the way they are, why decisions are being made.*

*Continued work on creating Latvia as an attractive place for investment, how do we attract attention, what is our niche?” (Wholesale and retail company)*

*“Investment in the health sector is investment in human capital. Invite the Prime Minister to support the direction of healthcare moving towards a value-based health model, where the patient plays the central role. Financing of health should not be based on the number of serviced patients but rather on the quality of the health service.*

*We call for greater allocation of resources to healthcare in real terms. Better healthcare will give long-term benefits to the economy and contribute to greater human capital and reduce the loss of workforce.” (Wholesale and retail company)*

*“Dear Prime Minister,*

*In these turbulent times I want to start with saying thank you for your efforts in the management of the global pandemic. It is an utmost challenging task, requiring also unpopular decisions for many businesses. We as an industry highly value the Government’s economic injections in the road infrastructure in Latvia. It helped many companies keep above water, thus maintaining incomes for thousands of families and being able to sustain without social allowances.*

*Nevertheless, looking into the future we have growing concerns about the persistently high shadow economy level in Latvia, especially in the context of the green economy and its ambitious goals.*

*Above all challenges that a business might face, unfair competition and unequal market conditions are the most painful. Although we have heard many times before that reducing the grey economy is among the Government’s top priorities, we strongly emphasise – it should be tackled in a more effective way.*

*In the context of the Green Deal countries have many expensive economic transformations ahead.*

*And it will require funds – both private and public. Research and development will play a major role, significant investment from private companies will be directed towards reaching the goals of the Green Deal. And the way Latvia will prepare its business environment for investments to come, will mark its way further - either as a green economy innovation hub or a grey economy backyard.*

*I hope reducing the shadow economy will be a top priority for the Government in the nearest future and we*

*express our readiness to support the fight.” (Manufacturing company)*

*“(1) Ambitious goals, (2) Human capital, (3) Transparency  
i.e: (1) LV should push for higher more ambitious goals (it’s not OK to be 3rd in the Baltics), (2) REAL Reforms in attracting human capital, education and health sectors, (3) Transparency principle everywhere (Zero tolerance for shadow economy and corruption).” (Finance and banking company)*

*“There are no significant recommendations for the Government. What I would like to say is that the Government should work proactively and not reactively. They should not be afraid to think innovatively. I would also recommend more cooperation with Lithuania and Estonia, we should cooperate whenever possible and learn and adopt things that are working and not be afraid of learning from each other.” (ICT company)*

*“The Prime Minister and the Government should prioritise reducing uncertainty, especially when it comes to Latvia’s strategy for achieving the EU’s set green targets and implementing the Green Deal. The Government should improve both business and tax legislations because this*

*can positively contribute to higher investments from the private sector.” (Manufacturing company)*

*“Communicate and please communicate with the public. It should be relatively easy to explain decisions, if they are made based on data and experts. High quality communication creates trust – when you know what the other is thinking and how they came to that conclusion. It feels like the last four years have been better in Latvia than Estonia, you have had a crazy Government to control. But Lithuania seems to be more progressive and green.” (Finance and banking company)*

*“It is so important to make data-based decisions, data driven decisions – simply trust data, analyse it and trust the experts. Copy with pride from the best in the world. No need to figure it all out on your own, no need to reinvent the wheel if someone else is already doing it. Transparency and communication are key. As long as we can explain the decisions being made with data, and show what information was used in making these decisions – everything will be ok. And communicate the decisions made in several languages and every format so everyone knows what’s happening.” (ICT company)*

*“Do you want to fly? Fly more!” (Service company)*

*“The main thing is to convince investors that we have the rule of law in Latvia, where things do not happen through knowing the right people, but instead they happen in accordance with the law. Everyone should have an equal playing field. In this regard, state companies should not receive any special treatment either.” (Service company)*

*“Communicate simply and comprehensibly. Sometimes when I read press conference transcripts, even I have issues understanding what’s going on, I have two higher education degrees, so maybe the message is getting lost in translation and not reaching all society levels. Sometimes trust is lost because the understanding isn’t there. It’s a tough job, being the PM – you are very smart and have to communicate with a lot of smart people on a daily basis, but you also represent the whole society, so you have to talk in a way that reaches almost everyone.” (ICT company)*

*“The Government’s actions need to be consistent; the decisions must be well thought out. The last 2 years have shown inadequate and poorly made decisions.” (ICT company)*

*“Well, if we look at the numbers - GDP per capita in Lithuania is higher, but for Latvia, with all our advantages that we have – geographical location, millions of people living here, Air Baltic with more than 100 destinations, Riga as a metropolis, well developed ports – why are we always lagging behind? Where will we be in 10 years? I believe bureaucracy and corruption are the reasons why we have such little trust in the public sector. We see changes in leadership positions, which is very commendable, we need more professionals and fewer political appointees to important offices in the country. We seem to have all the development plans in Latvia but no actions to follow these, no real results or progress achieved.” (Real estate company)*

*“Be brave and continue reforms in the public sector, there are major opportunities to make the public sector more effective.*

*The Government needs to be decisive, also when it comes to unpopular and publicly criticised decisions.*

*The Government needs to know at what time it is right to stop discussions and move forward, not all topics require unanimity*

*Think long-term, not only in economic aspects. Don’t put out small fires but keep in mind the long-term vision. Our country is not just the economy of the country.*

*The Government has done a lot to communicate, trying to explain in simple terms what is*

*going on, the problem is the education level of society mostly, attention should be be paid to this.” (ICT company)*

*“It starts with a vision of where we are going, and that is lacking in my opinion. Because of that, a lot of decisions are not explainable and are not expected and there is a level of uncertainty. There is still a lot of impact in the public sector. Individual businesses have a chance to influence the public sector, the view should be for the long-term, not short-term for individuals, I believe that’s how you can increase trust for investors and society, if we can see what direction you plan to go in. Start seizing opportunities, instead of being risk averse and missing opportunities. Reduce political influence in various fields, port administration for example. Various sectors need to be business driven, not political.” (Retail trade and service company)*

*“Clear plans, clear and consistent execution of the plans. This would improve trust in the Government.*

*You cannot create trust quickly - this is done over a period of time. The Government should create strategies primarily that help local people and businesses.*

*Also, we need to stick to our set priorities, we cannot change them every year or two years. All fair and professional investors look at a time period of no less than 8-10 years to achieve payback for their business, and they need consistency and guarantees that they can rely on the Government.” (Manufacturing company)*

*“The Government and policy-makers should communicate with the population. Decisions should be based on expert opinion, no matter what the subject is – Covid-19, attracting investment or taxation.*

*I believe right now for the general population to get involved in direct policy-making has become extremely challenging, the rules for setting or creating referendums was changed when the language referendum occurred, which set very high bars for referendums, but maybe they should be lowered so that the population can have greater involvement in policy-making, such as it is in Switzerland. Currently, citizens gather a certain number of signatures, and their initiative is just stopped at some point in Saeima. In any case, there should be effective tools for how a society can express its opinion.” (Real estate company)*

## Appendix 1. Guidelines for interviews: 2021 study

### FICIL Sentiment Index 2015-2022: Election edition

1. HAS THERE BEEN ANY PROGRESS DURING THE PREVIOUS 4 years within the following major areas of concern, as expressed by the foreign investors in Latvia previously, 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)*

|  | Y | P | N | Brief comment: how crucial are these issues, are there any good initiatives that have been implemented by policy-makers? |
|--|---|---|---|--|
| Demography   |   |   |   |  |
| Access to Labour   |   |   |   |  |
| Level of Education and Science in Latvia                             |   |   |   |  |
| Quality of the Business Legislation                                  |   |   |   |  |
| Quality of the Tax System  |   |   |   |  |
| Support from the Government and Communication with the Policy-makers |   |   |   |  |
| Unethical or illegal behaviour by entrepreneurs, unfair competition  |   |   |   |  |
| Uncertainty  |   |   |   |  |
| The Court System in Latvia   |   |   |   |  |
| The Healthcare System in Latvia                                      |   |   |   |  |

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

|   |   |   |   |   |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|

*Comment:*

3. Overall, from your investor's perspective has the investment appeal of Latvia improved during the previous 4 years?

|            |            |               |          |          |
|------------|------------|---------------|----------|----------|
| 1          | 2          | 3             | 4        | 5        |
| Not at all | Only minor | Some positive | Yes, has | Yes, has |

|  |              |              |          |                        |
|--|--------------|--------------|----------|------------------------|
|  | improvements | improvements | improved | improved significantly |
|--|--------------|--------------|----------|------------------------|

**Comment:**

- 4. Please evaluate from 1-5 the following drivers of Latvia’s economic competitiveness from your 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  |   |
| Energy resources   |   |
| <i>Other (please specify)</i>                                  |   |

- 5. Could you please identify the best decisions or policy initiatives (up to 3) that have been introduced by the Latvian Government or Parliament over the previous 4 years and had a positive impact on the business environment of Latvia.**

*Interviewer, please tell the respondent that these can be also activities/ initiatives that have been introduced earlier but have had significant positive/ negative consequences over the last 4 years.*

- 6. Could you please identify the worst decisions or policy initiatives (up to 3) that have been introduced by the Latvian Government or Parliament over the previous 4 years and had a negative impact on the business environment of Latvia.**

*Interviewer, please tell the respondent that these can be also activities/ initiatives that have been introduced earlier but have had significant positive/ negative consequences over the last 4 years.*

**7. Please name 3-4 priorities- what the next Government of Latvia should implement during the next 4 years to improve the state of the Latvian economy?**

**Priority 1:**

**Priority 2:**

**Priority 3:**

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

**Comment:**

**9. Please evaluate the current efforts of the Government of Latvia to implement the “European Green Deal” strategy in Latvia (a scale of 1 to 5, where ‘1’ is fail, ‘3’ is average and ‘5’ is excellent) and name up to 3 priorities that should be done by the Government or specific ministries within the next 4 years to successfully implement the Green Deal in Latvia:**

*Interviewer, please ask respondent to evaluate and comment*

|   |   |   |   |   |
|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|

**Comment:**

*Interviewer, please ask respondent to name up to 3 priorities*

**Priority 1:**

**Priority 2:**

**Priority 3:**

**10. Your message to the Prime Minister that we deliver in a sealed envelope: one paragraph on what should be done to improve the trust in the Government and public sector.**

## **Appendix 2. Foreign investors that took part in the 2021 study.**

### **AFI Europe**

AFI Europe is a leading real estate development and investment company operating in Central and Eastern Europe and focusing on the development of large-scale commercial and residential projects. Their diversified portfolio consists of shopping malls and retail properties, business parks and office complexes, a logistics and light industry facility, large-scale residential and mixed-use developments, as well as income-yielding residential properties. These projects and properties are located in Bulgaria, Czech Republic, Germany, Hungary, Latvia, Poland, Romania and Serbia. Headquartered in the Netherlands, AFI Europe is part of the AFI Group – an international holdings and investments conglomerate with subsidiaries that engage in real estate, construction, infrastructure, industry, and hotels.

### **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.

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

PZU is one of the largest financial institutions in Poland, as well as Central and Eastern Europe. The Group is led by Powszechny Zakład Ubezpieczeń S.A. (PZU) – a company listed on the Warsaw Stock Exchange. For over 200 years, the core of PZU Group is insurance activity, which aims to ensure a sense of peace and security for their clients through the offered comprehensive insurance protection in all crucial areas of private, public, and economic life. PZU acquired BALTA in 2014. With 30 years of experience, BALTA is the leading non-life insurance company in Latvia, with more than 600 employees, including a distribution network of 300 agents and 43 branches across Latvia.

### **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 around 189 people.

### **BITE**

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 20000 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, BITE has more than 800 employees. 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.

### **BTA Baltic Insurance Company**

BTA is the insurance market leader in the Baltic States, offering a broad range of non-life insurance services. BTA is a human-centered company driven by technologies and innovations. Since 2020, Vienna Insurance Group AG, a leading insurer in Europe, has become a 100% owner of BTA voting shares. BTA holds more than 27 years of experience in the insurance market, as well as more than 490 000 clients worldwide.

### **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. The Couche-Tard network consists of more than 8,000 stores in North America and more than 2,700 stores in Scandinavia, Ireland, Poland and the Baltics, most of which offer fuel as well as food and basic necessities. At present, Circle K Latvia has 86 outlets throughout Latvia.

### **Coca-Cola**

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

### **Cognizant**

Cognizant is one of the world's leading professional services companies, transforming clients' business, operating and technology models for the digital era. Their industry-based, consultative approach helps many of the best-known organisations in every industry and geography envisage, build, and run more innovative, efficient businesses. 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. Cognizant Latvia stands out as a center with approximately 300 industry experts who can handle complete telco processes.

### **DPDgroup**

DPDgroup is one of the world leading parcel delivery networks, aiming to be a reference in sustainable delivery and become a leading enabler of e-commerce acceleration, by combining innovative technology and local knowledge to provide a flexible and user-friendly service for both shippers and shoppers. The DPD group has network of 97000 employees and 58000 Pickup points, the DPD group delivers 7.5 million parcels daily with the use of four brands: DPD, Chronopost, SEUR and Interlink Express. In Latvia, DPD Latvia is the market leader for parcel deliveries, every day more than 250 professional employees take care of customers parcels and make deliveries, in order to reach the recipients as quickly as possible and in the most convenient way.

## **ELKO Group**

ELKO Group is a distributor of IT and CE products, founded in 1993 by four young IT students. Since then, distribution contracts with significant names in the IT industry have been concluded, such as Seagate, Western Digital and Samsung. Today, the ELKO Group has been a preferred partner in the market for more than 25 years, with more than 1500 employees and strong regional presence in Europe and Central Asia.

## **Ellex Klaviņš**

Ellex is in the forefront of digital innovation with a team of 200+ experienced and knowledgeable legal specialists to help businesses develop winning strategies. Drawing on nearly 30 years of local expertise from across the Baltics, Ellex's interconnected network incorporates digital law to accelerate results. No matter the level of digital competence, everyone can benefit from legal infrastructure provided by Ellex that will accelerate the success of any business. Ellex also fosters a culture of sustainability in the workplace and strives to make the world better for everyone.

## **Emergn**

From the start, Emergn has sought to create lasting, positive change by supporting the people who drive innovation forward. Their consultants understand the strategies, tools, and processes that enterprises often want to adopt, and rather than recommend generic bolt-on solutions, they take an inside-out approach to implement long-lasting change from the ground up. They bring that change to life in innovative products and services that we co-create with our clients. Their 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), Ireland (Dublin), the UK (London), Latvia (Riga, Liepaja), Ukraine (Dnipro), Portugal (Porto), Romania.

## **Eversheds Sutherland Bitāns**

Eversheds Sutherland is one of the world's largest corporate law firms. Committed locally with Latvian office – Eversheds Sutherland Bitāns, but connected globally, with 74 offices covering 35 jurisdictions with more than 3000 lawyers. Just years ago, 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**

Evolution is a multinational B2B innovator and creator of products and software for one of the world's most fast-paced industries – online gaming. They have the full product chain inhouse and across our 30+ locations, their constantly growing team of 15,000+ EVolutioneers work united by their values - alive, do right and work together to provide our customers with unique and unexpected entertainment experiences for their players around the world. Evolution Latvia was founded in 2006. From its state-of-the-art office in Riga, 3000+ EVolutioneers work to develop and maintain online gaming products and provide video studio services.

## **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 over the world. The company develops outstanding leaders who team together to deliver on its promises to all its stakeholders. In doing so, EY plays a critical role in building a better working world for the people, the clients, and the communities. EY employs more than 300,000 people across 150 countries.

## **Food Union**

Food Union is a global company that provide products appreciated and approved by people from Northern Europe to China. Food Union's global group of food companies rely on deep market insight, ongoing innovation, and a genuine will to develop strong local brands and advance the wellbeing of their consumers. Food Union provides more than 1500 products, has more than 3100 employees across 9 countries.

## **Graanul Invest**

Graanul Invest is world leading biomass and bioenergy producer. They believe that their leadership in biomass is key to meeting the global climate challenge. Graanul Invest Group has been developing the bioenergy field for over 18 years and lead the industry with some of the most advanced process and technologies. Graanul Invest is an international group with 12 modern pellets plants in the Baltics and US and six combined heat-and power plants in Estonia and Latvia. The Group employs 500 people. Latgran is our subsidiary brand that is known in Latvian market.

## **Gren Latvia**

Gren Latvia is a leading clean-energy company that provides its customers with electricity, heating and cooling as well as smart solutions to improve resource efficiency. Electricity produced in Jelgava power plant is sold in the Nord Pool Spot, as well as to large industrial customers. Since summer 2018, Gren Latvia is also operating in Daugavpils where it produces heat energy and electricity.

## **Ingka**

Ingka Group consists of three business areas. Core business is IKEA Retail, which consists of 392 IKEA stores across 32 markets, and counting. Each year, Ingka group welcomes 657 million visitors to these stores, and have more than 4.3 billion visits to IKEA.com. Ingka Centres creates great meeting places where each centre is anchored by an IKEA store. So far, they have established 52 experience-oriented shopping centres across 15 countries. The main purpose of Ingka Centres is to support the establishment and drive visitation to IKEA stores.

## **Kärcher**

Kärcher is a responsible and trusted family-owned company and one of the most attractive employers in the industry. The family business employs 14400 people in 150 companies that are located in 78 countries. Over 50000 service centres worldwide ensure a seamless supply to customers all around the globe. Kärcher has set itself the goal of focusing the company's social commitment on the preservation of value. Kärcher cleaning machines are manufactured in Germany, Italy, Romania, China, Brazil, Mexico and the USA.

## **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 firms can be found in 145 countries. Collectively, they employ more than 236000 people across a range of disciplines. In Latvia, KPMG was established in 1994. As part of continued growth in 2020, KPMG member firms in Latvia and Lithuania joined KPMG in Sweden. Combined KPMG practices in Sweden, Latvia and Lithuania employ 2000 staff.

## **Linstow**

Linstow is 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 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**

Luminor is the leading independent bank in the Baltics and the third-largest provider of financial services in the region. Luminor serves the financial needs of individuals, families, and companies. Just like their home markets of Estonia, Latvia, and Lithuania, they are dynamic and forward looking. Their subsidiaries provide leasing, manage pension funds and other specialist activities. Luminor operates only in the Baltic countries, 98.5% of their total deposits come from EU residents.

### **MGI Tech**

MGI Tech Co., Ltd. (referred to as MGI) is committed to building core tools and technology to lead life science through intelligent innovation. With a focus on R&D, production and sales of DNA sequencing instruments, reagents, and related products, MGI provides real-time, panoramic, and full-life-cycle equipment and systems for precision medicine, precision agriculture, precision healthcare and other relevant industries. MGI is a leading producer of clinical high-throughput gene sequencers, and its multi-omics platforms include genetic sequencing, medical imaging, and laboratory automation. As of December 31, 2020, MGI has 1726 employees, 32.79% of whom are R&D personnel. Founded in 2016, MGI operates in more than 70 countries and regions, serving more than 1000 customers.

### **Mikrotīkls**

MikroTik is a company which was founded in 1996 to develop routers and wireless ISP systems. MikroTik now provides hardware and software for Internet connectivity in most of the countries around the world. MikroTik's experience in using industry standard PC hardware and complete routing systems, allowed them in 1997 to create the RouterOS software system that provides extensive stability, controls, and flexibility for all kinds of data interfaces and routing. In 2002 MikroTik decided to make their own hardware, and the RouterBOARD brand was born. They have resellers in most parts of the world, and customers in probably every country on the planet. MikroTik company is in Riga, the capital city of Latvia and has more than 310 employees.

### **Narvesen**

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 that opened its 228<sup>th</sup> store in Latvia in 2020. Narvesen offers a diverse range of fresh and tasty dishes, refreshing drinks and a wide selection of the latest press editions. In Latvia, the franchise network offers a workplace for more than 650 people, including franchisees. After more than 23 years of experience, Narvesen is perceived as a high value brand in Latvia. SIA *Narvesen Baltija* is continuing its growth, in 2020 merging with SIA *Coffee Inn* (owner of the coffee shop chain "Caffeine Roasters").

### **Nasdaq Baltic**

Nasdaq Baltic operates three stock exchanges in Estonia, Latvia and Lithuania and the Nasdaq CSD under one Baltic roof by 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 headquartered in New York and is one of the largest farm operators in the world that manages approximately \$3 billion of assets through a network of 11 offices in Eastern Europe and South America. NCH also employs more than 130 professionals.

### **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 76 fuel stations in Latvia.

### **Orkla Latvija**

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. 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 and exports goods to over 30 countries. The company opened its new factory in 2022, making it its 7<sup>th</sup> factory in Latvia.

### **Printful**

Printful is an on-demand printing and fulfilment company that helps people turn their ideas into brands and products. Whether one wishes to create their own online brand or gift someone a personalized t-shirt, Printful can help to get it done. Whenever someone makes a purchase, Printful will automatically receive the order, fulfil, and ship it. Printful has an ever-growing team of more than 1700 pros across North America and Europe, with partners in Japan and Australia, currently fulfilling more than 1 million items every month. In 2021, Printful received a “unicorn status” with a valuation of above 1 billion US dollars.

### **PwC**

PwC is a network of firms across 156 countries with more than 295000 people who are committed to delivering quality in assurance, tax and advisory services. They operate in Latvia since 1993, and currently employ over 160 employees. PwC goal is to contribute to the development of country's economy by advising local businesses, governmental institutions, and foreign investors. Their regional practice allows them to use the most capable and experienced experts to serve clients in the best possible way. At PwC, the purpose is to build trust in society and solve important problems.

### **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. Rimi Baltic operate over 260 stores and employ over 12300 people across the Baltics. Currently, Rimi Latvia operate 135 stores and employs more than 5000 people.

## **Robert Bosch**

The Bosch Group is a leading global supplier of technology and services. As of 2020, it employs roughly 401300 associates worldwide. The German engineering and electronics company founded its subsidiary - Robert Bosch in Latvia in 1993, it coordinates all companies work across the Baltics and currently employs 83 people across Baltic states. SIA *Robert Bosch* 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.

## **Roche**

Roche is a company specialising in developing innovative treatments across major disease areas. Roche is also focused on translating the excellence in science into an effective medicine for patients. Roche combines science, data and insights to transform the way diseases can be prevented, diagnosed and monitored. Their medical assays, digital solutions and services help people live healthier lives. Roche restarted its work in Latvia in 1993 and since 2005 became SIA *Roche Latvija*.

## **SCHWENK Latvija**

SCHWENK 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. SCHWENK Latvija employs more than 350 people and more than 500 subcontractors. In 2019, SCHWENK Latvija became the owner of the only cement plant in Latvia, it has capacity to produce up to 1.6 million tons of cement per year. About 70% of the cement produced in Brocēni, Latvia is exported to Lithuania, Estonia, Sweden and Finland.

## **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 458000 private and business clients. 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 a science company whose technologies bring benefits to many aspects of daily life. As a global leader in materials, chemicals and solutions, Solvay brings advancements in planes, cars, batteries, smart and medical devices, water and air treatment, to solve critical industrial, social and environmental challenges. Solvay is headquartered in Brussels, Belgium with about 21000 employees spread across 61 countries. In Latvia, Solvay operates as a Global Business Services Centre and provides a variety of services to Solvay Group, such as Accounting, IS helpdesk, Data Management, Customer Services, etc.

## **Stora Enso**

Stora Enso develops and produces solutions based on wood and biomass for a range of industries and applications worldwide, leading in the bioeconomy and supporting their customers in meeting demand for renewable eco-friendly products. Building on their heritage and know-how in forestry and trees, Stora Enso is committed to the development of products and technologies based on renewable materials. Their products, in many cases, provide a low-carbon alternative to products made from fossil-based or other non-renewable materials. Stora Enso has some 25000 employees

in more than 30 countries and is publicly listed on the Helsinki and Stockholm stock exchanges. Stora Enso sales in 2021 were EUR 10.2 billion.

### **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. They serve everyone, from customers with basic needs to those who require advanced banking services. They work to develop close relationships with their 7.05 million private customers and 549000 corporate customers. To support their businesses, Swedbank also has international branches in Norway, Finland, Denmark, the US, China, and South Africa.

### **SwissCom DevOps Center Latvia**

Based in Switzerland, we are about 1000 IT experts and enthusiasts devoted to creating inspiring customer experiences and developing best quality services for Swisscom, the leading telecommunication and one of the country's leading IT providers. In addition, SwissCom has built a new DevOps Center in Netherlands in 2019. In the next few years, we plan to grow to 200 employees. As DevOps engineers, SwissCom emphasises the understanding of the equal importance of relationships, culture, soft skills, and collaborative working in a friendly environment.

### **TAV Airports Holding**

TAV Airports Holding is one of the leaders in airport operations and airport construction companies in the world. TAV Airports operate 15 airports in 8 countries. TAV Airports also provide duty free, catering, ground handling, IT, security, and lounge services, we served 52 million passengers in 2021. In Riga International Airport, TAV has been operating commercial areas since 2011. Furthermore, multiple subsidiaries of TAV Airports - ATU Duty-Free, BTA, TAV Operation Services and HAVAŞ, serve at Riga Airport.

### **TELE2**

Tele2 has a history of challenging the monopolies and have been leading in the development of connectivity infrastructure in a number of markets around Europe and Asia. Tele2 employ more than 4200 people. The core markets of Tele2, Sweden and the Baltics, are mature markets with strong cash generation and a strategic focus on data monetization. In Latvia, during its 20 years of operations, Tele2 has become one of the largest and most recognised mobile network operator, as well as one of the most productive and profitable company in Latvia and the Baltics. In Latvia, their 370 employees remain committed to provide customers with only the best.

### **Telia Company AB**

Telia 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 Swedish multinational telecommunications company and mobile network operator. The company was founded in 1853. Telia Company shares are listed at Nasdaq Stockholm and Nasdaq Helsinki. Telia Company connects businesses, individuals, families, and communities via fixed and mobile communication solutions. Their services have a positive effect on social, economic and environmental development and pave the way for an inclusive society.

### **Tietoevry**

With more than 1000 employees, Tieto Latvia ranks among the leading information technology companies in Baltics. Their 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. Tieto Latvia houses Tieto Global Shared Service Centre which is one of the first shared service centres in Latvia. In 2020, due to Tieto and EVRY global merger, Tieto Latvia and EVRYLatvia merged to form Tietoevry.

### **TV3 Group**

Modern Times Group, true to its name, was the bringer of modern times to this region. Wisely and steadily investing in continuous development since 1993 over a period of 25 years, it was the market leader and enjoyed the loyalty of its audience. Acquisition by Providence Equity Partners is the next step in this development signalling investment in the latest technologies (HD quality, creation of the TV3 Play platform), not only to grow the digital footprint of the group, but by successfully mining the future, to shape it. At present, that means that any media provider must be able to react to an audience's needs and preferences on a 1:1 basis. Being still the leading Baltic media house, with a group revenue of 103,915 mill EUR (2018); and 450 employees, representing the best creative talents in the region, TV3 Group is perfectly placed to do this. In addition to its multi-platform content that is appealing to the most attractive target groups - Free TV, Pay TV, online, radio it can also offer superior local content. With a focus on its own products, unique local productions starring the most famous Baltic stars, it is the creator of leading prime time content across the entire Baltic market.

### **Vastint Group**

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.

### **Visma**

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 140 companies across Europe and South America, employing more than 14000 people and serving more than a million customers. The company's headquarters are located in Oslo, Norway. In Latvia, Visma Group is represented by 4 companies and employ over 440 people. 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. Visma Labs in Latvia supports Visma Group's new products development. Jumis Pro works on everything related to accounting for small and medium business, and on Cloud solutions for effective small and medium business management.

### **Vitol Baltics**

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.

### **Ventspils nafta terminals (VNT)**

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.

### **Volvo Truck Latvia**

Volvo Group drives prosperity through transport and infrastructure solutions, offering trucks, buses, construction equipment, power solutions for marine and industrial applications, financing and services that increase their customers' uptime and productivity. They are committed to shaping the future landscape of sustainable transport and infrastructure solutions. Volvo headquarter is located in Gothenburg, Sweden, and their shares are listed on Nasdaq in Stockholm, Sweden. Volvo Group employs more than 95000 employees and have production in 19 countries.

### **YIT**

YIT is the largest Finnish and a significant North European construction company and urban developer. For 110 years, they have created better living environments for their customers: functional homes for sustainable housing, public and commercial buildings for the needs of the future, and infrastructure for smoother movement of people, businesses and society. YIT employs 5500 professionals in 9 countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania, the Czech Republic, Slovakia and Poland. Their turnover in 2021 was EUR 2.7 billion EUR. YIT Corporation's share are listed on Nasdaq Helsinki Oy.

**Appendix 3. Assessment of the economic competitiveness of Latvia by foreign investors: some further comments**

| <b>Drivers of competitiveness</b>       | <b>Comments</b>  |
|---|--|
| <b>Business Culture</b>                 | <p><i>“From a shareholder’s perspective – if we discount the unethical and political components then the business working culture is good.” (ICT company)</i></p> <p><i>“Younger people entering business comes with a change of mentality.” (Retail trade and service company)</i></p> <p><i>“The 1990s have ended in Latvia and there is a solid framework of a growing business culture. There is also a solid framework of law that businesses operate in.” (Service company)</i></p> <p><i>“This is becoming better in the last 4 years. People are changing the culture and doing a lot more and differently.” (ICT company)</i></p> <p><i>“The young generation of entrepreneurs is thinking about CSR and ESG.” (Finance and banking company)</i></p> <p><i>“Business culture is improving, even in our business. The question is – is it making us an attractive place for investment? This is unclear. There is still a gap with other EU countries on business culture, but I have also seen much worse business cultures in certain EU countries.” (Manufacturing company)</i></p> |
| <b>Demography (population growth)</b>   | <p><i>“Some government experts should go to Estonia which has a positive demographic trend to see what they are doing better... There are solutions for demography, but we need to work find them.” (Service company)</i></p>  |
| <b>Education and science/innovation</b> | <p><i>“Universities should be modernised, and we need to attract foreign professionals. Universities also need to work with current students so that they go on to study and know what they want to achieve.” (Service company)</i></p> <p><i>“The Government is not currently looking at future professions. There is no future long-term view about what future professions we will need as a country.” (Manufacturing company)</i></p>  |
| <b>Health system</b>                    | <p><i>“Problem – issuing of sick-leave certificates without valid grounds, there is too much freedom for doctors, and it seems they cannot be penalised.” (Service company)</i></p>  |

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|   | <p><i>“It feels as though we do not value our healthcare enough... Currently, most people have decent or good health insurance. The healthcare is currently at a good level.” (ICT company)</i></p>  |
| <p><b>Social security</b></p>                           | <p><i>“It is actually very good, but we do not like it and it feels exaggerated. Many of the issues are that it’s not well incorporated in legislation. We feel like it’s overdone in some areas.” (Manufacturing company)</i></p> <p><i>“There are long queues for children to get access to kindergartens, social payments for children are very low, elderly people are living in poor conditions. The pension system is good, but it is not effective considering the persons who worked during the Soviet Union times.” (Service company)</i></p>   |
| <p><b>Infrastructure (roads, electricity, etc.)</b></p> | <p><i>“Cables, electricity lines, roads are okay and there is a lot of construction taking place. Problem is still with uncertainty regarding the Mandatory Purchase Component (OIK).” (Service company)</i></p> <p><i>“I am comparing countries. I see how much Poland is investing in roads, railways and so on. This is one of the biggest mistakes. This one of my major criticisms.” (Finance and banking company)</i></p> <p><i>“We have access to the sea, we have ports, we have quite good airline access. We are lacking roads.” (Retail trade and service company)</i></p> <p><i>“Daily, our business has to work in areas that have bad roads, and the infrastructure is not made to serve 1.9 million people.” (Service company)</i></p> <p><i>“The roads are still bad in most places. Hopefully Rail Baltica will bring some adjustments to the infrastructure. Electricity prices are also an issue also in other countries.” (Retail trade and service company)</i></p> <p><i>“Riga does not represent the whole of Latvia. The infrastructure varies a lot across Latvia.” (ICT company)</i></p> |
| <p><b>Domestic demand</b></p>                           | <p><i>“We are suffering very much because of this right now. This is driven by the population which we can feel is declining.” (Manufacturing company)</i></p> <p><i>“Mediocre right now. We work only for domestic demand. I have to prove to the shareholders every year that we can get more from domestic demand.” (ICT company)</i></p> <p><i>“For my company, there is not a lot of work for us domestically (all the clients are abroad) – we only have one large client based in Latvia.” (ICT company)</i></p>  |

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| <p><b>External demand (exports)</b></p>                                      | <p><i>“A very simple example, Latvia has a lot of timber, woods, forest, but they don’t produce furniture! Latvia lacks competitiveness.” (Finance and banking company)</i></p> <p><i>“E-commerce is good opportunity to work on exports, we should utilise this.” (Service company)</i></p> <p><i>“There are some improvements, but not by a great deal.” (ICT company)</i></p> <p><i>“We are not exporting, but our sister company is working to export, and the growth is very good. For service providers there is good growth. It is impressive that this can happen when there is a lack of workforce. It means there is high effectivity and productivity and mostly among the adult population (age 45+).” (ICT company)</i></p>  |
| <p><b>Traditions of the industry (your company represents) in Latvia</b></p> | <p><i>“Good level, because for the industry there is a high white economy, payment with cards only therefore, there is no opportunity for shadow payments. There is a shadow industry, but this is very small, and we don’t feel clients are moving elsewhere. There are no 1990s and the Wild West anymore.” (Service company)</i></p> <p><i>“Even though we are a new industry, we are positively happy to see that there are competencies present in Latvia in this field already.” (Manufacturing company)</i></p>  |
| <p><b>Availability of labour (management level)</b></p>                      | <p><i>“We do not experience many problems in finding management. Expansion for us is very limited due to the size of the country, so there is no need for much of a senior management staff.” (Manufacturing company)</i></p> <p><i>“There is a lack of workforce at the lowest levels.” (Service company)</i></p> <p><i>“We can find people, but it takes more resources and time. Blue collar workers – the availability is lower maybe. There are people and we can even motivate them, but it takes a lot of time and resources. Motivation is very important.” (Service company)</i></p> <p><i>“Not big problems finding management level.” (ICT company)</i></p> <p><i>“There is a lot of management level labour available, maybe not a lot, but at least enough.” (ICT company)</i></p> <p><i>“We spend a lot of resources to find the right persons, but we are not always successful in moving the employees in the right direction. The ones that joined during the Covid-19 pandemic, it’s hard to get them to stick to the company. We cannot also just hire foreign specialists because there is a need for language (Latvian) in the company.” (ICT company)</i></p> |

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| <p><b>Availability of labour ('hands')</b></p> | <p><i>"We are not in a much worse situation right now. In any case, it's on its way down for sure." (Manufacturing company)</i></p> <p><i>"There is a lack of workforce at the lowest levels." (Service company)</i></p> <p><i>"We are missing more and more." (Retail trade and service company)</i></p> <p><i>"Covid-19 has improved the availability of hands for us since we can attract hospitality sector workers who are looking for work elsewhere since Covid-19 restrictions. However, I do not remember the last time we had a lot of spare CVs left after filling the open vacancies.</i></p> <p><i>Also, we are still missing employees in certain specific fields." (Retail trade and service company)</i></p> <p><i>"If I had to convince the shareholders to open another service centre in Latvia it would be impossible, they would rather look at Poland or Romania where there is a cheaper workforce and more availability. In Romania a few years ago, we had 1 centre, now we have 6. There is cheaper office space, workforce availability and incentives from the Government.</i></p> <p><i>In Slovakia, we opened a centre 6 years ago and every year the Government gives a subsidy for units of employees created. Also, they give tax breaks on certain taxes. They give strong incentives for more IT centres etc." (ICT company)</i></p> |
| <p><b>Efficiency of labour</b></p>             | <p><i>"Efficiency is very dependent on IT development and use of technology in companies. In sectors where technology is not developing, the efficiency of labour might be worse." (Service company)</i></p> <p><i>"We need to look at how to increase efficiency, in the long-term this is the key to success. In future we will invest more in technology to reduce labour needs." (Service company)</i></p> <p><i>"The older generation is efficient. New graduates have not learnt to study. They also do not understand they have to sacrifice their own time to improve professionally. Latvia is still considered to have competent persons." (ICT company)</i></p> <p><i>"There are companies that do not face issues with labour efficiency, but there are also those that do have this problem. We are constantly seeing ways on how to improve this." (Retail trade and service company)</i></p> <p><i>"Data tells a bad story. For my industry there is a clear lack of labour, but with investment in automated systems we are compensating for the lack of labour availability." (ICT company)</i></p>  |

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| <p><b>Low production costs</b></p> | <p><i>“Production costs are gradually increasing. Lately they are not higher but also not lower.” (Service company)</i></p> <p><i>“This is still a driver in the IT industry. In 2-3 years, the score might be lower, but currently costs are much lower than the rest of Europe.” (ICT company)</i></p> <p><i>“There are other countries that have cheaper production costs near Latvia, we should focus not on low production cost but rather on creating added-value products.” (Service company)</i></p> <p><i>“In comparison to the EU average we still have low production costs, but they are rising quickly.” (Retail trade and service company)</i></p> <p><i>“Not very high, but I would say that they are closer to higher than lower, at least in comparison to the other Baltic states.” (Real estate company)</i></p> <p><i>“The salaries that we have to pay for employees are going up a lot, but there is also a lack of employees and workers to hire. It is becoming increasingly expensive because of this, and we are looking, sadly, for workers outside of Latvia who have lower salaries. This is very unfortunate.” (ICT company)</i></p> <p><i>“I do not believe that Latvia has low production costs. However, there are some companies that produce in Latvia and mainly work for exports, and still remain competitive with larger companies so this is good.” (Wholesale and retail company)</i></p> <p><i>“In our industry low production costs are in the past. In our region we are becoming the most expensive.” (ICT company)</i></p> <p><i>“Latvia is not a low production cost country anymore; It is interesting that we are now even recruiting experts with a Nordic level of salaries.” (ICT company)</i></p> |
| <p><b>Monetary policy</b></p>      | <p><i>“If we look at money laundering issues and policies here - we are much more engaged than westerners and I feel we have a high burden of it and are duplicating many things. We are a trustworthy country.</i></p> <p><i>But there are things that we are doing that are not making us competitive, it’s good to have strong anti-money laundering mechanisms, and we are on a good way towards achieving transparency, but the way it’s done and how we are going towards it is not that good. Intentions are good but the way it’s done is not efficient.” (Manufacturing company)</i></p>  |
| <p><b>Tax system</b></p>           | <p><i>“If I compare with western Europe, it’s not that bad.” (Manufacturing company)</i></p> <p><i>“There are positives and negatives. Taxes are gradually increasing in all countries. The tax system is orientated in the wrong direction – at the moment towards fulfilling</i></p>   |

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|  | <p><i>the budget, but it should be geared towards improving business development in the country.” (Service company)</i></p> <p><i>“I am not confident that in all sectors the tax system is competitive. There is still room for improvement.” (Retail trade and service company)</i></p>   |
| <b>Legal system</b>                        | <p><i>“Laws are good, but there are issues with implementing and applying them.” (Service company)</i></p> <p><i>“For example, the SRS introduces a new system that needs to be introduced, they produced and published some normative guidelines, but we did not understand how to apply this new system and asked if SRS could come and give us more information or come and explain this. The system itself is good but, the way they communicate is poor and ineffective.” (Retail trade and service company)</i></p> <p><i>“For 10 years we were fighting with the Competition Council and the EU Court, and we are brought back to the 1<sup>st</sup> instance. There are improvements but I am still telling my shareholders that there is no visible end in sight for the case.” (ICT company)</i></p>  |
| <b>Standard of living in Latvia</b>        | <p><i>“Not very high but improving. I see this in comparison to our neighbours who standard of living has developed much better over 3-4 years.” (Manufacturing company)</i></p> <p><i>“In comparison to 4 years ago there is a greater mass of foreigners. For third country nationals it is extremely difficult to go through all the bureaucratic processes, for example, to get the Covid-19 QR code.” (ICT company)</i></p> <p><i>“We are still not at the EU’s average level. But we are not at the bottom of the EU.” (Service company)</i></p> <p><i>“From my circles I see that everyone is doing fine. But for people who work lower paid jobs they still work from salary to salary.” (Service company)</i></p> <p><i>“I moved to Latvia, the standard of living in my opinion is good.” (ICT company)</i></p> <p><i>“There is a higher standard of living in Riga than elsewhere.” (Retail trade and service company)</i></p> |
| <b>Attitudes towards foreign investors</b> | <p><i>“In the 1990s there was a much better attitude towards foreign investors than now. It was more exciting, and they were appreciated more and there was more help from local communities.” (Manufacturing company)</i></p> <p><i>“The attitude towards foreign investors is very positive. The policy-makers and institutions really listen to investors and what their opinion is.” (Service company)</i></p>  |

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|                                     | <p><i>“We have mostly worked so that we are seen as a local company rather than a foreign one, and we see a positive attitude towards us. Nevertheless, I believe that generally there is a positive attitude towards foreign investors with some minor exceptions.” (Retail trade and service company)</i></p> <p><i>“From what point of view are we looking at this issue? If we look at this from a local person’s perspective, then they are probably not very happy to see more foreign companies and persons. If we look from a policy-makers’ and LIAA point of view, then they are constantly asking for more foreign investments. Foreign investors see the attitude of the population more than the policy-makers however.” (ICT company)</i></p>  |
| <p><b>Investment incentives</b></p> | <p><i>“With regard to investing, it is difficult, not administratively, but rather in terms of buying land and assets. Also, we do not see that there is any ease in comings and goings.” (Manufacturing company)</i></p> <p><i>“We need a state level decision on what to go towards, bio-eco, ports or tourism?” (Service company)</i></p> <p><i>“I do not have information about this, and I am giving a ‘2’ because of a lack of communication on information about investment incentives.” (ICT company)</i></p> <p><i>“We are usually outside of structural fund supports. However, we believe that if you want to do something and develop a project you are able to do so.” (Retail trade and service company)</i></p> <p><i>“Support for investors and incentives generated by the Government is weak and little; it feels like there is no focus on this. Maybe Covid-19 has changed this and is now at the forefront of every discussion, everything else is left as secondary, including investment incentives.” (ICT company)</i></p> |
| <p><b>Defence</b></p>               | <p><i>“Everything is alright here, over 2% of GDP is being spent on defence.” (Service company)</i></p> <p><i>“It’s good to say we are members of NATO, they train here. The budget for defence is increasing annually. Positive view about the Minister of Defence, good communication, National Armed Forces better than they were 3 years ago.” (Service company)</i></p> <p><i>“Being a member of NATO is a good contributor to security and creates a safer environment for investors and future foreign investors.” (Retail trade and service company)</i></p> <p><i>“The Government is investing large amounts for defence. Armed forces and the Ministry of Defence are trying to use the money in the most effective way to improve capabilities. Investors are worried about the current situation with Belarus, Russia, Ukraine.” (ICT company)</i></p>   |

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| <p><b>Energy resources</b></p>       | <p><i>“Access to this is good, the latest development with pricing creates a lot of questions. What we do not see is an energy policy and strategy, we are not seeing a tangible strategy here. What will happen to energy in the mid- to long-term?<br/>We are out of our comfort zone now with energy prices and what will happen in future?” (Manufacturing company)</i></p> <p><i>“There are enough resources, but policy-makers should pay attention to the energy dependency question.” (Service company)</i></p> <p><i>“Latvia should be completely independent from any other countries. They have so many resources and they need to use them fully. And I don’t see why Latvia can’t be a big exporter of energy.” (Finance and banking company)</i></p> <p><i>“A big factor for our business is the price of fuel. We are working with electric cars now to avoid this, but if the electricity price increases this will be a problem. There are a lot of external factors now that affect this. Bigger dependence now at EU level is going towards gas and green, but is this a good way forward? Perhaps the EU should re-evaluate.” (Service company)</i></p> <p><i>“Latvia is not an energy efficient producer.” (ICT company)</i></p> <p><i>“The Government should really pay attention to this more, it’s a very important aspect.” (Professional assurance and advisory services company)</i></p> <p><i>“We have higher numbers for renewable energy than our neighbours. The Government should do more to improve sustainable transport and alternative energy resources.” (Retail trade and service company)</i></p> <p><i>“We have a lot of things to work with. For example, the Inčukalns gas storage facility is very unique due to our geological structures. There is also potential for such a structure in Dobele.”</i><br/> <i>“The question is - are we using these storage facilities effectively? For example, the Government could look at a policy to fill these with gas in summer and use such reserves in winter period. In Inčukalns there is enough storage space for reserves that would last at least 2 years.</i><br/> <i>Also, the question about the Mandatory Purchase Component (OIK) – because of this we have one of the most expensive. We have very expensive energy production, and a lot of companies want to move to a different location for this reason.” (Real estate company)</i></p> |
| <p><b>Other (please specify)</b></p> | <p><b>Quality of legislation:</b> <i>“Better than in Lithuania or Estonia, or Poland. In Poland, the legislative system is very politicised.” (Retail trade and service company)</i></p> <p><b>Digital Technological Advancement:</b><br/> <i>“This is an important factor that is looked at by potential investors before coming to Latvia. This is also an area that needs to be improved and worked on consistently. If an investor knows there is</i></p>  |

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|  | <p><i>stable internet and digital infrastructure, it is a good sign.” (ICT company)</i></p> <p><b>Reputation of the financial sector:</b> <i>“From the outside, the financial sector is not looking good. Discussions about potential investments in Latvia often stop at an opinion about the reputation of the Latvian financial system. The overhaul was necessary, and it was good, however, in terms of state reputation it is still a problem.” (Professional assurance and advisory services company)</i></p> <p><b>Labour taxes:</b> <i>“Very unfavourable labour taxes in comparison to neighbouring countries.” (Manufacturing company)</i></p> |
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