



SSE RIGA

FICIL Sentiment Index 2015-2022

GOVERNANCE EDITION

Arnis Sauka



FOREIGN INVESTORS
COUNCIL IN LATVIA

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Acknowledgments

We are grateful to the FICIL Board for conducting the interviews. Many thanks to the members of FICIL – the investors – that actively participated in the interviews. Special thanks to Linda Helmane (Executive Director of FICIL) for organising the interviews.

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English language editor: Līvija Uškale

Foreword

After a very eventful 2022, we are now looking towards the future. We've seen crisis after crisis over the last few years, and with the Saeima elections behind us, it is important to now follow up with concrete actions to foster economic growth for Latvia.

The recently formed Government of Latvia has outlined economic transformation as one of its priorities. This undeniably includes positively developing the business environment in Latvia and attracting more foreign investors. This can be done through increased competitiveness, improving specific aspects of the investment climate that entrepreneurs have been pointing out for years now – such as the availability of a workforce, reduced bureaucracy, more stability and predictability regarding the legislation process, levels of the shadow economy and cooperation between the public and private sectors.

As an organisation FICIL focuses on several topics - achieving the EU Green Deal goals and energy independence; combatting the shadow economy, the availability and skills of the labour force; public sector efficiency and digital transformation. Over the last few years, FICIL members have increasingly raised issues relating to the efficiency of the public sector. When discussing recommendations for reducing the shadow economy levels or achieving set climate goals, business representatives encountered the same problem – a lack of cooperation or understanding from the public sector on how leaving these problems unresolved affects the economy of the country.

This is one of the reasons that this year's Sentiment Index research focuses on public sector reform and cooperation among businesses and state administration. Because of the complex issues to be solved in the upcoming years, there needs to be a deeper understanding among the public and private sectors. We cannot expect public sector representatives to be experts in everything, however, when creating a policy that will affect businesses in the long run, it is crucial to foster effective communication to avoid negatively affecting the development of the economy in the future. A lack of communication is not the only challenge - clearly, investors pay more attention to the actions of politicians and public sector officials, rather than their words.

We have heard a lot of discussion in the public sphere regarding the geopolitical situation. While we cannot change the location of Latvia, we can work more effectively to improve the overall investment climate of Latvia and work hand in hand to solve issues that have been apparent for years. What good are all the plans we as a country are writing, if the implementation is lacking or the plan itself doesn't contribute to the overall goal of enhancing economic growth? During these Sentiment Index interviews with investors, FICIL focused on how we can improve cooperation among many different stakeholders to achieve our common goals.

Zlata Elksniņa Zaščirinska
FICIL Chairperson of the Board

Executive Summary

The FICIL Sentiment Index was established in 2015 by the Foreign Investors' Council in Latvia (FICIL), in cooperation with the Stockholm School of Economics in Riga (SSE Riga). 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. This is the eighth consecutive FICIL Sentiment Index report, with the focus on the corporate governance.

FICIL Sentiment Index draws on a survey: mini case studies of foreign investors in Latvia. From January 2023 to mid-February 2023, we interviewed 55 senior executives representing companies that are key investors in Latvia. Altogether, these companies (including their subsidiaries) contribute to 21% of Latvia's total tax revenue, 12% of total profit and employ 18% of the total workforce of companies with an annual turnover above 145 000 EUR and 50% foreign capital (data from Lursoft, 2021). 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.

This report is structured in three parts. In all three parts, whenever possible, investors were asked to provide more detailed opinions and examples that are included in the report in the form of quotes.

The first part, 'Foreign investment climate in Latvia', provides an assessment of the positive and negative aspects of the investment climate in Latvia. In this part, the same questions appear that were included in most of the previous reports, thus presenting the most recent data from the 2022 survey, and also the dynamics since the launch of the FICIL Sentiment Index.

Namely, 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 2022 survey, as in previous survey rounds, were asked for their perspective on whether the investment attractiveness of Latvia has improved over the past 12 months. Our findings suggest that on average, on a 5-point scale, where '1' means that the investment attractiveness has not improved at all, the investment attractiveness of Latvia over the past 12 months was evaluated by foreign investors with '2.3'. This is a considerable decrease compared to the assessment of the foreign investors of the investment attractiveness of Latvia over the past 4 years, as evaluated in the 2021 study (2.9) or the 2020 study (2.7 out of 5). Approximately 18% of all investors that took part in the study answered this question with '1' more than 43% with '2', approximately 31% with '3' and only 7% with '4' (yes, investment attractiveness has improved). No investors answered '5' indicating significant improvements in the investment attractiveness.

We then asked foreign investors in Latvia to assess the work of the Latvian public sector officials: what has been done to improve the investment climate in Latvia during the previous 12 months? The 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 public sector officials to improve the investment climate over the past 12 months with 2.7 out of 5. Public officials received a higher evaluation from the investors in the 2021 study for the period of 4 years (2018-2021): 2.9 out of 5. Public officials' efforts to improve the investment climate in Latvia during the previous 12 months were also evaluated higher in the 2010 and 2019 study - with 3.1 out of 5.

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. The results of the 2022 FICIL Sentiment Index study suggest that foreign investors have seen the least progress within the following three areas: *demography* (with 43 out of 55 investors reporting that there is no progress), *access to labour* (34 out of 55 investors reporting that there is no progress), *uncertainty* (37 reporting no progress), as well as the *healthcare system in Latvia* (36 reporting no progress). 17 investors that took part in 2022 study, however, think that progress has been achieved with regards to the support from the government and communication with policy makers.

In a same way as in the previous survey rounds, 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 eight years (2015, 2016, 2017, 2018, 2019, 2020, 2021 and 2022 studies) foreign investors in Latvia mostly evaluated the potential drivers of the economy as above average. Furthermore, on a positive note, our results indicate that the 'standard of living' in Latvia, according to the viewpoint of foreign investors, has increased: 3.7 out of 5 in 2022 as compared to 3.5 in 2021. Foreign investors also remain relatively positive with regard to 'soft infrastructure' (business culture in Latvia: 3.5 in 2022 and 2021) as well as 'attitude towards foreign investors' (3.4 in 2022, but 3.6 in 2021). Also, the evaluation of the 'demand for products and services' and 'quality of business legislation' has remained at a similar level in 2022, as in 2021 (3.3 and 3.2, accordingly - both a 0.1 decrease as compared to 2021).

The investors' assessment of the quality of the 'health and social system' and 'quality of education and science' in 2022 (both 2.9 out of 5), as well as their assessment of the quality of 'hard infrastructure' (3.0) in 2022 has remained the same as in 2021. 'Efficiency of labour' has decreased

slightly in 2022 (3.1 out of 5 in 2022 as compared to 3.2 in 2021), yet we see a relatively high increase in assessment of the availability of labour: from 2.7 in 2021 to 3.0 in 2022. An increase of the availability of labour is driven both by the better evaluation of ‘availability of labour at management level’ (from 3.1 in 2021 to 3.4 in 2022) and ‘availability of hands’ (from 2.2 to 2.5, accordingly).

Evaluation of the indicator ‘investment incentives’ remained at the same level in 2022, as in 2021(2.8.). However, even though as many as 43 investors that took part in the 2022 study claim that at least some progress has been achieved in ‘demography’ over the past 12 months, demography has still received the lowest evaluation from all the competitiveness indicators: only 1.9 out of 5 in 2022 (1.8 in 2021).

As in the previous FICIL Sentiment Index studies, in the 2022 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, 43 of 55 investors answered with ‘yes’ (in the 2021 survey this figure was 35 from the 54 interviewed, in 2020 30 from 44), 9 said ‘no’ (as opposed to 11,12,12 and 14 who said ‘no’ in the 2021, 2020, 2019 and 2018 studies) and 3 answered that ‘it depends on the circumstances’ (compared to 8 in the 2021 study, 2 in 2020, 5 in 2019 and 5 in 2018) or that they have not yet decided.

The second part of the report is devoted to the focus topic of the 2022 FICIL Sentiment Index study: governance in the public sector. More specifically, we started the governance section by asking the foreign investors that took part in the 2022 study to evaluate the effectiveness of the public sector with regard to proactively dealing with the challenges Latvia is currently facing. The evaluation scale of 1 to 5 was used, where ‘1’ is not at all effective, ‘3’ is average and ‘5’ is very effective. On average, foreign investors evaluated the effectiveness of the public sector at proactively dealing with the challenges Latvia is currently facing with 2.4 out of 5, so relatively low. As many as 47% of investors that took part in the 2022 study provided a score of ‘2’, and none with ‘5’.

Next, in the 2022 study we asked foreign investors to evaluate their cooperation with the public sector, including communication, responsiveness, an understanding of the issues of concern to foreign investors. The scale from 1 to 5 was used, where ‘1’ is poor, ‘3’ is average, ‘5’ is excellent cooperation. On average, investors evaluated the cooperation with the public sector with 3.2, i.e., slightly above average. From all the respondents who participated in the 2022 study, almost 40%, however, evaluated their cooperation with the public sector with ‘4’ and only 5.4%, and 12.7% with ‘1’ and ‘2’, respectively.

Next, we asked investors to name up to 3 priorities that the next public sector reform should focus on. To summarise, according to the viewpoints of the foreign investors, improving the efficiency of the public sector stands out as the most important priority. Foreign investors also emphasised the need to concentrate on digitalisation; improvement of the education system, science and

innovation; energy and the green deal; quantity and quality of labour force, as well as improving the healthcare system. A number of other focus areas were also mentioned by the foreign investors, as summarised in quotes further in the report.

We conclude Section 2 of the report by summarising the findings with regard to the foreign investors' evaluation of the corporate governance efforts in state and municipality companies. Investors were asked to provide their assessment on the scale from 1 to 5, where '1' is poor; '2': fair; '3': good; '4': very good; '5': excellent). Our findings show that overall investors evaluated the corporate governance efforts in the state-owned enterprises, on average, with 2.9, i.e. almost good, with nearly 50% of respondents answering with '3'. Overall corporate governance efforts in the municipality owned enterprises, however, was evaluated on average with 2.6. Investors were also asked to name 3 potentially positive examples and 3 negative examples of corporate governance in state or municipality owned companies. Both positive and negative examples, as perceived by the foreign investors in Latvia, are summarised in the report in the form of quotes, providing some food for thought with regard to the areas of improvement, as well as highlighting some of the best practices.

Finally, *in the third part*, similarly to previous years, we asked foreign investors in Latvia to write a short message to the Prime Minister of Latvia: one paragraph on what should be done to improve the business climate in Latvia, from the viewpoint of a foreign investor. 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 2022 FICIL Sentiment Index study, also highlight the need to continue policy-makers' efforts to improve the investment climate in Latvia.

We hope that, similarly to the 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

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. This is the eighth consecutive FICIL Sentiment Index report, with the focus on the corporate governance.

FICIL Sentiment Index draws on a survey: mini case studies of foreign investors in Latvia. From January 2023 to mid-February 2023, we interviewed 55 senior executives representing companies that are key investors in Latvia. Altogether, these companies (including their subsidiaries) contribute to 21% of Latvia's total tax revenue, 12% of total profit and employ 18% of the total workforce of companies with an annual turnover above 145 000 EUR and 50% foreign capital (data from Lursoft, 2021). A short introduction to the companies that were involved in the study is presented in Appendix 1. 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 2 and consist of 3 main parts:

In the first part, which we label in the report as '*Foreign investment climate in Latvia*', we include the same questions as in most of the previous reports. This part of the report concentrates on providing an assessment of the foreign investors in Latvia with regard to the positive and negative aspects of the investment climate in Latvia in 2022, as well as the dynamics since the launch of the FICIL Sentiment Index. Namely, as is traditional, we started the FICIL 2022 Sentiment Index survey by asking the key foreign investors whether there has been any progress during the previous 12 months 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), availability of labour (management level), availability of labour ('hands'), efficiency of labour, low production costs, tax system, legal system, standard of living in Latvia, attitudes towards foreign investors, investment incentives, defence, and energy resources.

We continued with investors' assessment of the work of Latvian policy makers in improving the investment climate in Latvia during the previous 12 months and an assessment of whether, according to foreign investors, the investment attractiveness of Latvia has improved during the previous 12 months. As in previous years, we asked foreign investors whether, and under what conditions, they plan to increase their investments in Latvia.

The second part of the report, however, is devoted to the focus topic of the 2022 FICIL Sentiment Index study: governance in the public sector. More specifically, this year we asked investors to evaluate the effectiveness of the public sector with regard to proactively dealing with the challenges Latvia is currently facing, and to evaluate their cooperation with the public sector in the areas such as communication, responsiveness, understanding of issues of concern to the particular sector and similar. Furthermore, we asked investors to name up to 3 priorities the next public sector reform/modernisation should focus on – the problems to be addressed as well as potential solutions. We also asked foreign investors to evaluate corporate governance efforts in state and municipality companies, and to name 3 positive examples and 3 negative examples of corporate governance in state or municipality owned companies.

Finally, *in the third part*, 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.

SECTION 1: FOREIGN INVESTMENT CLIMATE IN LATVIA

2. The Attractiveness of the Investment Climate in Latvia

One of the key aims of the FICIL Sentiment Index is to measure the progress of the investment climate development in Latvia. To do so, investors in the 2022 survey were asked for their perspective on whether the investment attractiveness of Latvia has improved over the past 12 months. Investors could evaluate the improvement of the investment attractiveness of Latvia using a 5-point scale, where ‘1’ means that the investment attractiveness has not improved at all, ‘2’ means that there have only been minor improvements, ‘3’ means that there have been some positive improvements, ‘4’ means yes, investment attractiveness has improved and ‘5’ means yes, investment attractiveness has improved significantly.

Our findings suggest that on average, the investment attractiveness of Latvia over the past 12 months was evaluated by foreign investors with ‘2.3’. This is a considerable decrease compared to the assessment of the foreign investors with regard to the investment attractiveness of Latvia over the past 4 years, as evaluated in the 2021 study (2.9) or in the 2020 study (2.7) (Table 1). As exemplified by Figure 1, approximately 18% of all investors that took part in the study answered this question with ‘1’ (investment attractiveness has not improved at all), more than 43% with ‘2’, approximately 31% with ‘3’ and only 7% with ‘4’ (yes, investment attractiveness has improved). Not a single investor who took part in the 2022 FICIL Sentiment Index study, however, evaluated the improvement of investment attractiveness in Latvia with ‘5’, i.e., that investment attractiveness has improved significantly.

Table 1: Investment attractiveness of Latvia: development over the past 12 months: 2016-2022.

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

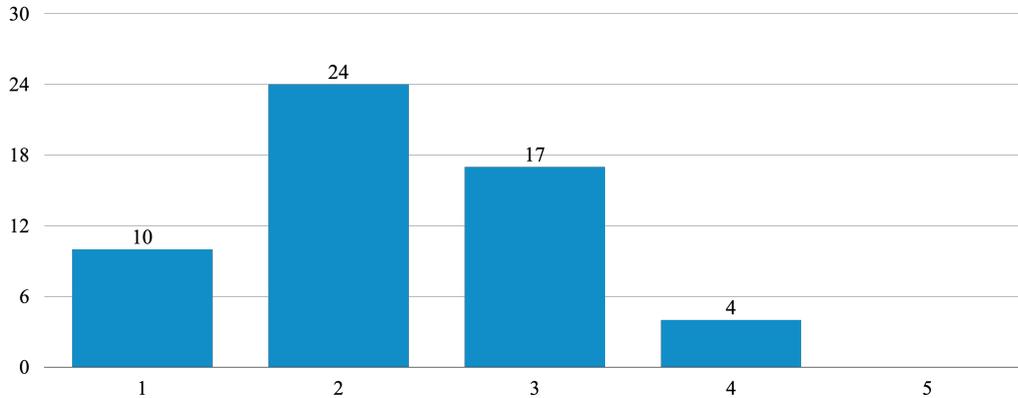
2016: n = 32; 2017: n = 42; 2018: n = 40; 2019: n = 47; 2020: n=44; previous 4 years (2018-2021): n=54; 2022: n=55.

year	rank
2022	2.3
2018-2021	2.9
2020	2.7
2019	2.6
2018	2.5
2017	2.5
2016	2.0

Source: FICIL Sentiment Index 2015- 2022

Figure 1: Has the investment attractiveness of Latvia improved during the past 12 months? Distribution of responses, 2022.

Scale 1-5 where '1': investment attractiveness has not improved at all; '5': investment attractiveness has improved significantly. n=55



Source: FICIL Sentiment Index 2015- 2022

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

“We are a market leader currently with all our investments, so this is now limiting us. The Baltic States are part of the geopolitical risk. If someone is deciding whether to invest in the Baltics or Poland - many would go for Poland - bigger markets, safer. Latvia could benefit a lot more if more workforce was available. Poland is attracting many producers. Latvia should use this motion and also jump on the train. Other countries have the infrastructure and labour force to increase investment, Latvia is not doing enough in this regard. Rail Baltica won't solve everything.”
(Finance and banking company)

“There have not been many improvements - labour is available but needs to be trained, high electricity prices, there are not many improvements in types of alternative energy, no improvements in the taxes situation.” (Manufacturing company)

“Gradual and slow changes.” (Manufacturing company)

“Russia's invasion of Ukraine and the geopolitical situation has not helped to increase Latvia's attractiveness and has played a large role.”
(Finance and banking company)

“Unfortunately, it must be said that the general impression of all this is bad. The country is going towards nationalisation in the energy sector. If you are a company working in the energy sector, it is very difficult.” (Retail trade and service company)

“A lot of investors are being put off from investing due to Latvia's poor education, courts' system, workforce availability. Niche investors will most likely continue to invest because they see benefits. Need to improve the qualification of the workforce (create a greater added value workforce), this is the only way because the workforce is not growing.” (Service company)

“We cannot see that the situation has changed even after the election. There is still a lot of uncertainty.” (ICT company)

“Lithuania seems to be great at getting people to move to Lithuania and use opportunities offered by the crisis. Latvia seems to be lagging, always looking for reasons not to do something. A proactive approach would be better appreciated.”
(ICT company)

“Obviously the events of February 24th 2022 affected the investment climate negatively. Geopolitical stability is an important aspect that investors look at when making decisions to invest. You can't choose your neighbours, Latvia is where it is, but at least the good thing is Latvia has finally realised we cannot build our economy based on cooperation with our eastern neighbours. Latvia has to find other ways to make money.” (ICT company)

“Nothing much has happened. The energy crisis showed risks that further reduced investor interest.” (Retail trade and service company)

“From our perspective and for our board there has been no increased appetite to invest in Latvia, it has been harder to motivate/justify investment in Latvia recently (at least in the short-term perspective).” (Real estate company)

“Attractiveness has suffered due to the war in Ukraine, we continue to suffer from an overhaul in the financial sector. There are some improvements, the business environment is getting better, telecommunications, IT are in fact very good.” (Professional assurance and advisory services company)

“A large project that we are planning has been put on hold. When discussing with developers we understand that many projects have been put on hold. This is to do with the ongoing Russian invasion of Ukraine and Latvia being in close proximity to both countries.” (Service company)

“The great uncertainty that limits the desire to invest, as well as the fact that we are in an area with security risks and do not really do anything to encourage investors that Latvia is safe.” (Wholesale and retail company)

“Sometimes the public sector likes to overcomplicate things.” (Service company)

“Competition has disappeared and there are transactions in which there is no other buyer, which for the investors already in Latvia is a positive thing.” (Real estate company)

“We can see how Latvia has very different results to Lithuania and Estonia. Significant difference in results, the changes coming from the public sector side to improve the climate are very minimal.” (Professional assurance and advisory services company)

“No improvements. I understand that the focus has been very different due to other factors.

Government focus has been different for the last year - the political aspect, military improvements due to Russia’s invasion of Ukraine, Covid-19’s after effects. However, if we look at energy prices in comparison to Estonia, they have handled it much better, which shows in better energy prices and is thus more competitive for investors there in comparison to Latvia.” (Retail trade and service company)

“One of the things in the hands of policy-makers is the regulations, Latvia is more overregulated. In our sector there is no equality between companies.” (ICT company)

“Incentives for large companies to build large wind farms. Deposit fee for energy reserves.” (Service company)

“Sometimes the public sector likes to overcomplicate things.” (Service company)

“In the eyes of the large investors, objectively due to the ongoing Russian invasion of Ukraine we have become less attractive. Traditionally, since the ABLV bank scandal, Latvia is considered the most strictly regulated country in the AML area. Not only in this context, but the public services are afraid to tell the investors anything, it’s easier to say no than to fight afterwards about who was right. In this, LT and EE are more open and lenient, this is not only about sanctions but in general.” (Finance and banking company)

“I don’t see any improvements at this point. What have we done as a country to be more attractive? Nothing.” (Professional assurance and advisory services company)

... however, we also received a number of positive or at least neutral opinions, as well as suggestions on how the investment attractiveness of Latvia could be improved:

“Many small steps that do make a difference, however we need to tackle big changes.” (Retail trade and service company)

“I cannot say it’s worse than it was. There have been some positive improvements. The stability in government would help.” (Manufacturing company)

“You need to decide if it is because of the state decisions or because of the business environment in the world? The state does play a small part in the whole issue.” (Manufacturing company)

“Some positive improvements. Important to increase competition and work towards implementing ESG and sustainability topics. Have to be faster and more concrete. I often hear from the public sector that we will wait to hear from the EU or European Commission before implementing new things but in reality we are already Europe

and should look to reform and modernise before the EU decides it's mandatory.” (Professional assurance and advisory services company)

“Due to all the external circumstances, the situation has not really improved, but the government is active enough.” (Service company)

“The new residential rental law helps to attract some new foreign investments.” (Real estate company)

“In general, new companies have increased which indicates some positive improvement. This somewhat limits our growth because there is limited workforce availability and competition for resources is growing. Latvia's Investment and Development Agency and Ministry of Economics are looking to get investment by attracting IT companies, which is easier for them as such companies do not require much initial large capital investment or requirements to set up (no factories etc.) and they generate high value added. However, they are not fixing the issues with workforce availability which limits their further growth.” (ICT company)

“This is tricky, because we should be fair with the geopolitical situation and the challenges posed. However, if we look globally with China, then Europe's investment attractiveness could be increased as it might attract some investment from Asia.” (Wholesale and retail company)

“Being in Latvia, you know that you are safe, but from the outside it might look different. The problem also was the election year - all of the focus was on getting re-elected. It seems like Lithuania and Estonia have stronger investment agencies, they are more proactive in helping investors, there is a bigger interest in solving problems.” (Manufacturing company)

3. Assessment of the Work of the Latvian Public Sector Officials: What Has Been Done to Improve the Investment Climate in Latvia During the Previous 12 Months?

We asked foreign investors in Latvia to assess the work of the Latvian public sector officials: what has been done to improve the investment climate in Latvia during the previous 12 months? The 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 public sector officials' to improve the investment climate over the past 12 months with 2.7 out of 5. Assessment of public sector officials' efforts to improve the investment climate over the past year in 2016-2022 is summarised in the Table 2 and ranges from 2.3 in 2016 to 3.1 in 2020. Distribution of the answers with regards to the 2022 study findings, i.e., evaluation of public sector officials' efforts to improve the investment climate over the past 12 months, is provided in Figure 2.

Table 2: Foreign investors' assessment of policy-makers' efforts to improve the investment climate over the past year: 2016- 2021 studies

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

2016: n = 30; 2017: n = 42; 2018: n = 40; 2019: n = 47; 2020: n=44; previous 4 years (2018-2021): n=54; 2022: n=55

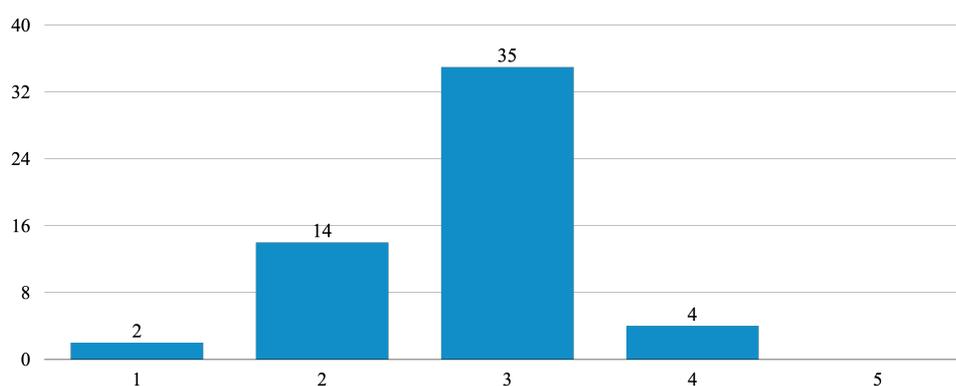
year	Rank
2022	2.7
2018-2021	2.9
2020	3.1
2019	3.1
2018	2.9
2017	2.9
2016	2.3

Source: FICIL Sentiment Index 2015- 2022

Figure 2: Foreign investors' assessment of public sector officials' to improve the investment climate over the past 12 months. Distribution of responses.

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

Previous 12 months: n=55



Source: FICIL Sentiment Index 2015-2022

Evaluations of the foreign investors that took part in the 2022 FICIL Sentiment Index study are reflected in the following quotes, some of which are positive or relatively positive:

“There are some positive improvements that allow us to expand the business, but it's getting worse to invest.” (Manufacturing company)

“I don't see a dramatic change, so I would say that it is kind of average.” (ICT company)
“When Mārtiņš Staķis entered Riga City Council, one could see a great effort to improve the situation - cooperation with LIAA. Negative example - VARAM's suspended urban development plan.” (Retail trade and service company)

“LIAA and Ministry of Economics are doing a lot, it would be good if others were involved in attracting investments as well.” (Wholesale and retail company)

“Some things have been done, if you are in the country you will notice things like the head of FIU not being in place, you will notice more details on why not to invest in the future. It seems like officials are doing everything they can to show that Latvia is a safe place for investment.” (Manufacturing company)

“In the context of the energy sector there was a lot of political support for state owned corporations to fulfil the market needs without the involvement of the private sector which, in my opinion, is not a positive sign. Also, the joint understanding about what foreign investors bring and contribute is very poor.” (Service company)

“The previous Kariņš government did good work, as a foreigner I saw it as pro-business. However, Latvia consists of two parts, a lot of the Latvian GDP is produced in Riga, Latvia is governed by the government and a large part of the economy is being governed by Riga municipality. Riga public sector officials could be doing more to promote a positive business environment.” (Finance and banking company)

“The civil servant quality of work is good, however, the excessive length of time that management positions are held by the same people is not wise. There should be some rotations.” (Professional assurance and advisory services company)

“In general, the movement has been positive, but nothing comes to mind when thinking back over the last 12 months.” (Finance and banking company)

“Something has been done about it. Last year is very specific because of the war and everything has changed a lot in the energy sector. It is difficult to say what the state could have done differently to make the situation better.” (Service company)

“There are some positive examples, the Economic Affairs Courts and Green Corridor initiatives. New initiatives are expected hence the average score.” (Real estate company)

“Something has been done, it cannot be said that there is no work being done. Our company has investments in different countries and we compare this with those, it seems it is now more attractive to invest in those.” (Service company)

“The Ministry of Economics is doing quite a good job, at least in my industry of the real estate sector. In the Ministry of Finance there are some problems because they are using the Excel thinking more and not going deeper.” (Real estate company)

“There is quite large visibility. Latvia’s Investment and Development Agency and Ministry of Economics are trying to do something and there is some progress.” (ICT company)

“There are certain institutions that are working to attract investors and create business contacts, such as the Investment and Development Agency of Latvia and the Ministry of Foreign Affairs. There are some good things however, there is space for improvement. There is a need to more actively search for investors, to visit them, invite them here and even to ask investors why they are not looking at Latvia as a place for investing. If this is already being done, then it is very quiet.” (Service company)

However, a number of negative comments were also received:

“Renewable energy projects and the development of wind parks - processes are very biocritical.” (Service company)

“A lot of what we see is just words and promises. When it comes to implementation, there are a lot of problems.” (Real estate company)

“I feel that right now it is a very problematic situation, both from municipality institutions and also with court efficiency issues.” (Real estate company)

“Absolutely not, related to the elections and also with the ongoing Russian invasion of Ukraine. Politician and government decisions were postponed because they could not take the decision to form a government quickly. War has objectively impacted the attractiveness. Good work done on ALTUM, it is very actively looking for aid mechanisms to attract local additional investment from local investors.” (Finance and banking company)

“It has been a fail because there are big problems with the practical part, as well as their attitude.” (Retail trade and service company)

“There aren't any large changes, municipalities interpret various questions differently which means there is a lot of uncertainty. The approach is very scattered and I can't see any changes. The process of bringing new investment into certain municipalities is always a surprise. Let's see how each different municipality representatives react to the same situations. Lithuania is a better example when dealing with municipalities - we would have to look into that. One municipality will give you building permits in several hours, one municipality will take years. Public sector officials could review this.” (Retail trade and service company)

“There have been no improvements.” (Manufacturing company)

“Little progress has been made in the investment climate, it has even become worse. The economy does not help, lack of labour, geopolitical situation also does not help.” (Retail trade and service company)

“There are still challenges in renewable energy and green topics. Also need improvements in the tax system and healthcare sector. Also, in education, it is still problematic to find certain specialists.” (Retail trade and service company)

“LAA is doing something, but not enough, it should be doing more. M. Staķis seems to be doing more than LAA, but it shouldn't be up to each region.” (ICT company)

“We were able to get funding from the government during the energy crisis, but overall there hasn't been much of a change.” (Manufacturing company)

“Hard to see significant changes from the government - would like to see more improvements.” (Manufacturing company)

“I don't see that the government would like new investments, it is not a priority. There is not really a budget either.” (Professional assurance and advisory services company)

“On one side there are EU programs, but on the other side, there is bureaucracy.” (Manufacturing company)

“In connection with the state protectionism case there was no great effort in coming forward. In our case there were certain institutions/people that wanted to help, but also a lot that did not.” (Service company)

“Nothing is done, but nothing bad is done either. Because of the Ukraine crisis, Baltic PR is bad and the government is not doing anything to improve it. The Baltic States are not looked at by the investors.” (Real estate company)

“Working only in the sense of slogans, if we look at what has been achieved.” (Service company)

“There is communication and processes are initiated, but sadly the result is not always there. Of course I understand that not everything can be achieved, but it feels like there is not enough.” (Service company)

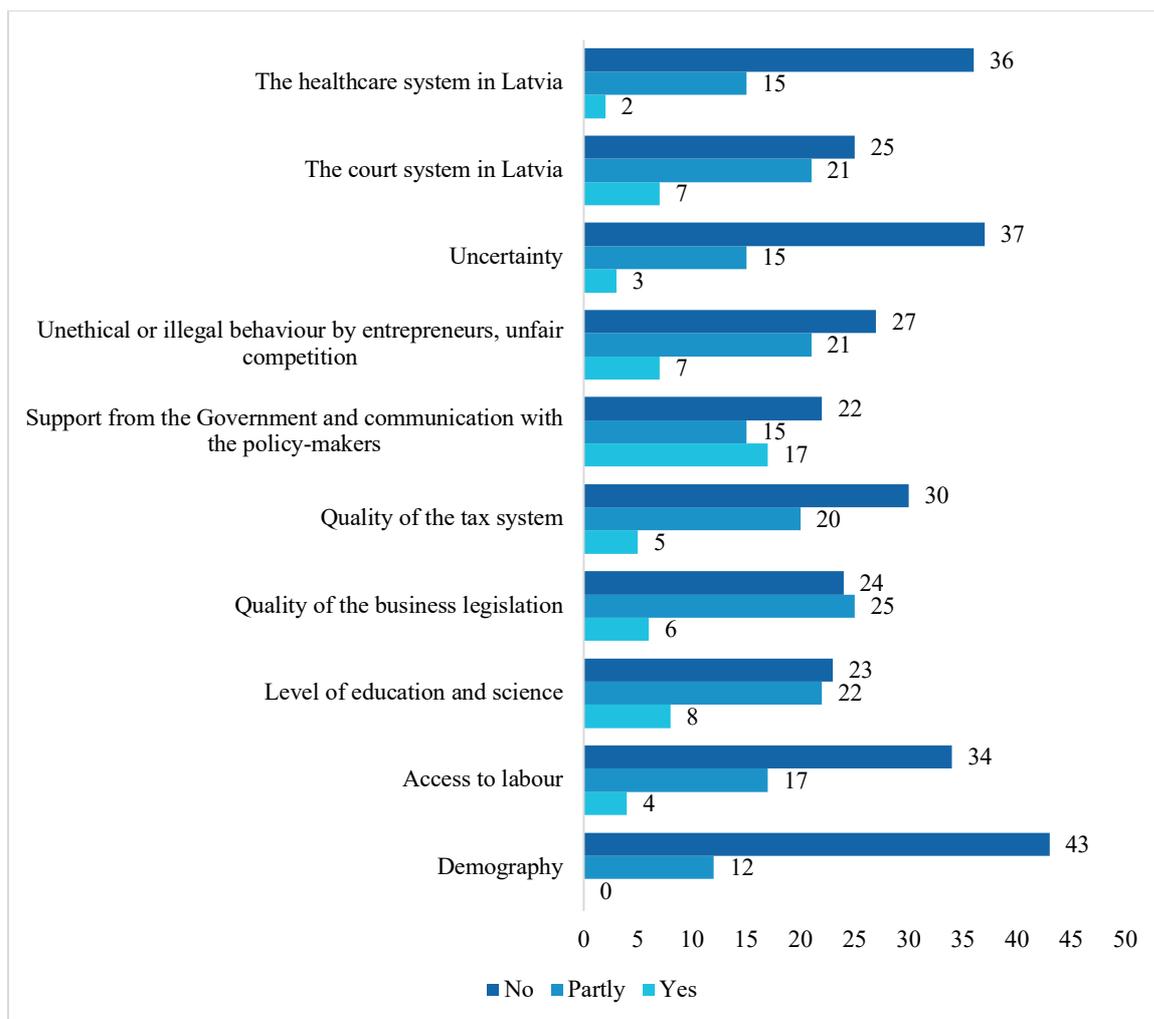
“The main thing is to keep holding on, however the late budget and election has disrupted the work. Parties are taking a long time to agree on creating a government which creates uncertainty, we have also heard this from clients as negative.” (Professional assurance and advisory services company)

4. Key Challenges Faced by Foreign Investors in Latvia During the Previous 12 Months: 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. The findings of the 2022 study are summarised in Figure 3.

Figure 3: Foreign investors' assessment of the progress over the past 12 months with regard to the key areas of concern as identified in the 2015 and 2016 studies: findings from 2022

Respondents were offered to evaluate each unit assessing whether there has been an improvement by answering: 'yes', 'partly', or 'no'. n=55.



Source: FICIL Sentiment Index 2022

The results of the 2022 FICIL Sentiment Index study reveal (see Figure 3) that foreign investors have seen the least progress within the following four areas: *demography* (with 43 out of 55 investors reporting that there is no progress), *access to labour* (34 out of 55 investors reporting that there is no progress), *uncertainty* (37 reporting no progress), as well as the *healthcare system in Latvia* (36 reporting no progress). 17 investors that took part in 2022 study, however, think that progress has been achieved with regards to the support from the government and communication with policy makers.

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

Demography

“Migration problem and still no smart immigration. Low birth-rates and qualified people leaving the country.” (Service company)

“Very complex issue to solve, a really bad situation and it constantly comes up for long-term investors, this might start to actually hold up investment at some stage.” (Real estate company)

“An issue we as a business feel the impact of. There was an influx of additional people due to the war in Ukraine, but this is not because of the government policy, whether these people will stay is unsure. Low levels of population growth significantly limit our potential for future growth.” (Retail trade and service)

“Demography should be the government’s absolute priority to save the current situation. Need to think about economic stimulus in this area and to give some economic motivation for people.” (Professional assurance and advisory services company)

“We are getting closer to catastrophic levels. In my opinion the situation in Estonia and Lithuania is better.” (Service company)

“A long-term topic for discussion but can’t see or feel any real steps that have been taken to deal with this issue.” (Service company)

“Number of new-born children is decreasing, also the migration rate is still negative. Would expect more support for new families or other kind of support, not just words.” (Wholesale and retail company)

“People making decisions do not see the situation in practical terms, for example, women being prevented from continuing to work while receiving childcare benefits.” (Finance and banking company)

“If we are talking about a state programme to improve demography then, recently, I have seen some positive experiences with childbirth, attracting the foreign branches of some companies. A negative example has been denying some of the Belarussian companies with their employees from coming here.” (Real estate company)

“Birth-rates are the lowest in the last 100 years, we do not see any signs of improvements here.” (Service company)

“One of the most important topics but it keeps being left behind.” (Manufacturing company)

“Population is continuing to reduce and a “Nation’s regrowth strategy for 2030 and 2050” was presented in November 2022. Although it finally provides a comprehensive overview of concrete actions to support families, young people and remigration, it is not binding to the government institutions, which endangers the strategy’s implementation. In addition, it does not address the area entirely, since slowing the outgoing migration and introducing managed immigration with a good integration policy and system are not addressed sufficiently.” (Professional assurance and advisory services company)

Access to Labour

“Need time to train employees, not easy to replace people.” (Service company)

“Access to labour depends on what exactly we need. At present, we can find employees, but it requires more resources and energy to find the personnel.” (Service company)

“Attracting workers from Asia has become more difficult, but it is positive that there at least some discussions on this now.” (Manufacturing company)

“From our perspective there is more availability this year than last, but it does not necessarily mean some policies have been taken by the government, it is just for our company.” (Service company)

“Have created enough legal professions but the question is if they are being trained for the job market. Currently, we see that they are very unprepared, young people entering the job market and should be better prepared for this.” (Professional assurance and advisory services company)

“Challenges to recruit skilled labour continue. Even young people coming from universities sometimes lack primary skills (like good IT user skills and work ethics, good writing skills)” (Professional assurance and advisory services company)

“Workforce and customers have been lost due to people moving outside of Latvia. Official figures tell a different story but if we look at the labour market and customer base, the feeling is people are leaving. There is a low unemployment rate in Riga, it is challenging to find new people to recruit, especially for lower-paid jobs.” (Retail Trade and Service Company)

“Much more immigration needed, certain improvements are a coincidence rather than policy.” (Manufacturing company)

“Labour force influx from Ukraine. Some are qualified workers in IT and other sectors who are orientating themselves to Latvia and some of them even staying. This is giving the right signal that the reluctance we had before about a foreign workforce is not justified.” (Professional assurance and advisory services company)

“In recent years, it has become more difficult to find labour. Companies must become creative to find workers. During Covid-19 some workers had requalified but also companies developed a lot during Covid-19. The workforce has become more challenging and there is competition among companies of who will be the most attractive.” (Service company)

“Again [since Covid-19], foreign students that are interested to work are becoming more prevalent.” (Financing and banking company)

“Would love to make improvements but unfortunately there is still a shortage of workforce in some sectors.” (Wholesale and retail company)

“Would like to see simplified legislation to attract workers from third countries, the government tried to change something, but the priority now is for the high-end and not just for low-qualified workers such as in the construction industry.” (Real estate company)

“Employees begin to appreciate the honesty of employers.” (Real estate company)

“We have seen some foreign workers attracted from third countries, but still the situation is not 100% resolved and we struggle to attract local workers.” (Real estate company)

“No immigration policy, right now we need to compete for a low-qualified workforce, but the state dreams about Latvians returning from abroad and a highly qualified foreign workforce coming without substantial premise.” (Finance and banking company)

“Changed with respect to consequences after Covid. Flexibility is a positive thing, working remotely is not so good, you lose the team connection and are not as innovative anymore. Availability is there, but at what price? The country is highly centralised in one city, and it has raised the total level of income. It is cheaper to produce in other countries. Although there are vast amounts of forest, the furniture made of it is produced in other countries. It’s too expensive, this is completely wrong, availability of labour at competitive prices, not competitive at all. Investors do not come here because of cheap labour.” (Finance and banking company)

“We have not found that it is easier to find labour, it is the opposite, it has become harder, even taking into account the influx of Ukrainian people, it is still overall looking bad for labour.” (ICT company)

“It is hard to find professionals, but it is possible to find practical workers.” (Manufacturing company)

“It can be seen that availability in some areas has improved.” (Service company)

“Depends on the economic cycle – if the job market is hot then there are more people. Last year – the beginning of the year was hot and the employment indicators were high but at the end of the year there was an economic slowdown, and the situation was influenced by some political decisions.” (Finance and banking company)

Level of Education and Science in Latvia

“Some improvements, education reform for higher education good.” (Retail trade and service company)

“Don’t see fundamental changes happening here.” (Retail trade and service company)

“More of a long-term outlook, no immediate changes visible, stable situation.” (ICT company)

“Universities in Latvia still not highly ranked. No radical changes in higher education. Creating too many marketing specialists and lawyers, over production, but not enough ICT specialists and engineers.” (Service company)

“Covid-19 effect made many students take an academic year, therefore, the average level has decreased.” (ICT company)

“Investment in education does not give dividends in 12 months, but rather in 10 years. Good academic education system, but what is missing is investment in excellence and innovation, also a lack of preparing new specialists entering the real job market.” (Professional assurance and advisory services company)

“A positive signal is a Memorandum signed between the Ministry of Economics, Riga Technical University and others to help improve the environment to increase chip production and R&D for microelectronics, at least some progress.” (Wholesale and retail company)

“The reform of the higher education system is ongoing however it will take political will to carry it out in a meaningful and impactful way. A lack of legal and economic assessment of each consolidation initiative may endanger a positive outcome at regional and national level. There is a lack of a clear roadmap for closing the gap between the market demand for specialists (STEM but also teachers, etc.) and the education programs and other activities provided.” (Professional assurance and advisory services company)

“Higher education councils are not really effective. The competency system may be good but there is a shortage of teachers and resources”. (Finance and banking company)

“Progress is happening, but it depends on what type. If we look at higher education, it is of a good standard in comparison to other countries, but if we look at the school level for children then of course there are gaps to improve.” (Service company)

“Quality is improving since face-to-face learning is becoming the norm again.” (Finance and banking company)

“Some actions taken, but another question is if there are results. The competency system is being implemented, however, but how well is it going? There is visible criticism. This raises questions if children are currently being prepared in the best way for their next stage of life. At the University of Latvia’s Faculty of Law each year, the final law exam results are very disheartening. The people who are teaching are also creating the exams, most likely some changes are necessary. Need to pay more attention to sciences, but funding for this is still lagging behind.” (Professional assurance and advisory services company)

“This issue is being talked about a bit and improvements are being made.” (Professional assurance and advisory services company)

“The Ministry works in one direction and educational institutions in another. Long-term strategy and goals for the future are needed.” (Retail trade and service company)

Quality of the Business Legislation

“Should push for more digitalisation.” (Service company)

“Some positive changes in Commercial Law, but no fundamental changes.” (Retail trade and service company)

“A lot of business legislation guidelines, especially from the EU. It is very helpful but on the other hand we see a lot of topics and interpretations missing. The law provides a framework but it’s just not enough to act accordingly. Very much relying on guidelines.” (Retail trade and service company)

“Overall, the basic laws regulating corporate matters are transparent and the administrative burden is constantly being reduced. Some improvements might be required further in the UBO reporting requirements in order to standardise the approach.” (Professional assurance and advisory services company)

“Need to stop the practice where regulations adopted have retrospective consequences. This should not be happening. If such regulations are adopted then there needs to be a clear transition period and companies should be compensated accordingly. The obligatory procurement component (OIK) issue, the unethical entrepreneurs must be punished, but you cannot punish them all just because of a few bad apples. Lobbying culture is becoming more transparent and the declaration of interests regulation has been adopted, first clearly declare the intent and then lobby. Need to improve the legal quality, a parliamentary culture change and speaking up is not enough, should consider structure changes in legislation processes.” (Professional assurance and advisory services company)

“E-address and identification cards, good initiatives but not well thought out. In practice, they create some challenges. What is put in regulations is separate from the practical side.” (Professional assurance and advisory services company)

“There is a feeling that the government wants to make something just for the sake of it, in time, legislations are created but are difficult to understand for businesses, it should be much easier.” (Service company)

“Last year, due to the election, the business legislation, the government’s work and tax system improvements had completely stopped, not in our sector per se but in general.” (Finance and banking company)

“The system of using secondary data should be used and improved.” (Wholesale and retail company)

“Could be better, right now we see that new norms are influenced or lobbied by specific companies/investors. The current level of professionalism to evaluate industry specific business legislation is low.” (Service Company)

“Some improvements in our industry, the government has approved new rules for the Rental law, which previously had 25-year-old rules, we have good communication through associations.” (Real estate company)

“The Economic Affairs Court is taking off and seems to be doing alright.” (Retail trade and service company)

“Some actions have been taken, but I don’t really feel like there have been substantial improvements. In our sector, over 10 years, things have been done to improve the ease and speed of processes (reduce bureaucracy) but the feeling is that this is still a big issue, we are really hoping for changes. Also hoping that at least discussions on the Civil Law changes might start.” (Real estate company)

“From our view point we have come to an agreement with the Public Utilities Commission that is beneficial for our industry, which is a positive sign.” (Service company)

Quality of the Tax System

“When reforming or creating the tax policy, should think about increasing innovation, demography, and sustainability – the three main things to foster and include in the government’s daily agenda.” (Professional assurance and advisory services company)

“The tax policy should be aligned with the Green Deal; this must be interrelated. This would motivate small and medium sized businesses to go in a “greener” direction.” (Service company)

“Need to improve the tax system dramatically, to reduce shadow economy levels, we suggest creating some kind of listing of companies based on how cooperative they are and giving them some tax relief. If I am paying taxes, it affects fair competition that some do not pay taxes or even operate using envelope wages. The grey economy is still an issue.” (Service company)

“The tax system has stayed very stable. Some support for the taxpayers is missing – lowering VAT rates, support for fuel expenses. Lacking some flexibility.” (Retail trade and service company)

“But there is no need to change anything.” (Manufacturing company)

“No significant changes which is a good sign and makes work easier or at least creates predictability.” (Professional assurance and advisory services company)

“We do not think the system is necessarily bad in Latvia, but do not see any improvements.” (Real estate company)

“Main good thing is that there were no big changes, the worse thing for the tax system is for it to change, but this last year was good as it remained the same.” (Wholesale and retail company)

“Overall tax burden is fair compared to other countries. However, the implementation and application could be better with prompt public interpretations and guidelines for all taxpayers to prevent the need to ask individually. This would remove the administrative burden from both taxpayers and tax authorities. Furthermore, businesses need predictability at least in the tax area, and major changes with short notice (less than 6 months) are disruptive to business, as they need time to adjust their IT systems and financial estimates accordingly and that takes time.” (Professional assurance and advisory services company)

“Positive step is the introduction of zero tax on reinvestments. But there is a struggle with tax, especially with VAT on property levels where you pay and then wait for the tax authority to return it, this is a different system in place to that in Estonia and Lithuania.” (Real estate company)

“Taxes should be balanced and not create too much burden for companies. Most businesses understand that they have to pay taxes, but it should not be such a cumbersome process.” (Service Company)

“Not as bad actually as sometimes the sentiment in the media or public suggests, there is also some willingness to improve it.” (Service Company)

“Still very high shadow economy levels, system currently not fair because a significant proportion do not pay taxes, it is not a problem for people to pay bigger taxes if they know everyone else is actually paying.” (Finance and banking company)

“Positive improvements, for example the amendments in the Corporate Income Tax Law that were accepted in 2021, inclusion of dubious debtors, extended deadline as well.” (ICT company)

“Competitiveness is good but due to the size and capacity of State Revenue Service, correct actions are not carried out.” (Professional assurance and advisory services company)

Support from the Government and Communication with the Policy-makers

“The retail industry is not on the radar of policy-makers, they think more about production companies. For instance, for solar panels there is no support from the government if you are a retail company.” (Retail trade and service company)

“There is dialogue.” (Finance and banking company)

“We saw support, good dialogue with ministries and access to them. We appreciate openness. Support on electricity prices is positive.” (Retail trade and service company)

“The government should not just communicate but over-communicate with the private sector.” (Professional assurance and advisory services company)

“Financial support was available to mitigate the impact of extraordinary external circumstances like covid/war.” (Manufacturing company)

“The government and ministries are interested in talking with us maybe because we are a large, global player, but do they then use this information further, mostly it feels like they don't.” (Service company)

“Riga city plans have stopped, which prevents investments and creates uncertainty, not a good situation.” (Real estate company)

“A year and a half ago there was big progress and a feeling that together we were going in the right direction, but last year it felt like everything was suddenly forgotten and we stopped going forward.” (Real estate company)

“Has worsened, not necessarily due to the government or state, but because of political parties not being able to come to an agreement about the new government and even when there is agreement, a lot of decisions are still being prolonged just because it seems like the new ministers are not yet in “circulation” or have all the information. In previous years I don't think there were such large vacuums in decision-making as there are now.” (Finance and banking company)

“No progress. Last year it was election year and everyone was busy with the election and creating a new government, therefore, we can hope for some progress now.” (Service Company)

“The government is relatively inclusive and we have a good dialogue with the government through associations” (Real estate company)

“The government is generally open for dialogue and hearing what needs to be improved. However, the capacity and willingness to push real changes to make a difference from the ministry officials is sometimes lacking (lack of political support, lack of experience, fear of mistakes). Also, mutual collaboration among the sectoral ministries and the ability to search for integrated solutions for complex policy planning issues remains a challenge for many public authorities.” (Professional assurance and advisory services company)

“We are able to talk to officials, but in terms of practical behaviour there is no positive change, all conversations are very formal.” (ICT company)

*“Digital communication is being developed.”
(Retail trade and service company)*

“Something happens only when we fight ourselves.” (Wholesale and retail company)

Unethical or Illegal Behaviour by Entrepreneurs, Unfair Competition

“Seen some progress on public tenders and what the Competition Council is doing, however, there are still issues on enforcing the law.” (Retail trade and service company)

“A good sign and one of the biggest things - uncovering the construction cartel, this might clean things up a bit. Shadow economy is still an issue, especially in the construction sector when it comes to players who are completing small projects.” (Real estate company)

“Tax avoidance is still an issue in the Latvian economy and puts a heavy burden on decent taxpayers. There is a risk of getting involved in tax avoidance schemes, burden of due diligence for partners.” (Manufacturing company)

“Have still seen cartels, shadow economy and people accepted into Councils that do not meet the good/right criteria.” (Service company)

“Due to AML and sanction enforcement, the economy is relatively clean. All businesses should not be viewed through the lenses of criminals - it is not mainstream behaviour for entrepreneurs to be acting illegally. Sometimes, the regulations are too stringent and even well-known global companies cannot open accounts in Latvia. The risk-based approach is starting to return. Our small economy cannot isolate itself completely. Further balancing and a risk-based approach should be developed based on quality and experience, not just on regulations as such.” (Professional assurance and advisory services company)

“Still concerned about this, shadow economy not reducing, but there are some initiatives to crack down on cartels, such examples are important signals for industries that show you can't get away with it.” (Real estate company)

*“There is the feeling that the Competition Council has started to investigate and take some action, in relation to recent cartel accusation etc. Also, for unfair competition the discussions are becoming more prevalent. There is no breakthrough in this area, but at least some visible communication.”
(Service company)*

*“Has improved a lot. One reason may be a change of mindset. Of course some bad examples are published, but generally there is improvement.”
(Service company)*

“Grey economy is still rising, so no real changes. The FIU has been without a head for months, this is really bad.” (Manufacturing company)

“The cartel scandals, good that there are now open investigations on different illegal situations, but the results will probably only come to fruition in a few years and I doubt there will be actual court ruled convictions.” (Finance and banking company)

“We are seeing unfair competition issues. If you do not raise your voice, then nothing changes. Cannot see development.” (Service company)

*“Over the last 12 months we have not seen any dramatic issues, but also cannot say that there have been any attempts to address issues in our sector.”
(Real estate company)*

*“For public procurement processes we still see unfair tenders, unfortunately no visible change.”
(ICT company)*

“Media draws attention to illegal activities of state institutions.” (Manufacturing company)

Uncertainty

*“In the energy sector, there are many events, and there is no progress in reducing uncertainty.”
(Service company)*

“The last few years have been clouded by uncertainty. Russia's invasion of Ukraine, energy crisis, Covid-19. Something new is always arising.” (Professional assurance and advisory services company)

“Last year was complicated – high inflation, EU Central Bank increasing interest rates, war in Ukraine. EU funds not started yet, still waiting to see how the situation will play out. Uncertainty is big in our sector.” (Real estate company)

“Increased over the last year.” (Service company)

"Last minute law changes is still a commonly accepted practice and even now the announced tax reform for 2024 is planned to be clear by October or November 2023, which is way too late, as companies start budgeting before that and need to have better clarity." (Professional assurance and advisory services company)

"This year has been no less uncertain, even more uncertainties than before." (Retail trade and service company)

"Lately there has been the feeling that uncertainty is increasing, we also see that there are interesting offers from the government to make changes in legislation that have not been raised before or discussed with the industry." (Real estate company)

*"The level of uncertainty is increasing."
(Manufacturing company)*

"Have adapted, the government has worked well to reduce uncertainty, but due to ongoing war in Ukraine will not reach very low uncertainty and high predictability." (Service company)

*"Uncertainty has increased a lot. Need to look at the influencing factors – interest rates, geopolitics, inflation etc. Volatility in the Baltics is much higher when times are harder compared to Scandinavia."
(Real estate company)*

"Uncertainty is certainty now. Nothing has really changed." (Finance and banking company)

"Uncertainty because of the ongoing Russian invasion of Ukraine." (Service company)

"The uncertainty is much higher." (Finance and banking company)

The Court System in Latvia

"Long court procedures. Similar in many countries. Feels like some laws are very outdated." (Retail Trade and Service Company)

"Court proceedings are being prolonged, postponed etc. Never-ending story, it is a game of chance and luck to experience fast court processes. Lack of transparency in decisions." (Service Company)

"Court duration and total length of time taken is still an issue." (Retail Trade and Service Company)

"Exasperating and long system, if it goes to court proceedings then the case can drag on for a very long time and never end." (Service Company)

"Everything is conditional, of course we always want it to be better. Progress has been made, for example with the Economic Affairs Court, but the e-Case is less of a good example. In the system we see new professions entering and also new judges." (Professional assurance and advisory services company)

*"The courts are still overloaded and inefficient. At least in tax cases and administrative court cases that could be reduced by increasing competency of the tax authority staff and tax authorities "not going to the end", even in clearly lost cases for the sake of avoiding corruption suspicions. The overall competency of the courts in complex transactions and corporate disputes needs to be further increased. The remote court hearings and processes have been developed and are currently used on a regular basis thus increasing the overall efficiency."
(Professional assurance and advisory services company)*

"The Economic Affairs Court is a good example that positively affects businesses." (Manufacturing company)

"Improvements are happening. Waiting time for courts has decreased with court reforms, judges have learned to conduct courts remotely. No corruption scandals related to courts have been heard either." (Finance and banking company)

"Issues with long processing, but the Economic Affairs Court has been a good step in the right direction and is working well." (Wholesale and retail company)

"Still persisting issue with courts about withholding guarantees paid by constructors for developers, these are serious issues that need to be resolved." (Real estate company)

“In practice we do not see any improvements, the process is very long for no obvious reason.” (Service Company)

“The Economic Affairs Court is a good example and has shown itself to be positive.” (Real estate company)

“On the Economic Affairs Court, we have heard good things about this. Some improvements.” (Finance and banking company)

“The Economic Affairs Court is a good example. The general opinion is that businesses rate the professionalism and approach to court processes highly. What the court system often forgets is that the end client or user is a regular person whose problem should be resolved, but the system should not be based on automatic court system appeasements.” (Professional assurance and advisory services company)

“Have not seen any changes but have heard people talking positively.” (Retail trade and service company)

The Healthcare System in Latvia

“No real improvements, still a lot of things that are not good in comparison to other countries and in turn people suffer if there are no health insurances or other private guarantees.” (Service company)

“Covid-19 is now over and there are natural improvements because of this, there is space to breathe. Still investing too much in culture and not enough in healthcare and education.” (Finance and banking company)

“No substantial change during the last year.” (Service company)

“Has become even worse.” (ICT company)

“No improvement, becoming worse, as we have seen in the latest activities in oncology, potential for a strike is brewing.” (Service company)

“Lack of international hospitals in Latvia, why don't the big, global hospital groups enter Latvia's market? Legislation prevents this from happening – it's even difficult to open an international clinic.” (Service company)

“Sadly no positive or big changes.” (Manufacturing company)

“There are no signs in improving timely availability of healthcare and prevention. Compared to Estonia and Lithuania we seem to have staff being on longer sick leave for which employers have to pay, thus having low motivation for the state to improve the timing of delivering medical services, as the state has to start paying support only after more than a week has passed.” (Professional assurance and advisory services company)

“Nothing has been done with regard to the sick leave problem.” (Manufacturing company)

“All scandals are good because they highlight issues in the system. It feels like the money is put into a well that just sucks all the investment in.” (Professional assurance and advisory services company)

“There are initiatives that have finally reached political decisions. Digi-health – starting to realise its importance, desire to solve issues. There are no noticeable improvements in health care financing.” (Wholesale and retail 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

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, 53 investors participated in the 2021 study and 55 investors took part in the recent, 2022 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. 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 eight years (2015, 2016, 2017, 2018, 2019, 2020, 2021 and 2022 studies) foreign investors in Latvia mostly evaluated the potential drivers of the economy as above

average. Furthermore, on a positive note, our results indicate that the ‘standard of living’ in Latvia, according to the viewpoint of foreign investors, has increased (3.7 out of 5 in 2022 as compared to 3.5 in 2021). Foreign investors also remain relatively positive with regard to ‘soft infrastructure’ (business culture in Latvia: 3.5 in 2022 and 2021) as well as ‘attitude towards foreign investors’ (3.4 in 2022, but 3.6 in 2021). Also, the evaluation of the ‘demand for products and services’ and ‘quality of business legislation’ has remained at a similar level in 2022, as in 2021 (3.3 and 3.2, accordingly - both a 0.1 decrease as compared to 2021).

The investors’ assessment of the quality of the ‘health and social system’ and ‘quality of education and science’ (both 2.9 out of 5) as well as assessment of the quality of ‘hard infrastructure’ (3.0) in 2022 has remained the same as in 2021. ‘Efficiency of labour’ evaluation, however, has slightly decreased – from 3.2 in 2021 to 3.1 in 2022, whereas the indicator ‘availability of labour’ has increased relatively: from 2.7 in 2021 to 3.0 in 2022. Increase within the availability of labour is driven both by the better evaluation of ‘availability of labour at management level’ (from 3.1 in 2021 to 3.4 in 2022) and ‘availability of hands’ (from 2.2 to 2.5, accordingly).

Evaluation of the indicator ‘investment incentives’ has remained at the same level in 2022, as in 2021 (2.8). However, even though as many as 43 investors that took part in the 2022 study claim that at least some progress has been achieved in ‘demography’ over the past 12 months (see Figure 3), demography has still received the lowest evaluation from all the competitiveness indicators: only 1.9 out of 5 in 2022 (1.8 in 2021).

Table 3: Components of the FICIL Sentiment Index 2015- 2022.

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; 2021: n= 53; 2022: n=55

	2015	2016	2017	2018	2019	2020	2021	2022
Soft infrastructure (business culture in Latvia)	3,4	3,4	3,4	3,5	3,4	3,5	3,5	3,5
Efficiency of labour	3,2	3,2	3,1	2,9	3,4	3,1	3,2	3,1
Attitude towards foreign investors	3,2	3,2	3,1	3,6	3,7	3,7	3,6	3,4
Investment incentives	2,8	2,8	2,8	2,8	3,1	2,8	2,8	2,8
Quality of business legislation	3,2	3,1	3,2	3,2	3,1	3,3	3,3	3,2
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	3,2
legal system	2,6	2,6	2,8	2,9	2,8	3,0	3,2	3,2
Hard infrastructure	3,2	3,3	3,4	3,2	3,3	3,4	3,0	3,0
defence	3,4	3,6	3,6	3,6	3,8	3,9	3,7	3,6
low production costs	3,3	3,2	3,2	2,9	2,9	2,7	2,7	2,5
infrastructure (roads, electricity, etc.)	3,1	3,1	3,3	3,2	3,5	3,3	3,1	3,0

energy resources	2,8	3,3	3,4	3,0	3,0	3,5	2,6	2,8
Demand for products and services	3,1	3,1	3,4	3,4	3,2	3,4	3,4	3,3
domestic demand	2,8	2,6	2,9	2,8	2,8	2,9	2,8	3,0
external demand (exports)	3,3	3,3	3,7	3,8	3,5	3,5	3,7	3,6
industry traditions	3,4	3,5	3,5	3,6	3,4	3,7	3,7	-
Availability of labour	3,0	3,1	2,7	2,7	2,8	3,1	2,7	3,0
availability of labour at management level	3,4	3,5	2,9	3,0	3,1	3,5	3,1	3,4
availability of 'hands'	2,7	2,8	2,5	2,3	2,4	2,7	2,2	2,5
Quality of education and science	2,8	2,6	3,1	3,0	2,7	3,0	2,9	2,9
Quality of health and social security	2,6	2,5	2,5	2,9	2,9	3,0	2,9	2,9
health system	2,5	2,4	2,4	2,7	2,6	3,0	2,7	2,7
social security	2,8	2,5	2,6	3,0	3,2	3,0	3,1	3,1
Demography (population growth)	2,0	1,8	1,6	1,7	1,5	2,0	1,8	1,9
Standard of living in Latvia	3,4	3,9	3,7	3,9	3,8	3,8	3,5	3,7

Source: FICIL Sentiment Index 2015-2022

We also received number of further comments with regards to the drivers of economic competitiveness of Latvia that are summarised below:

Business Culture

"A business culture has been established, it is not the 90s anymore and no exchange of briefcases, nevertheless, it is still growing and is not at Scandinavian level." (Service company)

"Tax avoidance is still an issue, can't trust partners on this". (Manufacturing company)

"Those that want to work are able to at a good level. It is easy to work with Latvian-based companies." (Professional assurance and advisory services company)

"In comparison to the other Baltic States, investors are saying that you can rely on entrepreneurs here, court systems are working, business legislation is understandable, yes, it is strict but the rules are comprehensible." (Finance and banking company)

"Pretty high level in Latvia." (Service company)

"There are both positives and negatives, it is a normal place to do business. Reasonably good business culture." (Real estate company)

Demography

"Not competitive in this aspect." (Finance and banking company)

"Currently very weak." (Service company)

"Not positive and overall, no improvements." (ICT company)

“One of the biggest concerns we have as a company for doing business for the long-term. Complex issue but needs to be continuously addressed.” (Real estate company)

Education and Science/Innovation

“In the finance sector and from our perspective, our state education level is very high in comparison to the other Baltic States, mostly thanks to SSE, Riga Business School and University of Latvia Engineering Sciences.” (Finance and banking company)

“The qualifications and professionalism of persons that we see in our industry is high.” (Service company)

“Going in the right direction.” (Real estate company)

“Higher education is more competitive than in the other Baltic States.” (Manufacturing company)

“We are lacking focus here, for the size of Latvia we want to be good in too many fields.” (Manufacturing company)

“The management level education is high but that of the “practical hands” is quite poor. With regard to science we are very low in comparison to the other Baltic States.” (Manufacturing company)

“Average, which is not a bad indicator, in terms of competitiveness more could be done to raise education to a higher level. If we compare the Baltic States, then education-wise, not sure what Latvia is focusing on. Lithuania is focused on laser science, physics topics are explored more, the private sector is investing in education and science to build high tech products. Latvia is not a big country and needs to understand where there is opportunity to create high quality products and focus. Decide what kind of businesses they want to attract.” (ICT company)

Health System

“The system is okay, but the question is not really about the system but more about the resources and capacity.” (Real estate company)

“Only going downhill.” (Service company)

“The customer service system for doctors is poor, but the quality of doctors is high. No work is done to prevent the health issues from arising in the first place. Estonians are going one step further in this. Maybe a different tier system of health insurance could be created, meaning that higher tier health insurance could receive better customer service.” (Service company)

“In comparison to the other Baltic States we are the most behind. Estonia’s state healthcare provides more widespread and competent services, while Lithuania has a stronger hospital network and attracts investment in these hospitals.” (Finance and banking company)

Social Security

“The same for all the Baltic States. Latvia’s may be more conservative, but it is not bad necessarily.” (Finance and banking company)

“Really not enough.” (Service company)

“The social security system itself is set up well for the country, but it is more of a capacity and amount issue.” (Real estate company)

“Employment benefits might even be too generous and reduce labour productivity.” (ICT company)

“In some areas the money is misused. Would be better if it was directed to other areas.” (Manufacturing company)

Infrastructure

“Not as catastrophic if we compare to other large countries. The problem starts when entering Riga. Of course, I would like to see a 4-lane highway from Riga to Tallinn.” (Service company)

“The Baltics are centuries ahead of Germany regarding IT. I have not heard any complaints from other foreign investors.” (Retail trade and service company)

“Dual situation, in the last years there have been improvements for roads, however, if we look at the energy infrastructure – LNG, reserves etc. there have been problems with making fast agreements and decisions, a lack of adaptability.” (Professional assurance and advisory services company)

“Definitely not perfect but also not bad.” (Wholesale and retail company)

“Improving in the last years, moving in the right direction.” (ICT company)

“If we look at large project developments – Ķekavas and Iecavas bypass road, Rail Baltica, then we are at least making large projects. Need to distinguish between municipality and state infrastructures. If we look at the state infrastructure then there is progress, but if we take municipalities then there is very poor infrastructure development.” (Finance and banking company)

Domestic Demand

“Has decreased recently but there are objective reasons for this.” (Finance and banking company)

“Average and that has to do with the economic situation, the problem here is the high inequality levels that hold back domestic demand, not everyone has the capacity to consume, this holds back economic potential.” (Real estate company)

“Compared to Lithuania the whole market is smaller, however, the demand is there at least in our sectors.” (Wholesale and retail company)

“Neighbours have better tax policies, especially in Poland where VAT and other taxes are lower.” (Real estate company)

External Demand

“Latvia has good potential for exports.” (Real estate company)

“Export is quite weak.” (Retail trade and service company)

“We see some challenges, but in many areas the indicators are very good.” (Wholesale and retail company)

“Has increased because deliveries from Russia and China have decreased. We have become competitive because of distance, much shorter than, for example, China. All export orientated companies have increased their exports, but it applies only for those that realise short-term projects and not long-term projects.” (Finance and banking company)

Availability of Labour (Management)

“Salaries have become competitive with EU salary, also easier now to attract management level foreign workforce, but still lacking specialists at least in our field.” (Finance and banking company)

“Not many cases to judge from but when we needed them, we had very good candidates.” (Wholesale and retail company)

“Latvia has some educated people at this level.” (Service company)

“Right now, good, but if this is not improved and worked on then it might become a problem and more complicated to get competent management, it is not getting easier.” (ICT company)

Availability of Labour (Hands)

- “The number of practical hands are decreasing, meaning that businesses must become more innovative in how to attract and keep their workforce. Need to think about process automation. There is room for improvement in public sector institutions where each task has a separate vacancy. It would be more effective to reduce specific functions and give them to the private sector.” (Service company)*
- “Practical hands are needed for such a long time, there is an influx of Ukrainian people that can work, but what will be the long-term added value of this?” (Professional assurance and advisory services company)*
- “A big issue, we do not see any progress from the state side, so we are looking to get involved directly as the private sector to educate and improve availability of a workforce for our specific industry.” (Service Company)*
- “Positive due to the slightly simplified regulation to attract workers from third countries, during Covid-19 it was very difficult.” (Real estate company)*
- “Huge problems with lack of IT specialists, but there is more availability of manual workers. However, it is harder to keep them, have to invest to make ourselves an attractive place to stay.” (Finance and banking company)*
- “Terrible shortage of workers right now.” (Service company)*
- “More difficult to get than management level.” (Wholesale and retail company)*
- “Our investments are slowed because we cannot find workers.” (ICT company)*
- “We can get people but it is still very difficult and problematic.” (Real estate company)*
- “Find it hard to get people in all business aspects.” (Real estate company)*
- “Last year no improvements and it is becoming more difficult.” (ICT company)*

Efficiency of Labour

- “Statistically Latvia is one of the worst rated for productivity.” (Service company)*
- “A lot of work still needed to increase productivity.” (Real estate company)*
- “Efficiency is more of a company responsibility than the employee.” (Manufacturing company)*

Low production costs

- “Last year was not great because of the high energy prices.” (Finance and banking company)*
- “In comparison to Norway or Sweden yes, it would probably cost cheaper, but then if we compare to Poland there might not be such a difference.” (Service company)*
- “We are not a low-cost location; we are less competitive for labour force taxation in comparison to Lithuania and Estonia. If you wanted to pay a higher net amount to people, then Latvia would have the highest cost, for Estonia there was not such a big difference, but with Lithuania it was notable.” (Wholesale and retail company)*
- “High energy prices, especially gas and electricity in comparison to Finland where the energy prices are 3 to 5 times lower.” (Real estate company)*
- “Last year there were higher production costs.” (Service company)*
- “Terrible, the construction cost index, the prices are increasing, need to re-evaluate and optimise processes.” (Real estate company)*
- “Energy prices are increasing, inflation does not translate into low production costs anymore.” (Service Company)*
- “Not anymore due to rising costs.” (Finance and banking company)*
- “Need to identify the focus areas, develop these for economies of scale, then reduce our production costs.” (ICT company)*

*“In Latvia, where it was once most profitable to produce, more recently, during the electricity crisis, it was the most unprofitable.”
(Manufacturing company)*

“The electricity prices are higher.” (Finance and banking company)

“Latvia should not be a low production cost country.” (Manufacturing company)

Tax System

“The tax system is not bad, appropriate to the region and current situation. The social burden for employers may be too high.” (Service company)

*“We feel confident it is a relatively good system.”
(ICT company)*

“One question is how to make workforce taxes more effective. Make it effective in comparison to Lithuania and Estonia, at least in the Baltic sense. The difference of a few percent could be significant.” (Retail trade and service company)

“The system is good, but the implementation is bad.” (Professional assurance and advisory company)

“The policy is that a company needs to declare solar panels to the tax authority to pay taxes on the energy they are producing. On one hand it makes sense if it was just one small entity, but for big companies that have many operations at different locations, it works very differently. It’s a matter of updating the law – the tax laws here were made to tax the real energy producers and not companies that produce energy for their self-use.” (Retail trade and service company)

“Employment taxes are too high if compared to the other Baltic States.” (Manufacturing company)

Legal System

“AML laws are understandable, but for certain international companies it can become very cumbersome.” (Retail trade and service company)

*“Courts are just repeating what institutions are saying, instead of digging deeper and looking less biased, there are still some exclusions of EU directives that are not implemented and different interoperations of these in Latvia.”
(ICT company)*

Standard of Living in Latvia

“Must take into account the inequality levels, which are still very high.” (Retail trade and service company)

*“Estonia has high property prices, but Lithuania has a higher standard of living. In Latvia, we have lower standards than Lithuania but possibly reach the same living standard level of Estonia.”
(Finance and banking company)*

“Digitalisation is more mature in Lithuania and Estonia - this might foster better economic growth.” (ICT company)

“Great place to live if you can take advantage of all the opportunities it offers, if you do not have that much income it might not be the best.” (Real estate company)

“Two extremes – in companies where taxes are paid, everything is very good (4) but pensioners have big problems today – prices for everything are very high.” (Manufacturing company)

Attitudes Towards Foreign Investors

“Poor on a daily/practical level, better at public level.” (Manufacturing company)

“It is not the case that we wait for every foreign investor with wide open arms.” (Service company)

“Attitude and perception from foreign investors has decreased for all the Baltic States because of the geopolitical situation.” (Finance and banking company)

“The public is very supportive of foreign investors and investment but the attitude is “as long as it is not in my back yard” - supportive as long as it does not affect me directly.” (Wholesale and retail company)

“The new government starting to discuss such issues is a good sign. The previous government was too busy with Covid-19.” (Real estate company)

“A generally poor understanding of what the benefits of foreign investment are, often they see a foreign investor and automatically assume it's not a good thing.” (Service company)

“Attitude from state and municipality institutions is not good, not to mention from the ministries.” (Real estate company)

Investment Incentives

“Need to differentiate between large and small businesses. If we are talking about large businesses, then they are smart themselves and can continue growing. However, for SMEs there are multiple programmes that can be used.” (Professional assurance and advisory services company)

“A lack of resources to make the investment incentives efficient.” (Real estate company)

“Behind Lithuania, one indicator is the shared service centres.” (Finance and banking company)

“Have not seen many investment incentives.” (ICT company)

“We do not see many incentives, maybe there are some but they are not as visible. Need to market these better, for example, how to attract investors and what our strengths are.” (Retail trade and service company)

“In other countries if you have several million investments, there are bonus modules.” (ICT company)

Defence

“The National Guard has developed substantially, and we have a base for NATO soldiers here.” (Finance and banking company)

“Internal defence forces should be strengthened, but overall defence is very good.” (Wholesale and retail company)

“GDP allocation to defence is increasing, even more than 2%.” (Real estate company)

“Recent experiences and ongoing work show it is going well.” (Service Company)

“Focus on asymmetric war and city warfare.” (Service company)

Energy Resources

“Still a lot of work to do. Right now, it is good that at least we all have enough and there are no shortages.” (Retail trade and service company)

“Energy resources could be used better - a hindering factor is the slow thinking and decision-making. A vision of the bigger picture and strategic outlook is lacking. For example, the discussion about rising prices of tariffs, it is good to talk about this, but the state should have thought more about what the state-owned companies are coming out with or proposing.” (Professional assurance and advisory services company)

“Estonia and Lithuania have done more in the last year for solar panels. ‘Latvenergo’ has green energy which Estonia and Lithuania doesn't have.

For renewable energy, the compulsory procurement component (OIK) scandal remains a shadow, but if we compare stations, we have more than Lithuania or Estonia - in the long-term we will reach the level of our neighbours and be relatively competitive.” (Finance and banking company)

“Could be better, government subsidies are managed relatively well.” (ICT company)

“We have expensive energy resources and if I wanted to choose what kind of energy resources

and connection to have, I would be limited, there is a shortage.” (Service company)

“On the positive side – support from the government and some fast decisions, such as joint company Latvian State Forest with “Latvenergo”; but on the other hand, the decisions on the LNG terminal are slow.” (Wholesale and retail company)

“At the moment the direction is good and is normalising, the price for gas is alright at the moment, in comparison to last summer, the same goes for electricity prices.” (Real estate company)

“Huge risks, prices have substantially increased.” (Service company)

“Have access to energy resources, the situation is not substantially worse than our neighbours. From an availability side we have pretty good availability.” (Service company)

“Not enough energy resources ourselves, when we try to do something as the private sector, then problems start, there are a lot of obstacles for developing renewable energy for self-use.” (Service Company)

“This year highlights how vulnerable we are to external energy shocks, it is a big area to look for improvements.” (Retail trade and service company)

“Have huge gas storage, should build the LNG as soon as possible and better than Lithuania and Estonia.” (Service company)

“The biggest debate in 2022 was about energy. Before the 2022 crisis no one saw how big an impact it has. Trying to find some alternative energy resources.” (ICT company)

“We don’t have too many and we don’t have a real plan to improve. Estonia is doing a lot more on storage issues etc. You can have stocks even if you don’t have resources.” (Manufacturing company)

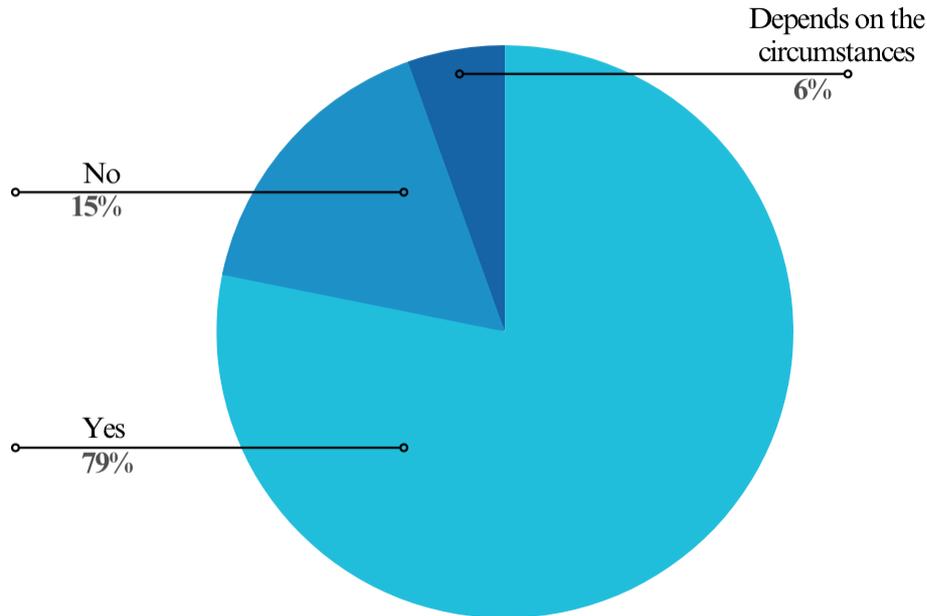
“Latvia could be the green powerhouse of energy, Latvia could be doing more.” (Finance and banking company)

6. Further Investment Plans of Foreign Investors in Latvia

As in the previous FICIL Sentiment Index studies, in the 2022 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, 43 of 55 investors answered with ‘yes’ (in the 2021 survey this figure was 35 from the 54 interviewed; in 2020 - 30 from the 44 interviewed; in 2019, 30 from the 47 interviewed; in the 2018 study - 22 of the 40 said ‘yes’), 9 said ‘no’ (as opposed to 11, 12, 12, and 14 who said ‘no’ in the 2021, 2020, 2019 and 2018 studies respectively) and 3 answered that ‘it depends on the circumstances’ (8 in the 2021 study, 2 in 2020, 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 2022
n=55.



Source: FICIL Sentiment Index 2022

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

*“We invest in Latvia continuously - developing new technologies. We plan to build a new factory and in the next year to buy a competing company.”
(Manufacturing company)*

“We have started a new project which is going to be approximately 25 million - compared to the last couple of years this is an increase.” (Real estate company)

*“Yes, we will continue. 5 million this year and then 20 million until 2025. By 2030, we plan to invest around 200 million but only if the country has a clear plan for carbon neutrality. We could also make this investment in Lithuania, so we will be evaluating if it will be Latvia or Lithuania.”
(Manufacturing company)*

*“Yes, we are planning to invest and we are doing it now, about 3 million euros in 2023.”
(Manufacturing company)*

“We are increasing our capital, we have invested more than 25 million euros over the last year, this is driven by economic development and we will continue investing.” (Finance and banking company)

“We are modernising and developing our business in Latvia constantly. We just carried out a 70 million investment and we plan to continue. However, the schemes of different municipalities are a negative aspect. We have cancelled investments in specific municipalities based on corruption and cooperation.” (Retail trade and service company)

“In the next two years we are planning to invest more than 20 million euros.” (Service company)

“We are still investing and continuing our investment. We have previously invested more than 20 million and will continue.” (Service company)

“In principle yes, we are looking to pivot in other areas. Year on year the investment has been steady despite Covid-19 or other crisis situations.” (Retail trade and service company)

“We are planning to open up more locations, the amount of investment will depend on the geopolitical situation.” (Retail trade and service company)

“Planning to continue on the same level as last year. We believe in the market and look for ways to improve constantly.” (Retail trade and service company)

“The business model is established as it is, so there is no need to invest more or change it.” (Retail trade and service company)

“The amount will not substantially change in comparison to previous years. We will continue on the same course with our plans. Planning around 2-3 million euros investment per year, mostly in infrastructure and security. We will continue on about the same level.” (Retail trade and service company)

“If we have to give a figure, then in the next 5 years the planned investment is around 100 million euros.” (Real estate company)

“Every year we invest around 2 million in Latvia, but this year we are planning to invest 30% more. It's not because of Latvia's attractiveness, it's because of the energy resources.” (Manufacturing company)

“Yes we do, it's very related to the specific cases we find in Latvia, if there is a business case we would consider investing in it.” (Real estate company)

“We invest each year, around 1 million. We are also planning structural changes within the group, looking at digital transformation.” (ICT company)

“We plan to increase investments in IT. Renewal of digitalisation.” (Retail trade and service company)

“Yes we will increase, projects are planned. This year it will be a lower amount – from a few hundred thousand up to half a million. In 2 or 3 years, a few million. However, after about 4 years, we plan an investment of 200-300 million.” (Service company)

“We are continuing to invest in new services. The main thing is to find our place among the new sustainability and ESG area and this will require some investment. A couple of hundreds of thousands will be invested in educating, upskilling and potentially employing new workers.” (Professional assurance and advisory services company)

“Yes, we are planning 70 million euros investment in the coming 3 - 4 years. This investment very much depends on the regulations. The amount is already allocated in the business plan.” (ICT company)

“No, because of the war situation.” (Service company)

“In our industry, the number of employees is increasing, they are being trained. The amount is not worth mentioning.” (Professional assurance and advisory services company)

“Around 5 million euros planned for next year. This is lower than usual. Enthusiasm is not decreasing. Most of it will be in the main capital and infrastructure. Some finance also in IT systems.” (Service company)

“The amount planned is around 28 million, but we have not made a decision yet when this amount will be realised. Mostly likely either this year or next year.” (Service company)

“One of the areas where we would invest is in renewable energy projects. Time period - within the next five years.” (Service company)

“We have done a long-term investment plan on how we want to grow and plan to follow it, without changing it anytime, as we see no reason to.” (Retail trade and service company)

“We are going to continue with the existing level of investments. The war has changed a lot, as well as the attitude towards Russian-speaking residents. Other investments are on hold.” (ICT company)

“It is planned to invest 50-70 million in the Baltics, but most of it will be invested in Latvia. The number of competitors has decreased.” (Real estate company)

“Provisionally planning to invest about 50 million euros in the next 5 years.” (Service company)

“Keeping on the same level at the moment.” (Real estate company)

“We will continue to invest in IT infrastructure during 2023, however no significant expansion plans.” (Finance and banking company)

“We invest relatively highly in absolute numbers every year. This year we are a little more cautious, but we will continue to invest.” (Retail trade and service company)

“Planning to increase. In the next 5 years an investment of about 500 million is planned. The circumstances depend on there being regulations that allow us to foster growth and develop projects. A lot of expenses for us right now are being considered as a risk element.” (Service company)

“In our strategy we have ESG aspects and investment will be around this area, especially in further greening. We have plans to change transport, develop solar panels, invest in workforce education.” (Service company)

“Plan to increase investment in the IT sector. There are some regulation requirements for us to do this, but it is also to become more attractive.” (Finance and banking company)

“Yes, we invest in our people, training/ up-skilling, this is our focus now. We will begin developing new areas of work which will require investment.” (Professional assurance and advisory services company)

No, we do not plan to increase investment or it depends on the circumstances

“We see no other investments right now, but if some circumstances change, then that could make us more positive about allocating more business in Latvia than we are currently doing. The current government situation puts some restrictions on our ability and willingness to invest.” (ICT company)

“Currently poor access to labour is the reason for no further investment planned.” (ICT company)

“More focused on organic growth, but not specifically increasing investment.” (Professional assurance and advisory services company)

“We would like to increase investment in Latvia. We would like to invest in certain projects, but it seems they are very specific and the business side would not make sense. Investment will depend on the market and what support systems will be in place, and will also be based on the new government’s policies.” (Real estate company)

“To the level of maintaining operations.” (Manufacturing company)

“In consideration now. One area could be microelectronics, but here we are at a really early stage. We have recently started it and still thinking about this area.” (Wholesale and retail company)

“There are plans to grow organically, but no concrete plans to invest more. The geopolitical situation increased the uncertainty and plus the ongoing work force issues – it’s not smart now to put our eggs in the Latvia basket.” (ICT company)

“Inevitably we will increase investment, but the amount depends on the situation and the incentives/support programmes available. Approximately 1 million euros investment is planned each year. If there appear to be some state support programmes or special economic areas, or this is in combination with the EU funds then we would probably have some higher investments in reality. In Riga, the special economic areas are very limited as well – sadly, in Latvia, in general this practice is not being widely used. Lack of special economic areas, in Riga limited only to Freeport area so not applicable to all sectors.” (Manufacturing company)

“Not really applicable. Budget goals are higher for this year. Also looking to invest in human capital.” (Professional assurance and advisory services company)

“There are various types of projects in which we invest, but there are no plans to increase investments.” (Wholesale and retail company)

“Not planning to right now. Making business plans, if we predict some growth, then we usually plan investment accordingly. Planning to continue with the current existing investment as is. The main limiting factor is the lack of workforce and specialists. No specialists to employ in Latvia but also not very easy to attract resources from abroad, there is a big black hole in this process.” (ICT company)

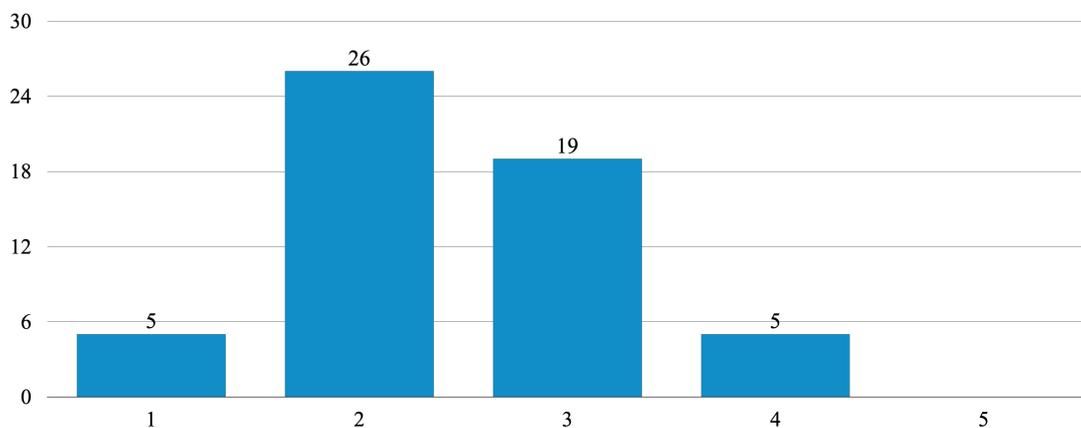
SECTION 2: THE GOVERNANCE IN THE PUBLIC SECTOR

7. Investors' Assessment of the Effectiveness of the Public Sector

We started the governance section by asking foreign investors that took part in the 2022 study to evaluate the effectiveness of the public sector with regard to proactively dealing with the challenges Latvia is currently facing. An assessment was made on a scale from 1 to 5, where '1' is not at all effective, '3' is average and '5' is very effective.

Our findings show, that, on average, foreign investors evaluate the effectiveness of the public sector with regard to proactively dealing with the challenges Latvia is currently facing with 2.4 out of 5, i.e. relatively low. As exemplified by Figure 5, as many as 47% of investors that took part in the 2022 study provided h a score of '2', and none with '5'.

Figure 5: Assessment of the effectiveness of the public sector with regard to proactively dealing with the challenges Latvia is currently facing: *findings from 2022*. n=55.
Scale from 1 to 5, where '1' is not at all effective, '3' is average and '5' is very effective.



Source: FICIL Sentiment Index 2022

In order to improve the assessment in forthcoming years, arguably, policy-makers could benefit from the comments of foreign investors that are summarised below:

“The problem is very urgent but nothing is being done. The cooperation between the ministries is weak and there are no common goals between them. We will continue to grow but it will be very slow.” (Manufacturing company)

“Latvia, like a lot of other countries, is dealing with a lot of difficult issues, many of which require cooperation between different ministries, but it seems that there is no progress with these issues and the proactiveness in which the government is tackling them.” (ICT company)

“The grey economy needs to be tackled from various institutions at the same time, but no one is taking responsibility. Labour market issues are also being passed around and covered from a social welfare aspect, and this has not brought us many results. This issue definitely needs to be addressed. Latvia is mostly Riga - the same activity which is at government level should also be represented in Riga.” (Finance and banking company)

“It looks like the public sector is trying, however we need clear results. There have been cases where we are being sent from one institution to another.” (Retail trade and service company)

“There is room for improvement in radically fixing this. Some things are being done, however, we do not see any major breakthroughs to fix horizontal governance issues.” (Service company)

“Results vary a lot, they are trying, the attitude and intention is there - just need to work on the results.” (Retail trade and service company)

“Still average. Could take into consideration a lot of FICIL’s recommendations to improve horizontal cooperation.” (Professional assurance and advisory services company)

“On one hand, we have to consider that we have almost been without a government for the last few months and the new government is only starting to warm up now. Covid-19 caused large restrictions and problems were highlighted during it.” (Retail trade and service company)

“I can think of only two good examples, Rēzeknes municipality and ‘Sadales tīkls’.” (Manufacturing company)

“Despite some things happening in energy sector, there is no sustainability.” (Manufacturing company)

“At general level the good thing is that there is a relatively stable political condition, in comparison with other countries. There is continuity of government, no crazy populists or extremists. Stability and continuity is a good thing as it affects the policy-makers and public officials. If you go and analyse at a lower level, then we can see some problems with specific policies etc. Political instability has not been an issue for us when we consider investments. Even if there are geopolitical concerns it seems like the political progress is going in the right direction.” (Real estate company)

“We have separated 4 areas: Economic recession (score 2) - we are facing one or already in it. Can we do something here, I do not see any proactive actions. Energy prices – in the short-term we appreciate the concept of the government reducing stress for industries (score 3), but in the long-term we do not see what will be done to fundamentally reduce this. Maybe the LNG terminal, but is this the solution? There is still a lot of uncertainty and developments are not clear (score 2). Inflation (score 2) - can we do much here, maybe not really. We have seen Poland doing something, but also the question is – is it the right thing and the right decisions. Construction permits (score 2) - a bit disappointing. The performance of construction boards in Riga is disappointing, a lot of overdue deadlines and lack of resources. Riga is mostly exposed, some municipalities are doing better. There it is really lacking right now, this is something to be addressed. If we want investment we need to perform better.” (Retail trade and service company)

“The work is very slow and rarely do they reach the same goals.” (Service company)

“The government was very quick and very active to respond to the war in Ukraine, and the decisions for the energy crisis were made reasonably quickly.” (Real estate company)

“Unfortunately, because of Covid-19 and the energy crises, we see the government following others rather than making their own decisions faster, as a result we sometimes pay higher prices. Green technology potential has been greatly undervalued in our country, as a result of which, in face of the energy crises, we are sticking plasters on problems that could have been prevented. The government is acting reactively rather than proactively.” (Manufacturing company)

“Have seen similar approaches in other countries. We are part of associations and sometimes associations know something before it is presented to decision-makers and they can address and present their view even before it's addressed by decision-makers at higher levels, but other times this is not the case and associations are not properly informed and only see the legislations when already going to their second reading.” (Retail trade and service company)

“Not effective at all. This score is not because they are working poorly, but because there is an inherent organisational issue.” (Real estate company)

“Horizontal cooperation between ministries does not actually take place. The green course, which essentially affects everything we operate with, is an issue that cannot be solved cross-ministerially.

With the attempts to create some kind of horizontal format in the new government and the coalition's attempt to create a climate and energy policy from the existing departments, it must be said that at the end of the day, it will not be ensured either. It is already clear that in the new government, it will not be possible to achieve. If you look at important issues related to the climate policy, where we are talking about energy, agriculture, and transport, you can see three departments that from the state are responsible- the Ministry of Transport, the Ministry of Agriculture, and the new Ministry of Climate and Energy. Each of the ministries has its own opinion and it can be seen that in practice they will stick to it. If you look at the creation of a tax policy in Latvia, where the Ministry of Finance is the policy-maker, for example, their cooperation with the Ministry of Economics is rather weak and I believe that it will not improve either. In theory, everything should be a very orderly process. However, in practice, everyone works in their own way, which is not motivating for business.” (Retail trade and service company)

“It does not exist, horizontal cooperation does not exist, it's like this is the way to work. Public sector effectiveness is at an all-time low. Decisions are not being made, communication is not effective, it's like they want to show us how much they can't do.” (ICT company)

“Regarding work permits and visas, it is not at all effective, takes too long” (ICT company)

“On the positive side is the governmental support and quick reaction on social issues. Some actions were not that bad.” (Wholesale and retail company)

“We do have a very fragmented public sector. There are many issues where we don't see ownership. Businesses are trying to get the different state institutions to talk to each other, because it seems like each institution does not look past the door of their own building. Lithuanians are more advanced in this -they seem to be working for the greater good to move the ship along. Latvia doesn't see that there is a ship. We all need to be working together to be more effective. Many work groups are being formed where there is no clarity on who will move the work group ahead, because state institutions identify themselves as coordinators. We put together challenges and solutions, but no state institution is moving the solutions forward, because no one is the owner of the problem.” (ICT company)

“Not perfect, there are things to improve. During the Covid crisis, the ministries were able to find some common denominators.” (Retail trade and service company)

“Some questions that could be solved in a few weeks may only be solved in a few months, this is problematic and prevents substantial investments.” (ICT company)

“Often the state institutions do not cooperate and coordinate between themselves. If I have to evaluate municipalities separately, then the approach is not that bad - maybe a score of 3, they are interested to attract business to their municipality, but altogether the coordination is not good.” (Service company)

“If we look at all the processes and management of these, such as Covid-19 then the score would be 2.” (ICT company)

“For the Green Deal, finally there is some positive news with the announcement of a minister for a horizontal issue - the Climate and Energy Ministry. But let's be honest, altogether there has not been much progress. The public sector is still living in its own boxes and it's not likely this will change in the near future.” (Service company)

“About the energy topic, this is a good question because many institutions are involved - the new Climate and Energy Ministry, Ministry of Economics, Environmental Protection and Regional Development Ministry, Ministry of Agriculture and Ministry of Finance partly.” (Service company)

“The legislative part is not in order. External pressure is required at all times. Regarding digital health - decisions need to be made. No proactivity.” (Wholesale and retail company)

“The last years have shown that the start of Covid-19 was chaotic, but it's understandable. The peak of Covid-19 was for about 2 years. More proactive actions need to be found - the government is doing the opposite, mostly reacting to challenges after the situation. There is a fear to make changes or admit to mistakes. Institutions not communicating with each other.” (Service company)

“We don't have a proactive approach, usually we just react to problems.” (Professional assurance and advisory services company)

“If we look at the last government, it had a very difficult environment to deal with the many challenges, but the results were good enough for the situation. However, if we look at the last year it would be a score of 2 - because of the election there was less effective involvement in dealing with many challenges, also no effective or proactive approach from public servants to deal with challenges.” (Professional assurance and advisory services company)

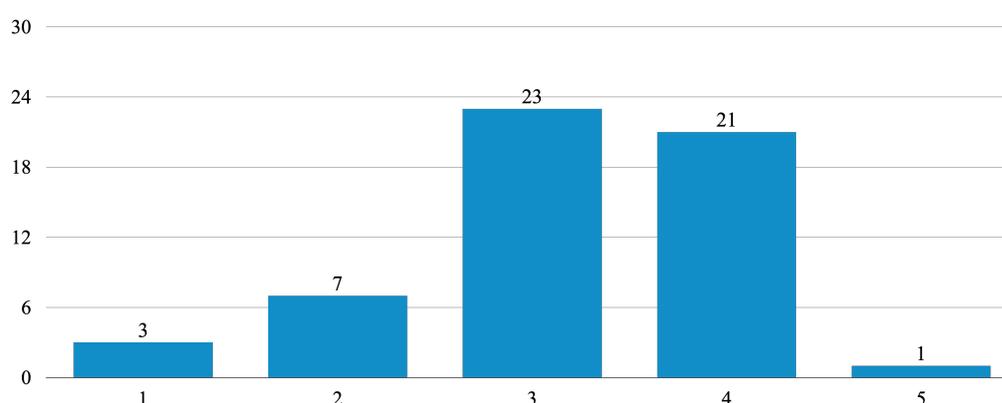
“Construction sector example, where projects are evaluated due to the rise in prices. Ministries that can work effectively take decisions fast and allow further work to continue, but then we see the example of the situation with the New Riga Theatre where the ministry is responsible for taking decision on this effectively. We see examples of the Ministry of Culture and Ministry of Welfare where they cannot take decision, there are situations where some ministries can take decisions while others cannot. There is no transfer of competency.” (Finance and banking company)

“The speed at which energy topic issues were solved was relatively good and it looked like there was leadership from the prime minister. We appreciate the formation of the Ministry of Climate and Energy, hopefully this will also help. But we need clear plans on how to move forward with renewable energy, climate neutrality, carbon capturing etc.” (Manufacturing company)

8. Investors’ Assessment of Cooperation with the Public Sector

Next, in the 2022 study we asked foreign investors to evaluate their cooperation with the public sector, including communication, responsiveness, understanding of issues of concern of foreign investors. The evaluation was provided from 1 to 5, where ‘1’ is poor, ‘3’ is average, ‘5’ is excellent cooperation. On average, investors evaluated the cooperation with the public sector with 3.2, i.e., slightly above average. From all respondents who participated in the 2022 study almost 40%, however, evaluated their cooperation with the public sector with ‘4’ (see Figure 6) and only 5.4%, and 12.7% with ‘1’ and ‘2’, accordingly.

Figure 6: Assessment of cooperation with the public sector, including communication, responsiveness, understanding of issues of concern of foreign investors: findings from 2022. n=55.
Scale from 1 to 5, where ‘1’ is poor, ‘3’ is average, ‘5’ is excellent cooperation.



Source: FICIL Sentiment Index 2022

Further insights within the communication issue can be gained from the following comments of foreign investors:

“During crises we have come together, but this could be improved.” (Retail trade and service company)

“This is relatively good, we have spoken to different public sector institutions, such as the Ministry of Transport, the Public Utilities Commission and the feelings are good, they take time to understand us. Altogether it is positive, of course things could be improved. On the other hand, there are certain institutions that communication with is difficult, but the ability to submit documents electronically makes the process faster.” (Service company)

“There is a systemic issue with communication and responsiveness. 3 out of 4 agencies are partly responsible for something but not really responsible for solving a certain situation, not giving a concrete reply or fulfilling the problem to completion. This is not just one specific issue, but is actually happening in more places, for example, with getting permits for grid capacity. Political blame is shifting and there is no willingness to take responsibility.” (Retail trade and service company)

“It is average when there are people in the public sector who only speak Latvian, but this has improved in the last few years.” (ICT company)

“Our main communication counterpart in the public sector is very approachable, but sometimes ministries and ministers halt good work. It looks like they are trying, but bureaucracy gets in the way.” (Retail trade and service company)

“No big concerns, not much different to previous years. Not really bad, would mark it as average. We have not experienced big issues in communication with the public sector.” (Retail trade and service company)

“In the beginning, cooperation was not so good, but as we worked on it, the communication has improved. At least it feels like you've been heard. There is no feeling of not wanting to talk at all.” (Retail trade and service company)

“We have substantial cooperation with the State Revenue Service, and are in the in-depth cooperation programme. They are communicating changes and there is generally good cooperation. Also good cooperation with the Competition Council, they were responsive and tried to understand the points and issues.” (Retail trade and service company)

“The active way of working is okay, but proactivity is an absolute 0.” (Manufacturing company)

“We have a good dialogue. I think they are responsive and easy to access, even though we have different opinions sometimes, it's still an open dialogue. When it's an issue of interest for the government, they are very responsive and they can move very quickly.” (ICT company)

“For example - workforce issues are not being heard at all. As an ICT company - we are the investors that the country say they want, but communication is formal, can't solve problems.” (ICT company)

“From the communication and responsiveness point of view, it's good, but if we are looking at what is achieved after the communication, it's not that good.” (Manufacturing company)

“There are certain institutions that have a harder time communicating. On the positive side, business related public sector institutions (ALTUM, Ministry of Economic, LIAA) - they show good responsiveness, interest and support.” (Manufacturing company)

“If we talk to each institution separately, all of them seem to understand the problems and say they will help. The big issue is there is no cooperation among these institutions, they do not communicate among themselves.” (ICT company)

“The problems are being solved, but it requires attracting additional resources.” (Retail trade and service company)

“In principle, there are some positive examples of communication. One recommendation would be not just to communicate, but over communicate so that everyone hears and understands them! One example is the Financial and Capital Market Commission that has very good communication experience with the market, maybe even better than the Estonian counterpart. Open dialogue, good understanding and open to faster lines of communication to avoid the administrative burden.” (Professional assurance and advisory services company)

“There's not much to complain about in our industry when it comes to collaboration.” (Professional assurance and advisory services company)

“Communication-wise we have access to public officials to have discussions and raise issues - the problem arises when it comes to dealing with the issues. They seemingly understand but there are no actions and the delays/lack of decisions are really problematic.” (ICT company)

“All submitted approvals have been extended without explanation. It has been very difficult for us. Not necessarily talking only about the Land Registry. We are hoping that this is only a temporary issue as of now.” (Real estate company)

“Some of the institutions are very helpful and professional, but when it comes to ministries, there is no responsiveness.” (ICT company)

“If we disregard the last month’s developments and issues we have faced, but look overall then it would be average.” (ICT company)

“From our perspective, communication has been very good – the Financial and Capital Market Commission, Ministry of Finance, Ministry of Justice and Bank of Latvia have been very approachable and even push the right agenda at EU levels. The Ministry of Economics is a hole of sadness, there seems to be very low qualification at the top level. Also, it is no secret that the current Minister of Economics is unable to communicate in English, which most probably affects Latvia's representation on the international stage and in my opinion should be a must for a minister. This is the weakness of the public sector where there are situations of ministers that do not speak English.” (Finance and banking company)

“Communication is on a good level, and especially with FICIL, we have a good bridge to the public sector.” (Real estate company)

“We are members of a specific sector organisation and through this organisation we have had very constructive dialogue with municipalities and the government on specific topics, for example the initiative on Green Corridor Energy. This is something that has materialised into a productive and efficient topic that we see the results of immediately. Also, FICIL has been very productive and accommodating in terms of willingness to cooperate and listen.” (Real estate company)

“Communicating, but not enough. Certain sectors have had many issues because of a lack of involvement of professionals in decision-making. Unfortunate port reform, no one understands what the aim of it was or what has come out of it.” (Service company)

“They do not really care about investors and businesses.” (Service company)

“If we need something, we get a chance to speak to somebody. The Ministry of Economics is with whom we mainly have to speak with, but also the State Revenue Service, when we need some clarifications.” (Wholesale and retail company)

“We have had two large issues. One is related to a state protectionism case resulting in a lack of investment and the other is a more technical issue with the State Revenue Service. Due to account changes we paid taxes to the wrong account and SRS considered this a missed payment and formulated a % fine. Poor competency and no approach for cooperation.” (Service company)

“There is communication but does the communication actually reap results? We feel like we are being listened to. Starting to feel like our problems are also being understood more, this has changed in the last 5 years, maybe it changed with the previous government. Previously it felt like talking to a wall, but in the last years this has changed. Can discuss things constructively but the question remains - does it achieve anything?” (Service company)

“Sometimes municipalities are very slow in responding but this is our perception. In some standards we deviate from Latvia's set standards, sometimes our standards are higher, and it has been complicated to reach agreements. We have understood that if you ask for an answer to something the answer is almost always no, but if you find someone who you can talk to, some agreements can be reached, but this is also difficult as they pass you around different institutions. Therefore, because of the very complicated procedures (regulated standards) for our technical solutions that we want to introduce, it becomes problematic. However, we have seen some good cooperation with the construction boards and city councils that work well.” (Retail trade and service company)

“To develop any projects, the processes take a very long period of time.” (Real estate company)

“Lack of expertise and competency from public sector officials at ministries, from experience there is very weak knowledge of the technical side.” (Service company)

“Mainly because of Riga Municipality who are doing good business and they have implemented the Green Corridor for certain types of projects. This speeds up the approvals etc. Also quite good communication with the government through sector specific associations. Some recommendations are being taken into consideration.” (Real estate company)

“A lot of hard work, but gradually improved.” (Wholesale and retail company)

“From the PR side there is communication but actually we do not see that much. Have to cooperate with municipalities very closely and they try to be very accommodating, but whenever something is inconvenient for the inhabitants, then everything stops. Not much understanding of issues.” (Service company)

“Communication is really good, that would be a 5, but the question is – what is done with that communication and information? Is it just a box-ticking exercise?” (Professional assurance and advisory services company)

“The attitude we have seen is very responsive. Mostly communicating with regulators to ask about certain interpretations or related to sanction implementation. The issue is that there is no concrete answer from the civil service. The civil service has been beaten -, their culture historically is that they cannot make mistakes. There is a desire but they are afraid to make decisions.” (Finance and banking company)

“The government in Latvia is quite accessible and public sector officials are also available to discuss various things. In principle they understand, sometimes actions are missing. There is room for improvement, but they are doing a good job. Public sector in Latvia has the opportunity to be more agile.” (Manufacturing company)

*“Very different institutions and different approaches. In theory, they have the same rules and same system, but the quality is very different. If we look at the Consumer Rights Protection Centre or the Competition Council then these would be good examples, also the State Revenue Service has improved, even if we ask for some support by phone, the quality is better and more trustworthy, but all institutions that are related to nature protection are still living in the past, their admin work, communication etc. is very poor. This raises many questions in the Green Deal context over their ability to be transparent and fulfil the needed role. Significant lack of transparency. Large EU funds coming to these institutions for projects, but their practices raise the question of how effectively these funds are being used.”
(Professional assurance and advisory services company)*

9. Key Focus Areas of the Next Public Sector Reform/Modernisation: Suggestions by the Foreign Investors

In the 2022 study, we asked foreign investors to name up to 3 priorities the next public sector reform should focus on. To summarise, according to the viewpoints of the foreign investors, *improving efficiency of the public sector* stands out as the most important priority. Foreign investors also emphasise the need to concentrate on *digitalisation; improvement of the education system, science and innovation; energy and green deal; quantity and quality of labour force, as well as improving the healthcare system*. A number of other focus areas were also mentioned by the foreign investors, as summarised in quotes below, whenever possible indicating the sequence of the priority prior to the quote:

Efficiency of the Public Sector

*“State/public sector should not fulfil functions that can be done by the private sector. State institutions should delegate such actions to the private sector.”
(Service company)*

“Re-qualification of the public sector.” (ICT company)

“Accountability and KPIs of the public sector. We do not feel that there is an overarching structure of goals or way to measure them in the public sector.” (Retail trade and service company)

“Improve the exchange of feedback between institutions.” (Real estate company)

“Up-skilling the public sector as such.” (ICT company)

“Economy and speed of decision-making - everyone in the country should be aware of the geographical location and the current trends, for example, business with Russia and Belarus will most likely not be possible as the border is now closed. Latvia should re-develop their system and look at other non-EU and EU countries to develop businesses. Reshaping the economic plan, the previous one will not be relevant. The economic situation is becoming worse and recession threatens. Inflation is also rising. Adjust legislation, for example, will tenants be charged 22% higher prices due to inflation rising, how will it affect everyone? I am sure we will not be going the same way as before, in the future.” (Service company)

“There are so many people involved, there should be someone who is responsible for driving the work.” (ICT company)

“Reorganisation of the forest department of the Ministry of Agriculture and the state forests of Latvia.” (Service company)

“Improving coordination of various government agencies. Most apparent with implementation of sanctions and inability of government to emphasise and highlight just one agency that can be approached on whether a specific product or service is allowed. A lot of passing around between institutions.” (Retail trade and service company)

“Horizontal governance model - a format must be found to solve this problem, given that Cross-Sectoral Coordination Centre has failed. Perhaps one of the solutions could be the President's idea of a minister of state as a promoter of interdepartmental issues.” (Retail trade and service company)

“Having highly skilled and knowledgeable employees in the public sector that are remunerated well enough is a problem.” (ICT company)

“Responsive public sector, but they need to implement the plans written in all documents - effectiveness of the public sector should increase. Public sector is too large considering our shrinking population. What can the public sector not do? An audit is needed based on what people need and don't need.” (ICT company)

“Attractiveness of the public sector for potential employees.” (Manufacturing company)

“Attract more investment for the public sector.” (Manufacturing company)

“Synchronised approach from state and municipal companies/organisations.” (Service company)
“Institution agility and flexibility - to adjust in line with the current problems. We have a Climate and Energy Ministry which is positive, but in practice the results will be seen later than actually desired.” (Manufacturing company)

“Cooperation among state institutions, a complete ecosystem. The state should work more from a user experience, Latvia is looking more from the state side, what the state needs, rather than looking from the user side, the society, what they need. Better planning on how state institutions cooperate, mapping is necessary. We need a complete strategy for the public sector, what is each institution's role, they do not work on their own island, they have to work together supporting each other to achieve concrete goals. - we need a review of all the unnecessary bureaucratic steps that have been created over the years that are ineffective and useless to achieve certain goals. Review of the court system, it seems ineffective, judges should be rewarded a lot more, but also the selection process should be more rigorous. How quickly cases are reviewed needs to be improved. - we should focus on quality over quantity in the public sector.” (ICT company)

“Less formalised state and municipal bodies. If we want to be an attractive business environment for business, the institutions must also think business-like, not bring on additional bureaucracy and formal views on issues and impact on progression. Less formalised and more business-like thinking should be prevalent.” (ICT company)

“Horizontal integration.” (Real estate company)

“Centralise functions in the public sector – procurement, IT, and accounting.” (Real estate company)

“Organising SRS.” (Professional assurance and advisory services company)

“Organisational improvements. The left hand does not know what the right hand is doing, the head is completely somewhere else, it feels like the situation right now is like this.” (Real estate company)

“Develop a one-stop agency. For example, the Canadian approach – Service Canada.” (Service company)

“The state administration should determine measurable results to be achieved in cooperation. KPIs should be developed.” (Wholesale and retail company)

“We need to attract good people, market payment and more efficiently run public sector institutions, where goals are reached. Clear plans on what Latvia as a country wants to achieve, in climate change and digitalisation, and clear tasks should come to the public sector.” (Manufacturing company)

“Strengthen communication and cooperation for different sectors for inter-ministries. If ministries were to inform each other that would already be very good, we have had a case where the other ministry has not even been informed about a project.” (Service company)

“Separating responsibilities to enable following conflicts of interests. Policymaking and implementation should be separated legally to avoid the conflicts of interests and support transparency while avoiding working in the interests of one state institution. The legislation should not be created just to protect one market player.” (Service company)

“Change of mindset - contrary to Estonia our officials are on different levels - they feel like important officials without having to provide services. Officials are here to provide services - this would be the right attitude.” (Wholesale and retail company)

“Productivity and increase of efficiency of the public sector representatives.” (Manufacturing company)

“Consolidation of back office functions. The idea behind the new Climate and Energy Ministry is good, but do we need a completely new ministry? Instead maybe consolidate the back office functions that are common for all ministries - HR, IT etc. The feeling is that the ministries are very often working on the sidelines. Again, who is responsible?” (Wholesale and retail company)

“The image of the public sector must be strengthened.” (Wholesale and retail company)

“Public sector governance; to increase and simplify cross-ministry collaboration to address significant issues such as Energy and Green Deal, Crisis Management, Digitalisation, Education, etc.” (Finance and banking company)

“Create a country data pool, increasing the capacity of public officials to use data in the decision-making process. How are we allocating funds to this, how do we collect data, how do we analyse data? People need to be upskilled. Maybe we have this data already, but we cannot access it and proactively use it. Standardise inner processes and centralise processes that repeat, functions that are visible in all public sector institutions, like public procurement, IT, accounting, human recourse etc. Human capital development, we need smart, educated people to help raise our country higher.” (Professional assurance and advisory services company)

Digitalisation

“Digitalisation - there should be one database between the ministries.” (Manufacturing company)

“ICT and digital issues are under 4 different departments, which is holding back this section. It is not enough for one ministry to create one work group to solve these many cross-departmental issues.” (Retail trade and service company)

“Digitalisation of public services. Currently there are too many different systems that do not cooperate with each other.” (ICT company)

“Effective digitalisation - a lot of different projects but we are so far away from connected and effective digital solutions in the public sector, for example, the disaster with e-health and several other issues. Again, you can say different things about Estonia but there the digital solutions work.” (Wholesale and retail company)

“Digital communication needs to be simplified, there are many different systems that need to be unified, because these are not user friendly. Healthcare system financing is still not where it needs to be. There are discussions back and forth, we want services paid from our social security payments but there are huge queues and people use the private medicine sector because of the waiting time. It seems inefficient. Education system, reforms are still needed, too many schools where the quality is not high and we have too many universities.” (Professional assurance and advisory services company)

“Digitalisation – we still see the need for a Digital Ministry CIO, the public sector should also be more digitalised.” (Manufacturing company)

“Automation of services” (Wholesale and retail company)

“Digitalisation and consultation – while there are many instances where services are digitalised almost perfectly (i.e., the Enterprise Register), there are many instances where there is a long way to go until perfect and smooth digitalisation, i.e., e-case, e-health, etc. There should be state wide coordination of digitalisation and development of required service levels in order to achieve the same quality of digitalised services in each field. The state should be more open to provision of consultations, especially in new areas (sustainable finance, EU taxonomy) i.e., the state could establish a one-stop-shop, service desk based on AI where all questions may be asked.” (Professional assurance and advisory services company)

“Improve the IT sector.” (Service company)

“Availability of digital services and even more digitalisation in all processes.” (Professional assurance and advisory services company)

“Digitalisation and interconnectivity of various systems. We have many websites - e-Health, Latvija.lv etc. but they do not have interconnectivity between them all.” (Service company)

“Digitalisation in all areas. Not as good as it could have been. Related to productivity, quality and allowing small and medium enterprises to do tasks digitally.” (Professional assurance and advisory services company)

“Further digitalisation of public sector institutions to save resources, to make it more user friendly. A lot of things are still not digital in institutions, it is not as effective. Also, the public sector should start to think about investing in their workforce, it might change a lot in attitudes and skills. The expenses are being returned fast.” (Service company)

“Digitalisation to be developed in a smart and joined up way, taking best practice examples from abroad.” (Finance and banking company)

“Digitalisation and exchange of information to avoid solo situations and non-cooperation, or the need for a company or individual to submit the same information to several institutions. Improving transparency and result analysis (gathering data, setting and measuring KPIs, clearly linking activities to macro improvement of specific areas to measure success, and making adjustments if not reaching the relevant results). Need to make data-based decisions on which activities to carry out and which are not efficient for reaching the set goals. Engagement of businesses and industry experts in addressing the most significant economic challenges and finding efficient solutions together as partners, not just as commentators of one idea once developed and not much able to be changed.” (Professional assurance and advisory services company)

Education System, Science, Innovation

“Education” (Manufacturing company)

“Improve the education system and teaching methods. Create a lower number of universities but with a higher level of teaching.” (Service company)

“Education system.” (Retail trade and service company)

“Education system. In general there is a low assessment. The quality is so low that students may wonder what they are paying for at times - there are only two higher level universities.” (ICT company)

“Education improvements.” (Manufacturing company)

“Improving education systems.” (Retail trade and service company)

“Educational reform is extremely important. You have to build competency at all levels here. Latvia needs a lift in this area. Look at Finland’s example, where they focused their resources on really improving it and now it is considered to have one of the best education systems.” (Real estate company)

“Organising the education system.” (Professional assurance and advisory services company)

“Investment in innovation and state support for innovation. Right now Latvia is in the last place in the Baltics for this and it needs to be the focus.” (Service company)

“Raising the higher education levels.” (Finance and banking company)

“Social sector - health and education.” (Professional assurance and advisory services company)

“Better education and healthcare. This can result in higher migration and preventing people leaving the country. In comparison to Estonia, the feeling is that so many international people are moving to Tallinn, this is not the case for Riga.” (Retail trade and service company)

“Education.” (Service company)

“Science. In general, there is a need to improve human resources so that that our people are of better quality.” (Service company)

“Education system.” (Service company)

“Education.” (Finance and banking company)

*“More targeted education system.”
(Manufacturing company)*

*“Education system efficiency and modernisation.”
(Finance and banking company)*

“Education/science/innovation.” (Manufacturing company)

“Education; continued focus on educational standards to grow and develop the workforce of the future, attract talents from abroad and push the Latvian research, development and innovation agenda” (Finance and banking company)

Energy and the Green Deal

*“Energy and the Green Deal. The energy plan and the Sustainable Development Goals 2030 are very important. Every company should be putting audit reports in their company vision in relation to SDG 2030, and train all their departments. This is a global issue and everyone should be involved.”
(Service company)*

“Risk diversification in the energy sector.” (Retail trade and service company)

“Latvia could also focus on climate change - that should be a part of the public sector through and through. We are now competing for the same resources. This will drive the movement in green energy, Latvia should be the leader in green energy. The public sector should also focus on that.” (Finance and banking company)

“Get an understanding of the energy sector. Some sort of sustainability.” (Manufacturing company)

*“Waste sorting and recycling. Strategic thinking is required in the context of the circular economy.”
(Retail trade and service company)*

“Energy efficiency and renewable electrical resources.” (Service company)

*“Active implementation of the green course.”
(Service company)*

“Support in terms of sustainability and in terms of renewable electricity.” (Retail trade and service company)

“Energy sector – there is a new ministry now and I hope it will work to improve the situation in this area. Energy is also important because of the environmental conditions, we are not using so much green energy and we are still quite behind our neighbours in areas of use of wind, solar and green energy. Must be improved definitely, but some good steps have been taken.” (Real estate company)

“Renewable energy.” (Service company)

“Setup of Ministry of Energy and Climate. Role of the “State Employment Agency”, we need a state HR function.” (Finance and banking company)

Quantity and Quality of Labour Force

“Improve coordination of solving labour-related issues. Introduce one body that is responsible for projecting the availability, map out future trends and skillsets.” (Retail trade and service company)

“Increasing availability of labour. Develop good upskilling and reselling systems.” (Service company)

“Efficiency of labour. Both in the private and public sector. Needs to improve public sector efficiency- this can create savings and save resources in future.” (Service company)

“Improving immigration policy” (ICT company)

“Labour market management cannot be looked at from a social aspect. Skills are also a problem, we have to train employees ourselves, to find a sufficient number of people and have the right skills. A lot of pressure on salaries and inflated by inflation. Cost of labour is also high, we are taxing everything, any incentive you want to give your employee is taxed. Cost competitiveness is another factor.” (Finance and banking company)

“Labour force availability (we also have an aging population)” (Retail trade and service company)

“Employment and fostering a better immigration policy.” (Finance and banking company)

Healthcare System

“Healthcare system (we are paying huge amounts in taxes and still have to purchase health insurance).” (Retail trade and service company)

“Organising the education system.” (Professional assurance and advisory services company)

“Healthcare.” (Retail trade and service company)

“Better education and healthcare. This can result in higher migration and preventing people leaving the country. In comparison to Estonia, the feeling is that so many international people are moving to Tallinn, this is not the case for Riga.” (Retail trade and service company)

“Healthcare - availability and accessibility, need adequate resources. The availability and salaries of doctors and nurses are still lacking. There are good specialists and knowledge but the system itself is not very good. Education and healthcare are the top priorities - if we do not have this it affects everyone.” (Retail trade and service company)

“Health.” (Service company)

“Healthcare.” (Finance and banking company)

“Healthcare reforms and improving welfare. A well-functioning healthcare system has a big impact on the economy as a whole. Just to make sure people are healthy i has a huge impact on the government budget.” (Real estate company)

“Social sector - health and education.” (Professional assurance and advisory services company)

Business Legislation

“Quality of legislation – sometimes amendments to draft laws are introduced in the 3rd reading without any grounds. To improve the legislative process and adopted laws there should be a requirement that each amendment of the law is introduced with sufficient grounds (annotation), also preambles to the laws should be introduced. This would help to understand the legislator’s will and interpret laws better.” (Professional assurance and advisory services company)

“Before announcing changes in legislation or processes it would be important to think how the companies will deal with these changes. They have to be ready.” (ICT company)

“Provision of effective regulations to help grow and improve the business environment. Regulation must be clear and transparent and institutions effective and responsive. Decisions should be made quickly and not be delayed without clear explanations of the reasons why. Regulations should reflect the EU regulations without creating an unnecessary bureaucratic burden.” (ICT company)

“Timely sharing of information and acting in advance to prepare legislations, for example, just starting to work on regulations one month before it is to set to be implemented by the EU. Also, they announce changes and give no adequate time to prepare an answer, for example announce on Friday and you have until Tuesday or Wednesday to give comments, but this is not enough time.” (Service company)

“Integrate the business environment in legislation etc. Theory is one thing and in practice the situation might be another – there is a need to integrate the practical and theoretical side together.” (Service company)

Effective Planning

“Horizon scanning in all areas, cannot work all the time in crisis management. Working with all the painful things, not just working on crisis management.” (Wholesale and retail company)

“Change the goals for the national development plan.” (Manufacturing company)

“Need to foster business attraction to Latvia and ease the process of new businesses starting their operations. Improving policymaking and support mechanisms for entrepreneurs starting and doing business.” (Service company)

“Effective and fast response to crises, especially in energy independence and orderliness. Need to have clear understanding of what we will/should do during the Xth hour. At present, this happens in a cyclical manner. Still some uncertainty in this area.” (ICT company)

“Setting common goals and moving towards them.” (Manufacturing company)

Investment Climate

“Investment climate - this should definitely be improved.” (Real estate company)

“Foreign investment attraction to the country. This should be one of the largest priorities for the country. Neighbouring countries are doing much better.” (Real estate company)

“Infrastructure issues when looking to attract new investment.” (Finance and banking company)

“Production cost competitiveness, availability of workforce and other incentives to facilitate foreign investment.” (Manufacturing company)

Bureaucracy

“Reduction of bureaucracy in the construction sector.” (Service company)

“Reduce the high burden of bureaucracy.” (ICT company)

“Reducing bureaucracies.” (Service company)

Tax System

“Tax system.” (Retail trade and service company)

“Tax system - in many cases it is very complicated and does not support businesses.” (Real estate company)

“Clarity on workforce taxes over a longer period of time so that they are competitive.” (Retail trade and service company)

Social Inequality

“Social integration needs to be strengthened. There should also be media that communicates with the ethnic minority and involves them more effectively. Need to use tools to reduce the social divide and foster better integration.” (Finance and banking company)

“Reducing levels of inequality. Many countries that are struggling right now, are doing so due to the high inequality, as this also creates high instability. Latvia should really think about bridging the gap and making the GINI coefficient more in line with Scandinavian countries. Part of the reason why Scandinavian countries are doing really well is because of the lower inequality levels. It is a highly complex issue but it does not mean the government should not address it.” (Real estate company)

“Improving social inequality and the education sector.” (Retail trade and service company)

Regional Development

“Municipality road infrastructure, how to make it mandatory for these municipalities to cooperate more closely and develop the infrastructure.” (Finance and banking company)

“Regional development support. Not only focusing on Riga, but also on the entire country, especially in terms of infrastructure, roads etc.” (Retail trade and service company)

“Infrastructure development in regions.” Manufacturing company

Communication with the Private Sector

“Communication with the private sector and also expressing clear feedback from the public sector. Using two-way communication. Need to have feedback not only about the positives, but also on the negatives or why it was not taken into consideration, in regulations. Currently there is a lack of two-way communication.” (Service company)

“Communicate with businesses and better understand what the free market requires.” (ICT company)

“General attitude towards businesses.” (Service company)

Court System

“An effective court system that allows the appeal of decisions and fast outcomes. We feel the transparency of decisions is sometimes missing, legal grounds might also be missing. There are delays. A fast and transparent court system is a must.” (ICT company)

“Improve the court system. There are minimal improvements. The Economic Affairs Court is good, as the specific cases are not given to completely clueless people but at least to professionals.” (Service company)

Others

“Security - if there is no security, people will not come. The Investment Development Agency of Latvia should do something more to explain the situation and assure investors, even the existing ones.” (Service company)

“Construction sector permit process. No major comments here. Regions should definitely be improved. Digital improvements happened quite significantly, especially during Covid-19.” (Retail trade and service company)

“Public-private partnerships should be developed and improved. Immigration, access to work force is crucial. Corporate income tax, social tax, labour tax - need to improve competitiveness.” (Retail trade and service company)

“Salary issue - still problematic, but at least the government has started to address this.” (Manufacturing company)

“Re-evaluating the port reform.” (Service company)

“Improving electronic telecommunications.” (Service company)

“Relocating to modern and sustainable buildings.” (Real estate company)

“ESG and sustainable finance – public sector reform should put more focus on ESG and sustainable finance. This includes state owned and municipal enterprises tapping into capital markets (green IPO or bond issuance),

requiring state owned and municipal enterprises without exceptions to publish ESG reports, develop sustainable procurement policies, consider tax benefits for green investments and projects. They should also show businesses the incentives for following ESG.” (Professional assurance and advisory services company)

“Capital market development. Through the state owned companies, there are some interests that are preventing these companies from going public. In the environment of the current crisis, this is even a very dangerous development to prevent the attraction of finances.” (Finance and banking company)

“Evaluate again the financing of the culture sector, it is inadequately large compared to the benefit that is received. Is this what Latvia’s economy really needs right now?” (Finance and banking company)

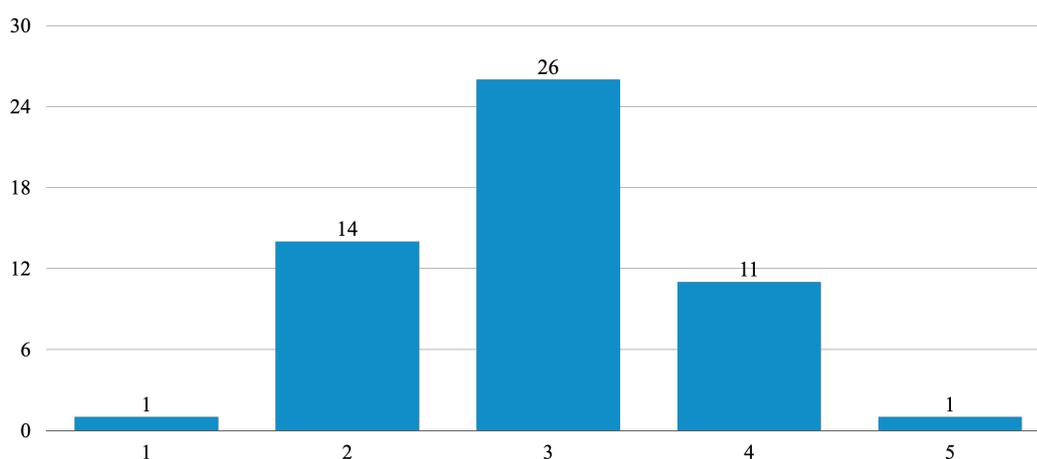
10. Corporate Governance Efforts in State and Municipality Companies: Assessment by Foreign Investors

We also asked the foreign investors that took part in the 2022 study to evaluate corporate governance efforts in state and municipality companies. Investors were asked to provide their assessment on the scale from 1 to 5, where ‘1’ is poor; ‘2’: fair; ‘3’: good; ‘4’: very good; ‘5’: excellent).

Overall, foreign investors evaluated corporate governance efforts in the state-owned enterprises, as average, with 2.9, i.e. almost good, with almost 50% of respondents answering with ‘3’ (see Figure 7).

Figure 7: Foreign investors’ assessment of the corporate governance efforts in state company cooperation findings from 2022. n=53.

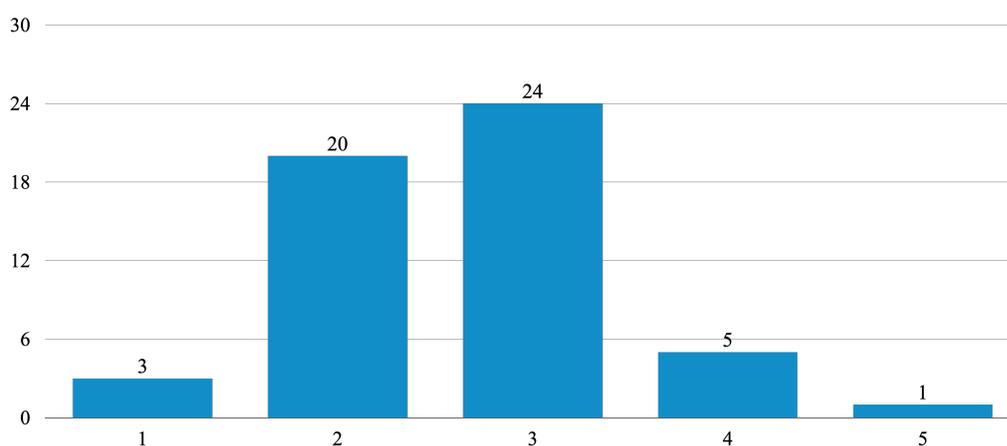
Scale from 1 to 5, where ‘1’ is poor, ‘3’ is good, ‘5’ is excellent



Source: FICIL Sentiment Index 2022

Overall corporate governance efforts in the municipality owned enterprises were evaluated on average with 2.6. The distribution of answers is provided in Figure 8 below.

Figure 8: Foreign investors' assessment of the corporate governance efforts in municipality company cooperation findings from 2022. n=53.
Scale from 1 to 5, where '1' is poor, '3' is good, '5' is excellent



Source: FICIL Sentiment Index 2022

We also asked foreign investors that took part in the 2022 FICIL Sentiment Index study to name 3 positive examples and 3 negative examples of corporate governance in state or municipality owned companies. Both positive and negative examples, as perceived by the foreign investors in Latvia, are summarised below in the form of quotes, providing some food for thought with regard to the areas of improvement as well as highlighting some of the best practices:

Positive examples

“It used to be absolutely horrendous but looks like things are improving.” (Retail trade and service company)

- “1. Changes in Latvia’s State Forests administration.*
- 2. Competition for organisation management positions, attracting professionals.*
- 3. Improvements in gender equality on company boards.” (Manufacturing company)*

“1. Open application process and transparency in recruiting.

- 2. Professionalism has been improving.*
- 3. Use of professional and respectable recruiting services.” (Service company)*

- “1. Positive tendencies in general.*
- 2. ‘Latvenergo’ is a positive example, and some visible work has been done to make improvements here.” (Retail trade and service company)*

“Positive examples – ‘Elektrum’, ‘State Real Estate’.” (ICT company)

- “1. AirBaltic/RIX*
- 2. ‘Latvijas Pasts’.” (Retail trade and service company)*

“Calculation of company carbon footprints - companies are paying attention to this and really evaluating their impact. Greater respect for human rights and equality.

Code of conduct implementation - has started and is going well.” (Service company)

“There is a group of state entities that understand the importance of innovation and look at pushing the government to ease the level of control over budgetary issues, so that they can start innovating. By Latvian law, state-owned companies are not allowed to innovate because they can't commit actions that might result in losses - they are not permitted to make losses. On one hand, you do not want them to waste resources, however, on the other hand, innovation should be driven by big companies and in Latvia state companies are some of the biggest of all. A couple of the companies such as 'LMT', 'Latvia's State Forests' and 'Sadales Tīkls' are working, however, in spite of the system they are actually trying to innovate.

“ (Retail trade and service company)

“Positive - Riga Airport (RIX)” (Retail trade and service company)

“1. How the teams at the big university hospitals were chosen.” (Retail trade and service company)

“1. There are industrial and commercial people on LMT's council.” (ICT company)

“1. Municipality in Rēzekne, which for some reason invested in renewables just before the energy crisis. This helps the entrepreneurs in this municipality.

*2. 'Sadales Tīkls' - change in the management team
3. Some local municipalities are very helpful and responsive.” (Manufacturing company)*

“Positive – 'Latvijas Radio' and LVRTC (operating efficiently, good structure, don't have excessive bureaucracy). 'Latvijas Loto' (small but seem to be efficient). Electronic Communications Office of Latvia - also a positive impression, very proactive, seem innovative as well.” (Professional assurance and advisory services company)

“1. Vidzeme's waste disposal companies are searching for ways to improve.” (Manufacturing company)

“1. Climate and Energy Ministry - finally this ministry has been created and is a step in the right direction.

2. 'Rīgas Satiksme' is possibly progressing and developing in the right direction.” (Manufacturing company)

“Positive examples:

1. Independent and professionally elected members of supervisory council.

2. Published corporate governance code and several policies, publication and preparation of ESG report.

3. Transparent operations, good websites with easy access to information, annual reports, clear future objectives and developed long- or medium-term strategy.” (Professional assurance and advisory services company)

“Positive: 1. Starting to use best practices and acting more like private sector clients that evaluate everything. There are improvements in the processes of contracting developing etc.” (ICT company)

“It very much depends on the clarity of the minister over the responsible ministry for the state-owned company. Altogether the trend is positive but each of the councils needs to be defended individually.

Riga is setting good trends - 'Rīgas Satiksme', 'Rīgas Namu Pārvaldnieks', 'Rīgas Ūdens', good examples for municipality owned corporations.

Positive:

1. 'Latvenergo' good corporate governance.

2. Children's Clinical University Hospital

3. Riga East Clinical University Hospital, had a bad start, as poor situation recently but it does not mean they are working badly. If a person has poor communication during times of pressure, it does not necessarily mean they are not producing. I think they are working.” (Finance and banking company)

“Positives

1. 'Rīgas Ūdens' is a company that has improved.

2. Valmiera municipality companies are good examples.

3. 'Rīgas Siltums'.” (Service company)

“3 Positives

1. 'Rīgas Satiksme' - there are improvements.

2. 'AirBaltic' - completely new management and structure. Everything is visible.

3. 'Tet'.” (Real estate company)

“There is the impression that state-owned enterprises are better than municipalities, this might come from the previous bad experiences with Riga municipalities. Tendency and trend is the right way to go but is not easily measured. Improvements yes, but still a long way to go.

Positive: 1. 'Air Baltic'.

2. Road Traffic Safety Directorate (CSDD).

Working quite well.

3. ALTUM. Good example.” (Wholesale and retail company)

- “Positive: 1. 'Augstprieguma Tīkls'.
2. Changes in Riga municipality is a good sign.
3. Professional recruitment of the board in many cases.” (Service company)

“Positive: 1. As times have gone by, I feel there have been improvements in the recruitment processes, there are much fewer politically involved figures, more transparent processes.
2. AirBaltic is a relatively good example of how a company can be run quite efficiently without too much state interference. Modern and in line with international industry standards, the first to introduce internet via Starlink services. Of course, there is still state support, partly due to the Covid-19 situation.” (Real estate company)

- “Positives: 1. Good progress in selecting and educating councils.
2. If these companies were listed, governance could be improved.” (Professional assurance and advisory services company)

- “Positive: 1. Road Traffic Safety Directorate (CSDD).
2. ALTUM
3. 'Latvijas Loto'.” (Service company)

“Positive: 1. Construction information system is working. Yes, there are issues, but at least it is working, and you can get information.
2. The green corridor sometimes works effectively.” (Real estate company)

“Positive: 1. Councils include members with experience in other fields.” (Service company)

“Positive: 1. The selection of the 'Rīgas Ūdens' board was more correct than the media portrayed it.” (Real estate company)

“Positive: Selection of the supervisory boards in the biggest hospitals in Latvia.” (Service company)

“Positive: 1. Large state-owned corporations have open recruitment processes for their councils and boards, that are generally at a good level. Of course there could be improvements, but at least there are processes and visible efforts in the right direction to make sure that the nomination commissions are balanced and not in the specific interests of one party.” (Service company)

“Positive examples:

-AST

-AirBaltic

-Riga municipality companies are improving.” (Manufacturing company)

“Improvements are slowly coming along. Can see clearly who has worked in the private sector and in the state-owned corporations, it is like two different mindsets. The Covid-19 pandemic gave a push out of stagnation, it activated/sped up the digitalisation processes. The question is, are they user friendly? It seems we want to change for the better but are we doing it in the right direction.” (Service company)

“‘Rīgas Ūdens’ company’ changed managing director and is more investor friendly, it is a good sign.

‘Sadales Tīkls’. Have quite clear and straightforward rules. Also, easy to receive some technical rules for companies. Not comparable with the situation 10 years ago, it was a nightmare back then to get technical requirements and was so investor unfriendly – now it is much better.” (Real estate company)

“Positive: Riga municipality companies are striving to move towards more transparent operations.” (Retail trade and service company)

“From state-owned corporations there are improvements to make the boards competent. The previous government has done a lot to increase the competency of the boards and make them more effective. Will see how the council’s story develops this year... There needs to be a clear definition of what is expected from the board. Municipality state-owned corporations do not have clear rules and understanding, they perhaps should be regulated. Lack of transparency.

Positive: ‘Latvenergo’

2. Riga East Clinical University Hospital. But again, people got burnt because of the ministry’s incompetence, based on how understanding the civil service is. The negative is the low competency of the ministry responsible for the specific state-owned corporations. If it is not possible to have that many experts, then look into a transfer of competency between ministries.” (Finance and banking company)

“Positive examples: - Latvenergo

- ‘Rīgas Satiksme’

- ‘Rīgas Siltums’” (Finance and banking company)

“Positive:

They are creating goals aimed at the future, at the development of these companies. Shareholders’ letter of expectation is needed (what the approach will be to an IPO, green transitioning etc)” (Professional assurance and advisory services company)

“Positive: 1. Unified procurement procedure for multiple institutions in municipalities. For school dinners there is one tender for all schools, not individual ones for each one. Larger scale and better evaluation.

2. Better involvement of the public in the debates about changes.

3. Communication and information - has become easier and better, also when communicating the negative things.” (Professional assurance and advisory services company)

“Positive: 1. Air Baltic

2. 'Latvenergo'

3. 'Sadales Tikls'” (Manufacturing company)

“Positives: - Educational institutions have led by example by appointments to the Chairperson of the Supervisory Boards such as Andris Grafs (Liepaja University) and Arnis Sauka (Vidzeme University).” (Finance and banking company)

“1. Supervisory boards. Selection of the board, and establishing supervisory boards is relatively good.

Embracing western company management standards.

2. Generally selecting independent candidates.” (Retail trade and service company)

“Positive examples: -There are a number of companies (e.g. 'Rīgas Siltums') where public competitions are made for board member vacancies and strong specialists with private sector experience are hired to drive modernisation and change.

-The public sector companies are becoming increasingly transparent and disclose not only information on their financial results, but various governance and sustainability linked topics setting an example for other companies (although the quality of the disclosures may be improved).

-Strategy setting in public sector companies has improved in quality – the strategies are no longer treated as a “check the box” exercise, but many companies actually think about how to develop their business models and improve operations within the framework they operate in.”

(Professional assurance and advisory services company)

Negative Examples

“1. In Madona municipality, a fictitious competition was created, and they found reasons not to choose the professionals, instead, their own people were chosen for the management positions.

2. In Latvia's State Forests there are still some people chosen from the old management team for the new one.

3. There is no structure in corporate governance, there should be more attraction of consumers/customers to the company board.” (Manufacturing company)

“1. Bad examples such as Latvia's State Forests is giving wrong signals to investors

2. Artificially creating corporate governance over state and municipality apparatus.

3. Involvement of municipalities or states in areas that they should not be in and in which their private sector is operating.” (Service company)

“1. There have been free vacancies for more than a year in LMT.

2. Creating a joint venture between LMT and the military space. It is using state-owned enterprises for political purposes.” (ICT company)

“1. 'Rīgas Namu Pārvaldnieks'

2. 'Rīgas Satiksme'” (Retail trade and service company)

“- Corruption.

- Fraud and lack of accountability - some things are still not trustable.

- Sometimes ineffective boards - always the same persons rotating and keeping g the same positions, and who (how effective) is evaluating them and their performance?” (Service company)

“Negative examples – Latvia's State Forests.” (ICT company)

“Negative - Latvia's State Forests (involved in scandals, how people are selected), 'Latvenergo' (a lot of bureaucracy, could be more efficient).

'Augstsprieguma Tikls' - they have some positive and some negative tendencies, could be more efficient from the public perspective.”

(Professional assurance and advisory services company)

“1. The situation with oncology in Riga East Clinical University Hospital, the experts are not being evaluated as they should be, this poses the risk of losing them.

2. Sometimes some decisions are taken in odd ways and raises questions.

3. Salary reform only completed at political level, instead they should be thinking about the public servants.” (Manufacturing company)

"1. Municipality owned enterprises - cannot clearly see them operating in the market based on rational corporate conducts. There might be some other interests behind the way municipalities operate in the market.

2. Latvia's State Forests and the appointment of the supervisory board and executive board was a mess.

3. It is distorting that there is the idea to create a joint company between Latvia's State Forests and 'Latvenego' to develop wind farms (renewable energy). In times of crises, the government is spending state funds in a sector that is booming and could finance itself. No rationale to spend tax payers' money on this sector rather than spend it on healthcare or other areas." (Retail trade and service company)

"1. Kurzeme region waste disposal companies do not care for improvements." (Manufacturing company)

"1. Potentially we could see more state-owned companies being publicly listed, we do hear major listings. This should not happen automatically, but if you go public it could provide more transparency, reporting, coverage etc.

Transparency of management could help governance. There could be arguments for both sides." (Retail trade and service company)

"1. The selection of Latvia's State Forests management - a very negative case, a relatively incompetent participant was chosen.

2. Huge political influence in the selection of personnel for management positions in state enterprises." (Retail trade and service company)

"1. Latvia's State Forests and sometimes in hospitals some questionable processes take place.

Latvia's State Forests is problematic with the selection processes and transparency during this.

2. There are still some companies that should not be operated by the state or municipalities and should be left in the hands of the private market. The general advice would be to understand which state-owned companies need more advice and to have some criteria to determine how much effective controls they need, should use a 'case by case' approach, not all are the same." (Retail trade and service company)

"Seems like we are back in the 90's, negative – Latvia's State Forests, it's not clear why and how people gain certain positions. 'Elektrum' seem to be doing ok. I'm not sure if 'Latvijas Dzelzceļš' is moving in the right direction, but I had hope." (ICT company)

"1. 'Augstsprieguma Tīkls' - they still have the authority from the 'old times'." (Manufacturing company)

"1. Investment Development Agency does not have a modern location and the quality of the building is poor, for example, in Lithuania it is in an A class building in a prime location. If you want to raise prestige it is important to move forward and not stay in the old style. You can't change your life if you are doing the same as you did yesterday." (Real estate company)

"Negative examples:

1. Nepotism, members of management board and supervisory council are not independent, rather political figures. Can still see some poor tendencies.

2. No long- or medium-term strategy developed, no future objectives, thus lagging behind. Can comment on Riga municipalities and they did go through strategies. Important to understand that the functions and strategies should be aimed at improving the experience of the end-user and not necessarily just for the processes themselves.

3. Transparent public procurement policies, selecting service providers circumventing the public procurement procedure. More realistic to get clients from the private sector because competition is very open, but when it comes to state-owned corporations, they have tenders that are very selective with specific requirements and as a result it feels that they do not support quality procurement processes or offer impartiality." (Professional assurance and advisory services company)

"Negative: 1. No response or responses are not fast enough, some deadline extensions with no explanations why. We cannot wait so long as it affects our investment planning and realisation.

2. Communication issues, differing opinions within the institutions, decision-making problems.

3. A long queue to get some necessary services." (Real estate company)

"Negative in all the other smaller municipalities outside of Riga, that mostly fulfil the employment function. Negative:

1. 'State Real Estate' still has a temporary council and no visible movement.

*2. 'Latvia's State Forests' is a very bad example.
3. I am not saying that public servants should not be part of any state-owned corporations, but they should not be a represented majority because of a lack of decision-making."* (Finance and banking company)

“From an efficiency and standards view there is need for improvement. Negative:

1. Public procurement. Raising questions about fair tender requirements in practice brings more or less only one winner to tenders, sometimes they are even known in advance. The conditions of tenders are not fair, but court cases about such issues take an extremely long time. Often state-owned companies are the chosen participants for public tenders.

2. Strong lobbying during legislation processes. In the process of implementation of certain laws sudden changes happen during the second reading within the interests of only one company.

3. Indirect promotion of one market participant. This puts one market participant above all others unfairly, indirectly creating monopoly conditions – this negatively affects competition.” (ICT company)

“Negatives

1. ‘Latvia’s State Forests’

2. ‘Latvenergo’ does not give a lot of confidence” (Service company)

“3 Negatives

1. ‘Latvia’s State Forests’.

2. ‘Latvijas Gāze/Gaso’ - it is hard to understand what is going on there.

3. ‘State Real Estate’ - it is not clear what they are trying to do, years and years of no progress.” (Real estate company)

“Why not start to list the state-owned corporations to improve corporate governance and activate capital markets. This would benefit the state, then afterwards will be run more efficiently, be competitive and give huge dividends. It should seriously be considered and is a massive improvement opportunity. Need to get away from the mentality where we cannot list a % of these state-owned corporations.” (Real estate company)

“Negative: 1. HR companies do not attend procurement and selection because there is a regulation that they do not comply with.” (Real estate company)

“Negative: 1. There is the impression that in general there is too much bureaucracy in these organisations. For example, there are so many signatures on certain documents which somewhat dilutes the accountability, because everyone is partly responsible. Sadly, this is culturally embedded in a lot of these organisations.” (Real estate company)

“Negatives: 1. ‘Latvia’s State Forests’

2. Riga municipality companies.” (Professional assurance and advisory services company)

“Negative: 1. ‘Latvijas Dzelzceļš’ - very high levels of bureaucratisation that makes the decision-making process very long and inefficient. You go and ask a yes or no question but do not get the answer.” (Service company)

“Negative: Tender of ‘Latvijas Pasts’” (Service company)

“In the last months there have been many negative examples, so as a result I feel I should put a score of 2. In municipality owned corporations it is really bad and you can clearly see political persons being put in positions based on their connections.” (Service company)

“Negative: 1. ‘Latvia’s State Forests’

2. Riga East Clinical University Hospital

3. ‘Rīgas Namu Pārvaldnieks’

4. ‘Rīgas Satiksme’” (Service company)

“Right now, the feeling is that there are no improvements happening.” (Real estate company)

“Negatives: 1. Selection processes for boards and councils are quite inflexible.

2. Council of the municipal company ‘Riga City Forests’- unprofessional conduct.” (Service company)

“Sponsoring and gifting projects and the related procedures are not very transparent. There should be more clarity on how to apply and the requirements for receiving money and for what purposes. A lot of negative examples where specific sectors or companies get some benefits, but others have not even been informed about them. Lack of transparency in this.” (Service company)

“Negative examples: - ‘Latvia’s State Forests’ (totally a red flag)

- ‘Latvijas Dzelzceļš’

- ‘Rīgas Namu Pārvaldnieks’” (Finance and banking company)

“1. ‘Latvenergo’, also some problems related to unfair competition showing in the context of the Elwind project developments.

2. ‘Latvia’s State Forests’.

3. Very fragmented political environment in municipalities. The political stance is dictating the rules in different municipalities. Depending on the political situation of the party of the region then such policies are driven. While there is no concrete vision or demand from heads of municipalities then there will be no actual work or input.

Municipalities are saying they want investment but there are no follow-up actions to foster them.” (Service company)

“Negative: 1. Traffic Department of Riga. No resources to deal with the company’s technical requirements, if asking for approval it’s very difficult. The city is saying it has allocated new funds to offer competitive salaries, because of this we hope it will improve.” (Real estate company)

“The ‘Latvia’s State Forests’ case has sadly overshadowed (in the eyes of the public) the positive examples above” (Finance and banking company)

“Negative examples: - ‘Latvia’s State Forests’, - ‘Sadales Tikls’” (Manufacturing company)

“Negative: 1. ‘Latvia’s State Forests’, the scandal raises many questions of how the board was selected. Maybe it is all fine but somehow, I got the impression it was not good. Also, the issue about granting some sponsorship to random sports, but maybe if it is a state-owned enterprise then the money should go to the state budget and be distributed to sports/sponsorships.

2. Electricity distribution networks - ‘Augstsprieguma Tikls’ and ‘Sadales Tikls’. The whole story with the new tariffs with electricity distribution, it was almost like a joke. They propose tariffs but when people and ministries start checking then they say maybe we can do with half of it. No coordination with ministries, sorry but you are a monopoly and state-owned enterprise.” (Wholesale and retail company)

“The reluctance of major hospitals to cooperate.” (Wholesale and retail company)

“Negative: 1. ‘Latvia’s State Forests’.
2. Heavy bureaucratic burden visible in the state-owned corporations.” (Service company)

“The municipality owned corporations.” (Finance and banking company)

“High increase in salary in state-owned companies.” (Manufacturing company)

“1. ‘Latvia’s State Forests’ – a poor situation with non-transparent selection of board members. Issues with Port Governance reform, some resistance and the process being prolonged.
2. Issues with only one applicant for public tenders.
3. Certain e-projects that have no clear specifications and are not fully implemented.
4. Municipality - lack of transparency, some corruption scandals highlight that there are issues.” (Professional assurance and advisory services company)

“Negative: all municipality enterprises in several municipalities – utilities providers, ‘Rīgas Satiksme’” (Manufacturing company)

“Companies still don’t see the ESG agenda, just see the green footprint, however, we also have to focus on the social and governance aspects -public procurement transparency is still lacking, there are old traditions that can still be seen” (Professional assurance and advisory services company)

“The company management is changed just because the relevant area’s minister has changed (political incumbent promotion). When the board members are appointed against the recruitment commission recommendation, resulting in a politically backed person being appointed despite potentially not meeting relevant experience or competence requirements (‘Latvia’s State Forests’).” (Professional assurance and advisory services company)

SECTION 3: MR. PRIME MINISTER, YOU'VE GOT MAIL

Finally, we asked foreign investors that took part in the FICIL Sentiment Index 2022 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:

“Mr Kariņš, there are areas where you need to focus – the labour market, create an economy that is based on solid business, fair business. The chances in the market are extremely good for attracting investors, the best time I could imagine, the Latvian government should be extremely active in that. Riga has a huge hold on the Latvian economy, this needs to be levelled out somehow.” (Finance and banking company)

“I don't think the country knows what they would like to see developed, so there are different approaches all over. For example, we have had cases where we are ready to transport employees from one region to another to provide work for them (covering transport expenses etc.) but we get a reply that this means they will leave certain regions. This is counterproductive.

We have the national development plan, but it seems like it is not of a high quality. What is the chance to carry it through and improve issues. It seems like these plans are just on paper, but we need more action to really focus on Latvia's development. Where are we going? Regional development is one of these issues, but we have many to cover.” (Retail trade and service company)

“Mainly two things - improving the communication and building team work. Communication is key for all, we should attract a high-level communication agency that assists in explaining decision-making processes to people and clearly explains the reasons for taking certain decisions. The PM should actively think about public relations and communication over decisions - what will be gained from them and why they are taken. The PM should create a trustworthy team, in the end everyone assumes the PM is accountable. This should not be the case as one person cannot be accountable/responsible for everything. Look into options to create a work group that has a mandate and is accountable. Search for ways to create a better team.” (Service company)

“Private and foreign direct investment owned companies should not be competing with state-owned companies. State-owned companies should not use EU funds to compete with private companies. Latvia is not using the Public Private Partnership (PPP) approach, this should be used more broadly and be a more open subject. Ineffective usage of the EU or state funds. If a state-owned company uses funds to take business off a private company or kick them out of the market entirely this is ineffective usage of funds. It is unfair competition and kills business.” (Service company)

“Do not be afraid to strategically prioritise employment issues for the next year.” (Retail trade and service company)

“The business environment has to provide more comments to the public sector, but they also need to listen and act, so we see results. It's easy to say act faster, but we see the efforts yet we do not see result. That's how you lose trust.” (Retail trade and service company)

“I do not care that much about the cooperation, but what is missing is the strategic direction of where the country is heading and the efforts to fulfil these. The country is developing but again, access to labour, demography are problems that, if not solved in the long-term will become a large problem. The negative growth of the country means we will have fewer people and we already have shortages. Where do we want to focus our effort? It is not just enough to focus on security and defence. Long-term focus is necessary. We do not need fantasy documents, but real things and actions. To attract 'green' field development, we need to think about construction permits, access to infrastructure, high-level skilled labour, energy prices - all of this need to be addressed.” (Retail trade and service company)

“Try to find a way to ensure the collation of opinions and recommendations from the private sector, outside of formal and traditional formats. It is necessary to communicate, not only with known and established companies but also with smaller companies from different regions.” (Retail trade and service company)

“I have high hopes for the new Energy and Climate Ministry to consolidate the responsibility over green and sustainability topics. We hope there will be good governance for these questions, especially for the energy and transport sectors. At least what we have experienced when it comes to green and sustainability questions is that there were 3 to 4 ministries responsible and no clear accountability.” (Retail trade and service company)

“International industrial investors with a long-term perspective should be welcomed and not be seen as a threat.” (ICT company)

“Mr Prime Minister, I wish you would have extraordinary courage and say no to painful compromises to better our future. We need tough decisions, this is the last moment that we can use this because we are heading in the wrong direction and towards stagnation fast - all through compromises that do nothing at the end of the day. Solving workforce issues is part of this courage, complex decisions need to be made, if we do not solve demography issues - this country will cease to exist.” (ICT company)

“In times of crises, we would like to, as entrepreneurs, be involved in serious matters in advance. The two recent crises Covid-19 and war has had a significant impact. Our business was also impacted because we have a significant no. of employees that need to be present. Any advance notices in terms of calls to events and not only official letters would be good. More proactive communication from the government is needed.” (ICT company)

“The priorities should stay the same, not change every 4 years. The country should have a clear vision of where it wants to go.” (Manufacturing company)

“We all know that demography is a big problem in Latvia, but there have not been any improvements. This is an area where we would benefit from having the academic side and private and public sectors together to start figuring out what we can do to deal with this problem.” (ICT company)

“Latvia is a great country, huge opportunities and a big will to change. But someone has to do it and probably the government is the one to do it. The government has to be proactive and avoid Soviet-time thinking. Look at the neighbours and young people to learn the best examples and adjust.” (Real estate company)

“Communication still has to be improved, sometimes it is still very formal and slow and this leaves a negative impression for society and businesses. There are also good examples, Latvian Patent Office is a very good example. Negative - State Food and Veterinary Service who will spend months on just formal issues without getting anything done. Some topics are very scattered among various institutions, it would be helpful to understand who is responsible for what. We need more one-stop-shops for the public sector as well. Green Deal, development of technology and electronic communication is another topic that is scattered, where we need a unified approach to solve issues quickly and move innovation forward.” (Professional assurance and advisory services company)

“I encourage making workshops about different serious issues, such as energy sector, education, demography. The cooperation between the government and foreign investors is needed.” (Manufacturing company)

“Bridge the communication gap close to everyday level. Often the situation is that politicians announce one vision, but the public servant execution in practice is completely different. Every institution should work on increasing their own level of communication, as businesses have seen how important it is to raise their communication both internally and externally. Politicians should also listen to the recommendations proposed by the public servants. Politicians talk more about the general picture questions, but they might now always see the smaller important details.” (Manufacturing company)

“Mr Prime Minister, we need more logic and less bureaucracy. We have smart and capable people available, we need to learn how to attract them to the public sector and give them the rights tools to carry out necessary tasks. We sometimes drive these people away with imitations of work. There are many hurdles, many different islands that live in their own world. There are also many great people who work in the public sector but bureaucracy also impinges their development. We need to look more towards strategy, not simply looking at what's written in the law down to the last letter, but we should focus on how to achieve the goals that we have actually set. A thorough review of processes and cooperation and budgets is in need, how people approach problem-solving in the public sector as well. We are at the point where change is vital, the public sector cannot keep working in the same way that it has until now. Less bureaucracy, more logic. Attract more people who can use their logic to move the country in the right direction and use their time wisely.” (ICT company)

“Continue to put public interests as priority no. 1. I recommend developing an open dialogue with experienced and intellectual business partners from industries with high standards of business ethics who think in the long term.”
(Retail trade and service company)

“Latvia is a great place to start cooperation and build business, the country’s development for the last 30 years has been rather spectacular. Subsequently, Latvia should strengthen economic cooperation with other EU Member States, also foster internal cooperation between businesses and officials. Everyone should work together to achieve greatness and prosperity. To boost economy in the right direction, state-owned enterprises should tap into capital markets with green IPOs or bonds, thus allowing 2nd pillar pension managers to invest locally rather than in the markets of other EU Member States, or even the US. Therefore, the funds would stay in Latvia, boosting Latvia’s economy. The state should also continue to educate entrepreneurs regarding available financing sources to help them grow and expand in other countries.” (Professional assurance and advisory services company)

“Issues such as non-transparent regulations, ineffective court systems and very formal and bureaucratised public institutions need to be addressed. These are risks that need to be addressed, otherwise investment and investment plans are out of the question. We as businesses are at the core of overall country growth. Need to remove bureaucracy levels to really grow. The public sector must be quicker and transparent and serve in the market interests, not specific interests of some player.” (ICT company)

“Need to strengthen the state-owned corporation councils and continue the work. There is visible resistance to the current progress. Need to strengthen councils and aim for greater centralisation. If we take away the businesses from ministries, then they will have more resources and options to create good policies for their areas of competency and the councils will have more private sector professionals.” (Finance and banking company)

“It’s a compliment from me - I respect our prime minister very much and I admire his diplomatic abilities.” (Service company)

“I recommend defining strict goals for improving the investment environment and attracting more investment. I wish that the PM could be proud of how much foreign investment has been attracted.” (Professional assurance and advisory services company)

“Listen more to sector professional opinions. Based on the fact that our politicians are political actors and jump from one ministry to another and they do not have strong professional sector knowledge, it means they should listen closely to the needs of associations and sector professionals such as FICIL. Also, ministers should have some knowledge and experience in the area they will be working in.” (Service company)

“Support innovation and investments in Latvia and to make it competitive for attracting investments in comparison to the other Baltic States. Latvia has a vast available area to build factories, good ICT potential, workforce. The government needs to be proactive and make brave decisions, and act proactively to attract investment so that we are one step ahead. Need to market Latvia as an investment attractive country.” (Service company)

“From an international point of view, one thing you cannot change is that Latvia is one of the smallest EU states. If you have this situation, it is important to double check how attractive you are for investors, it does not matter where they come from – whether internal or external investors. In this regard, there is still room for improvement. Lots of good things - digitalisation of processes (this is making the administrative process of moving here from abroad easier). For a lot of topics, there are areas that need improvements, such as regulations. Focus on further digitalisation of the whole country. The government must think about how to make life easier for businesses, make Latvia more competitive and as a result attract investment. Examples are, requirements for employees to speak Latvian, but there is a shortage of workforce and if businesses employ non-Latvian speakers, then they must invest in educating the employees themselves. The heavy administrative burden of AML regulations are creating a large amount of work and rules for businesses where it might not even be applicable.” (Retail trade and service company)

“There is no need to reinvent the wheel, instead take what is already there and improve it. Right now, the feeling is that new ministers and parliament are assuming their positions and trying to reinvent the wheel from scratch, but this just wastes time.” (Real estate company)

“Listen to what is said by the investors.” (ICT company)

“I would like for us to judge the government in the same way that businesses are evaluated. If business leaders do not fulfil the set KPIs for a certain time, then they are changed. If there is a mistake, they can fix it, but after several

mistakes, they are let go. The current approach for the government, whereby they can make many mistakes and not achieve KPIs but still remain in power, is not very effective. Need to be fair and responsible. Successful country results are very much dependent on how it is governed – the government, the civil servants etc.” (ICT company)

“More courage to switch off fossil fuel electricity.” (Service company)

“Change the thinking and general attitude of the government towards businesses. The public sector should give good and proactive support to investors, businesses and citizens.” (Service company)

“It is extremely important to continue evaluating and analysing the sectors where the private sector can work (internal and external capital business, not driving them), so that municipalities and state-owned corporations do not enter these markets where there is already enough competition and enough regulation. It is the Public Utilities Commission’s job to regulate the industry, for example waste, energy production, municipalities should not have ambitions to control these sectors in their territories, thereby providing jobs for their friends and families, as this way is not making the sector more effective. Need to reduce the participation of municipalities in the private market and not invest in sectors where the private sector can participate efficiently. Instead, municipalities should focus on education, healthcare, culture and an infrastructure where they are much more effective and avoid going into sectors where the private sector is working, this also will pave the way for future investments.” (Service company)

“The potential for renewable energy in Latvia is high. If the state, due to a lack of understanding, does not intervene in the market but instead helps foster fair competition for all companies (also the state-owned ones), then there will be good progress. The same rules are in play for state-owned corporations than for private market players.

Responsible ministers and the PM should listen more and really delve into important topics. It is not just about increasing grid capacity and additional renewable energy, there are also more details that are important.” (Service company)

“Let’s think about how we can improve the investment climate - then it is just a matter of the technical side and how best to do it. For instance, 3 or 4 years ago there was a working group created under a different PM to attract investment in real estate and the construction industry. It was an excellent way to cooperate with different stakeholders, the PM allocated a very experienced person to the working group and called representatives from different ministries. They had a very good list of actions to implement and we implemented just a small part, but the trend was quite good. There was a feeling that the PM was very interested in improving the situation. Maybe it is an idea to consider establishing such a group again with targets to increase foreign investments in Latvia. Otherwise, it is very hard to improve the situation in Latvia, there needs to be some kind of investment from the outside, not just to use our internal resources. As a simple example, the government took the decision to develop some huge wind parks with two state-owned companies – ‘Latvia’s State Forests’ and ‘Latvenergo’, allocating a few billion euros to this programme, but there are so many private companies that want to do this, why use this money when you can attract outside funds to develop this? The main question is how to do these things, of course it is necessary but we should ask what is the best approach? The biggest task for the government is to change regulations and legislations to create an investment friendly climate, it is the main factor of success.” (Real estate company)

“Unfortunately, out of all the Baltic investment agencies, Latvia has the weakest one. Whether the approach in Lithuania is right, with the saying that if you kick them out of the door, they will come through the chimney, I have heard that because of this attitude investors have decided to go to Lithuania. The Estonian agency is very professional, Lithuania is also professional. You just need to open the website to see the difference, these agencies are professional and sales orientated, in comparison to Latvia where the Latvia Investment and Development Agency (LIAA) feels like it is very much part of a ministry. There was this ‘Magnetic Latvia’ initiative.. now it is being cancelled but there is nothing in its place. What they do not fully understand right now is that their competition among the Baltic States for investment attraction is very serious. Now we are just one of the many countries. What is crucial here is that Latvia is missing a unique selling proposition, for Estonia it is clear - digital; Lithuania - automotive, laser technologies, business services centres, fintech. For Latvia, this is lacking. Latvia really needs to develop a USP and needs to reform LIAA as a sales organisation. Significant reforms are needed in public administration and LIAA.” (Wholesale and retail company)

“If the regulation of the use of secondary data is arranged, it can contribute to attracting investments and improving the investment environment.” (Wholesale and retail company)

“Greater involvement of entrepreneurs in the decision-making process. More active dialogue.” (Retail trade and service company)

“Need to evaluate the professionalism of the civil servants and then politicians need to listen to them. If we look at renewable energy resources, then I would suggest making rules that are fair for all companies, be it foreign capital or local capital and create an even competition both for private and state-owned companies. Only in this way will the society get the most benefit if the approach taken to set the rules is fair and equal.” (Service company)

“Communicate and communicate again, don’t be afraid to communicate the negative. Communicating both the positive and negative creates mutual trust. Don’t be afraid to communicate and admit mistakes and what has not been working well - by admitting mistakes they can easily be corrected and changed for the better.” (Service company)

“For the prime minister, we wish him endurance and peace, and the ability to manage all the stakeholders’ wishes. The healthcare sector needs additional investment, while the culture sector can wait. There are certain sectors that are essential for Latvia's development where the private sector cannot enter, and these need to be strengthened a lot, like the general healthcare.” (Finance and banking company)

“The increased efficiency of the public sector.” (Manufacturing company)

“(1) Ambitious goals, (2) Human capital, (3) Transparency i.e: (1) Latvia should push for higher more ambitious goals (it's not okay to be 3rd in the Baltics), (2) REAL reforms in attracting human capital and salary levels, education and health sectors, (3) Transparency principle everywhere (zero tolerance for shadow economy and corruption)” (Finance and banking company)

“Human capital policy - look and involve professionals that can assist with new approaches and implement real and positive changes. Also related to accountability, bad decisions should have consequences and corruption should not be tolerated. Good, professional human capital will have drive and provide the competency needed.” (Professional assurance and advisory services company)

“Several topics are being raised repeatedly through different channels – trade organisations, FICIL, personal meetings and conversations. The challenges that companies face do not change much, however, it is hard to see that those issues are being followed up, prioritised or tackled. A way to ensure feedback and follow up should be found to improve the cooperation. We appreciate the opportunity to speak up and deliver messages - what is currently missing is the feeling of being heard. Availability of workforce from 3rd countries (would also support internal demand) and equalising labour tax rates and other labour cost related costs – are still critical for competitiveness of the Latvian production industry and there has been no positive development in these areas so far.” (Manufacturing company)

“I hope your whole minister teams actually work as a team. You need to support each other. We see positive movements concerning the planning of the human capital policy. I hope you can move from planning to action. Don’t be afraid to ask for help when undertaking new tasks. There is vast knowledge in the private sector and people are willing to share. It’s better to do it more slowly and correctly, than quickly and making mistakes. You can’t be a solo warrior - you need a good team around you. Another aspect is integration issues in society, this is at the bottom of many different problems, I hope you can tackle this question effectively, so we all live in a unified society that wants the same thing for this country – to move it forward, to see economic and social progress.” (Professional assurance and advisory services company)

“Public sector governance change is required to increase and simplify cross-ministry collaboration, without decreasing accountability, to address significant issues such as (and not limited to) Energy and Green Deal, Crisis Management, Digital, Education, etc.” (Finance and banking company)

“Mainly, you need to make this new government structure work, with more horizontally aligned ministers. Do you have a clear plan on how to improve cooperation? How are we going to move the country forward? We appreciate the new Climate and Energy Ministry, but we need to see results and cooperation among ministers and public sector officials. The shadow economy is another aspect, also in relation to the public sector, they need to actually combat it, not just set goals that are not achieved. The shadow economy problem is persisting, it is difficult to capture companies who are playing outside the lines so this needs to be monitored more closely.” (Manufacturing company)

“The state priorities should be few, based on data, focused and defined in a specific and clear manner with clearly measurable desired outcomes (KPIs) and clear links to each ministry and institution as to how they are contributing to achieving that goal and how that contribution will be measured.” (Professional assurance and advisory services company)

“Economic competitiveness is a key driver for any country to develop as a nation. Please benchmark Latvia’s competitiveness to its peers in the region, define measurable KPI’s together with FICIL and commit to a long-term activity plan with a target to become the preferred investment destination in the Nordic/ Baltic region.” (Real estate company)

“The transparency of decision-making and the involvement of business representatives in them ensure a sustainable environment for economic development.” (Manufacturing company)

Appendix 1. Foreign investors that took part in the 2022 study.

AFI Europe

AFI Europe is part of AFI Properties, one of the leading real estate development, management and investment companies, operating in Central and Eastern Europe since 1997. The company owns, develops and manages properties and projects in Bulgaria, the Czech Republic, Hungary, Latvia, Poland, Romania and Serbia, with on-the-ground teams comprising nearly 200 professionals.

ATU Duty Free

ATU DUTY FREE is a joint venture between TAV Airports and UNIFREE Duty Free/Gebr. Heinemann. ATU welcomes millions of travellers around the globe each day, serving them with the world's most desirable brands through a portfolio of sparkling duty and tax free shops, brand boutiques, concept stores and sub-contracted stores.

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 42 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.

BITE

BITE is the fastest-growing mobile communication operator in Latvia, for already more than seventeen years providing modern, innovative mobile communication services matching the customers' desires and needs. Currently, more than 20,000 companies have chosen BITE as their information technology and telecommunication services provider. BITE annually invests approximately 10% of its turnover in development of its network infrastructure and services. BITE employs over 800 people. 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 29+ years of experience in the insurance market, as well as more than 606,000 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. In addition, under licensing agreements, approximately 2,250 stores are operated under the Circle K banner in 16 other countries and territories (Cambodia, China, Costa Rica, Egypt, Guam, Honduras, Hong Kong, Indonesia, Jamaica, Macau, Mexico, Mongolia, New Zealand, Saudi Arabia, the United Arab Emirates and Vietnam), which brings the worldwide total network to more than 16,000 stores.

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.

DHL Latvia

DHL is the world's leading logistics company. Their 395,000 people in over 220 countries and territories work every day to help costumers cross borders, reach new markets and grow their business. DHL transports everything, from heavy trains and satellites to small but essential rubber stoppers that seal vaccine doses.

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 97,000 employees and 67,000 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.

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.

Enefit Green

Enefit is the second largest electricity trader in Latvia. Along with the broadest range of electricity purchase products available on the market, Enefit also offers energy solutions, natural gas and support instruments for energy efficiency improvement, as well as installation and financing of solar panels. Parent company of the Enefit, Eesti Energia is the largest wind energy producer in the Baltic States. Enefit was founded in 2006, and it is a registered electricity and gas trader in the entire territory of Latvia. In the international market, Enefit is represented in Estonia, Lithuania, Poland and Finland.

Eolus Vind

Eolus is the leading wind power developer in the Nordic region. Today, they develop, establish and manage renewable energy projects in wind power on land and at sea, solar power and energy storage. The company offers attractive and competitive investment opportunities in the Nordic region, the US, Poland and the Baltics to both local and international investors. With their competent and dedicated staff, we are taking the company forward at a rapid pace and driving the transition to renewable electricity generation. The company's main business is to design and construct facilities for renewable energy and energy storage. Eolus currently has operations in Sweden, Norway, Finland, the US, Poland, Estonia and Latvia.

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 3,000 lawyers and 750 partners. 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 20+ locations, their constantly growing team of 12,000+ 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 modern studio in Riga, 3,000+ 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.

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 a proud member of Graanul Invest group, the global leader in wood pellet production.

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. Gren employs over 340 people in Latvia, Lithuania, Estonia, Finland and Sweden.

Ingka

Ingka Group consists of three business areas. Core business is IKEA Retail, which consists of 379 IKEA stores across 31 markets and counting. Each year, Ingka group welcomes 657 million visitors to these stores, and have more than 3.8 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 44 experience-oriented shopping centres across Europe and China.

Knauf

Knauf is one of the world's leading manufacturers of construction materials for interior design, building insulation, and design ceilings. Knauf plants across the globe produce state-of-the-art drywall systems, plasters, and insulating materials as well as external thermal insulation composite systems. Knauf has 220 production facilities and sales organisations in over 60 countries and 23,000 employees worldwide. The Latvian branch of the company was established in 1994.

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 236,000 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 over 2000 staff.

Lidl Latvija

Lidl is a successful chain of grocery stores and have been expanding strongly throughout Europe for over 40 years. Lidl currently operates around 12,000 stores and more than 200 goods distribution and logistics centers in 32 countries, offering top-quality food and non-food products at the best price and employs over 360,000 people.

Linstow

Linstow is owned by the Awilhelmsen Group, a large international investment company. Linstow Baltic is one of the leading real estate companies in the Baltics. The company owns, develops and manages properties within various segments. Since 1996, Linstow's Baltic subsidiary has been Linstow Centre Management – the region's leading developer and operator of shopping 88 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.

Maxima

Maxima Latvija is the leading retail chain in Latvia. Every day around 300,000 clients visit their stores, which are run by more than 7,000 employees. The company is part of the Maxima Grupe holding, the largest retailer chain and employer in the Baltics, providing jobs for more than 38,000 employees in five countries: Lithuania, Latvia, Estonia, Poland and Bulgaria. For multiple years, Maxima Latvija has been acknowledged as the top retail brand in Latvia and the Baltics, and a top 3 overall brand in Latvia. The Sustainability Index has placed the company in its platinum category, while Prudentia and Nasdaq Riga named Maxima Latvija as the most valuable retail company in its Top 101 ranking.

MGI Tech

MGI Tech Co., Ltd. (referred to as MGI) is 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. Founded in 2016, MGI operates in more than 80 countries and regions, serving more than 1300 customers.

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 228th 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. 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"). In 2022 "Narvesen Baltija", representing Narvesen and Caffeine brands in Latvia, changed its name to SIA "Reitan Convenience Latvia".

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 to the international industry standards, 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 Baltics AIFP, established and registered with FCMC in 2021, is a fund manager administering a value-add real estate opportunity fund, NCH Baltic Real Estate Opportunity Fund I which targets primarily cash flowing urban logistics properties in Estonia, Latvia, and Lithuania at acquisition costs below their replacement values. NCH Baltics AIFP is a part of the NCH Capital Inc. group of funds. 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 over 76 fuel stations in Latvia. Neste employs more than 4900 staff.

Omniva Latvija

Omniva is an international logistics company owned by the state of Estonia. Omniva ensure the sending of parcels and forwarding of information, serving nearly 10,000 business customers across the entire territory of the Baltic States. They are one of the largest employers in Estonia and also provide jobs in their agencies in Latvia and Lithuania. Omniva holding company employs around 2,600 employees who are mainly located in Estonia, as well as some 100 employees working in Latvia and Lithuania.

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 1000 employees and exports goods to over 20 countries. The company opened its new factory in 2022, making it its 4th factory in Latvia.

PricewaterhouseCoopers

PwC is a network of firms across 152 countries with more than 328000 people who are committed to delivering quality in assurance, tax and advisory services. PwC firms provided services to 84% of the Global Fortune 500 companies. 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 12000 people across the Baltics. Currently, Rimi Latvia operate 138 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 420300 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 one of the world's largest biotech companies, as well as a leading provider of in-vitro diagnostics and a global supplier of transformative innovative solutions across major disease areas. 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 and employs over 1600 people. 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.

Sorainen

Sorainen is an international business law firm working as one integrated team for a single goal – helping clients succeed in business. With 45 partners and more than 250 lawyers and tax specialists, Sorainen have helped over 15000 clients on all business law and tax issues involving their region. Founded in 1995, the firm has worked on many significant mandates for international and local clients.

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 21000 employees and is publicly listed on the Helsinki and Stockholm stock exchanges. The shares are traded in the USA. Stora Enso sales in 2022 were EUR 11.7 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 7.06 million private customers and 554000 corporate customers. To support their businesses, Swedbank also has international branches in Norway, Finland, Denmark, the US, China, and South Africa.

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 and together with their service companies, TAV Airports global footprint reaches 90 airports in 29 countries. TAV Airports also provide duty free, catering, ground handling, IT, security, and lounge services, they served around 78.5 million passengers in 2022. 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 HAVAS, serve at Riga Airport.

TELE2

Tele2 is leading the development of connectivity infrastructure in a number of markets around Europe and Asia. Tele2 employ more than 4400 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.

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

Tieto Latvia is one of the leading information technology companies in Baltics. Tieto employs more than 1100 employees. Their company specialises in complex, large and vital information system development, implementation, integration, customisation and maintenance - enterprise resource 92 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 for over a period of 25 years, 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 employing more than 450 people, 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.

Unifiedpost

Unifiedpost supports enterprises in making the transition from paper-based processes to automated digital processes. By connecting their clients with their stakeholders, Unifiedpost automate sales and purchase transactions and unlock liquidity. Unifiedpost was founded in 2001 and now is in 32 countries.

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. Their activities are undertaken in 9 countries across Europe.

Ventspils nafta terminals (VNT)

Ventspils nafta terminals (VNT) is the largest and the 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. VNT brand is not just a logo or name, it is a state of mind uniting the company's customers, suppliers, shareholders and employees.

VERDE

Capitalica Asset Management is Lithuania based investment management company that develops and manages commercial real estate properties. Their objective is to ensure the long-term growth of returns to shareholders through investments made in commercial real estate across the Baltics. Relying on unique investment experience, Capitalica Asset Management manage two investment vehicles: Capitalica Baltic Real Estate Fund I and Green Logistics Fund. The greenest offices in Riga, VERDE is being developed by Capitalica Asset Management, and financed by Capitalica Baltic Real Estate Fund I (30% of total investment) and SBA Group (70% of total investment).

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 170 companies across Europe and South America, employing more than 14000 people and serving 1.4 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.

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 almost 100000 employees and have production facilities in 18 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 around 5000 professionals in 9 countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania, the Czech Republic, Slovakia and Poland. Their revenue in 2022 was EUR 2.4 billion EUR. YIT Corporation's share are listed on Nasdaq Helsinki.

Appendix 2. Guidelines for interviews: 2022 study

FICIL Sentiment Index 2015-2023: Governance edition

Interview Guidelines, 2022 study

This year the focus of the research is directed at governance issues in the public sector. Companies will be asked to comment on cooperation with the public sector, the governance of issues affecting the investment environment and potential public sector transformation and digitalisation.

- HAS THERE BEEN ANY PROGRESS DURING THE PREVIOUS 12 months 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	<i>Brief comment: how crucial are these issues, are there any good initiatives that have been implemented by policy makers?</i>
Demography				
Access to Labour				
Level of Education and Science in Latvia				
Quality of the Business Legislation				
Quality of the Tax System				
Support from the Government and Communication with the Policy makers				
Unethical or illegal behaviour by entrepreneurs, unfair competition				
Uncertainty				
The Court System in Latvia				
The Healthcare System in Latvia				

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

1	2	3	4	5
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Comment:

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

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

Comment:

4. Please evaluate from 1-5 the following drivers of Latvia’s economic competitiveness from 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)	
Availability of labour (management level)	
Availability of labour (‘hands’)	
Efficiency of labour	
Low production costs	
Tax system	
Legal system	
Standard of living in Latvia	
Attitudes towards foreign investors	
Investment incentives	
Defence	
Energy resources	
<i>Other (please specify)</i>	

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

6. Please evaluate the effectiveness of public sector with respect to proactively dealing with challenges Latvia is currently facing? (scale of 1 to 5, where ‘1’ is not at all effective, ‘3’ is average and ‘5’ is very effective) (horizontal governance approach)

1	2	3	4	5
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Comment:

- 7. Please evaluate your cooperation with the public sector (communication, responsiveness, understanding of issues of concern to your sector) from 1 to 5, where 1 is poor, 3 is average, 5 is excellent cooperation.**

1	2	3	4	5
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Comment:

- 8. Please name up to 3 priorities the next public sector reform/modernisation should focus on: (problems to be addressed and solutions)**

- 9. Please evaluate corporate governance efforts in state and municipality companies (where 1 = Poor; 2 = Fair; 3 = Good; 4 = Very Good; 5 = Excellent)**

Overall corporate governance efforts in state owned enterprises:

1	2	3	4	5

Overall corporate governance efforts in municipality owned enterprises:

1	2	3	4	5
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Please name potentially 3 positive examples and 3 negative examples of corporate governance in state or municipality owned companies.

Positive examples:

-
-
-

Negative examples:

-
-
-

- 10. Your message to the prime minister that we deliver in closed envelope: one paragraph on what should be done to improve the cooperation among politicians and public sector officials to develop the economy of Latvia.**