



THE INVESTMENT CLIMATE IN LATVIA: THE VIEWPOINTS OF FOREIGN INVESTORS

FICIL Sentiment Index 2015

Arnis Sauka



FOREIGN INVESTORS
COUNCIL IN LATVIA

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SSE RIGA

**The Centre for
Sustainable Business
at SSE Riga**



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COUNCIL IN LATVIA**

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Foreword

The Foreign Investors' Council in Latvia represents the thirty largest companies from various countries and sectors that have made significant investments in Latvia as well as twelve international chambers of commerce. Our corporate member companies represent approximately 30% of all foreign direct investment in share capital of companies in Latvia and contribute around 15% of total budget revenues. The last few years have not been easy for Latvia: first, the economy was hit hard by the financial crisis, and this was followed by serious complications in the geopolitical scene in neighbouring countries. This has had implications for investment flows as well – investors have become more cautious and FDI flows have recently declined. We have seen another trend – expansions have become a more important part of investments as opposed to investments in new sites.

Investors decide to establish operations in a particular place due to certain fundamental determinants, such as availability of skilled workforce, access to resources, market size or increase in productivity. There are also incentives offered by the governments that are considered, but they usually come secondarily. Unfortunately, due to many reasons, Latvia does not stand out as a preferred or obvious choice for investment. So, let's think about what could and should be done to keep investments coming and investors investing. There are many positives: it will bring jobs and create economic spillover, it will make existing companies more competitive and the quality of life higher. Having a well-functioning and prosperous economy, which is well linked with the global world may help to mitigate some of the geopolitical challenges we face.

By conducting a survey of existing investors in Latvia in cooperation with SSE Riga we get valuable insights on the investment climate in Latvia. Companies that have made the decision to invest in Latvia share with us their analysis of the investment climate in Latvia, their plans for future investments and their key concerns. This, I hope, will serve as a good tool for improving the overall investment climate in Latvia.

The mission of the Foreign Investors' Council in Latvia is to improve the business environment in Latvia through active dialogue with the government. We want to see existing investors investing more and certainly many more investors coming to Latvia. On behalf of FICIL, I hope that the FICIL Sentiment Index will provide good material for fostering our dialogue with the government and achieve long-term and sustainable economic growth.

Girts Greiškals
Executive Director, FICIL

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I. INTRODUCTION AND METHODOLOGY

The aim of this report is to foster more evidence-based policy decisions to further promote a favourable investment climate in Latvia. We aim to achieve this by summarising the key concerns and suggestions of the main foreign investors in Latvia – representatives of companies that have made the decision to invest in the country and have been operating here for a considerable time period. The report draws on a survey – mini case studies of foreign investors in Latvia – that is a joint effort of the Foreign Investors' Council in Latvia (FICIL) Sustainable Economic Development work group. This group was created in 2014 as an initiative of FICIL and consists of the following participants:

Aldis Alliks, ALLIKS un PARTNERI
Valts Ābols, GlaxoSmithKline
Ingrīda Blūma, Food Union
Oliver Bramwell, Norvik banka
Agnese Garda, Klavins Ellex
Aivars Jurcāns, KPMG
Kristīne Kalvāne, KPMG
Kaspars Kauliņš, Pedersen&Partners
Mats Kjaer, SSE Riga
Guntars Krols, EY
Hamid Ladjevardi, American Baltic Investments
Jānis Loze, Loze & Partners
Alla Mamikina, Pfizer
Jūlija Māsāne-Ose, KPMG
Toby Moore, Imprimatur Capital
Edgars Pīgoznis, Food Union
Mārtiņš Pujats, Telia Sonera
Arnis Sauka, SSE Riga
Normunds Staņēvičs, Food Union
Juris Stinka, Philip Morris Latvia
Nellija Titova, SSE Riga
Juris Ulmanis, Riga Business School
Ieva Urbanoviča, Varul

The methodology for conducting the mini case studies was designed by Oliver Bramwell (Norvik banka), Jūlija Māsāne-Ose (KPMG) and Arnis Sauka (Stockholm School of Economics in Riga). The methodology was also discussed within the wider FICIL Sustainable Economic Development work group, which contributed to the further development of the interview guidelines used in the mini case studies. In-depth interviews with foreign investors – mainly FICIL members – were conducted under the supervision of FICIL. The interviews consisted of the following main parts:

We started out by asking foreign investors to identify 3 to 5 key areas of concern with respect to the sustainable economic development of the investment climate in Latvia. Respondents were asked to specify any immediate/short-term priorities for development as well as long-term priorities. Discussion then proceeded with the following questions: “Why have you invested in Latvia and, apart from solving the concerns mentioned previously, what would be other potential drivers for you to increase investment in this country?” and “Please name areas where Latvia has been successful in its economic development, including the developmental environment for entrepreneurship”. Whenever possible, respondents were asked to provide examples illustrating their opinions.

Interviews then proceeded with investors' evaluations of the key drivers of Latvia's economic competitiveness. We provided investors with a list of the most important factors affecting companies as derived from discussions within the FICIL Sustainable Economic Development work group. Respondents were asked to evaluate these factors on a scale of 1 to 5, where 1 means that Latvia is not competitive with regard to this factor and 5 means that Latvia is very competitive in this area. The factors are summarised in Table 1 and are used to calculate the FICIL Sentiment Index 2015 (see Section III).

Table 1: Factors potentially affecting the competitiveness of Latvia

Business culture
Demography (population growth)
Education and science / innovation
Health system
Social security
Infrastructure (roads, electricity, etc.)
Domestic demand
External demand (exports)
Industry traditions
Availability of labour (management level)
Availability of labour ('hands' lower level)
Efficiency of labour
Low production costs
Monetary policy
Tax system
Legal system
Attitude towards foreign investors
Investment incentives
Defence
Energy resources
<i>Other (please specify)</i>

Source: FICIL survey

In order to provide a more in-depth picture of the influence of each factor as stated in Table 1, the interviews proceeded with a discussion that draws on the topics summarised in Appendix 1.

At the end, we also asked respondents to provide policymakers with further suggestions on top priorities that need to be implemented in order to (i) increase foreign investment in the country and (ii) improve the environment for entrepreneurship in Latvia. Finally we asked for investors' suggestions on communicating Latvia as a place for investment – who should do that and what the most appropriate methods would be.

28 mini case studies were conducted from May through August 2015. A short introduction to the companies that were involved in the study is presented in Appendix 2. Most of the companies chose to remain anonymous; thus, in the results (Section II) and quotes (Section IV) of this report the company names are excluded.

The report proceeds as follows. In the next section, drawing on the mini case studies (interviews with the 28 investors selected), we summarise the key results of the survey, including advantages and disadvantages as perceived by investors when it comes to working in Latvia. Section III, however, proceeds with investors' assessments of the economic competitiveness of Latvia, i.e. the FICIL Sentiment Index 2015.

In order to provide a more in-depth picture of the investors' viewpoints, in Section IV we additionally present quotes derived from all 28 mini case studies. The quotes are organised similarly to the presentation of the main findings in Section II. Namely, we first address issues such as key areas of concern with respect to the sustainable development of the investment climate in Latvia and which areas Latvia has been successful in over the course of its economic development. This is followed by a summary of why companies have invested in Latvia, what potential drivers to further increase investment would be, whether the investment attractiveness of Latvia has improved over the past year and whether investors are planning to invest more or less in the coming years. The section continues with subsections on the main gaps between expectations and reality when the investment was made and a brief evaluation of Latvia's (unused) potential. We conclude by presenting quotes on investors' suggestions on communicating Latvia as a place for investment.

II. KEY RESULTS: THE VIEWPOINTS OF FOREIGN INVESTORS ON THE INVESTMENT CLIMATE IN LATVIA

This section summarises the key results from 28 mini case studies – in-depth interviews with foreign investors in Latvia. For more detailed information on investors’ viewpoints, please see Section IV, which presents quotes from the mini case studies.

The section starts with the main findings representing investors’ concerns when it comes to the sustainable development of the investment climate in Latvia. We then turn to areas where, according to foreign investors in Latvia, the country has been successful in its economic development. The next section summarises the reasons why investors have invested in Latvia and what their potential drivers to further increase investment would be. In the following subsection, however, we analyse whether, according to investors, the investment attractiveness of Latvia has improved over the past year and whether they plan to invest more or less in the coming years. This section concludes with an assessment of the main gaps between expectations and reality when the investment was made, a summary of findings with regard to investors’ viewpoints on Latvia’s unused potential and suggestions for communicating Latvia as a place for investment.

1. Key areas of investors’ concerns with respect to the sustainable development of the investment climate in Latvia.

From the relatively long list of various concerns when it comes to the sustainable development of the investment climate in Latvia, a number of issues stand out. They can be summarised under the following three broad topics (in order of priority):

(1) DEMOGRAPHY AND ACCESS TO LABOUR;

(2) EDUCATION, SCIENCE AND VALUE ADDED;

(3) LEGISLATION AND GOVERNMENT SUPPORT

Indeed, close to all interviewed investors express major concerns with regard to **demography and access to labour in Latvia**. Emphasising the quality of the existing labour force, the majority of interviewed companies highlight the lack of quantity of all types of labour – both white-collar and blue-collar. In this light, companies strongly call for controlled, regulated immigration as well as clever re-emigration to solve the increasing demographic challenge. Since lack of employees directly influences business activity, we can expect that companies might take steps to import labour at any cost in the nearest future (some interviews show this already). Needless to say, policymakers in Latvia should be very cautious with regard to this trend and, we believe, take appropriate steps to improve the situation as soon as possible. The following quotes illustrate the opinions of the majority of the companies that took part in the study:

“We have to revisit and critically look at immigration policy in Latvia. We live in the illusion that we have high unemployment in Europe and that we have the State Employment Agency re-qualifying the unemployed, but low-skilled employees still constitute a problem. If we had access to non-EU countries’ workforces, it would make us more competitive.” (Manufacturing company).

“We need improvements in this (i.e. demographic) sphere. There are two aspects to the issue: 1. What is happening to the people who live here (are birth rates higher than death rates?; are more people leaving or returning?) 2. Areas where the consequences of the Soviet era can be felt – immigration, possibilities to import the labour force. It is interesting that in several industries the labour force is already being imported, e.g., from Romania, Bulgaria and other countries. But this is an exception, not a tendency. The government has to work in order to improve the feeling of stability and security of new families, which in turn will increase the size of families. Also, if there were new interesting jobs, some emigrants might return.”
(Wholesale and retail company).

“Our business is internal-market-oriented. ... (thus our big concerns in Latvia are:) demography, emigration, ageing of the population. The government is unable to offer support to companies to keep professionals in Latvia. We are thinking of importing skilled labour.”
(Technology and communications company).

“Controlled, regulated immigration as one of the solutions for the growing demographic challenge.”
(Finance and banking company).

“Smart and controlled immigration should be considered. In the ICT industry physical immigration may not be needed as much as in other industries as many industry players are already using foreign labour. Ukraine, Russia and Belarus have many potential employees with high competencies; however, the current immigration policy is very closed, due to which Latvia fails to realize the potential that can be achieved through highly skilled workers from abroad.” (Technology and IT company).

Next, the following quote from one of the case studies represents the major concerns of foreign investors in Latvia when it comes to **education, science and value added**:

“Education is one of the key aspects in developing strong economic fundamentals, but this needs to be a political choice. It is important for Latvia to educate people and to develop new industries that will produce high value added. The labour cost advantage that is here today will not be there in the longer term and this is why education should be a focus.”(Real estate company).

In this light, the majority of interviewed companies are far from satisfied with the level of education and vocational training in Latvia. Among other things, companies are concerned about the quality of mathematics, physics and chemistry teaching in high schools. Access to good engineers seems to be a major problem for manufacturers, but the need for educated and, most importantly, innovative managers, is also obvious. Cases also demonstrate specific needs for ICT, retail and other industries, yet altogether companies would like to see value added, innovation-driven education and training of labour as priorities in Latvia. In short, this study once again highlights what has already been discussed in the public media for a number of years – the need for reforms in the educational system combined with more and smarter investment in science, both fundamental and applied (as one creates the other). Investors believe that this would advance the potential of skilled labour in Latvia, thus creating more value added, and we share this view. The following quotes illustrate the viewpoints of investors in more detail.

“From the state’s perspective the main concern should be education and innovation – this is about investing in people and this is what will bring the most wealth in the future.”
(Wholesale and retail company).

“Are universities providing a quality workforce? It is difficult to judge with regard to business management, social sciences, lawyers, etc. This is more linked to the capacity of any given individual. Regarding technical sciences – what is provided is not enough and it is separate from the needs of business. Education needs to look 10 to 15 years ahead. At the moment the education system is lagging behind business rather than being a motor for it.” (Professional assurance and advisory services company).

“The long-term (challenge for Latvia): review of university programmes, tailor more to the market, including offering language skills. EU funds could extend the scope of trainings financed to support the qualifications needed (like languages). We are an SME, but in the future we might not be considered for support because of our large mother company. This would be a negative signal for long-term investment policy in Latvia.”
(IT company).

“In the education system there is much room for improvement to make it more competitive, to produce people who use their abilities and knowledge with the utmost efficiency. ... Latvia needs to implement the German dual vocational education.” (Wholesale and retail company).

“Higher education is on a very low level according to world standards. No Latvian university is in the top 1000 in the world. You cannot build a prosperous society if there is no good education.”
(Finance and banking company).

“Education, unfortunately, is not of very good quality; as a result, companies need to invest significantly in HR (there are cases where IT specialists need additional training at Riga Technical University after having just graduated from it!); if we think about the long term, our higher education system is very provincial – we will not be able to compete. Universities need to become international; especially since investors increasingly work cross-border it is important that this skill be acquired at universities in an international environment. It is important to have an international mindset ...” (IT company).

Finally, as highlighted above, a broadly defined issue – **legislation and support from the government**, including business regulation, taxes, the tax system and legislation to protect investors – has been emphasised by foreign investors in Latvia as a major problem. More specifically, the majority of companies express concern when it comes to the tax regime, especially competitiveness of labour taxes. Furthermore, several companies also highlight the need for improvements in the Latvian tax system as a whole. Here, companies’ major concern seems to be the inconsistency of tax policy, rather than the amount of the taxes to be paid (except labour taxes). This is represented in the following quotes:

“The tax regime should be predictable and implemented effectively. During the crisis the experience was not favourable. Labour taxes are uncompetitive in comparison with Lithuania and Estonia. If we were to look at hiring a person in the Baltics, we would look at hiring them in Lithuania or Estonia.”
(Technology and IT company).

“The tax and regulation burden in Latvia regarding employing highly skilled professionals makes everything very expensive and we cannot afford to bring in low-skilled employees.”
(Manufacturing company).

“Tax legislation is a big problem as a system. For example, the employment tax is above the EU average... Changes take place so often that we cannot keep on changing our systems and programmes to follow. For example, tax payment prolongation regarding Russian embargo, that was something new for the tax service, they could not support us or give us advice.” (Manufacturing company).

In light of these opinions, we believe that policymakers in Latvia should make their decisions on more analytical grounds. Namely, according to our best knowledge, there has not been proper research in Latvia on how an increase or decrease in certain taxes will affect the state budget. Instead, it seems that the impact of changing taxes is often measured rather straightforwardly – if a certain tax is increased by 1%, budget income will increase accordingly. Moreover, policymakers should be more cautious about changing tax rates too often as this leads to uncertainty when it comes to the “rules of the game” in the business investment, thus making investment much more difficult.

Implementation of “rule of law”, including protection of foreign investors’ interests, as well as dialogue between Latvian policymakers and (representatives of) entrepreneurs that would potentially help to resolve the issues mentioned above seem to be other concerns on the part of investors within this area. This problem is exemplified by the following quotes:

“Rule of law is the central issue – it is a core value that has to be maintained. The issue is how to protect (investors) in a competitive way. You can produce a lot of regulation, but protection can become bureaucracy if it is not managed properly. The fine line between a protective environment from a legal perspective and being competitive at the same time – that is the main challenge that we need to facilitate. Overall, the legal system in Latvia is more or less fine. The biggest concern is the way legislation is interpreted, applied and enforced. There is room for improvement for commercial regulation and enforcement. The investment community needs to see laws working and being enforced properly.”

(Professional assurance and advisory services company).

“Latvian decision-makers are usually quick to follow all the EU Directives and regulations, but are slow to initiate any laws and regulations on their own, without external pressure. The dialogue with social partners and society is not followed through. The government listens; however, very rarely are proposals implemented...”

(Technology and IT company).

According to the survey results, the concerns described above are closely followed by two other issues:

(4) UNETHICAL / ILLEGAL BEHAVIOUR AND UNFAIR COMPETITION;

(5) UNCERTAINTY

Namely, the presence of unethical and/or illegal behaviour as well as the size of the shadow economy in Latvia’s market is indeed an important concern for foreign investors in Latvia. The following quotes describe the viewpoints of investors best:

“We regularly employ workers who elsewhere have received only a salary without taxes, which does not create stability for them. We offer this social stability, pay taxes and for some workers we even pay into their Level 3 pension fund.” (Manufacturing company).

“In the petrol industry there is a lot of grey economy. The estimated numbers in the sphere vary due to different calculation methods: 15-20% grey market. Certain companies that operate legally sell petrol at lower prices than it should be sold at, knowing what the price level is, so this raises questions – how and where they source their product and how strong the State Revenue Service (SRS) is at tracking their potential schemes for tax evasion and non-transparent tax payments. The SRS has been working more actively lately. There are some initiatives (by SRS) but the question is how consistent they are and whether they are really reaching the end game.” (Wholesale and retail company).

“... piracy is widely accepted (in Latvia)”
(Technology and communications company).

Apart from identifying a problem, investors point to potential causes as well as solutions:

“(Many problems in Latvia) are related to the high perceived or existing corruption level, higher than in Estonia and Lithuania. There are only four Prime Ministers in Latvia who have not become millionaires. In comparison, there is only one in Estonia who is a millionaire and he is heavily prosecuted.”
(Manufacturing company).

“The legal system must deliver similar decisions in similar situations. That’s what honesty is about. Predictability is important – similar treatment in similar situations, the results should also be similar. Security is an angle of predictability. If there is a lot of interpretation, there is just one step to corruption. If there is no precedent, there will be different opinions.” (Energy company).

The Stockholm School of Economics in Riga (supported by SEB), together with the Latvian Chamber of Commerce and Industry and the Ministry of Finance of Latvia, have, since 2010, organised an annual conference in May where the size of the shadow economy (SSE Riga Shadow Economy Index for Baltic Countries) is presented and recent achievements in decreasing the shadow economy are discussed. The conference usually also results in identifying further tasks that should be implemented by policymakers to fight the shadow economy in Latvia. Recent recommendations are summarised by Putnins and Sauka (2015, pp. 41, 42):

“For policymakers, our results highlight the need for continued reforms and actions that combat the shadow economy in particular in Latvia. We believe the widening shadow economy gap between Latvia and neighbouring countries (after the gap was nearly closed in 2012) partly reflects the slow-down in Latvian policymaker efforts in combatting shadow activity. The data from 2011 and 2012 support the notion that large scale and serious efforts to combat the shadow economy can make a difference and reduce the size of the shadow economy. In exchange for financial assistance during the crisis, the Latvian government undertook over 60 different policy actions to combat the informal economy between 2010-2013, with most of the reforms front-loaded, i.e., taking effect in 2010 and 2011. ... Now is the time for Latvian policymakers to implement a second large-scale and serious policy package targeting the shadow economy as was done during 2010-2013. The reforms could focus on misreporting of business income, as well as the construction sector, as these are the most problematic parts of the shadow economy. ... First, reducing dissatisfaction with the tax system is likely to decrease the size of the shadow economies.

Addressing this issue could involve actions such as making tax policy more stable (less frequent changes in procedures and tax rates), making taxes more “fair” from the perspective of businesses and employees, and increasing the transparency with which taxes are spent. Second, increasing the probability of detection is expected to reduce shadow activity. This could be achieved via an increased number of tax audits, whistle-blower schemes that provide incentives to report information to authorities about non-compliant companies, and investment in tax evasion detection technology. Third, we find that the mix of ethnicities also has an impact on the level of shadow economy, possibly as a result of minorities feeling less engaged in society and country-level decision making. Therefore, addressing social cohesion and integration of minorities may also lead to a reduction in the shadow economy.”

When it comes to **uncertainty**, not only lack of predictability of the legislative framework but also lack of long-term public policy and plans and lack of political stability in the government are things that

worry foreign investors in Latvia. The following quotes summarise the opinions of the majority of the foreign investors in this regard:

“Overall there is an improvement but a few unpredictable things can destroy all the good things that have been done before. That is like sitting on a chair and the government takes one chair leg away. So predictability is needed.” (Professional assurance and advisory services company).

“Decision-making in Latvia is so non-transparent that we cannot really make future plans.”
(Energy company).

“Latvia lacks predictability, especially when it comes to the legislative framework.”
(Real estate company).

“Government is not stable. And there is no reliable framework to prioritise or identify natural resources. No consistency of approach to permitting or planning. Too heavily focussed on the Russian market in terms of exports and Russian investments in Latvia.”
(Manufacturing company).

Furthermore, uncertainty that is brought about by the geopolitical situation has been emphasised:

“The Ukraine crisis hits us indirectly – since we are exporting to Russia it is hard now to get freight/logistic companies, because their business is hit by sanctions.”
(Manufacturing company).

All in all, even though uncertainty is usually much more attributed to less advanced market economy environments (i.e. countries in earlier stages of transition to a market economy), according to the viewpoint of a number of foreign direct investors in Latvia, it is still a problem in the country even in 2015. Arguably, uncertainty in a business environment – in the tax system, as argued previously, in the legal system, and in other areas – is probably among the reasons why some companies choose not to invest in Latvia. In this light we once again call for more analytical, long-term-oriented policy approaches that minimise the necessity to change, for example, the tax rates too often. Apart from other things, such behaviour on the part of the government could also increase entrepreneurs’, including foreign investors’, trust in Latvian policymakers, which, as argued above, has implications for other issues, such as the size of the shadow economy.

To a lesser extent, investors are also concerned with various other issues. Problems with

(6) THE COURT SYSTEM;

(7) THE HEALTHCARE SYSTEM

are certainly among them. For instance, some respondents point to problems when it comes to the honesty (corruption level) and integrity of the court system in Latvia:

“Corruption (is a problem): in the court system, how you manipulate your way to get to the judge. Procurement.”
(Professional assurance and advisory services company).

“The situation has to be improved considerably. There are many good laws in Latvia, but implementation and enforcement is lagging behind. The court system has to become quicker and more transparent.”

(Wholesale and retail company).

Also, the non-transparency of the healthcare system is highlighted by some respondents. Moreover, the costs of health insurance seem to be a problem for companies that invest in Latvia:

“A rather non-transparent system that affects employee productivity and availability. Costs of health insurance in Latvia are constantly growing, thus affecting the cost of doing business. ICT use in the health system should solve a lot of problems; however, the e-health system is not working properly at the moment.”

(Technology and IT company).

There are, of course, other issues that foreign investors raised during the interviews. Those include the ability to cooperate, short-term thinking, Latvia’s slow economic growth, problems with availability of specific infrastructure, social inequality, etc. These concerns are further illustrated in the quotes that are presented in Section IV of this report and pertain to areas where policy measures should be directed.

2. Areas where Latvia has been successful in its economic development.

Apart from expressing concerns with issues as summarised in the subsection above, foreign investors in Latvia also shared their views when it comes to the strength of the investment climate in Latvia. In particular, we asked investors to evaluate areas where Latvia has been successful in its economic development, and the findings are as follows:

Without a doubt, foreign investors in Latvia are most satisfied with

(1) (progress of) THE ENVIRONMENT, on both a political and a business level, in Latvia.

In particular investors are satisfied with how the recent crisis was managed, stability that is brought by the integration of Latvia into the EU and NATO and the progress in the way the Latvian State Revenue Service works. Here are some quotes from interviews that represent the investors’ opinions:

“Overall, we experienced a complicated but very supportive local environment on both a political and a business level. We did not expect that Latvia’s integration westwards would happen so fast, that it would be a member of the EU, NATO and the Eurozone in so short a time.”

(Real estate company).

“Managing the crisis is a good example where Latvia has been successful. And it continues to grow. ... Introduction of the micro tax is another good example.”

(Wholesale and retail company).

“The State Revenue Service shows a positive (development) trend.”

(Finance and banking company).

“Latvia has kept a low debt level – a good indicator on a macro level. Which shows we had a cautious Minister for Finance.” (Manufacturing company).

“(From international studies) you can see there is a lot of improvement from a comparative perspective. ... When you need to look at international practice, it is just ticking boxes, as our legislators or ministries do; they need to go into the essence of the comparative study, which of course takes more time and resources and personal involvement.” (Professional assurance and advisory services company).

“One success was how Latvia dealt with the heavy economic crisis of 2008-2009. ... Of course there were many side effects to this – many people left the country in order to find a livelihood in other countries, but in general, the way Latvia managed the situation I believe is also positive and essential for further predictable development of the business environment in Latvia, showing that Latvia has a level playing field, that there will be no radical changes in the tax system or economic policy. ... Change in the political environment within the last 10 years has happened for the best.”
(Technology and communications company).

Furthermore,

(2) LOGISTICS AND OVERALL INFRASTRUCTURE

are mentioned among the strengths of the Latvian investment climate. This includes the satisfaction of foreign direct investors with transit and the transportation system, i.e.:

“Transit and transportation has been developing positively. It is an area that is politicised, but where Latvia can use its geographical location and develop it further.” (Real estate company).

“Transport and logistics is well developed. Good that Latvia managed to develop an airport and position Riga as a place which is easy to access.”
(Professional assurance and advisory services company).

“... good connection to Nordic countries with frequent flights.”
(IT company).

... as well as easy access to Nordic and other countries from Riga Airport or Port, availability of office space and IT infrastructure, among other things.

Moreover,

(3) FINANCIAL INFRASTRUCTURE and MARKET REGULATION

in Latvia has received positive feedback from investors:

“Financial market regulation in Latvia is very well organised and very supportive (regulators: The Finance and Capital Markets Commission, The Bank of Latvia, The Ministry of Finance). We have not encountered any obstacles caused by a regulator in Latvia. The regulators have been very open to maintaining a constructive dialogue on the basis of mutual understanding. In this aspect Latvia definitely excels in comparison to Estonia and Lithuania.” (Finance and banking company).

“The financial sector is well developed.”
(Professional assurance and advisory services company).

“There is strong participation from the financial sector, financial infrastructure is good (especially compared to the 90’s).” (Real estate company).

Finally, other strengths of the Latvian business environment from the viewpoint of foreign investors are

(4) SHARED SERVICE CENTRES and

(5) EFFICIENCY OF LABOUR:

“The competitive advantage of Latvia – shared service centres and a large pool of talent available in comparison with Lithuania; for example, Latvia now has a number of large shared service centres with over 1000 and 500 employees.” (Finance and banking company).

“Efficiency of labour in Latvia is not lower than in Germany or Scandinavia. Latvians are very good at multifunctionality (i.e., being able to carry out different functions). Latvians are ready to work more and longer. That is connected to efficiency. Could be that someone working till 4 does everything needed and goes home. The level of efficiency is the same as in Germany and Scandinavia.”

(Wholesale and retail company).

“Another positive aspect is efficiency. Scandinavians are very positive about Latvians on this and Latvians are better than Scandinavians.” (Finance and banking company).

In light of the results above, our hope is that, apart from targeting policy measures to solve the major concerns of foreign investors in Latvia, policymakers will also continue to strengthen areas that are currently perceived positively by investors. Furthermore, highlighting these areas when attracting further investment to Latvia, in our opinion, would be a good idea.

3. Why companies have invested in Latvia and what potential drivers to further increase investment would be. Further investment plans.

We continue by presenting the findings of the survey by summarising results when it comes to the reasons why investors chose to invest in Latvia. In this section we also address the issue of whether foreign investors plan to increase or decrease investment in the coming years and whether, according to investors’ viewpoints, the investment attractiveness of Latvia has improved over the past year.

The reasons why companies have chosen to invest in Latvia are, of course, varied. **Global companies**, for example, state that the decision to come to Latvia came very naturally as it is...

(1) A POLICY TO BE PRESENT IN AS MANY EUROPEAN (AND OTHER COUNTRIES) AS POSSIBLE.

Moreover, at least those companies that entered Latvia’s market in the early 1990s, right after the country regained independence, often simply

(2) SAW A GOOD OPPORTUNITY FOR INVESTMENT IN AN EMERGING MARKET

Such decisions are illustrated by the following quotes:

“We have been in Latvia for 20 years. We invested here with the idea of acquiring new markets. At that moment it was an investment which could recover itself quickly. We are a global organisation, so we have to be in pretty much every country. The portfolio of our services now is different in comparison to that of 20 years ago due to the maturity of the market.”

(Professional assurance and advisory services company).

“For us this is an issue of market coverage; we are by definition here.”

(Professional assurance and advisory services company).

“We have invested in Latvia because it was the company’s strategy to be in different geographical locations. Would we invest again? – Definitely. We established our representation in Latvia before Latvia joined the EU, and the country’s accession to the EU, NATO and the Eurozone just confirmed that our choice was correct.”

(Wholesale and retail company).

“After the changes of the 1990s, western companies were looking to increase their market share, make investments in other countries to the East. The Baltic region was in focus along with other countries in CE for our biggest current investors and both companies became shareholders of our company. The investment decision at that time from today’s point of view was a success story. The company was completely restructured, a lot of investments were made. The company became profitable; nevertheless, it is fully regulated.”

(Energy company).

“In the 1990’s investing in Latvia was a fantastic opportunity.”

(Real estate company).

Yet, our study also identifies many other **more specific factors** that have contributed to companies’ decisions to invest in Latvia. These are:

(3) **QUALITY OF WORKFORCE AND A FAVOURABLE BUSINESS ENVIRONMENT:**

“We are a marketing sales organisation and operate a base of consultants for the greater CEE region. The main factor for establishing the office in Latvia was the quality of IT human resources.”

(Technology and IT company).

“It was a strategic decision and Latvia presented itself very well. Access to talent – hardworking people with a good work ethic, multilingual, results-oriented. In Latvia, we will not increase investment. A recent decision was made to establish a new shared service centre in Lithuania. Factors in favour of Lithuania include the rule of law and a more favourable business environment.”

(Finance and banking company).

“Because of low labour costs and the local metal industry supply chain. We mainly employ young people and they are motivated. We are located in the free zone in Ventspils – this is one reason. The attitude from Ventspils City is very good. The city invested for us. We meet the city council regularly and can discuss problems if needed.” (Manufacturing company).

(4) **BELIEF IN THE CONTINUOUS GROWTH OF LATVIA:**

“... it was because the company trusted in Latvia and the Baltics growing into prosperous and European-type countries; thinking that markets would develop democratically; there would be a market economy... .”
(Finance and banking company).

“On a macro level we see a growth potential in the Latvian economy. In the past few years Latvian and other Baltic economies have been the fastest growing in the European Union.”
(Manufacturing company).

(5) **GOOD STRATEGIC LOCATION OF LATVIA:**

“As for industry-specific reasons – Latvia’s location is very strategically beneficial as it has access to both Russia and the EU and advanced infrastructure, so shipping is not an issue, including for products with a short period of use such as dairy produce.” (Manufacturing company).

When it comes to **plans to invest more or less** in Latvia in the coming years, investors’ viewpoints differ, of course. Some companies (i.e. the retail sector) believe that they have reached maturity in Latvia’s market, whereas others (i.e. the banking sector) plan to increase investment. For most of the interviewed companies, however, **investment size depends on various internal and external factors** that were also discussed in Subsection 1 above. The following quotes show the overall trend:

“(As for more investments) there is a clear trend: if the country and economy develops, the need for outsourced services grows. Operations get more complicated and companies often do not have relevant competency internally. Objectively, we link additional investment in our operation to two main processes: availability of big one-off projects that need additional services (e.g. energy projects, Rail Baltica); maturation of the business environment and increase in the use of professional services. Another way to go would be to develop shared service centres and service other countries from Latvia, but the scale here is small since there is no relevant labour.” (Professional assurance and advisory services company).

“... increased competition, but qualified labour has not grown. Hard to find the right people. Hard to expand. The plans would be bigger with a different situation in the labour market. Our needs are related to three areas: IT (to provide a good solution to our clients’ technical problems); language (as the market is the Nordics) and customer service skills (as for our customers it is an important experience when they communicate to service desk personnel).” (IT company).

“Whether we will continue investing in Latvia depends on opportunities. Investing in improving our business is something we will continue to do. Latvia represents a fairly low risk; huge opportunities are not here either, but it is good value, it is still a very predictable market. Even with all the geopolitical changes and worries, it is relatively stable and safe. In comparison to developed countries the expense level is much lower and the return is much higher. The knowledge level of our people, if we get the right people, is very good and on the same level as in Central Europe. So return on investment is very good in Latvia.”
(Manufacturing/ wholesale and retail company).

Finally, we asked investors whether the **investment attractiveness of Latvia has improved over the past year**. The answer was often ‘no’ and the reason was geopolitical challenges:

“Over the past year – no, because of geopolitical uncertainty and events in Ukraine. And this affects you even more if you do not sit in Latvia... .” (Real estate company).

“Latvia is as competitive as last year. What happened in Ukraine affected ways people think about the countries that border Russia. There is not a significant change in Latvia’s competitiveness. But because of the conflict, maybe, some things have become cheaper, e.g., the cost of entry in some areas, like property development, is a little bit lower than it was at this time last year and this is attracting more people.”

(Manufacturing/ wholesale and retail company).

Yet, at least some of the interviewed companies seem to be more positive, especially when it comes to various **internal influences on the investment attractiveness** of Latvia:

“... We have had some negative external anchors, Ukraine and Russia – how they are falling back – therefore, we have a drive to fix things. For example, the State Revenue Service and the court system are taking some baby steps in the right direction.” (Finance and banking company).

“Overall Latvia is going in the right direction. Taxation is one of the most favourable aspects. The legal system framework is weaker. Our investors are quite happy about their investment in Latvia. The question is how to use the knowledge and benefits we have in Latvia to expand into other countries. In Latvia one has to be creative to survive and that is something that we can share with other markets.”

(Wholesale and retail company).

“Investment attractiveness has improved a little bit. ... Two or three horror stories can destroy the pattern of a good system. This has improved. The current government is very idle regarding any changes and reforms. In fact, reforms are put on hold for more than a year. The EU presidency is often mentioned as one of the reasons; but if you suspend everything on the state policy level because of the EU presidency – that is mismanagement.”

(Professional assurance and advisory services company).

“It has definitely improved during the last few years and accession to the Eurozone is proof of that. The circumstances are not ideal, but they are not ideal anywhere. Joining the Eurozone means we have fulfilled a set of criteria and we have fulfilled them better than many Western European countries.”

(Wholesale and retail company).

For more in-depth opinions of the issues described above, please see Chapter IV, Section 4, where quotes from the interviews are provided.

4. Gaps between expectations and reality, evaluation of Latvia’s potential and suggestions for communicating Latvia as a place for investment

We concluded the interviews by addressing the following three issues:

- what were the main gaps between expectations and reality when the investment in Latvia was made;
- evaluation of Latvia’s unused potential, and
- suggestions for communicating Latvia as a place for investment.

The main results with regard to these three topics are addressed in this subsection.

4.1. The main gaps between expectations and reality when the investment in Latvia was made

There were indeed at least a few **gaps** between expectations and reality highlighted by a number of investors. Namely, some did not expect

**(1) DEMOGRAPHIC CHANGE AND EMIGRATION
AT SUCH A FAST RATE**

Others, however, once again emphasised the crucial need for thorough

(2) STRUCTURAL REFORMS IN EDUCATION, HEALTHCARE AND THE LEGAL SYSTEM.

“Negatively surprised about the legal system, that things take so long, some really strange court decisions. It is fundamental for society that you have a legal infrastructure that works, because it creates stability and predictability. I was aware of this problem but was very surprised that it was so endemic.”

(Finance and banking company).

“We had no idea of the legal battles we would have to face...”

(Energy company).

“The most symptomatic issue – the insolvency process, which currently ranks on top of everything else. All the rest is ok.” (Professional assurance and advisory services company).

Some

(3) INDUSTRY-SPECIFIC ISSUES

were also identified from the case studies, such as:

“Investment expectations were largely driven by availability of free market access to the EU. That has never happened in the dairy business, because EU nations are protective of their farming business and that will continue in the foreseeable future. The Latvian government is not doing much to make low CO2 a benefit.”

(Manufacturing company).

A number of companies, however, expressed a positive attitude towards expectations vs. reality:

“We have not had any surprises and there were no gaps between expectations and reality.”

(Technology and IT company).

“Our expectations have been overtaken, we are overtaking our economic goals.”

(Manufacturing company).

4.2. Evaluation of Latvia’s unused potential

A number of

(1) INDUSTRY-SPECIFIC ISSUES

were also raised by foreign investors in Latvia when it came to the evaluation of Latvia’s unused potential. These can be illustrated by the following quotes:

“The medical/pharmaceutical industry has the opportunity to expand. Latvia has a good basis and good traditions and potential.” (Real estate company).

“The food and beverage sector still has a lot of potential. Agriculture as well – you can see a lot of unexploited land plots which are used only for receiving EU subsidies. Pharmaceuticals also has potential.”
(Energy company).

“For the current industries there is potential to improve on the value added scale. Food production has potential, also business centres. Increase exports. In the financial sector – servicing the eastern part of Europe (Russia). Digital, export driven, servicing IT.” (Wholesale and retail company).

“Agriculture was interesting before the crisis and will be again; it will be worth financing in the near future.”
(Professional assurance and advisory services company).

... and yet again, many investors highlight

(2) THE POTENTIAL FOR DEVELOPING HUMAN RESOURCES IN LATVIA:

“Education and research has potential in Latvia – to create value added products.”
(Wholesale and retail company).

“Good education, language skills.” (Manufacturing company).

“Education, top educational schemes (has development potential), looking to expand where you utilise the scientific potential of Latvia.” (Energy company).

Furthermore, more general issues that constituted a gap between expectations and reality, related to

(3) THE OVERALL BUSINESS ENVIRONMENT

were addressed by investors:

“Riga as a hub and gateway to other countries is natural but underdeveloped. A business hub, good nature for recreation. Use the potential of the environment.”
(Finance and banking company).

“(Latvia should be) a bit more like Switzerland, in an eastern direction. Latvia is still a bit dodgy, especially the legal environment.” (Finance and banking company).

“It makes no sense to build a big factory in Kuldīga. There are no people, no railways, far from ports. You have to be realistic.” (Finance and banking company).

“There could be more patriotic thinking at all levels; idea to work for the benefit of the country and not only one’s own benefit.... Good governance in state-owned companies is another area with potential.”
(Wholesale and retail company).

Furthermore, some investors raised an issue regarding

(4) HOW LATVIA IS POSITIONED:

“Latvia as a gateway to the East – it is used, but I don’t know what the future potential is.”
(Energy company).

“... unlike in Estonia or Slovakia, there is no particular niche that would put Latvia on the map.”
(Real estate company).

“We again go back to the issue of Latvia’s image. It is not clear what we want to achieve as a country. Everyone knows where the problems are but nothing really happens. We should probably change the politicians, the civil servants as well. We need a change in dynasty. But it should be massive. Also, we should promote the idea of getting the system right (for some reason all the big projects go wrong – e-systems, train purchase, library). We do not have answers but nobody is even looking for an answer to why we are not able to handle any big projects at the level of the civil service. No feeling of ownership (also no empowerment and no accountability) could be among the reasons.” (Finance and banking company).

“Latvia has to distinguish itself from Lithuania, Estonia and other countries. Transit, logistics can distinguish Latvia from other countries.” (Finance and banking company).

4.3. Suggestions for communicating Latvia as a place for investment.

And finally we received a number of suggestions for communicating Latvia as a place for investment. The most interesting ones are included below:

“You can do campaigns. But it is more like mindset building. We need to fix the issues (where we have bad scores in the Global Competitiveness Index, Doing Business, etc.), the government has to set this as a priority, to ensure we are in the proper places of international indexes, Doing Business and other things, and talk about it. ... People should believe in Latvia. If people in Latvia believe that Latvia is a good country to invest in, they will talk about it. If we look at Latvia’s scores in international indexes, they are quite good. If I were the prime minister, I would set a target to fix Latvia’s international rankings, and if you put a focus on it, it is not that difficult. And speak about it. Then it will work. I do not believe in advertising campaigns. Fix people’s mindset and make investors feel welcome.”
(Finance and banking company).

“Communicating Latvia as a place for investment should be done by private companies and the public sector together. In many instances the private sector is willing to do this, but the public sector is very critical about how it is being done.” (Manufacturing company).

“The Latvian Investment and Development Agency is doing a good job. It is responsive to the needs of investors. It is a useful tool and should not diminish. Each ministry should support foreign investment related to its subject and area of work. Offer support to investors at least in communication. ... Ideally, when you google Latvia, you should not be able to get bad stories about investment and investors in Latvia. If investment-related problems are solved in a transparent way, that will be the best advertisement for Latvia.”
(Service company).

“Existing investors are the best communicators: their best cases (e.g., in solving something, expanding, etc) are the stories to tell. Local people as well, if only they knew the success stories. There have to be cases and one has to work on them.” (Professional assurance and advisory services company).

“Singapore did a very interesting job around this. They had an integrated marketing campaign for the country – internal and external. They communicated what the country is about, why it is attractive throughout the country and throughout the international community. They worked with the best advertising agencies in the world to do that and spent a lot of money on it. It is a really important part of their country’s strategy. The challenge for Latvia is to recognise that there is a country strategy which first of all integrates the intentions and plans of the country with the ambition to attract businesses and people back to the country. For example, Singapore invested heavily and developed a biotechnology sector. They created a university, imported some of the best people in the field from around the world spending a lot of money and within 10 years they created a world-class centre. And the way they communicated it was incredible. It was done professionally through universities, it was done through schools, through businesses that exist in the country and internationally through the normal systems, be it magazines, social media, etc. It was all integrated and put together and connected and that’s what Latvia is lacking, there is nothing connected at the moment, everything is done in bits and pieces. There is a nice little campaign on Latvia about slow holidays, which is attractive, a lot more could be done around that. But it does not do anything for the business community. What Latvia should do is invest with a very well known international advertising company to work on the best ways in attracting business to the country. But you also have to be able to develop business cases. ... For example, returning Latvians: If you are Dutch, you have worked abroad and come back to the Netherlands, for the first 10 years you get a tax holiday on the first 30% of your taxable income. This is how they attract people to come back. They want these people back because they are earning more money than they are at home, so they bring their money back with them. When they come back, they bring their expertise, they start businesses, they grow, they invest that 30% they would have paid in tax. This is the kind of thing that Latvia should consider. In Singapore, if you travel a lot, you only pay taxes for the days you are in the country. That encourages regional centres to be established, which Latvia would have a real potential to do – to become a regional service hub for the Scandinavian markets as well as for the Baltics. But you need good people, need an incentive to be here, for the tax system in Singapore is very different, it is a flat tax rate for everyone.”

(Manufacturing/ wholesale and retail company).

“It should be business that attracts other businessmen to invest in anything. This is not something that should be controlled or managed by the state. It is something business should take a lead on if they see for example synergies between the business that they have here and what could be brought here by other foreign investors; it could be in the hands of businesspeople marketing [Latvia] within an agreed framework. The best marketing would be businesses making profits.” (Finance and banking company).

III. FICIL SENTIMENT INDEX 2015

This section presents the FICIL Sentiment Index 2015 – assessments by foreign investors in Latvia of the economic competitiveness of Latvia. Before we discuss the index, however, a few caveats are worth mentioning. Namely, even though indexes are usually developed using quantitative data, we believe that in some situations, such as this one, it is appropriate to create an index drawing on the case study approach. The reason for this is that our study draws on the expert opinions of very qualified entrepreneurs / managers of key investors in Latvia, who possess valuable information when it comes to the observed issue.

Still, the numbers in the FICIL Sentiment Index should be interpreted with caution, taking into consideration that (i) mostly relatively big investors have taken part in the study, so that the results might better represent the opinions of bigger companies, (ii) the sample mainly consists of FICIL members, thus potentially creating selection bias. We thus recommend using these figures as complementary information to the information summarised in Sections II- IV of this report, i.e. as a brief approximation, aimed at shedding more light on the overall assessment of drivers of Latvia's competitiveness from the viewpoint of some (key) investors in Latvia.

As indicated in the introduction, we derive key factors that potentially influence Latvian competitiveness drawing on in-depth discussions within the FICIL Sustainable Economic Development work group – experts in various fields. As a result, the FICIL Sentiment Index – foreign investors' assessments of drivers of Latvia's competitiveness – consists of the following 10 indicators:

Quality 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

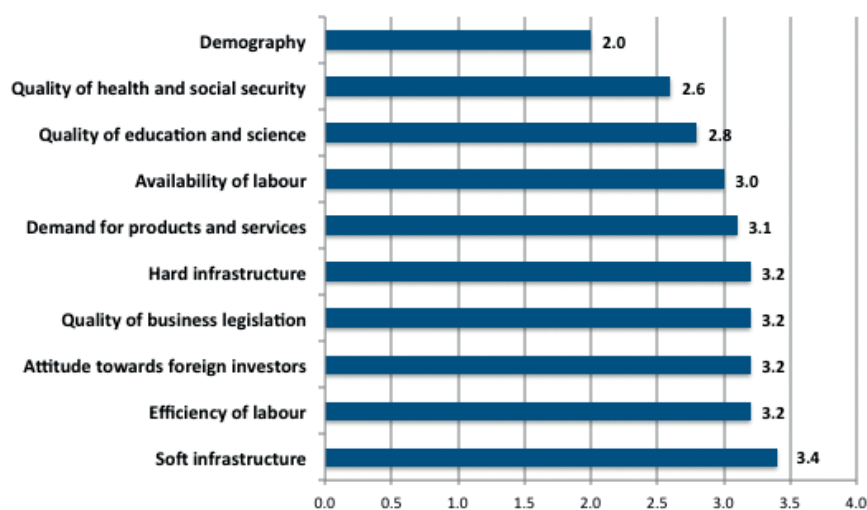
Soft infrastructure

Demography

During the interviews we asked the 28 selected foreign investors in Latvia to evaluate each of these indicators – potential drivers of Latvia's economic competitiveness. Additionally we also asked them to evaluate the standard of living in Latvia. We provided them with an evaluation scale from 1-5, where 1 means that the indicator is not competitive and 5 means that the indicator is very competitive. Some indicators included one item, some included several items – please see Appendix 3. The FICIL Sentiment

Index was calculated as a simple average for each indicator, 26 of the 28 investors interviewed provided an evaluation for most of the indicators. The results are presented in Figure 1.

Figure 1. FICIL Sentiment Index 2015: assessments by foreign investors in Latvia of the drivers of Latvia’s economic competitiveness



(Scale 1-5, where 1 represents low competitiveness and 5 represents very high competitiveness. N= 25)

Source: FICIL Survey

As illustrated by Figure 1, foreign investors in Latvia mostly evaluate potential drivers of the economy as above average. Namely, investors are most satisfied with soft infrastructure, i.e. measured as “business culture in Latvia” (3.4 out of 5), but less satisfied with demography (only 2.0 out of 5). Dissatisfaction with the situation with regard to demography in the FICIL Sentiment Index 2015 thus corresponds with the overall comments on the main concerns of investors, as presented in Chapter II. Furthermore, the FICIL Sentiment Index 2015, similarly to the overall comments, identifies problems in the quality of the health and social system (2.6) as well as in the quality of education and science (2.8). When it comes to the quality of health and social security, it should be noted that the component ‘health system’ is evaluated slightly lower than the component ‘social security’ (2.5 and 2.8, accordingly).

Evaluation of availability of labour, according to foreign investors in Latvia, reaches 3.0, where investors assess availability of labour on the management level as 3.4 and availability of blue-collar labour as 2.7. Demand for products and services, however, is evaluated as 3.1 (average of domestic demand: 2.8; external demand (exports): 3.3 and industry traditions: 3.4).

Furthermore, four potential drivers of Latvia’s economy, including hard infrastructure, quality of business legislation, attitude towards foreign investors and efficiency of labour, have been evaluated as 3.2. We measured hard infrastructure as the average of four components, where (1) ‘defence’ was evaluated as 3.4 (as emphasised by most investors, mostly thanks to Latvia’s relationship with NATO), (2) low production costs: 3.3, (3) infrastructure (roads, electricity): 3.1 and (4) energy resources: 2.8. Even more diversification can be found when it comes to investors’ evaluations with regard to components of the quality of business legislation (monetary policy: 4.0; tax system: 3.1, legal system: 2.6) and attitude towards foreign investors (attitude towards foreign investors: 3.6; investment incentives: 2.8).

Finally we asked investors to assess the overall standard of living in Latvia. For some reason, only 16 investors answered this question, evaluating it as 3.4.

IV. QUOTES FROM CASE STUDIES

This section summarises the main quotes from the mini case studies, thus providing more detailed information on the viewpoints of foreign investors in Latvia.

1. Key areas of concern with respect to long-term sustainable development of the investment climate in Latvia's market.

- **Demography and access to labour**

“The population is shrinking, so to develop shopping centres for the internal market and hope to increase turnover is problematic. The young generation is emigrating and this directly affects investment in Latvia.”
(Real estate company).

“Controlled, regulated immigration as one of the solutions for the growing demographic challenge.”
(Finance and banking company).

“Access to labour is problematic not only for retail but for the hotel industry as well. Also, there are a few problems finding tenants for shopping centres.”
(Real estate company).

“... (policymakers) need come up with a re-emigration policy that works, which should be a political priority as well. It will certainly be easier to come up with an active re-emigration policy than open up and ease immigration policy.” (Real estate company).

“Demography is an obvious problem... .”
(Finance and banking company).

“We have to revisit and critically look at immigration policy in Latvia. We live in the illusion that we have high unemployment in Europe and that we have the State Employment Agency re-qualifying the unemployed, but low-skilled employees still constitute a problem. If we had access to non-EU countries' workforces, it would make us more competitive.” (Manufacturing company).

“In the long term we plan to substantially increase our production for export markets. However, to significantly extend production capacities, we will, of course, be required to hire more people. We already face difficulties in finding people with technical education in the local labour market. ... An even larger and more difficult problem (than access to highly qualified people) to solve in the near future is the lack of motivated lower-skill employees. During the ice cream season we need +250-300 extra employees. It is not rocket science; it is packing and selling ice cream. 20-25% of these people leave the job without notifying us... .”
(Manufacturing company).

“Finding people is difficult. We are a franchise company and therefore we do not need many employees. But in retail it is a real problem. Shop assistant in our shops is maybe not the most attractive job. The workforce is leaving Latvia. Outside Riga unemployment exists but in Riga there is a deficit of workforce. It is difficult to find low-skilled employees. The government does not help to solve anything. An issue that the retailers' association is trying to solve: ask government not to impose tax on transport, living, etc. on the workforce that is imported from other municipalities and cities. But it does not look like anything is going to improve in the nearest future.” (Wholesale and retail company).

“Talking about solutions – in the EU there is free movement of people. When Latvia is at the same level as the rest of the EU in terms of average salary it will attract a workforce. Russian speakers could adapt easily. But living standards have to be good for the low-paid workforce.”

(Wholesale and retail company).

“Another aspect is availability of qualified workforce in a sufficient amount and for a reasonable price. To give an example, shared service centres have a serious impact on other businesses – soon we might not be able to afford the workforce we need. Some time ago we would pay a fresh post-graduate BA between 600 and 700 EUR. We no longer can find people for that price. To quickly get 30 professionals with similar skills and competence would be impossible. You would need to try to attract people from other companies that have already invested in their training. As for those unemployed who at the moment are in the regions, I do not think you can train them to the level we need. They are on a different level in Maslow’s pyramid.”

(Professional assurance and advisory services company).

“In the ICT industry, Latvia often lags behind Estonia, which is very open to testing modern technologies. The pool of human resources is quite good, the quality of ICT specialists is good, but the problem is in the quantity – there is not a big enough supply of specialists.”

(Technology and IT company).

“Smart and controlled immigration should be considered. In the ICT industry physical immigration may not be needed as much as in other industries as many industry players are already using foreign labour. Ukraine, Russia and Belarus have many potential employees with high competencies; however, the current immigration policy is very closed, due to which Latvia fails to realise the potential that can be achieved through highly skilled workers from abroad.”

(Technology and IT company).

“The biggest challenge for Latvia is to resolve the qualifications of labour that fits employers’ needs. For economic development, more emphasis should be put on (the highest) professional education. One significant future economic development direction is export of services. Nowadays, living in the digital era, technology allows you to provide a lot of services remotely – back offices like accounting, HR administrative functions, IT support, development, and a number of other functions. Meaning, a lot could be done from Latvia in terms services for other countries – primary the Nordics (as they have high cost levels), but also Central/Western European countries. Latvia needs to supply a properly qualified workforce.”

(IT company).

“There are opportunities for Latvia to grasp; there is still potential in the shared services industry in Latvia compared to its Baltic neighbours, but availability of IT workforce or Nordic language speakers is a challenge. There is still good availability of an English speaking resource pool for low-end jobs in the shared services industry.”

(IT company).

“In retail and shared service centres labour force availability is already a problem in the short term and it will increase in the long term. The demographic decline of the 1990s is starting to hit us directly. Solutions: increase the birth rate, start thinking about immigration policies.”

(Wholesale and retail company).

“Availability of labour force: it is difficult to get experienced staff and it is difficult to keep employees for 6-7 years as they simply leave Latvia.”

(Professional assurance and advisory services company).

“We need improvements in this (i.e. demographic) sphere. There are two aspects to the issue: 1. What is happening to the people who live here (are birth rates higher than death rates?; are more people leaving or returning?) 2. Areas where the consequences of the Soviet era can be felt – immigration, possibilities to import the labour force. It is interesting that in several industries the labour force is already being imported, e.g., from Romania, Bulgaria and other countries. But this is an exception, not a tendency. The government has to work in order to improve the feeling of stability and security of new families, which in turn will increase the size of families. Also, if there were new interesting jobs, some emigrants might return.”
(Wholesale and retail company).

“Our business is internal-market-oriented. ... (thus our big concerns in Latvia are:) demography, emigration, ageing of the population. The government is unable to offer support to companies to keep professionals in Latvia. We are thinking of importing skilled labour.”
(Technology and communications company).

“Human resources, availability of workforce. Lack of employees with 6-7 years of experience. Headhunting increases the salaries inadequately. Latvia needs smart immigration and re-emigration policy. Employers lack tools to retain employees if they are being headhunted, e.g., if they have received training paid by the employer, the employer cannot ask the employee to pay the money back if he/she is leaving for another company.”
(Professional assurance and advisory services company).

“There are several issues relating to demography – for example, we should think about better integrating young mothers back into work after their maternity leave. It would be better if mothers could work at least part time during their maternity leave. There should be more flexibility.”
(Finance and banking company).

“Latvia should think about smart immigration. It should advertise itself as a place and destination to come. The Investment Agency in Latvia, unfortunately, is completely rotten and simply not delivering! They should learn from Lithuania. They are clearly not doing their job here. We have been trying to work together but without any result. Often, they are not capable of giving us some simple basic data on companies working in Latvia; we ended up finding it ourselves at the end of the day.”
(Finance and banking company).

“Shrinking population. We have invested in the countryside, but people are moving away from there (to Riga or abroad), so we are not planning on investing there anymore. All our projects are now around Riga.”
(Energy company).

“It is easy to get employees for the office. Technical staff – difficult to find. Attitude/responsibility problems.”
(Energy company).

“The aging and declining population is an issue for us. Not only in terms of our customers, potential customers, and consumers, but also in terms of our ability to find the right people. There are less and less people available for the workforce, both blue-collar and white-collar. Part of the reason why we need to automate [our processes] is because there are fewer and fewer blue-collar workers at a reasonable price and who are able to perform these simple tasks.” (Manufacturing/ wholesale and retail company).

“Good Latvian professionals can find work elsewhere earning much more than here. Second, there are industries that are growing quickly and are paying a lot for qualified people; the IT sector, for example, it is very competitive. It is difficult to find people who are experienced professionals in IT, in finance it is

difficult. You can find lots of bookkeepers, but very good finance professionals are very hard to find. Same with marketing. And that's because we are not competing just in Latvia; we are competing across the Baltics and within our neighbourhood, which includes Poland, Germany, the UK, as well as Norway, Sweden and Finland.”

(Manufacturing/ wholesale and retail company).

“Emmigration (is a problem) – people left and that has an impact on the consumer base, which is now a quarter less than it used to be.” (Manufacturing/ wholesale and retail company).

“Employees: skill base, future staff – smart immigration, limiting brain drain. Solution: a vocational training centre that would allow people (during or after high school) to understand what industries are available after graduating university, how the markets work, etc. This should be sponsored by businesses.”

(Finance and banking company).

“We employ around 600 people. People focus on one organisation, one career. We have been hiring externally: a) retail network and b) head office support. A) 15-20% turnover of staff. Struggle to find people for this work. This is an internal issue that can be resolved inside the organisation. 2-month training programme for people. But we also need to have a compensation programme, bonuses, etc., in order to keep people from leaving for other companies (banks). People are there, so the problem is mainly to offer them what they want. B) hiring for the head office is harder. Limited resources. 8-10 banks are our direct competitors. People are comfortable in the same position for long periods; they tend not to change jobs. Employees lack experience and pace, dynamism. Our bank has a different culture, we have a fast tempo, we are maybe more aggressive.”

(Finance and banking company).

“Demographics – falling population, low birth rates and emigration of working-age population (sadly). We do have some people that are coming back; I myself can see a lot of Latvians working abroad, for example, in London in bars and hotels, and they are young and educated. It scares me. Salaries are currently rising in Latvia and that gap will slowly close, that is purchase power parity. The problem is that we do not really invite people to come back.” (Real estate company/ manufacturing company).

• Education, Science and Value Added

“Education is one of the key aspects in developing strong economic fundamentals, but this needs to be a political choice. It is important for Latvia to educate people and to develop new industries that will produce high value added. The labour cost advantage that is here today will not be there in the longer term and this is why education should be a focus.” (Real estate company).

“ICT education should become more inclusive. ICT is used in a wide variety of industries. Information technology should not be a separate subject starting from grade 5, instead, ICT elements should be taught starting from pre-school in all subjects. This issue is very closely connected with the ICT education of the teachers. Another issue is specialised education in ICT, which should be deepened as programming, etc.

Also, existing business schools rarely and vaguely include ICT in their curricula.”

(Technology and IT company).

“Innovation and Technologies – over the last few years the situation has improved. There are few R&D cooperation projects between universities and companies (Valmieras Stikla Šķiedra, GroGlass). Much should be done in promoting this cooperation. Start-ups have been rapidly developing in Latvia over the last few years, but this can be viewed as a spillover from Skype in Estonia and GetJar in Lithuania. Latvian Ask.fm and Infogr.am are very successful examples developed in the last couple of years that will hopefully set

the stage for more successes in the future. If there is the necessary investment in education, technologies and innovation will develop as they traditionally run ahead of other industries.”

(Technology and IT company).

“Higher education is on a very low level according to world standards. No Latvian university is in the top 1000 in the world. You cannot build a prosperous society if there is no good education.”

(Finance and banking company).

“For the problem of the lack of highly qualified specialists in technical areas, the solution could be (i) to strengthen mathematics, physics, chemistry in high schools. This has been talked about by the government many times, but it has not been implemented. In some of Latvia’s regions the final maths exam is passed by only 8% of students; (ii) qualified technical higher education (graduate) programmes – there are multiple schools where this education is offered. Some programmes’ curriculum has shifted from specific subjects (engineering) to broader ones (philosophy, general management, sociology). Riga Technical School was a benchmark for regional education in technical practices. Recently in their programmes only 16% of the curriculum consists of technically specific subjects. The rest constitutes generic issues. If a person graduates from a technical (vocational) school, we (employers) expect him to have a much deeper understanding of technical things.” (Manufacturing company).

“From the state’s perspective the main concern should be education and innovation – this is about investing in people and this is what will bring the most wealth in the future.”

(Wholesale and retail company).

“It is difficult to get good engineers. They come from the universities without practical knowledge. We send them to Switzerland for practice at our mother company for several months. All of them come back to Latvia, they are motivated. Therefore it is important to develop the dual education system. ... We would invest more and move more production from Switzerland to Latvia, but lack of engineers is a barrier. ... We are driven to invest now in robots, because we cannot get enough welders with certificates.”

(Manufacturing company).

“Youth unemployment is another aspect I am worried about – those who graduate are not eager to start a professional life. There is a remedy for this – it should be unacceptable for somebody to finish school aged 19 or 20 and have no profession. We are in a situation where a youngster finishes school and has not learned anything except how to pass the centralised exam.”

(Professional assurance and advisory company).

“Are universities providing a quality workforce? It is difficult to judge with regard to business management, social sciences, lawyers, etc. This is more linked to the capacity of any given individual. Regarding technical sciences – what is provided is not enough and it is separate from the needs of business. Education needs to look 10 to 15 years ahead. At the moment the education system is lagging behind business rather than being a motor for it.” (Professional assurance and advisory company).

“Personnel often need a lot of training and are a concern. In addition, the workforce is ageing.”

(Energy company).

“The long-term (challenge for Latvia): review of university programmes, tailor more to the market, including offering language skills. EU funds could extend the scope of trainings financed to support the qualifications needed (like languages). We are an SME, but in the future we might not be considered for support because

of our large mother company. This would be a negative signal for long-term investment policy in Latvia.”
(IT company).

“Lack of necessary skills for the employees. Currently the availability of employees is not the biggest concern. However, the quality of the labour force is. Half of the people applying to retail positions are not qualified; their skills are not relevant. In future we will have to think about involvement of different segments of people in the workforce, e.g., older people, students, stay-at-home mothers who would be willing to work a couple hours a day. That would require some flexibility from the employers as well.”
(Wholesale and retail company).

“Right now, with the shortage of the labour force, we are getting people who lack the expected level (of skills), so we are investing our resources to increase the basic level. Instead of investing to create more added value and productivity, we are focusing on the basics. If the basics were there, we would be able to increase added value even further.” (Wholesale and retail company).

“In the education system there is much room for improvement to make it more competitive, to produce people who use their abilities and knowledge with the utmost efficiency. ... Latvia needs to implement the German dual vocational education.” (Wholesale and retail company).

“Education, unfortunately, is not of very good quality; as a result, companies need to invest significantly in HR (there are cases where IT specialists need additional training at Riga Technical University after having just graduated from it!); if we think about the long term, our higher education system is very provincial – we will not be able to compete. Universities need to become international; especially since investors increasingly work cross-border it is important that this skill be acquired at universities in an international environment. It is important to have an international mindset Also, social skills are often absent – presenting, teamwork, etc. Soft skills and emotional intelligence are very important but most of the time absent for the new employees. In some countries, emotional intelligence is part of education. Knowledge of languages and especially Russian will be a problem in the near future.”
(Finance and banking company).

“Latvia should think more in terms of what our export good is. We are becoming more and more digitalised. At the same time, RTU produces 200 specialists per year. Accenture alone needs 200 specialists per year. So, education planning should be adjusted to the needs of employers. Something has been done at the level of the Ministry of Education, but the speed is not sufficient.”
(Finance and banking company).

“Primary education is ok in comparison to Finland. However, regarding higher education, I cannot understand how you can study full time and at the same time work full time. This must show the quality of higher education.” (Energy company).

“The skills. Maybe it is not about the number of people available, but what they can do. The quality of the workforce has decreased.” (Manufacturing/ wholesale and retail company).

• **Legislation and support from the government**

“Latvian decision-makers are usually quick to follow all the EU Directives and regulations, but are slow to initiate any laws and regulations on their own, without external pressure. The dialogue with social partners and society is not followed through. The government listens; however, very rarely are proposals implemented,

for example, with regard to cloud computing. Bureaucracy – public sector workers are eager to find excuses why something could not be done instead of focusing on what should/could be done, especially in the Ministry of Education and Science, the Ministry of Economics, the Ministry of Justice, and sometimes very subtly the Ministry of Finance.” (Technology and IT company).

“The tax regime should be predictable and implemented effectively. During the crisis the experience was not favourable. Labour taxes are uncompetitive in comparison with Lithuania and Estonia. If we were to look at hiring a person in the Baltics, we would look at hiring them in Lithuania or Estonia.”

(Technology and IT company).

“The tax and regulation burden in Latvia regarding employing highly skilled professionals makes everything very expensive and we cannot afford to bring in low-skilled employees.”

(Manufacturing company).

“Tax legislation is a big problem as a system. For example, the employment tax is above the EU average... Changes take place so often that we cannot keep on changing our systems and programmes to follow. For example, tax payment prolongation re: embargo, that was something new for the tax service, they could not support us or give us advice.”(Manufacturing company).

“Protection of shareholder interests. Intellectual property protection. Responsibility of board members. Shareholders’ personal interests and their influence on the business can make management’s life miserable and this is not regulated or controlled in Latvia.” (Manufacturing company).

“Construction law in the future could be an issue because the law is restrictive, but this does not mean that the quality will improve. The key challenge for Latvia in 20 years: political corruption, bureaucracy. Compared with Estonia, which is an even smaller country: they are patriots and do not think exclusively about their own benefit, they do care about the country. If the public administration did the same here, it would save a lot of money.” (Wholesale and retail company).

“Rule of law is the central issue – it is a core value that has to be maintained. The issue is how to protect (investors) in a competitive way. You can produce a lot of regulation, but protection can become bureaucracy if it is not managed properly. The fine line between a protective environment from a legal perspective and being competitive at the same time – that is the main challenge that we need to facilitate. Overall, the legal system in Latvia is more or less fine. The biggest concern is the way legislation is interpreted, applied and enforced. There is room for improvement for commercial regulation and enforcement. The investment community needs to see laws working and being enforced properly. For example, banks were concerned about the issue of raiderism and insolvency attacks. Supreme Court decisions and some actions have helped now (they already helped in the case of Swedbank; for Norvik the direction also seems positive). In order for courts to hold sway, public opinion has to hold sway first. So, there are a few signs that something is improving, but it is not systemic yet.” (Professional assurance and advisory services company).

“One concern is the labour law, which has a heavy and unfavourable regulation on overtime and flexible time. The working time varies depending on clients from 35 hours / week up to 55 and the legal regulation is not very flexible. ... The social tax of 33% is for everybody, which is socially unjust. Our firm pays for several students (at the Latvian University of Agriculture), their fees, and these expenses are taxed, which is not wise.”

(Manufacturing company).

“Continue to amend laws to make them more favourable, amend court practice, the insolvency process. The difficulties of the insolvency regime do not make it easy for investors. It is not a fair process.”

(Professional assurance and advisory company).

“Tax regime. Develop a holding regime.”

(Professional assurance and advisory services company).

“Disadvantage in the tax system in comparison to other CE countries – the Latvian system is similarly complex. ... Social security tax is quite high, although not as high as in Nordic countries, and it is conducive to making things go under the table. Most probably this happens in most countries, we all have a grey or black economy. ... But in general the tax system is relatively stable and easy to understand. When you compare it to Estonia, for corporates, it looks very disadvantageous, but it may not be when it comes to dividending out. But the social security side – the cost of it and what the employee gets for it. Social security and health could be developed.” (Professional assurance and advisory services company).

“There is room for improvement in the tax system. In future the total tax burden will increase, but currently it is competitive. Nevertheless, low taxes are not good per se, as social policy, demography and social security are only possible if there are tax revenues. Stable, transparent, uncomplicated tax policy and a competitive overall tax burden are important for attracting investors, especially small and medium-sized companies.”

(Wholesale and retail company).

“Sustainable and reliable legal framework. ... Sustainable and reliable regulatory framework.”

(Energy company).

“Several laws applicable to our company are of low quality, there is much room for interpretation, which can be abused. The latest law has been written in the interests of particular market players.”

(Technology and communications company).

“One part of our investment is allocated to maintain the company’s technologies, equipment, plant. The second part of the investment is allocated to create new products, develop technology, etc. – every year we invest about 2-3 million EUR despite government support. Support from government is crucial – we have established an office in Estonia due to better conditions and support from the government compared to Latvia. For example, Estonia offers a system under which you can choose to pay dividends and then taxes – the money basically stays in the plant if you invest in it – if you do not invest in the plant the money goes to tax. This ensures that companies are pushed to invest. We have offices in every Baltic country – due to taxation in Latvia, Lithuania and Latvia are linked together, but Estonia has a separate office.”

(Manufacturing company).

“Why should not the ceiling of investment, that you have to have to get tax discounts, be decreased? The investment level to receive a tax discount is so high you would have to build a plant. In my opinion if we invest 2-3 million EUR a year it would be normal to also have tax discounts.”

(Manufacturing company).

“The legal environment (is a problem). Legal infrastructure regarding insolvency administration, corruption.”

(Finance and banking company).

“Legal cases, enforcement of the law would help a lot.” (Finance and banking company).

“The top concern is the legal system and it is both a short and long-term issue. Openness, transparency, robustness of the legal system is really the main concern. Political interference in regulation is another one.”
(Energy company).

“Rule of law is also a concern – there has been some progress over the last 22 years since I have been here. But over the last 2 years there has been no progress at all. There are many areas we need to improve – insolvency law being one of them. There are some areas that are good – the land register works well. So there are good things as well. But we are small and being a small country means we should be better than the rest.”
(Real estate company/ manufacturing company).

• **Unethical/illegal behaviour and unfair competition**

“The rate of software piracy is still very high (54% in Latvia; ~40% in Western Europe), but it is slowly improving. Fighting the grey economy and corruption should be in the government’s focus since the general perception of the business environment (envelope wages, software piracy and other grey areas of doing business) is not acceptable.” (Technology and IT company).

“(Many problems in Latvia) are related to the high perceived or existing corruption level, higher than in Estonia and Lithuania. There are only four Prime Ministers in Latvia who have not become millionaires. In comparison, there is only one in Estonia who is a millionaire and he is heavily prosecuted.”
(Manufacturing company).

“The grey economy is also a concern because it covers many areas: cigarettes and alcohol, which is the biggest income source for the government. Willingness to pay taxes, to be transparent and to have high business standards is what matters. The shadow economy, in fact, is putting legally operating businesses in a worse situation. The State Revenue Service has started to do something about it, but it is difficult. We can see it, but the State Revenue Service is the one that has to do something about it, and they know the names of the companies that cheat, but do nothing at the same time.” (Wholesale and retail company).

“The legal system must deliver similar decisions in similar situations. That is what honesty is about. Predictability is important – similar treatment in similar situations, the results should also be similar. Security is an angle of predictability. If there is a lot of interpretation, there is just one step to corruption. If there is no precedent, there will be different opinions.”
(Professional assurance and advisory services company).

“We regularly employ workers who elsewhere have received only a salary without taxes, which does not create stability for them. We offer this social stability, pay taxes and for some workers we even pay into their Level 3 pension fund.” (Manufacturing company).

“In the petrol industry there is a lot of grey economy. The estimated numbers in the sphere vary due to different counting methods: 15-20% grey market. Certain companies that operate legally sell petrol at lower prices than it should be sold at, knowing what the price level is, so this raises questions – how and where they source their product and how strong the State Revenue Service is at tracking their potential schemes for tax evasion and non-transparent tax payments. The SRS has been working more actively lately. There are some initiatives (by SRS) but the question is how consistent they are and whether they are really reaching the end game.”
(Wholesale and retail company).

“... piracy is widely accepted (in Latvia).”
(Technology and communications company).

“Commercial and public media. Public media participates in the advertisement market, which makes the situation in the market tricky, because they receive money from the state and at the same time they can participate in the commercial market, which influences the pricing and development of the ad market. That is unfair competition. We hope that within 1-2 years public media will be removed from the ad market as is the case in Lithuania and Estonia.” (Technology and communications company).

“Another issue is the grey economy – we cannot compete with the price that other companies can offer. We have calculated our total costs for one ton of production and in many cases the situation is that the price differs. Then the management team, when you present the goal and strategy, asks why you cannot offer a lower price – and the answer is that it is the grey economy.” (Manufacturing company).

“The grey economy (is a problem) in excise tax products. The illegal fuel market is still big (10-20%).”
(Energy company).

“The grey economy: production and importation of illegal alcohol and application of taxation. There has been some improvement and the most important thing is to keep the trend positive. I am cautiously optimistic. Though the situation is fragile. The public’s trust in authorities is weak. There is much less corruption than there was 10-15 years ago.” (Manufacturing/ wholesale and retail company).

• Uncertainty

“Decision-making in Latvia is so non-transparent that we cannot really make future plans.”
(Energy company).

“Latvia lacks predictability, especially when it comes to the legislative framework.”
(Real estate company).

“The lack of long-term public policy (is a problem), although many documents are produced. Succession and implementation of long-term plans should be followed through.”
(Technology and IT company).

“Overall there is an improvement but a few unpredictable things can destroy all the good things that have been done before. That is like sitting on a chair and the government takes one chair leg away. So predictability is needed.” (Professional assurance and advisory services company).

“The Ukraine crisis hits us indirectly – since we are exporting to Russia it is hard now to get freight/logistic companies, because their business is hit by sanctions.”
(Manufacturing company).

“Sustainability of business is an area of concern. We invested in 2010 and 2011, when the story about aviation in Latvia was good. After we invested, the situation got worse. Most probably the economic crisis influenced that. So for us the return on our investment was impacted. We tried to adapt to these changes. But overall we think that those that entered Latvia before the crisis should have received some support.”
(Service company).

“One concern: political uncertainty. Lack of clear understanding about the political system, long-term policy goals of political parties, coalitions, etc. There are big amounts of strategies and plans, but they do not work. We need a real long-term vision of what Latvia will look like in 20-30 years. Politicians do not think further than the next elections, so 4 years maximum. For a foreigner, this creates a feeling of uncertainty.”

(Energy company).

“When developing our business we constantly face the requirement to have a permit for some type of activity (building, etc.) and this is where political interference often occurs (not possible to get a permit)... . EU Funds – Government is more concerned about use and absorption of EU funds than developing a vibrant business environment.” (Energy company).

“Government is not stable. And there is no reliable framework to prioritise or identify natural resources. No consistency of approach to permitting or planning. Too heavily focussed on the Russian market in terms of exports and Russian investments in Latvia.” (Manufacturing company).

“Retroactive changes with respect to the industry cause losses and make for an unpredictable business environment in the sector, which in turn causes uncertainty for future investment. Uncertainty about the future energy market.” (Energy company).

“The political system in Latvia: the coalition system – which makes it very difficult to reach any decision.” (Finance and banking company).

“The top area of concern is external security – Latvia today is safer than a year ago, but it is less safe than two years ago.” (Real estate company/ manufacturing company).

• The court system

“The court system, legal efficiency. Honesty and integrity of the court system.” (Finance and banking company).

“Courts need to follow jurisprudence and decisions should be made publicly available (for free) so that lawyers and the wider public can access them, comment and learn from them.” (Professional assurance and advisory services company).

“Corruption (is a problem): in the court system, how you manipulate your way to get to the judge. Procurement.” (Professional assurance and advisory services company).

“The situation has to be improved considerably. There are many good laws in Latvia, but implementation and enforcement is lagging behind. The court system has to become quicker and more transparent.” (Wholesale and retail company).

“The image of the country and soft factors are an important aspect since decisions (on investment, etc.) are often taken in a different country. In Latvia’s case there are several damaging issues like the justice system (bad publicity because of some very loud and scandalous cases) and that has an influence on the impressions and perceptions of investors in their home countries. Problems should be individual cases rather than the entire system.” (Finance and banking company).

• Healthcare

“A rather non-transparent system that affects employee productivity and availability. Costs of health insurance in Latvia are constantly growing, thus affecting the cost of doing business. ICT use in the health system should solve a lot of problems; however, the e-health system is not working properly at the moment.”
(Technology and IT company).

“Health insurance affects the cost of doing business in Latvia and Lithuania. In Estonia this is not an issue at all – there is no need/demand for insurance from employees.”
(Finance and banking company).

“The health insurance system is not modern enough for workers and does not cover difficult cases.”
(Manufacturing company).

• Cooperation / networking / short-term thinking

“One key problem in Latvia is that the ability to cooperate is very weak. In Estonia, for example, data on tenants in shopping centres is widely shared, it is very useful for practical reasons; we tried to initiate this in Latvia as well but were unsuccessful. There is a lot of suspicion and lack of transparency. More generally, lack of trust in society is a big problem. Considerable bureaucracy and un-transparency – it all slows down business.”
(Real estate company).

“The time horizon: how people think ahead in society is very short-term. Latvians have a short thinking horizon. It is difficult to invest in sustainability because of this. Reasons: history (the national state lasted for 21 years, now a bit longer, and people ask whether it will last.) ... This is characteristic of a low-trust society. There is no trust in the government, in institutions, predictability, continuity. ... Time will cure this in the long term. In the short term – education can help.” (Finance and banking company).

“Latvia is trying to implement anything the EU is telling it to implement and Latvians do it very literally, instead of implementing the meaning, sense/spirit of the regulations, directives, and that is limiting businesses. Nobody wants to take responsibility; responsibilities are very narrowly defined (e.g., ministries).
Latvians do not see the big picture, which is the biggest problem in the country.”
(Technology and communications company).

“The problem is that on the governmental level the business requirements have been implemented and there is an incentive mechanism; however, on the municipal level they are lost completely. The policies of local governments have to be aligned with that of the government.” (Energy company).

“We lack long-term thinking.”
(Manufacturing/ wholesale and retail company).

• Economic growth and welfare

“Our business is internal-market-oriented. There are factors we have to think about/consider, such as the wealth of the economy – people do not have money, the Gini index is very high, piracy is widely accepted, catching up with the EU average level will not happen in the next 10 years. Latvia is very small, many businesses are monopolies, this all affects the economy, especially the state monopolies, e.g., Latt telecom.”
(Technology and communications company).

“Economic growth. If the economy does not grow, it is difficult for us to grow in this country.”
(Professional assurance and advisory services company).

“Economic growth and welfare of the people is also a concern. 80% of our clients are private individuals. Energy poverty is an issue. If economic growth is stalling, this also increases energy poverty.”
(Energy company).

“Russia and its impact on our economy and the way people feel about social order, the way people feel about their position in the Baltics, Russia continuing to do some unusual things which worry a lot of people. You can see there is increased investment in the military both from the government’s point of view in Latvia, in the Baltics, but also from our partners in NATO and the EU. This increases tension. There is general concern about the next 10 years – pressure on the economy from things like pensions, health, education – all of these costs are going to increase with time and that will make the future of the economy challenging, given the number of people in the population.” (Manufacturing/ wholesale and retail company).

“The top challenge is business growth (growth of the stock market), which depends on the overall development of financial markets (incl. public listing of state assets and local pension funds, etc.) Key issues: 1) what is the state’s long-term plan for SOE governance and management? If privatisation is considered, it might be organised as an initial public offering in order to create growth. 2) Promotion of the debt securities market.”
(Finance and banking company).

“Further growth of the depository due to the new EU directive that liberalises the market for depositories in Europe.” (Finance and banking company).

• Infrastructure

“One obstacle for investment is the lack of A-class office space in Riga.”
(Finance and banking company).

“Have to continue improving infrastructure. Should not fight against projects like Rail Baltica.... Have to think about diversification and provision of energy resources.”
(Wholesale and retail company).

“Regional policy is also an issue – for example, infrastructure outside Riga is problematic. There should be a systemic approach to development of infrastructure; currently there are many limitations, and municipalities are very limited in their actions. For example, for companies that are thinking about outsourcing some of their functions, this would be important. For me, it is not clear how the special economic zones function. What are the principles? Could a shared service centre work there and benefit from the special regime? Talking about infrastructure more broadly, AirBaltic has been a major asset. But Riga transport and roads is a problem. For example, it is almost impossible to get to Daugavpils – it would be too expensive to build a shared service centre there.” (Finance and banking company).

• Social inequality

“For Latvia, social inequality is a big concern – more people should be in the middle range of incomes. This is bad for both business and the government.” (Real estate company).

“One of the key issues for us to face is the growing inequality in society, especially in regions, and it will have a long-term impact. There is no economically active middle class with a potential to create small and medium-sized enterprises. There is a large amount of people who have become a permanent part of the low labour force segment. Judging by anecdotal evidence, if they ever think about business activities, it is something very primitive, micro scale and non-sophisticated. Typically in Latvia, those who have good salaries often depend on the fact that they also help many other members of the family.”

(Professional assurance and advisory services company).

• Public procurement

“Public procurement and e-governance – quality of implementation and use varies from low to high depending on the area. Good examples of e-systems: the Road Traffic Safety Directorate, the Citizenship and Migration Office, the Enterprise Registry, the State Revenue Service. Low efficiency: the legal/judiciary e-system, the State Police, the education system IKTIK, e-Health. The lowest bidder principle in public procurement should be replaced by the most efficient economical principle (best value quality).”

(Technology and IT company).

“Economic growth goes together with the transparency of the public sector, how transparent government is in its decision-making (e.g., public procurement law and its implementation).”

(Professional assurance and advisory services company).

• Ecology

“Up until recently we had good implementation of ecological protection. Due to that, in 2012 we received a reward in a Yale University study that called Latvia the 2nd greenest country in world. But now we have dropped to 40th place. Nobody has bothered to keep us in a high position. We went down because nobody spent resources and time to do something about it. VARAM has not spent any resources to keep Latvia in the top 3.”

(Manufacturing company).

• Other

“Need to adapt to the changes in the energy sector in the last few years, meaning that customer behaviour is changing, customers want to have more decentralised energy solutions, which will probably change technology, and science will have a huge impact on further products and product portfolios for customers.”

(Energy company).

“Our business is very regulated as we are in a dominant position in the market. We are happy that the regulation was eased in December 2014. Before that we were not able to raise prices, only within the official rate of state inflation, because of our dominant position in the market. The advertisement market cannot grow if our company is not growing.” (Technology and communications company).

“The structural reforms of the crisis period were neither started nor finished. While Estonia and Lithuania worked on these, Latvia did nothing.” (Professional assurance and advisory services company).

“I believe there will be a significant salary increase in the next 10 years; otherwise, I do not think this country can survive, and that means we have to be more efficient in our production. Some automation will be necessary where applicable and the rest depends on the process we are going to change, which will mean that less people will be employed and we will be paying higher salaries for those who are working.”

(Manufacturing/ wholesale and retail company).

“In terms of our outlook: consumers are becoming harder to find, employees are harder to find, there is increased competition for the workforce and costs associated with this are increasing. Another factor that I would add to that – our customers, mainly retail chains, and the suppliers, like logistic suppliers or suppliers of glass, on the retail side: they are becoming stronger, more dominant and they are putting huge pressure on our margins, our ability to promote; the cost of promotion is going up. As to suppliers, finding good local suppliers is becoming harder and more expensive as the cost of everything is increasing, whether raw materials or people. So the outlook is difficult, shall we say.”

(Manufacturing/ wholesale and retail company).

2. Areas where Latvia has been successful in its economic development.

• Environment (on a political and business level) in Latvia

“Overall, we experienced a complicated but very supportive local environment on both a political and a business level. We did not expect that Latvia’s integration westwards would happen so fast, that it would be a member of the EU, NATO and the Eurozone in so short a time.”

(Real estate company).

“Tourism is also developing. Last year it grew by 14% despite the Russia/Ukraine conflict. This year I expect it to grow further.” (Real estate company).

“The high technology and pharmaceutical industries have historically been successful (Valmieras Stikla Šķiedra, GroGlass – great examples), retaining high-added value. Start-ups – Infogr.am, Ask.fm, Giraffe 360 – are great examples of the ICT industry.” (Technology and IT company).

“Very good experience in the Working Group under the Auspices of the Ministry of Finance – competent civil servants, meaningful dialogue aimed at finding solutions.”

(Finance and banking company).

“The State Revenue Service shows a positive (development) trend.”

(Finance and banking company).

“Some small business incubators are functioning.”

(Finance and banking company).

“Latvia has kept a low debt level – a good indicator on a macro level. Which shows we had a cautious Minister for Finance.” (Manufacturing company).

“Managing the crisis is a good example where Latvia has been successful. And it continues to grow. ... Introduction of the micro tax is another good example.”

(Wholesale and retail company).

“Businesses are looking at and comparing jurisdictions, doing studies on where to invest, where to put their hub, where to put their subsidiary. (From international studies) you can see there is a lot of improvement from a comparative perspective. ... When you need to look at international practice, it is just ticking boxes, as our legislators or ministries do; they need to go into the essence of the comparative study, which of course takes more time and resources and personal involvement.”

(Professional assurance and advisory services company).

“Latvia has become a good service provider; this is why there are so many shared service centres. And there are not enough people to staff them (especially auditors).”
(Energy company).

“The State Revenue Service’s White List of companies. This currently applies to big companies, but maybe it would also be a good incentive for small and medium-sized companies to pay taxes.”
(Wholesale and retail company).

“Tax policy, the tax system. The total tax burden is considerably lower than in many countries. Is this good or bad? – We have to understand where we are going. In the long term Latvia will not be a low-tax country, but the tax policy has to be reasonable. We have to continue reducing the red tape.”
(Wholesale and retail company).

“Change in the political environment within the last 10 years has happened for the best. Corruption is not as big as it used to be. Yet, during the last 2 years the situation has been worsening and stagnating in terms of corruption. Influence from the state with regard to owning businesses (what can be owned by the state and municipalities, especially the municipality of Riga) is bad, it is monopolising. It is not direct corruption, you cannot bribe to get into the market, because the market is closed, full.”
(Technology and communications company).

“The Latvian success is linked to the core industries that we had before. Accession to the EU was a political decision, which was fully implemented. In 20 years we have been trying to go through the development that other countries have gone through in 100 years. We have grown considerably since the 1990s and the pace of development is fast.” (Professional assurance and advisory services company).

“The Latvian tax regime is quite competitive compared to Lithuania and Estonia.”
(Professional assurance and advisory services company).

“EU accession; Eurozone accession; digitalisation, IT (3G, 4G); IT infrastructure is very good; personal income tax is going down slightly (social tax, excise tax are too high).”
(Energy company).

• Logistics

“Transit and transportation has been developing positively. It is an area that is politicised, but where Latvia can use its geographical location and develop further.”
(Real estate company).

“AirBaltic is still flying, you can reach Riga from different destinations.”
(Finance and banking company).

“Transport and logistics is well developed. Good that Latvia managed to develop an airport and position Riga as a place which is easy to access.”
(Professional assurance and advisory services company).

“... good connection to Nordic countries with frequent flights.”
(IT company).

“Transit is a success – we capitalise on our geographic location.”
(Real estate company/ manufacturing company).

- **Infrastructure**

“Infrastructure is not a large concern for us, it is more of a problem for industrial investments in the regions. For us, accessibility matters and it is good, particularly with Riga Airport.”
(Real estate company).

“Infrastructure in the IT industry is OK. Roads should be improved. Rail Baltica – useful and needed project that should connect Latvia with the rest of Europe. Air traffic – very good example of Latvia’s achievements on a regional scale.” (Technology and IT company).

“IT (the level of e-services as well as the service provided by the state and municipalities is generally high). The success is that often in these areas the fundament is very solid (like for Latvija.lv – the state paid a high price for its development, but thanks to this it is possible to upgrade further).”
(Professional assurance and advisory services company).

“Good availability of offices following the construction boom, good ICT infrastructure, energy resources, electricity.” (IT company).

“Infrastructure, especially roads, has improved a lot, but in comparison to Lithuania and Estonia it is still lagging behind, especially in the quality of roads, especially in cities.”
(Energy company).

- **Financial infrastructure / market regulation**

“There is strong participation from the financial sector, financial infrastructure is good (especially compared to the 1990’s).” (Real estate company).

“Financial market regulation in Latvia is very well organised and very supportive (regulators: The Finance and Capital Markets Commission, The Bank of Latvia, The Ministry of Finance). We have not encountered any obstacles caused by a regulator in Latvia. The regulators have been very open to maintaining a constructive dialogue on the basis of mutual understanding. In this aspect Latvia definitely excels in comparison to Estonia and Lithuania.” (Finance and banking company).

“Non-resident bank services offer opportunities for growth.”
(Finance and banking company).

“The financial sector is well developed.”
(Professional assurance and advisory services company).

- **Education / people / shared business centres**

“The competitive advantage of Latvia – shared service centres and a large pool of talent available in comparison with Lithuania; for example, Latvia now has a number of large shared service centres with over 1000 and 500 employees.” (Finance and banking company).

“SSE Riga offers the best business education in the region and many SSE Riga alumni have established innovative and successful companies in the financial services industry, including Mintos, 4Finance and Mogo.”
(Finance and banking company).

“Shared business centres.”
(Wholesale and retail company).

“Efficiency of labour in Latvia is not lower than in Germany or Scandinavia. Latvians are very good at multifunctionality (i.e., being able to carry out different functions). Latvians are ready to work more and longer. That is connected to efficiency. Could be that someone working till 4 does everything needed and goes home. The level of efficiency is the same as in Germany and Scandinavia.”
(Wholesale and retail company).

“Manpower is an advantage in the Baltics. There are high quality people available in Latvia but there is not so broad a field of them in chemicals and the construction industry – also, there are less opportunities for specialists. This is attractive for investment – you have good universities, but people mainly choose a different sector than engineering. For example, there is now a university that has a technical direction, but again, if people finish a specialised university, the number of companies that offer jobs is the same – it is again the same number of people who struggle to find a job. My opinion is that what they need is social guarantees and work to make sure people stay in Latvia or return.”
(Manufacturing company).

“Another positive aspect is efficiency. Scandinavians are very positive about Latvians on this and Latvians are better than Scandinavians.” (Finance and banking company).

- **Other**

“Woodworking seems to be rather successful and helps increase exports. Also IT, but many from IT are leaving the country. The bio industry and renewable energy is a developing area, you can get qualified people for a reasonable price.” (Energy company).

“The food production industry was able to improve productivity, innovate.”
(Wholesale and retail company).

“Hotels and spa opportunities in cities and the countryside. There are many sectors – low, middle, high price sector.” (Energy company).

“Small industries and small enterprises – very successful, like app development, IT related projects/ companies, design and architecture, furniture, fashion. These are very dynamic sectors at the moment. A lot is going on around music, which we do not really see here, because it is all happening outside Latvia, but the work is happening in Latvia. Latvia is one of the world centres of the slow food movement. Eco tourism is developing, maybe not as fast as it should be, but still. Also grey tourism, which is older people (tourism). The number of tourists compared to last year is up more than forty per cent despite the fact that the number of Russian tourists is down 40%. So there are some things that are quite dynamic. But in terms of big industry, the things that are making a global impact, a European impact – it would be difficult for me to put my finger on that.” (Manufacturing/ wholesale and retail company).

“Transparency is increasing in big transactions. A better level of understanding from the population that investors are not stealing from them. If the transactions were transparent, it would help attract investors further.”
(Finance and banking company).

“SME’s are in good shape, they have learnt how to compete in the West, how to weather through several crises to the east of us (1998, etc.), and they are capable of quickly reorienting.”
(Real estate company/ manufacturing company).

“Tax policy is also generally speaking not negative – neutral to positive.”
(Real estate company/ manufacturing company).

“Education, health is all fair, good enough. It has not hindered Latvia’s development at least and that is good enough. Education probably even positive, medical care keeps getting better, so neutral to positive. Macroeconomic policy – improved, we proved that we can live up to our word, can tighten our belts, cleaned ourselves up. And I do not think that if we had done something differently to overcome the crisis, people would have stayed. People would have left anyway had we chosen a different type of policy.”
(Real estate company/ manufacturing company).

3. Why have companies invested in Latvia and what would be potential drivers to further increase investment?

“In the 1990’s investing in Latvia was a fantastic opportunity.” (Real estate company).

“Factors (favouring an investment decision) include labour rates, access to qualified labour, good infrastructure and good access to the country (air traffic), investment incentives and overall sustainability. ... We are looking to continue to attract new employees. Soon we will start servicing South America and this will require hiring more employees with knowledge of the respective foreign languages.”
(Technology and IT company).

“We are a marketing sales organisation and operate a base of consultants for the greater CEE region. The main factor for establishing the office in Latvia was the quality of IT human resources. However, the number of and access to quality workers is very limited, hindering further development. Another limitation for future investment is high labour taxes. Cooperation with schools and universities should be improved – schools rarely use the opportunity to provide an internationally recognised certificate for expertise in certain programmes. Top (further) drivers would be: long-term labour tax policy and access to and quality of the labour force.”
(Technology and IT company).

“It was a strategic decision and Latvia presented itself very well. Access to talent – hardworking people with a good work ethic, multilingual, results-oriented. In Latvia, we will not increase investment. A recent decision was made to establish a new shared service centre in Lithuania. Factors in favour of Lithuania include the rule of law and a more favourable business environment.”
(Finance and banking company).

“... it was because the company trusted in Latvia and the Baltics growing into prosperous and European-type countries; thinking that markets would develop democratically; there would be a market economy. ... (We plan to) invest more: sometimes we are negative about what we see, but looking at where Latvia was and where it is now, we can see that the journey is going in the right direction.”
(Finance and banking company).

“The initial reason to invest in Latvia can be divided into two main groups – the macro level and industry-specific reasoning. On a macro level we see a growth potential in the Latvian economy. In the past few years Latvian and other Baltic economies have been the fastest growing in the European Union. As for industry-specific reasons – Latvia’s location is very strategically beneficial as it has access to both Russia and the EU and advanced infrastructure, so shipping is not an issue, including for products with a short period of use such as dairy produce.” (Manufacturing company).

“Latvia to some extent has a “milk culture”, associated with good quality, especially in the milk processing industry. Various historical milk companies ensured a professional labour market for the milk processing industry and established companies and professional teams to ensure a good environment for the industry. Latvians love to buy products produced in Latvia, not only because of patriotic feelings, but because they trust Latvian quality.” (Manufacturing company).

“The Baltics was a rising star, a lot of potential to build a company because there was no normal retail. So it was about starting from scratch, bringing in the western knowledge.”
(Wholesale and retail company).

“In Latvia we have reached maturity. Estonia and Lithuania are a different case – we can still grow there, but there is local management. The strategy of our owners is: we are retailers and we will stay that way (i.e. not expand into other areas of industry).”
(Wholesale and retail company).

“Because of low labour costs and the local metal industry supply chain. We mainly employ young people and they are motivated. We are located in the free zone in Ventspils – this is one reason. The attitude from Ventspils City is very good. The city invested for us. We meet the city council regularly and can discuss problems if needed.” (Manufacturing company).

“For us this is an issue of market coverage; we are by definition here.”
(Professional assurance and advisory services company).

“(As for more investments) there is a clear trend: if the country and economy develops, the need for outsourced services grows. Operations get more complicated and companies often do not have relevant competency internally. Objectively, we link additional investment in our operation to two main processes: availability of big one-off projects that need additional services (e.g. energy projects, Rail Baltica); maturation of the business environment and increase in the use of professional services. Another way to go would be to develop shared service centres and service other countries from Latvia, but the scale here is small since there is no relevant labour.” (Professional assurance and advisory services company).

“If we could have predicted the future, would we have invested in Latvia? We would have been inclined to make the investment but not at the same amount. ... There are some points that helped us to make the (investment) decision:

1. Aviation is a sector that has a specific strength in Latvia and even more widely, regionally. From that perspective Riga is similar to Istanbul.
2. Latvia was economically successful and growing.
3. HR is very good in Latvia. That was not a crucial aspect in making the decision about the investment, but now we are very happy. In the ground handling business, Riga is a centre. In Germany we used Latvian experience to develop passenger handling – Latvians oversaw the middle management in Germany.”
(Service company).

“We invested in 2006 because there was such an opportunity to buy the terminal. As the investment climate went down globally and people were not able to fulfil their contractual liabilities, we ended up as the biggest investor and acquired the biggest share – 49.98% ... Latvia is a good place for our business – good infrastructure, ice-free ports.” (Energy company).

“Nordic companies need to be more cost competitive in their home markets. Also, there are a lot of companies with a presence in India and other Asian countries that can offer services for a lower price. Nordic companies are looking for near shore/offshore opportunities. The advantage of Latvia is that it is in the EU. There are a lot of financial sector clients that often do not accept work transfer to India because of EU regulations. Thus, this is an opportunity for Latvia. The cost level in Latvia is 1 to 4 compared to Norway. Financially Latvia is interesting for the Nordics.” (IT company).

“We saw the potential of the country. It was a natural extension of markets. Currently the market is saturated, our network is sufficient. There is potential to invest in a business centre, but the problem is availability, quality, skills of the labour force. Regional development with decentralisation of government institutions would be welcome.” (Wholesale and retail company).

“We have invested in Latvia because it was the company’s strategy to be in different geographical locations. Would we invest again? – Definitely. We established our representation in Latvia before Latvia joined the EU, and the country’s accession to the EU, NATO and The Eurozone just confirmed that our choice was correct.” (Wholesale and retail company).

“After the changes of the 1990s, western companies were looking to increase their market share, make investments in other countries to the East. The Baltic region was in focus along with other countries in CE for our biggest current investors and both companies became shareholders of our company. The investment decision at that time from today’s point of view was a success story. The company was completely restructured, a lot of investments were made. The company became profitable; nevertheless, it is fully regulated.” (Energy company).

“A potential driver was the modernisation of the company at that time, new technologies had to be implemented, old technologies had to be modernised and the efficiency of the company was increased; reliability of assets increased significantly and that is the major outcome of the investment.” (Energy company).

“We invested in Latvia in the 1990’s. Our company was investing in countries where there was no such product and where the competition was low. Later, when deciding where to locate the play-out centre (the options were Tallinn and Riga): Riga was better at geographical location; size of the market; personalities in management mattered a lot. Now we need highly skilled engineers (in the IT angle of broadcasting), who are difficult to find in this country. ... We are a very opportunistic company; we think about how to do something, not about how not to do something. It is a question to us, where we see opportunities to invest. The ad market is stagnating and will not grow in the TV sphere. We will have to look for other spheres to grow in. We found digital TV to be a place to grow. Unless the government’s approach changes dramatically, we will not change our approach to the country. Digital expansion could be a way to grow, it would be easier to buy something (a company), but the prices now are unreasonable. So we invest in people, we use our TV power and build the digital sphere. Angles for investment: for our play-out centre (one in Latvia and one in London), expansion is not a plan. We are also planning to develop a production company to optimise the production of content.” (Technology and communications company).

“From a digital perspective Latvia and the Baltics can be a test market for new products (launching, testing) before going further (expanding into other markets, countries). Latvia can be a role model for other markets (i.e., testing the field before going to other markets).”

(Technology and communications company).

“We have been in Latvia for 20 years. We invested here with the idea of acquiring new markets. At that moment it was an investment which could recover itself quickly. We are a global organisation, so we have to be in pretty much every country. The portfolio of our services now is different in comparison to that of 20 years ago due to the maturity of the market. Potential drivers to invest more – economic growth of the country, improved policies, availability of resources (labour force).”

(Professional assurance and advisory services company).

“We invested in Latvia because at that time there was a real investment opportunity in the country, there was demand and necessity in the market. Increase in the demand for electricity and/or heat energy will be a driver for investment, if it is in alignment with our investment policy.”

(Energy company).

“The main reason for investment was natural resource availability and there was also an old plant near the quarry. The business model and business calculation model was like in every region (resource, capacity of plant, people).” (Manufacturing company).

“The size of the Baltics is suitable for Finnish companies. Not too big, nor too small. When you have a strong market share at home, and you want to grow further, you need to go further, and the Baltics is a logical step.”

(Energy company).

“The first reason has to do with Latvia itself – our shareholder is keen to be an important person in Latvia, keen to have sustainable investments in the country. There is a positive feeling about investing in Latvia. From the employees’ point of view, we have invested to consolidate holdings, simplify discussions with banks and other important members of our group, our investors, customers, clients, and also to simplify our Baltic structure, and this has been part of the main reason for the investment. It allows us to build a foundation for future changes and growth... Latvia offers us a number of opportunities that we would find difficult to replicate elsewhere. We are already here, so this gives us the advantage of continuity. There are things that we can do quickly in Latvia more cheaply than elsewhere, our IT system is a good example of that. There is a huge amount of innovation in Latvia at the moment in a number of areas, technology, design, arts, music, which is fundamentally exciting for our business, particularly in the business areas we are in.”

(Manufacturing/ wholesale and retail company).

“We invested in Latvia with the view that it is in the EU, with European standards.”

(Finance and banking company).

“In general, this is an investment fund. We have a 10-year investment period. Now we continue to develop existing investments. We love Latvia, it has underused capabilities – geographic location and people among other things – so if the security and demographic issues were not there, we would be thrilled to make more investments. The rule of law is why the country is not developing faster. We have not had real problems with the rule of law ourselves, but we do see it as an issue.”

(Real estate company/ manufacturing company).

4. Has the investment attractiveness of Latvia improved over the past year and would you invest more or less in the coming years?

“Over the past year – no, because of geopolitical uncertainty and events in Ukraine. And this affects you even more if you are not based primarily in Latvia. At the same time the direct effect on business is not big. We have plans to continue investing in the Baltics; however, nowadays it is more difficult to get the investment proposals passed through the Board.”

(Real estate company).

“It has increased slightly because the innovation environment has grown and developed (TechChill, Tech Hub Riga, start-up movement and access to venture capital). At the moment we neither plan to invest more nor less.”

(Technology and IT company).

“We have recently decided to launch a competence centre in Vilnius, Lithuania. Latvia was also considered, but not selected. Some of the reasons: reputation of the country and the ability to present itself as a country that welcomes foreign investment. What is very important is the presence of other reputable investors; for example, Lithuania has attracted a number of American and global financial services corporations, such as Western Union, Barclays, Danske Bank. Another factor in favour of Lithuania is that it is a larger country and therefore there is a larger pool of talent. At the same time Riga is larger than Vilnius. The conclusion –

Latvia should be better marketed.” (Finance and banking company).

“Yes, slightly. We have had some negative external anchors, Ukraine and Russia – how they are falling back – therefore, we have a drive to fix things. For example, the State Revenue Service and the court system are taking some baby steps in the right direction.” (Finance and banking company).

“Our strategy is to increase geographical exposure to many different countries, so that as a result we will be diversified to such an extent that we will minimize dependency on external factors. Nevertheless, it is important to have a substantial base – the local market – and in that regard we intend to double the amount of processed raw milk in two years as well as strengthen our market positions in both the dairy and ice cream segments in the Baltic States. Moreover, abolition of the milk quota is another positive factor in our view.”

(Manufacturing company).

“Overall Latvia is going in the right direction. Taxation is one of the most favourable aspects. The legal system framework is weaker. Our investors are quite happy about their investment in Latvia. The question is how to use the knowledge and benefits we have in Latvia to expand into other countries. In Latvia one has to be creative to survive and that is something that we can share with other markets.”

(Wholesale and retail company).

“Investment attractiveness has improved a little bit. ... Two or three horror stories can destroy the pattern of a good system. This has improved. The current government is very idle regarding any changes and reforms. In fact, reforms are put on hold for more than a year. The EU presidency is often mentioned as one of the reasons; but if you suspend everything on the state policy level because of the EU presidency – that is mismanagement.” (Professional assurance and advisory services company).

“I cannot see big changes. We needed several years to establish an enterprise which runs smoothly; this took us around seven years. ... Yes, we would invest more, but it is difficult to get engineers.”

(Manufacturing company).

“When you invest, you evaluate the history of aviation in the country as well as the overall economy. Aviation in Latvia was quite successful and economic growth at the time of our investment was good as well. The crisis was painful, but we adjusted. The ministry – up to a certain level – but companies understood our problems and supported us. ... We are interested in increasing investment in Latvia. Although at the beginning we had some negative experiences, we believe we have seen the worst and can manage any kind of risk now. Availability of funds is an issue, though.” (Service company).

“Investment attractiveness has not improved because of the geopolitical situation. ... We might be investing more, but first we need to solve shareholder disputes. Also, we want to see more clarity about government plans – in the gas sector, for example: is there a clear strategy for 2017? Government wants us to invest but has no clear strategy itself.” (Energy company).

“Negatively, mostly because of the increased competition, but qualified labour has not grown. Hard to find the right people. Hard to expand. The plans would be bigger with a different situation in the labour market. Our needs are related to three areas: IT (to provide a good solution to our clients’ technical problems); language (as the market is the Nordics) and customer service skills (as for our customers it is an important experience when they communicate to service desk personnel).” (IT company).

“It might have decreased slightly due to political instability in the region. ... There is a slight potential to expand our network, but not too much as we are already the leaders of the market. We might invest in a business centre, but this also depends on the availability of the labour force.”
(Wholesale and retail company).

“It has definitely improved during the last few years and accession to the Eurozone is proof of that. The circumstances are not ideal, but they are not ideal anywhere. Joining the Eurozone means we have fulfilled a set of criteria and we have fulfilled them better than many Western European countries.”
(Wholesale and retail company).

“The attractiveness of Latvia regarding investments has improved; nevertheless, there were certain turbulences in the market, especially the 2007-2009 crisis. At that time Latvia had not yet joined the euro. From an economic point of view, the Latvian currency, although fixed, provided a necessary framework for some manoeuvring in the economic conditions. From another point of view, laws were changed; effectiveness became more topical after the heated economic situation and financial crisis. This was taken seriously as a subject, the government introduced and implemented decent reforms that led to quite a fast drop in the Latvian economy but also ended in quite a fast recovery of the economy.” (Energy company).
“A potential driver to increase investment in future would be a sustainable legal and regulatory framework in the context of European energy policy. When this is present the company will invest in new technologies, e.g. in a smart grid and decentralised system that would provide more comfort to the customers, not only in the gas market but also in other energy sectors. ... Potential in the key drivers in the future can be found in energy efficiency; this is related to our sector. When you drive through Latvia in the countryside, even in big cities like Riga, Daugavpils, Liepāja and Venstpils, there is a lot to do with respect to the energy efficiency of houses – insulation is in many aspects quite poor, starting with windows, roofs, etc. Here we need a better incentive system in order to promote investment in energy efficiency. When customers are sensitive to energy savings, the government or general political framework will provide more incentive systems to invest in that sector; I assume there will be quite an attractive business sector in the future in order to improve living standards. In energy efficiency, if you take the average energy used per capita or per economic product, you see that Latvia, similarly to Lithuania and Estonia, is at the bottom of the Eurostat statistics. This is a sector that could be improved a lot, but keeping in mind the average spending or the

spendable income of the average household in Latvia, there is not that much space for manoeuvring; here we need a short-term solution in order to gain long-term results.”

(Energy company).

“Latvia is an attractive country to invest in, but there are some red flags. If you would like to build a huge factory with high technologies and a big investment, I would hesitate. The biggest factors (red flags): (i) current geographical situation, (ii) resourcing. There is a lack of resources – of employees with skills and knowledge and a willingness to work. As long as the government refuses to understand that we need to import the labour force, the demographic situation will be critical.”

(Technology and communications company).

“Investment attractiveness has increased in the past few years: for example, in the IT sphere, which has attracted several IT companies. This has been possible because of the good IT infrastructure in Latvia (fast internet, good coverage, optical internet, etc.). ... Regarding industries: Scandinavian culture and the Scandinavian financial sector helped to develop the financial sector in Latvia. TeliaSonera helped to develop the IT sphere. ... If confidence in Latvia increases, investment attraction will increase.”

(Professional assurance and advisory services company).

“Latvia has implemented the minimum level of requirements for doing business (“Latvia is not a banana republic”). Accession to the Eurozone was a stimulus for improvement. ... Implementation of the minimum requirements was a reason why Latvia had a credibility rating which ensured the ability to borrow financial resources. In turn, availability of financial resources was a precondition to attract investment. ... Tax rates are ok, but in Estonia reinvestment is not taxed.” (Energy company).

“Have not seen changes over the last year. After the Maxima case, construction has become slower and more complicated. Before the accident, the process from a green field to a gas station took a year; now it takes 1.5-2 years. In the coming years – we already have an investment plan; the investment level will be the same.”

(Energy company).

“Latvia is as competitive as last year. What happened in Ukraine affected ways people think about the countries that border Russia. There is not a significant change in Latvia’s competitiveness. But because of the conflict, maybe, some things have become cheaper, e.g., the cost of entry in some areas, like property development, is a little bit lower than it was at this time last year and this is attracting more people. ... Whether we will continue investing in Latvia depends on opportunities. Investing in improving our business is something we will continue to do. Latvia represents a fairly low risk; huge opportunities are not here either, but it is good value, it is still a very predictable market. Even with all the geopolitical changes and worries, it is relatively stable and safe. In comparison to developed countries the expense level is much lower and the return is much higher. The knowledge level of our people, if we get the right people, is very good and on the same level as in Central Europe. So return on investment is very good in Latvia.”

(Manufacturing/ wholesale and retail company).

“The attractiveness is about the same. Some things have improved, some keep getting worse (like demographics).” (Real estate company/ manufacturing company).

5. The main gaps between expectations and reality when the investment was made

“Demographic development and emigration, which we did not foresee happening at such a fast rate.”

(Real estate company).

“We have not had any surprises and there were no gaps between expectations and reality.”

(Technology and IT company).

“Negative feedback from investors in the transit industry, especially with regard to governance of the free ports of Riga and Ventspils.” (Technology and IT company).

“Following through on structural reforms in the education and health sectors and in the judiciary system announced during and after the financial crisis. Also, investment in local management is very important in order to achieve business results; management should be active and visible.”

(Finance and banking company).

“Negatively surprised about the legal system, that things take so long, some really strange court decisions. It is fundamental for society that you have a legal infrastructure that works, because it creates stability and predictability. I was aware of this problem but was very surprised that it was so endemic. A positive surprise: people are quite open and transparent. One reflection – people are aware of their weaknesses, but they say it is our mentality and do not really want to do anything about it. They do not understand the seriousness of some of these issues, especially for foreign investors.”

(Finance and banking company).

“Investment expectations were largely driven by availability of free market access to the EU. That has never happened in the dairy business, because EU nations are protective of their farming business and that will continue in the foreseeable future. The Latvian government is not doing much to make low CO2 a benefit.”

(Manufacturing company).

“Latvia has not had any big failures. Originally it was a risk to invest in Latvia, which we took into account. There was no experience in western-style business, knowledge gap, etc.”

(Wholesale and retail company).

“The most symptomatic issue – the insolvency process, which currently ranks on top of everything else. All the rest is ok.” (Professional assurance and advisory services company).

“We had no idea of the legal battles we would have to face. But not all our experience is negative. We have moved some operations from Lithuania to here and will do trading from here. We are happy to reassess activities and put more money in if such an opportunity comes up; we keep our minds open.”

(Energy company).

“I would like to mention people. Coming from Western Europe, you sometimes have a different understanding, maybe not completely different, of what people think and do. Living experience and business experience in Western Europe has developed over centuries, whereas countries like Latvia, as new member states, have had to develop such a mindset in some 20 years. Sometimes westerners’ expectations are challenging and huge. And then you understand that when it comes to implementation, it does not happen that fast. You need to meet the people first, understand what they have experienced, what their capabilities are and what they are aiming for. You need to start with the mindset in order to achieve what you want to see and sometimes you

need to step back when you move too fast. So the change in mindset is one of the major issues when different cultures, realities meet. Over the last few years the education system has become more similar to the EU and so have expectations in the business environment. It is not such a big issue now as it was 10 years ago. Nevertheless, the mentality, history, and living standards are different; you have to take these into account if you want to develop business models and ideas within the sector.” (Energy company).

“Regarding the internal development of the country, there have been no major deviations in expectations vs. reality. During the crisis everyone re-evaluated the development of the market. Market development numbers are the biggest deviation. Our investors must be happy that they grew to be the biggest player in the market before the crisis. The crisis coincided with the setup of Lattelecom’s monopoly. The biggest deviation was that after the introduction of digital TV, distribution costs went up 5x, which we did not expect. Because the logic is that you increase the number of channels you can broadcast, and the distribution costs decrease. In Lithuania and Estonia distribution costs went down, for example.”

(Technology and communications company).

“The 2008 crisis was the biggest expectation gap. Most of the big investment was made before that, some of it literally the year before. And no one expected that to happen in 2008, it was a shock. From a straight-line investment point of view, some businesses that we bought, we overpaid for, like everyone did. The impact of 2008 was never really recovered from, not because of us, but because margins were depressed, competition increased. The total size of the wine and spirits industry: it has never really got back to what it was in terms of value; in terms of volume it is the same. That is because during the crisis retailers got together, they formed bigger groups, Rimi, Maxima, Iki and others got stronger and they took more of the margin from the root market.” (Manufacturing/ wholesale and retail company).

“First, it seemed everything was possible: nobody, for example, forecasted the negative demographic situation. Maybe the gap was in seeing how long it would take to clean up the country in a legal sense, the rule of law – a lot longer than it should have. The financial crisis – we made some money but also got stock up with some property. But that was how it was for others too – banks, for example. I remember reading an article saying that soon Latvia would catch up with Germany. People believed that 8% GDP growth was great and sustainable and that Latvia would quickly catch up.”

(Real estate company/ manufacturing company).

6. Evaluation of Latvia’s unused potential

• Industry-specific (tourism, medical/pharmaceutical industry / finance, etc.)

“Tourism is growing and will continue to grow. Latvia has infrastructure and the potential to expand. Relations on eastern borders will improve and that is an advantage. Tourism should also be expanded outside Riga.”

(Real estate company).

“The medical/pharmaceutical industry has the opportunity to expand. Latvia has a good basis and good traditions and potential.” (Real estate company).

“We have, for example, a large amount of non-resident deposits compared to Estonia and Lithuania. It is not doing any good at present, not significantly. But we should think about how to make this money work for the good of the country. Maybe some specific financial or professional products could be developed? Like in the case of Uralchem.” (Professional assurance and advisory services company).

“The food and beverage sector still has a lot of potential. Agriculture as well – you can see a lot of unexploited land plots which are used only for receiving EU subsidies. Pharmaceuticals also has potential.”
(Energy company).

“For the current industries there is potential to improve on the value added scale. Food production has potential business centres. Increase exports. In the financial sector – servicing the eastern part of Europe (Russia). Digital, export driven, servicing IT.” (Wholesale and retail company).

“Agriculture was interesting before the crisis and will be again; it will be worth financing in the near future.”
(Professional assurance and advisory services company).

“There is potential for agriculture with high value added (eco foods, etc.) but Latvian farmers want to be small-scale, they do not like to cooperate. Ecologic farming is an opportunity. Creating materials/products with added value. High technologies have potential. There are good examples where Latvians have created some good products (e.g., airdog), but the companies leave Latvia as soon as they become successful. So Latvia has to come up with ways to keep them here.”
(Technology and communications company).

“Innovative chemistry (Institute of Organic Synthesis) (not mass production).”
(Professional assurance and advisory services company).

“Cinema, beauty, medicine, manufacturing.” (Energy company).

“Farmland, agricultural land use is a potential” (Energy company).

“Latvia has been good at agriculture, but the new law on land ownership will prevent any new foreign investment, which will be a disaster. Surprised it has not been getting more publicity. It was a stupid and populist move. We have to be competitive. Populism is alive and well here.”
(Real estate company/ manufacturing company).

• People / Human resources / Skills / Education

“Young and creative entrepreneurs constitute another area I see Latvia developing. Creativity should be used to create more value added products, for example, in wood production, and should be linked with industry.”
(Real estate company).

“Education and research has potential in Latvia – to create value added products.”
(Wholesale and retail company).

“Good education, language skills.” (Manufacturing company).

“Education, top educational schemes (has development potential), looking to expand where you utilise the scientific potential of Latvia.” (Energy company).

“The Soviet Union destroyed several generations in relation to entrepreneurship. Nevertheless, Latvians are hardworking and smart.” (Technology and communications company).

“Latvians are not opportunistic enough; there is lack of mentoring, people are afraid to start their own business because they fear they will fail. The idea that if I pay taxes I will not be profitable is very persistent. When Latvians do business, they do not think about it in the long term. People who are opportunistic just want fast cash. There is lack of good business thinking. Privatisation: we sold it quickly and got it in the wrong hands (the theory is that you should sell companies fast and get them into business hands that will get them going).”
(Technology and communications company).

“The return of people who have left in the last few years.” (Manufacturing/ wholesale and retail company).

• **Environment for conducting business**

“Riga as a hub and gateway to other countries is natural but underdeveloped. A business hub, good nature for recreation. Use the potential of the environment.” (Finance and banking company).

“(Latvia should be) a bit more like Switzerland, in an eastern direction. Latvia is still a bit dodgy, especially the legal environment.” (Finance and banking company).

“It makes no sense to build a big factory in Kuldīga. There are no people, no railways, far from ports. You have to be realistic.” (Finance and banking company).

“There could be more patriotic thinking at all levels; idea to work for the benefit of the country and not only one’s own benefit.... Good governance in state-owned companies is another area with potential.”
(Wholesale and retail company).

“We have not used the opportunity to turn Latvia into an alternative to Switzerland or Cyprus. That could be a meaningful strategy. We could provide a regime for companies that are interested in being on the border with Russia. But we are spoiling it ourselves, the government.”
(Professional assurance and advisory services company).

“The idea of a transit hub between East and West and South and North – do not see it developing any further. Latvia already is a hub and I do not see it growing.” (Energy company).

“Continue developing an anti-money-laundering regime. Make sure it is efficiently applied, taking the best examples from other countries. Latvia could be an effective portal for funds.”
(Professional assurance and advisory services company).

“Development of Latvia as a transport hub; need more coherent strategy for ports to make them more competitive. More efficiency needed in the transportation sphere.”
(Professional assurance and advisory services company).

“We have huge potential – sea and coastline. Why don’t we take up good practice from foreign countries? Latvian laws are obstacles – it should be much easier to act.” (Manufacturing company).

“Transit – also depends on geopolitics. I am not an expert in transit but I think you can use it as much as you are allowed to use it.” (Real estate company/ manufacturing company).

• Positioning

“Latvia as a gateway to the East – it is used, but I do not know what the future potential is.”
(Energy company).

“... unlike in Estonia or Slovakia, there is no particular niche that would put Latvia on the map.”
(Real estate company).

“We again go back to the issue of Latvia’s image. It is not clear what we want to achieve as a country. Everyone knows where the problems are but nothing really happens. We should probably change the politicians, the civil servants as well. We need a change in dynasty. But it should be massive. Also, we should promote the idea of getting the system right (for some reason all the big projects go wrong – e-systems, train purchase, library). We do not have answers but nobody is even looking for an answer to why we are not able to handle any big projects at the level of the civil service. No feeling of ownership (also no empowerment and no accountability) could be among the reasons.” (Finance and banking company).

“Latvia has to distinguish itself from Lithuania, Estonia and other countries. Transit, logistics can distinguish Latvia from other countries.” (Finance and banking company).

• Social issues

“Insurance is still a market to be developed. People are underinsured.”
(Professional assurance and advisory services company).

“Social policy and development-type bank environment is an area which is developing (Hipotēku banka and Altum), but I would like to see much more convergence between the social policy of a bank and financing policy through a development bank. That would help the rural areas, help build (because of the different nature of lending and collateral) a lifestyle that would increase per capita income, and gradually the relationship between cost of living and per capita income (which is one of the causes for emigration) could change. Per capita income is relatively low, but the costs of living are high compared to other CE countries.”
(Professional assurance and advisory services company).

• Other

“We should be growing much faster, growth of 2 and 2.5 % is not enough. There are many headwinds facing us, but we have to grow fast enough so that our salaries rise fast enough. But they should not rise faster than productivity.” (Real estate company/ manufacturing company).

“Attracting back office companies is going badly. We should find out exactly what Vilnius has done.”
(Real estate company/ manufacturing company).

7. Suggestions for communicating Latvia as a place for investment: actors and methods

“LIAA is quite efficient in this area. They have the necessary competence in key areas, could continue to expand and become equipped with better tools.” (Real estate company).

“You can do campaigns. But it is more like mindset building. We need to fix the issues (where we have bad scores in the Global Competitiveness Index, doing business, etc.), the government has to set this as a priority, to ensure we are in the proper places of international indexes, doing business and other things, and talk about it. ... People should believe in Latvia. If people in Latvia believe that Latvia is a good country to invest in, they will talk about it. If we look at Latvia’s scores in international indexes, they are quite good. If I were the prime minister, I would set a target to fix Latvia’s international rankings, and if you put a focus on it, it is not that difficult. And speak about it. Then it will work. I do not believe in advertising campaigns.

Fix people’s mindset and make investors feel welcome.” (Finance and banking company).

“Communicating Latvia as a place for investment should be done by private companies and the public sector together. In many instances the private sector is willing to do this, but the public sector is very critical about how it is being done.” (Manufacturing company).

“It certainly has to be organised in some way. We have the Latvian Investment and Development Agency, which has branches in various countries. It is important to find the best markets for us and then put focused emphasis on these, be more focused. It is all about relationship; building them face-to-face; Latvia needs good business ambassadors. ... Latvia’s competitive advantage is smart, hardworking people with the right attitude. Latvia could be a link: it is too small a market taken alone but you can use it as a stepping stone, because people are multilingual here and are willing to learn. A good platform for extending business to other countries. Infrastructure is also good.” (Wholesale and retail company).

“The government and ambassadors would be appropriate. Although government has a minor role in this. The best advertising is mouth to mouth; it is what entrepreneurs tell each other. Latvia should develop success stories at home and these stories will spill across borders.”

(Professional assurance and advisory services company).

“Low labour cost country.” (Manufacturing company).

“There could be two more things we could do – first, fast and efficient privatisation (for example, telecommunications, logistics, forestry). There are some risks attached but they are manageable. And second, existing investors could be used more as a resource – their profit compared to the initial investment is abnormally big. And there are many positives about Latvia: the standard of living is high (social services, healthcare, wellness, etc.).” (Professional assurance and advisory services company).

“The Latvian Investment and Development Agency is doing a good job. It is responsive to the needs of investors. It is a useful tool and should not diminish. Each ministry should support foreign investment related to its subject and area of work. Offer support to investors at least in communication. ... Ideally, when you google Latvia, you should not be able to get bad stories about investment and investors in Latvia. If investment-related problems are solved in a transparent way, that will be the best advertisement for Latvia.”

(Service company).

“The focus should be on people who know languages and are well educated. Riga as European Capital of Culture was a good opportunity but the message did not come across. From that point of view the Tall Ship Race in Riga in 2013 was a much better event. ... Strong leaders of the country could be very good messengers, successful businesspeople as well. ... Latvians who have emigrated could also be good communicators. The only problem is Latvians are very reserved.” (Energy company).

“Base PR on what Latvia has achieved in a relatively short period of time. That is what the government can do, and foreign investors as well.” (Professional assurance and advisory services company).

“I have worked with LIAA and the corresponding institutions of Lithuania and Estonia. LIAA has improved its work in recent years, but you can still sometimes feel a bit of arrogance, that everything is ok in Latvia, we have the investors and they will come. It would be worth learning from the Lithuanian institution’s professionalism and the way they communicate Lithuania’s good news, advantages and attractiveness to investors. Sometimes it borders on being intrusive, but they check whether anyone else would like to invest in Lithuania. The Lithuanian way of communicating and activity is the benchmark, they are the leaders in the Baltics. ... Latvia should improve its communication with investors, make the rules of the game more clear and transparent, so that it is easier and clearer for foreign investors, especially small and medium-sized companies, to invest and to give them the feeling that they are welcome here.”

(Wholesale and retail company).

“Investors with successful investments should tell a story which should be very rational. Nobody really believes the government, so they would not be the right communicators. More should be done via external affairs, identifying businesses that would be interested in Latvia and approaching them (defined investors for defined areas).” (Technology and communications company).

“Existing investors are the best communicators: their best cases (e.g., in solving something, expanding, etc.) are the stories to tell. Local people as well, if only they knew the success stories. There have to be cases and one has to work on them.” (Professional assurance and advisory services company).

“We have LIAA and POLARIS. LIAA has a video about 5 business cases from investors who have invested in Latvia. This video should also be shown to Latvians on TV; I only came across this video because I was participating in the Latvian business delegation’s visit to Finland together with the President.”

(Energy company).

“If you are asking for a short-term possibility – the most effective one is to make foreigners interested in Latvia. I have been to some meetings abroad, but besides that there is nothing much coming out of this – how to approach people, create an interest. I would say technology and equipment fairs – this is a place for the company to start and see change. But to invest, you have to have extras. There should be advertisements. For example, with different benefits from investing in Latvia – educated people, salaries, tax discounts. I can happily invite guests – the airport, entertainment, parks, etc. are nice. But besides that there is nothing.”

(Manufacturing company).

“Regarding LIAA – there should be some rotation. There are many positive examples of how to promote Latvia as a country – we should use them. For example, the Facebook pages “I love Latvia” and “I love Riga” are great. ... We need positive stories and examples. LIAA could have asked us (as the biggest investor) to present on shared service centres and we would have been happy to do it, and at our own expense. We cannot do LIAA’s job, but we would be most happy to cooperate and contribute. Overall, private companies should be involved more. There should be an invitation to communicate.”

(Finance and banking company).

“Singapore did a very interesting job around this. They had an integrated marketing campaign for the country – internal and external. They communicated what the country is about, why it is attractive throughout the country and throughout the international community. They worked with the best advertising agencies in the world to do that and spent a lot of money on it. It is a really important part of their country’s strategy.

The challenge for Latvia is to recognise that there is a country strategy which first of all integrates the intentions and plans of the country with the ambition to attract businesses and people back to the country. For example, Singapore invested heavily and developed a biotechnology sector. They created a university, imported some of the best people in the fields from around the world spending a lot of money and within 10 years they created a world-class centre. And the way they communicated it was incredible. It was done professionally through universities, it is done through schools, through businesses that exist in the country and internationally through the normal systems, be it magazines, social media, etc. It is all integrated and put together and connected and that is what Latvia is lacking, there is nothing connected at the moment, everything is done in bits and pieces. There is a nice little campaign on Latvia about slow holidays, which is attractive, a lot more could be done around that. But it does not do anything for the business community. What Latvia should do is invest with a very well known international advertising company to work on the best ways in attracting business to the country. But you also have to be able to develop business cases. ... For example, returning Latvians: If you are Dutch, if you have worked abroad and come back to the Netherlands, for the first 10 years you get a tax holiday on the first 30% of your taxable income. This is how they attract people to come back. They want these people back because they are earning more money than they are at home, so they bring their money back with them. When they come back, they bring their expertise, they start businesses, they grow, they invest that 30% they would have paid in tax. This is the kind of thing that Latvia should consider. In Singapore, if you travel a lot, you only pay taxes for the days you are in the country. That encourages regional centres to be established, which Latvia would have a real potential to do – to become a regional service hub for the Scandinavian markets as well as for the Baltics. But you need good people, need an incentive to be here, for the tax system in Singapore is very different, it is a flat tax rate for everyone.”

(Manufacturing/ wholesale and retail company).

“It should be business that attracts other businessmen to invest in anything. This is not something that should be controlled or managed by the state. It is something business should take a lead on if they see for example synergies between the business that they have here and what could be brought here by other foreign investors; it could be in the hands of businesspeople marketing [Latvia] within an agreed framework. The best marketing would be businesses making profits. It could be in the hands of, e.g., chambers of commerce or FICIL, a foreign FICIL marketing to foreign investors. It might be sponsored or supported by the state. The support could be – having annual meetings with investors and chambers of commerce where they come up with a joint position paper on investment highlights for Latvia. The best way is word of mouth, member-to-member marketing.” (Finance and banking company).

“If you go to a seminar/exhibition where somebody is telling you that, e.g., Bulgaria is a good country for investment, it does not sound very trustworthy. But when I went there (to Bulgaria), saw and felt the country, this was what helped me make a decision to invest there. ... Invite potential investors to Latvia, have a three-day programme for them in Riga, for example, so that they see and feel the city, the country. LIAA should be the institution to do this. We have already been in Latvia for 25 years but the people responsible for investments still want to come over and see where things will happen and where the money will be invested.”

(Energy company).

“The Latvian Development Agency is one of the key drivers. I have participated in two business trips (Philadelphia and Northern Ireland). They need to keep doing this, utilising official channels – honorary councils, integration with foreign Latvians, every country in the world does that, we have a huge amount of successful people, we have to understand how we can expand on that. The development agency or a similar entity could do that.” (Real estate company/ manufacturing company).

Demographics / Healthcare External & internal factors	<i>Ageing & the pension challenge</i> -How to finance the future pension group with a shrinking workforce -Maintaining the workforce -Ensuring the best regional facilities for medicine -How to correctly structure national insurance so the employer can be safe in the knowledge that their staff are secure, and not worried about getting sick -Preventing fraudulent sick leave	Rank activities for controlling the pension challenge
Technology External & internal factors	- Innovation - Investing in research and development - Becoming a centre for innovation in the Baltics - How to get the brightest minds to Latvia, and not MIT / Cambridge / Silicon Valley	Rank key areas for technological development
Business behaviour	Shadow economy practices Cooperation / communication between policymakers and entrepreneurs in Latvia	

Appendix 2: Brief introduction to the companies / foreign investors in Latvia that took part in the study

Balta/PZU

The PZU Group is one of the oldest and largest insurance groups in Poland in terms of written premiums, according to the PFSA, with a broad range of insurance and financial products. PZU acquired Balta in 2014. Balta has more than 540 employees.

Bosch

The German engineering and electronics company founded its subsidiary in Latvia in 1993 and currently employs 56 people in Latvia. Robert Bosch SIA is a wholesale company, which represents power tools, the thermotechnology brands Junkers and Buderus, the automotive aftermarket and diagnostic technology products, and security system products.

Bucher Schoerling

Bucher Group is a Swiss-based global manufacturer of economical, state-of-the-art machinery and equipment used for a variety of purposes. In 2004, the company opened its branch in Latvia, where it manufactures vehicle components and provides management for Schörling's Eastern sourcing network and employs more than 100 people.

Cytec Latvia

Cytec Industries Inc. is a global technology leader in specialty chemicals and materials. In 2010, Cytec established its global shared service centre in Riga with more than 150 employees.

Ernst & Young

EY is a global leader in assurance, tax, transactions and advisory services. The company has been operating in Latvia since 1992 and employs 170 people.

Eversheds International Limited

Eversheds Bitāns, a law firm, became a full member of the leading global law firm Eversheds in 2008 and provides legal assistance in all areas of commercial law. Currently it employs 18 people in Latvia

EVERY

EVERY Latvia, 100% owned by Norwegian www.evry.com. The company started up in Latvia at the end of 2012. IT company with service desk functions. 100% export of services to the Scandinavian market. Company size in Latvia: 120 employees.

Food Union

Food Union unites the biggest dairy companies in the Baltic States, continuing the traditions of Rīgas piena kombināts (founded in 1927) and Valmieras piens (founded on 1971). Food Union employs more than 800 people.

Fortum

Fortum is a power and heat company, which operates in the Nordic countries, Russia, Poland and the Baltics. The Company has been operating in Latvia since 2007 and employs 88 people (2014).

Klasmann-Deilmann

In 2011, Klasmann-Deilmann acquired the Latvian company Blue Mountain Peat SIA, which produces milled and sod-cut white peat. Since then, the extraction facilities in the towns of Zilaiskalns, Raki, Tevgarsas, Koceni and Ozolmuiza have traded under the name Klasmann-Deilmann Latvia SIA.

Knauf

Knauf is one of the world's leading manufacturers of modern insulation materials, drylining systems, plasters and accessories, thermal insulation composite systems, paints, floor screed, floor systems, and construction equipment and tools. The Latvian branch of the company was established in 1994 and employs 190 people.

KPMG

KPMG in Latvia has been providing audit, tax and advisory services since 1994 and currently employs around 100 auditors and consultants.

Latvijas Gāze/E.ON

JSC Latvijas Gāze is the only natural gas transmission, storage, distribution and sales operator in Latvia.

The company's largest shareholders are E.ON Ruhrgas International GmbH, OJSC Gazprom, and LLC ITERA Latvija. The company has 1275 employees in Latvia

Linstow

Linstow began active operations in real estate in the Baltics at the end of 1997. After purchasing 50% of the local real estate holding company SIA Varner Hakon Invest, Linstow began to develop a network of shopping centres in Rīga. It bought out Varner Hakon Invest completely in 2004, and now the company is wholly owned by Linstow AS.

Neste

Neste Oil Corporation is a refining and marketing company specializing in high-quality fuels for cleaner traffic. Neste Oil's Latvian company was established in 1990. The company employs 51 people in Latvia.

Microsoft

A technology company that develops, manufactures, licenses, supports and sells computer software, consumer electronics and personal computers and services. The Microsoft Latvia office in Riga was established in 1999. It employs 34 people. In 2014 it had approximately 500 partners in Latvia.

MTG

MTG (Modern Times Group MTG AB (publ.)) is an international entertainment group that operates on six continents and includes TV channels and platforms, online services, content production businesses and radio stations. MTG has been present in the Latvian market since 2006 and employs 409 people in the country.

Narvesen

Narvesen is the leading retail network selling press, fast food and services in Latvia owned by the Norwegian company Reitan Convenience (part of Reitangruppen) and was established in Latvia in 1997. There are 258 Narvesen retail points in Latvia (working on franchise), which employ more than 600 people. The Narvesen office employs 60 people.

Nasdaq

The Riga Stock Exchange was founded in 1993. Finland's Stock Exchange HEX Group became its biggest shareholder in 2001. The Baltic stock exchanges belong to Nasdaq, the world's largest exchange company

NCH Advisors

Established in 1993, NCH Capital today has over \$3.5 billion of capital under management in the markets of Russia, Ukraine and Eastern Europe, with funds across 4 investment disciplines: listed equity, private equity, agribusiness and real estate.

NCH investments in Latvia exceed \$450 million.

Norvik banka

Norvik Banka was established on April 29th, 1992, and is one of the oldest commercial banks in Latvia. The majority shareholder of NORVIK BANKA is the owner and leading partner of London-based investment fund G2 Capital Partners Grigory Guselnikov. The bank employs 606 people in Latvia.

PWC

PwC has been providing assurance, tax and advisory services in Latvia since 1993, and currently employs over 120 employees.

SEB banka

The AS Latvijas Universālā banka was founded on 28 September 1993. After the 1998 financial crisis in Russia Latvijas Unibanka elected to cooperate with the Skandinaviska Enskilda Banken (SEB), whose strategic plans called for major investments in the banks of Latvia and the other Baltic States.

On June of 2007 SEB acquired the remaining shares of SEB banka, thus becoming the only holder of SEB banka shares. SEB banka in Latvia employs 1600 people.

SPI Group

Founded in 1997, SPI Group is one of the world's leading wine and spirits organisations active in the production, sale and distribution. The group also operates a network of 70 alcohol retail shops, develops large-scale real estate projects and farms ca. 5,600 hectares of agricultural land. SPI Group in Latvia employs 990 people.

Statoil Retail & Fuel

Statoil Fuel & Retail is a leading Scandinavian road transport fuel retailer with over 100 years of operations in the region. Statoil began its work in Latvia in 1992 and has 1340 employees in the country.

Swedbank

Swedbank is the leading bank in Sweden, Estonia, Latvia and Lithuania. It is listed on the OMX Nordic Exchange in Stockholm. Swedbank opened its representation in Latvia in 1995. It employs 1759 people in Latvia.

TAV

TAV Airports operates the duty free and ground handling services at Riga International. The cooperation agreement between TAV Airports and SJSC Riga International Airport for the lease of commercial areas and operation of the duty free section was signed on 30 September 2010.

Vitol

The Vitol Group is an energy and commodities company. In 2006 Vitol invested Ventspils nafta and, via Ventspils nafta, in such companies as Ventspils naftas terminālis, LatRosTrans and Latvijas Kuģniecība.

In 2014 Vitol opened its representative office in the Baltic States, which is located in Riga.

Appendix 3: Indicators for assessment of drivers of Latvia's economic competitiveness

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

Quality of labour

Availability of labour (management level)
Availability of labour ('hands')

Efficiency of labour

Efficiency of labour

Demand for products and services

Domestic demand
External demand (exports)
Industry traditions

Attitude towards foreign investors

Attitudes towards foreign investors
Investment incentives

Quality of business legislation

Tax system
Legal system
Monetary policy

Quality of education and science

Education and science/innovation

Quality of health and social security

Health system
Social security

Hard infrastructure

Infrastructure (roads, electricity, etc.)
Energy resources
Low production costs
Defence

Soft infrastructure

Business culture

Demography

Demography (population growth)

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The Centre for Sustainable Business at SSE Riga

The Centre works in the areas of research, training, and popularising sustainable business activities in the Baltic countries.



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