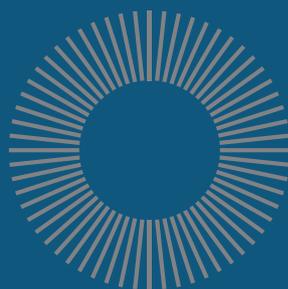


FICIL SENTIMENT INDEX 2015-2016

**Development of the investment climate in Latvia:
the viewpoints of foreign investors**

Arnis Sauka



FOREIGN INVESTORS
COUNCIL IN LATVIA

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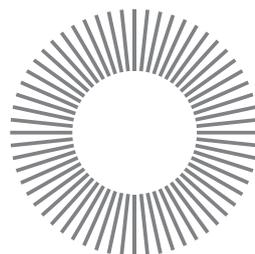
Development of the investment climate in Latvia: the viewpoints of foreign investors

Arnis Sauka



SSE RIGA

The Centre for
Sustainable Business
at SSE Riga



FOREIGN INVESTORS
COUNCIL IN LATVIA

About the author



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Foreword

Latest investment trends in Europe show that the investment environment is getting increasingly competitive – there is a fierce competition among countries to attract any new investment. This situation has led to an increased focus on internal factors of competitiveness: countries and Governments concentrate on the structural reforms and on creating most favourable conditions for business. This means cutting the bureaucracy to a minimum, efficient and user-friendly regulatory mechanisms and well functioning legal system, predictable and sustainable Government policies, using the potential of the information technologies and innovations.

Investment activity in Latvia remains low. There is a multitude of factors behind and some are impossible for us to change, in particular, external ones. But we can and we should focus on those factors that we can influence – reduce the internal barriers and inefficiencies, achieve real and tangible results on the much needed and long delayed structural reforms, ensure effective and transparent functioning of the court system and judiciary, create predictable and sustainable tax system. It is of a critical importance to address and deliver on the reforms since it will send the right signal to existing investors to invest more and will allow attracting new investment.

The various aspects of Latvia's competitiveness are at the heart of the FICIL Sentiment Index. The first Index was published in September 2015 and our main idea behind it was to get insights from the biggest foreign investors operating in Latvia regarding the investment climate: summarise key concerns; evaluate existing and potential drivers of Latvia's competitiveness from the perspective of foreign investor. FICIL work groups have then explored further issues and concerns raised and have formulated specific recommendations that were submitted to the Government during the regular High Council meeting.

Our second FICIL Sentiment Index is looking to establish if the environment has changed over the past 12 month from the investor perspective: has there been any change or significant progress and what are the topicalities today. We look to find out if investors operating in Latvia feel an improvement in the business environment, if they feel their previous concerns have been addressed and if accordingly they plan to increase their investments.

I hope that FICIL Sentiment Index provides material and ideas for further improvement of Latvia's economy and creation of country's long-term development potential.

Zlata Elksniņa-Zaščirinska
Foreign Investors Council in Latvia
Chairperson of the Board

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1. Introduction and methodology

This is the second FICIL Sentiment Index report, following the report written one year ago. The FICIL Sentiment Index was established in 2015 by the Foreign Investors' Council in Latvia (FICIL) in cooperation with the Stockholm School of Economics in Riga (SSE Riga). The key aim of the Index is to foster 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 key aim of this report is to explore whether, according to foreign investors in Latvia, there has been any progress in the development of the investment climate in Latvia. In particular:

- (1) Do investors see progress with regard to policy initiatives to meet the main challenges identified in 2015?
- (2) What has been done and what still remains to be done (according to the viewpoint of foreign investors in Latvia) to improve the investment climate in Latvia?
- (3) Are there any new (emerging) challenges that policymakers should be aware of?

As in 2015, this report draws on a survey – mini case studies of foreign investors in Latvia. From September to the beginning of October 2016 we interviewed the same 24 companies that took part in the 2015 study. In addition, 8 new companies took part in 2016 study; thus, in total, 32 foreign investors in Latvia participated in the 2016 study. Altogether, these companies represent more than 30% of the total foreign direct investment in Latvia and contribute to more than 10% of Latvia's total tax revenue. 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 sections of this report the companies' names are excluded.

The guidelines for the mini case studies were developed by Dr. Arnis Sauka (SSE Riga) with input from members of FICIL, in particular Mr. Guntars Krols (EY) and the FICIL office: Mr. Ģirts Greiškalns (FICIL Board's advisor) and Mrs. Marta Jaksona (executive director of FICIL). Interviews were conducted under the supervision of FICIL and SSE Riga by FICIL board members. The guidelines for the interviews are presented in Appendix 1 and consist of the following key parts:

- Evaluation of progress with regard to the major areas of concern identified by foreign investors in Latvia in 2015, including the following areas:
 - demography
 - access to labour
 - level of education and science in Latvia
 - quality of business legislation
 - quality of the tax system
 - support from the government and communication with policymakers
 - unethical or illegal behaviour on the part of entrepreneurs, unfair competition
 - uncertainty, the court system in Latvia
 - the healthcare system in Latvia

- Evaluating to what extent the promise to work towards removing these obstacles to improving the investment climate in Latvia, made by representatives of the government during the High Council Meeting in September 2015, has been fulfilled.

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

- Identification of 3-5 major tasks that should be accomplished by Latvian policymakers over the next 12 months in order to improve the investment climate in Latvia.

- Evaluation of key drivers of Latvia's economic competitiveness – the FICIL Sentiment Index 2016.

We also asked foreign investors whether and under what conditions they plan to increase investment in Latvia as well as to what extent they would recommend investing in Latvia to their friends and business partners. At the end of this interview, we asked investors to provide a short message to the Prime Minister of Latvia – on how to improve the business climate for foreign investors in Latvia. We promised to pass this message on when presenting the results of this survey, without, of course, identifying the messenger.

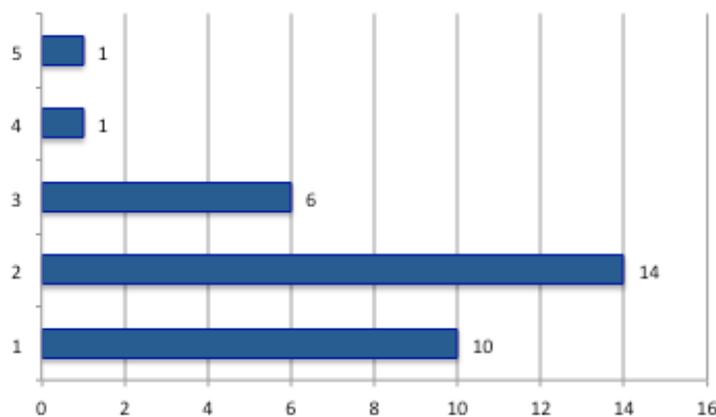
The report is structured accordingly and whenever possible we asked investors to provide us with more detailed opinions and examples. We hope that the information summarised in this report will support policymakers with better grounds to make informed policy decisions in order to improve the investment climate and the overall competitiveness of the entrepreneurship climate in Latvia. We also hope that it will foster further constructive communication of foreign investors and the government of Latvia.

2. The attractiveness of the investment climate in Latvia and the government's input in the process since 2015: investors' viewpoints

Apart from aiming to provide policymakers with investors' opinions on what can be done to improve the investment climate in Latvia, one of the aims of the FICIL Sentiment Index is to measure the progress of investment climate development in the country. In particular, we asked investors for their perspective on whether the investment attractiveness of Latvia has improved over the past 12 months. Investors could evaluate the improvement of the investment attractiveness of Latvia using a 5-point scale, where '1' means that investment attractiveness has not improved at all, '2' means that there have been only minor improvements, '3' means that there have been some positive improvements, '4' means yes, investment attractiveness has improved and '5' means yes, investment attractiveness has improved significantly.

All 32 respondents answered this question, in most cases evaluating the development of investment attractiveness with '2' – only minor improvements – whereas almost one third of respondents evaluated the development of the investment attractiveness of Latvia with '1', i.e. investment attractiveness has not improved at all (See Figure 1). **On average, the development of the investment climate in Latvia over the past year was evaluated with '2', which means that investors see only minor improvements.**

Figure 1: Has the investment attractiveness of Latvia improved during the past 12 months? Distribution of responses. n=32.



Source: FICIL Sentiment Index 2016

We also asked investors to justify their assessment and received the following opinions, some of them highlighting major issues foreign investors also expressed in the FICIL Sentiment Index 2015 study:

“We saw the airBaltic case and that their operations are not very clean. We can see banks being fined for money laundering, Scandinavians are retrieving their capital, I do not see many incentives and reasons for investing. Even more so if I compare the situation in Latvia with the situation in neighbouring countries – Estonia and Lithuania. In addition, FDI is decreasing.”
(Finance and banking company)

“I do not see any change. The Labour Law is and will be an important issue for investors.”
(Consultancy and service company)

“The political background is a huge issue and should change massively. I could talk for hours about this one but I do not want to go there. No.”
(Service company)

“Why would someone want to invest here if new taxes are introduced without any consultations and your only possibility to look for justice is to go to court, like in the case of the solidarity tax? And what will happen if the constitutional court decides that it was not right? Will anyone pay back the tax? What about repercussions?...”
(Service company)

“Nothing has changed. If the government does something with OIK, then I would say there is some improvement, but at the moment, no.”
(Professional assurance and advisory company)

“No, not at all.” (Consultancy and IT company)

... yet there are also some somewhat more positive opinions:

“I am personally slightly more cautious, but I am happy to hear from foreign chambers of commerce that there are still small and medium-size companies that are looking towards Latvia and the Baltics. So there must be some positives despite the fact that the cost of resources here is getting higher and closer to that of western European countries.” (Wholesale and retail company)

“Really, only minor improvements. But the entire market development in general has been slow; the economy has slowed down more than we thought a year ago. We have been negatively surprised by the development; you see that manufacturing and exports are sluggish. The flow of money you sometimes see coming in is often for different reasons than business.” (Real estate company)

“Yes, a lot, thanks to the OECD!” (Real estate company)

“I haven’t seen really big progress, but as for our company, we are continuing our investments... .

A big change for retailers is planned – gas registers will have to be introduced, which will require big changes. In our case this will be easier because of this white list.” (Retail trade and service company)

“At the moment there are so many problems in other parts of the world and risks are simply so much bigger there that Latvia is looking slightly better than other places. But this is not because something has been done to improve investment attractiveness here.” (Professional assurance and advisory services company)

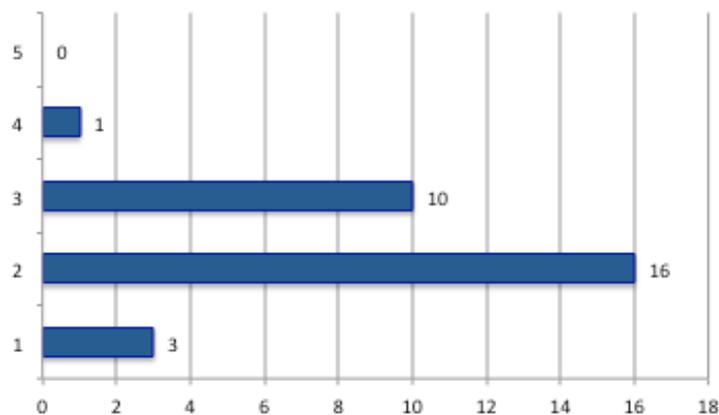
“The only thing that is currently improving the attractiveness of Latvia is our own local companies that work outside and work with exports. Despite all the negatives we have, they work and they are excellent. We have IT, engineers, etc.” (Finance and banking company)

We then reminded investors that the challenges identified in the FICIL Sentiment Index 2015 were presented to the Latvian government during the FICIL High Council Meeting in September 2015. In this meeting, government representatives promised to work towards removing these obstacles in order to improve the investment climate in Latvia. In this context, we asked investors the following question this year: “To what

extent, in your opinion, has this promise been fulfilled?” We asked investors to provide their assessment using a grading scale from ‘1’ to ‘5’, where ‘1’ means that investors evaluate the efforts of the government as ‘fail’, ‘3’ as average (pass level) and ‘5’ as excellent.

30 of the 32 respondents answered this question and the distribution of answers is provided in Figure 2. Namely, Figure 2 suggests that the majority of respondents evaluated the government’s efforts with regard to the development of the investment climate in Latvia as ‘3’ – average. Yet one third of those that answered the question feel that the government has fulfilled its promise to a lesser extent, i.e. giving the ‘grade’ ‘2’, in some cases even ‘1’. Not a single respondent sees that the government has fulfilled its promise on a level that could be evaluated with the grade ‘5’ – excellent. **On average, investors evaluate the extent to which the government’s promise – made during the FICIL High Council Meeting in 2015 – to improve the investment climate in Latvia has been fulfilled with a grade of ‘2.3’. Needless to say, this is not a positive evaluation.**

Figure 2: To what extent has the government’s promise to improve the investment climate in Latvia – made during the FICIL High Council Meeting in 2015 – been fulfilled? Distribution of responses. n=30.



Source: FICIL Sentiment Index 2016

Again, we asked respondents to justify their assessment and received the following opinions:

“Government is not interested in making real changes. It seems that they do not even want to.”
(Retail trade and service company)

“I see no real plan as to what we are going to do, what the timeline is, how we are measuring success. No systematic approach.” (Finance and banking company)

“I am sure there must be some positive things as well, like the salary reform for teachers. But this

“The situation is bad. All the big issues are

will not produce a massive change and impact on other sectors. If there was a radical change in the justice sector through, for example, catching those involved in VAT schemes, that would produce a massive impact. No doubt. The situation would radically improve.” (Finance and banking company)

“There are some improvements. People realise the problem but there are no actions. Just talk.” (Wholesale and retail company)

“Nothing has been done.” (Manufacturing company)

“There has been no real improvement regarding any of the issues raised...” (Finance and banking company)

“Only words and no actions.” (Professional assurance and advisory services company)

relevant and some are getting worse. It is the end of KNAB, the SRS has no leader, insolvency problems are still there, health issues are unresolved, and there are some developments in education, but we do not know yet in which direction.” (Professional assurance and advisory services company)

“Ministers have promised to work on the issues. Maybe they have done some things but it is not that visible. ...” (Retail trade and service company)

“FDI decreased and I don’t see that anybody is doing anything positive to promote Latvia.” (Finance and banking company)

“In the health sector there is no improvement but we in FICIL raised this issue several times... My plea – make sure you make a distinction between political and business interests!” (Manufacturing company)

Some investors, however, also indicated positive trends, while some indicated that it is simply too early to evaluate the progress with regard to a promise that was made only one year ago:

“It is a short time frame to evaluate the progress. Can’t say that promises have been delivered just yet.” (Retail trade and service company)

“At least I can see there is awareness of problems like insolvency. There are also some rational steps that I see, in particular from the Minister of the Economy; there is a dialogue, but of course the key thing will be about implementation.” (Wholesale and retail company)

“There are some improvements. Looking from the perspective of the construction sector, we pointed out some problems, the government promised to look at it and now we are working on it. So changes are happening but the process could be faster.” (Manufacturing company)

“There are some improvements in a geopolitical sense and we can see the intention to fight the shadow economy; these factors lead to a positive rating.” (Wholesale and retail company)

3. Key challenges faced by foreign investors in Latvia: changes since 2015

The FICIL Sentiment Index 2015 survey identified a number of challenges faced by foreign investors in Latvia. These included demography, access to labour, level of education and science in Latvia, quality of business legislation, quality of the tax system, support from the government and communication with policymakers, unethical and illegal behaviour and unfair competition, and uncertainty about and quality of the court system. Investors highlighted that these challenges had to be solved – as soon as possible – in order to improve the attractiveness of the foreign investment climate in Latvia. For this reason, in the 2016 study we asked investors what changed during the

one-year period with respect to each of the key challenges identified in 2015. This is what investors said:

Demography

Demography, along with access to labour, was among the major areas of concern in 2015 with respect to the long-term sustainable economic development of foreign investors' businesses in Latvia. Unfortunately, the FICIL Sentiment Index 2016 shows that, according to foreign investors in Latvia, there has not been much progress with regard to tackling this issue. Namely, the **vast majority of respondents stated that they feel like there have been no improvements or the situation is getting even worse**. This is reflected in some of the quotes from the case studies, provided below (please see all the quotes in Section 8 for more insights into this and other issues addressed in this section).

“It is a challenge; there have been no major improvements. In any case, if we want some people, we should look at what is happening in ‘Mucenieki’ rather than demography as such, where changes cannot happen very fast.” (Finance and banking company)

“I do not see that there have been any improvements at all. The situation is difficult; the countryside is empty. ... I think this is because there are no support mechanisms for families, for example. I would say no progress.” (Retail trade and service company)

“I do not see anything significant; I do not see any strategic actions.” (Wholesale and retail company)

“The total population is decreasing; now it is fewer than 2 million. The problem of ageing is getting closer and becoming more dangerous. 20% of the population is elderly. It is not easy in terms of finding a workforce. In 20-30 years this will be an even bigger problem.” (Service company)

“There are no changes compared to 2015, zero.” (Manufacturing company)

“Demography is the biggest and most important area. I haven't seen evidence of any progress...” (Finance and banking company)

In some cases, however, investors indicate that **there are some improvements** with regard to tackling the demographic challenge in Latvia:

“To me the key issue is jobs. If the employment levels in the country are good, less people will leave. High emigration, in fact, is more damaging than demography. I would say there has been slight improvement.” (Real estate company)

“If we speak about migration, I believe that the government has done something; at least that is what we can hear on the news. However, in reality, Europe is getting older and it is the same for Latvia. On top of that there is emigration, and employers need to think about possible solutions.

“Birth rates are slightly positive lately but of course this does not solve the key issue. Our company works for the local market only and we haven't felt that people are returning. We can't say that there are significant changes. ... We shouldn't expect miracles either, but it would be good to have a step in the right direction. ...” (Finance and banking company)

“... we do not have issues, 75% of our business is exports. The local market, however, really is the challenge; aging is a huge issue which influences

One example is employment opportunities for seniors; this is something that we do as a company. Regarding demography, there have been some activities, I have heard something about re-emigration, but I do not know the actual results. ...” (Wholesale and retail company)

“Neither positive nor negative. ...” (Finance and banking company)

spirit and wine consumption. The problem has been identified not just here but also in other Baltic markets. Emigration had a significant impact; now I do not feel that it is becoming worse, but the market is shrinking. If we look from the perspective of actions taken by the government, I do not see any particular improvement.” (Wholesale and retail company)

... yet, perhaps even more importantly, some investors highlight that **demography is indeed a long-term challenge and it is simply not possible to change a lot over a one-year period** (see the quotes below). This, however, does not mean that it is not crucial to start working on the challenge seriously...

“This is an extremely important question. We discuss it often from national, regional and business perspectives. It is a pain. It has a serious impact on our business and also on its future prospects. There might be no change in 12 months in this area but I would not say that government has an active approach. There is no significant change and there is no significant decline.”
(Finance and banking company)

“It is not possible to solve this issue in one year. This is a big issue for us because we offer products and services to people and the countryside is becoming empty. This means less transport and less consumption of fuel. 26 years ago there were 2.6 million inhabitants in Latvia, but this number has now decreased by half. So it is still an issue and more time is needed. There was a similar problem in Finland in the 1960s and it was solved, but it took more than 30 years.” (Retail trade and service company)

“I haven’t seen any immediate changes; but it is a long-term challenge. From that perspective, I haven’t seen a long-term effort from the government that would allow me to think that the demography will improve in 3 to 5 years. ... This is important because demography directly impacts the size of the economy and, for example, our business is very directly linked to the size of the economy... .”
(Professional assurance and advisory services company)

Access to Labour

Regarding access to labour as well, **some investors point to the fact that it is not possible to change the situation dramatically over a one-year period:**

“It is the same explanation as for the previous topic. The situation will not change overnight. For us as a company it is not such a big threat, but we are influenced by our clients, who need to find employees who will sit in the office buildings. They will not expand and probably will choose to invest in neighbouring countries. In this sense the biggest competitors are Lithuania, Poland, and Rumania, where the pool of people is bigger. The situation is tackled and discussed “on paper” but there are no real steps taken. So it stays the same.” (Real estate company)

Yet the sad news is that, **again, the overwhelming majority of the interviewed investors do not see that attempts have been made to tackle the issue and believe that no progress has really been made with regard to improving access to labour.**

This is reflected in the following quotes (see Section 8 for more quotes):

“The primary goal should be not to lose the educated people we have here in Latvia, those who have spent 20 to 25 years here and have just graduated. For the banks, the situation is relatively good. For us, the access to labour is not a huge problem, we invest heavily ourselves in education and training, we are like a university on our own. I do not think unemployment is an issue in Riga. It is a problem in the regions, where there are fewer opportunities. I would say nothing has changed.”

(Finance and banking company)

“... Access to labour and its quality is closely linked to higher education; for example, if we look at engineers with technical skills, there are only two places where they are educated – at Riga Technical University and in Jelgava. In my view, that is not enough... . So no improvement in this area.”

(Service company)

“No change.”

(Manufacturing company)

“I would say that the situation is worse. And we feel it at all levels – in the top management and in the workforce.”

(Manufacturing company)

“No development. We feel that shared service centres are expanding, it is getting more difficult to get IT people. But overall this issue is directly linked to access to education and demography.

There is no decline but the competition has increased.”

(Finance and banking company)

“We employ 600 people in our Latvian operations. Generally access to labour is challenging for us, which ties in with the next question about education. There are some particular areas that I would like to stress, for example, technical people such as engineers, where it is really difficult to get enough workers with the right education and skills; the middle management level is also an issue. The problem is also related to pay and productivity, which is very low, the tax burden. ...

The qualifications of the graduates are not sufficient for our business. ... I would like to recruit people from Britain or the Netherlands, but we just can't afford it. Overall, access to labour is at the same level; there have been no improvements.”

(Wholesale and retail company)

“Our employees are locals between the ages of 20 and 30. From our perspective IT competence is a scarce resource and requires a long-term approach and solution that the government should think about. It should also think about the digital age we are living in – it allows for providing and receiving services remotely. How do we respond to that and how do we benefit from it? At the moment there is a serious shortage of people with IT skills. Demand is huge and exceeds supply several times.”

(Consultancy and service company)

“The situation is getting worse. Riga and the regions are totally different worlds. ...”

(Wholesale and retail company)

Nevertheless, **some positive aspects** were also highlighted:

“My feeling is that there have been some activities in this area but I can see that next year there will already be dramatic shortages in some areas.

Overall, small improvement.”

(Wholesale and retail company)

“Our own experience this year has been positive and slightly better than before. Instead of looking for a specialist that is ready to work and deliver immediately, we tend to take somebody with a good academic background and train him or her...”

(Finance and banking company)

“There is no strategy that would convince us that things will get better.”

(Manufacturing company)

“... I would say there could even be more competition among employers. I could say that the trend of salary growth could continue. But we are white-collar employers. For blue-collar employers the situation is different – their employees are not afraid to be fired because there are plenty of vacancies and so the quality starts to shrink.”

(Professional assurance and advisory services company)

“We have never had a big issue in that area; we have some manufacturing companies in our group, but they never had any real issues with labour. At the moment, we can afford the fast-growing salaries and this is ok. I think that fast salary growth is a good driver in fact. We can increase productivity. How can we keep people here in Latvia otherwise? If we are talking about the quality of people, it is very good. The salaries our company pays are above average, overall we have small turnover in staff and we have some turnover where we want it.” (Real estate company)

Level of Education and Science in Latvia

With regard to the level of education and science in Latvia, it was highlighted as one of the top three main concerns for the development of the investment climate in Latvia in the 2015 survey. In the 2016 study **opinions differ. Namely, approximately half of the interviewed respondents see no progress made during one year.** The following quotes represent the opinions of this half:

- “No change.”. (Manufacturing company)
- “... we can evaluate the progress from a recruiting point of view mostly. Universities for sure are working to have more students but I am not sure if anything has been done related to quality. So no real improvement.” (Retail trade and service company)
- “Hopefully there are less so-called ‘budget places’ for the humanities and social sciences and more for technical sciences. ... I think that the state should take particular care in orienting young people, especially in the countryside, at the age of 15-16 years, towards vocational education. For example, you can’t find mechanisation specialists in Latvia. No progress really.” (Manufacturing company)
- “Haven’t seen any changes either way.” (Finance and banking company)
- “Moving the school age to six years is a downgrade! I receive a message that this will happen mechanically – the system will just be shifted one year back. But what about the quality? ...” (Consultancy and IT company)
- “There is lack of competition. The question is about the accreditations of universities and programmes. Do we know how many have lost their accreditations? In Latvia there is no unified qualification exam for lawyers. The country should ensure a certain standard of quality. ... Comparing the three Baltic States, Latvia is the only one whose students have huge problems if they go to study abroad after high school...” (Professional assurance and advisory services company)
- “Education is a challenging topic for Latvia. I can’t say that there have been any changes in the past year. ...” (Wholesale and retail company)
- “Technical education is a problem and also the capacity and qualification to work at an international business level. Our education system is outdated and so are the teachers working there. ... The situation is becoming worse. There are just a couple of high schools that can prepare young people for studies outside of Latvia and a couple of universities that are competitive internationally. The rest are going totally in the wrong direction.” (Wholesale and retail company)

On the other hand, we also received **positive assessments, i.e. investors often mentioned that either the situation with education and science is not bad at all in Latvia**, especially when compared with other countries in Europe, or **that even if there has not been much progress over one year, “steps in the right direction” have been made.** This, of course, is good news; it is summarised in the following quotes from the interviews:

“All over Europe we have the problem of education quality and the capacity of graduates in business. Latvia overall has a good education system. Students have language and mathematical skills. This conclusion comes from a comparison with some other countries.” (Retail trade and service company)

“There are no major changes that could be felt or noticed in the market; however, some things are going in the right direction.” (Professional assurance and advisory services company)

“Reforms are slowly taking place, but it is difficult to measure to what extent things have really changed within the last 12 months... .” (Finance and banking company)

“In general, it is quite good. The education system in Latvia is constantly going through reforms, all the time. It does need reforms but I have no idea what to reform exactly. ... On the other hand, I realise that many countries are struggling right now. Even Finland. In general, I think, the level of education is above average. People care.” (Real estate company)

“My personal feeling is that university education in medicine is at a very good level and there are even many foreign students. ...” (Retail trade and service company)

“Higher education probably overall is still ok – we can see that Latvians are going abroad and working there, so their education must be good enough. And we also see some foreign students here in Latvia.” (Service company)

“Also small improvements. Education is extremely important; so is dual education and vocational education.” (Wholesale and retail company)

“I think in this area we are competitive and there are initiatives to change and improve the situation. But it is of utmost importance to implement structural changes within institutions of higher education; their financing should be streamlined. I can see that EU funds are used for building new campuses that are modern and attractive for international students and that is good. The future seems bright at this stage.” (Real estate company)

“The good thing is that we do see more high quality IT people. We have recently hired quite a few and it is possible to hire at affordable rates. ... Strategically we are thinking about moving more IT functions here. And Riga has an advantage as a location because you can also get people from neighbouring countries.” (Finance and banking company)

“I can see reforms, but it is difficult to tell if these are improvements. ...” (Retail trade and service company)

In the context of the above discussion – both positive and negative opinions – perhaps the two quotes below might be good ‘guidelines’ for policymakers in working on further improving the level of education and science in the country:

“The overall level of competence and qualification is quite high and you can find good quality people at a good price. But it is important to invest in the education system. Teachers have lost their reputation. They are not paid enough thus schools are not able to recruit good quality people. This definitely needs to be dealt with.” (Real estate company)

“The quality is improving. This is directly related to investments in technical equipment. Students and teachers have access to technology but often they don’t use it enough. So we can feel there are some improvements in the system, but they could be larger and more massive. It is also necessary to change the mindset of young people so that they understand that it is good to study in Latvia and that the quality is there. But if we look at the ratings of Latvian higher education institutions – things do not look that good. There are problems with the content, motivation and reward system. If these things improved, there would be better results.” (Manufacturing company)

Quality of Business Legislation

We could clearly observe from the interview process that foreign investors in Latvia have rather strong opinions with regard to the quality of business legislation. This is also reflected in relatively long quotes from those interviews, provided below as well as in Section 8. **Unfortunately, however, there were only a few positive or somewhat positive opinions when it comes to the development of the quality of business legislation in Latvia since 2015 as well as the quality of business legislation in general.** All of them are provided below:

<p>“I think overall it has improved, some small things.” (Service company)</p>	<p>“Predictability has improved, which is a good thing. At least all the officials are more open to dialogue and they listen to professionals and industry associations. That has led to some good results. But overall this is the only improvement.</p>
<p>“It is ok. I never found it to be a limiting resource, in particular, I think, thanks to the fact that the government listens to FICIL.</p>	<p>...</p>
<p>... Latvian business organisations are also becoming more efficient.</p>	<p>The bureaucracy has not gone down. All tax-related procedures are so complicated even if we compare them with the other Baltic countries.</p>
<p>... What I learned is that business organisations need to be involved early in the process, before enactment of legislation.</p>	<p>Estonians have a better offer for business, in particular if you look at the reinvested profit. That makes a difference and raises a question: who wants to invest in Latvia if there is Estonia?</p>
<p>... Looking at the construction sector more specifically – we have had some projects approved recently; I can’t say that anything has been stuck. Compared to other countries, I would say that the situation is not that bad. In the UK the process takes a long time, the same goes for Norway, and things get stuck in different places; it could be health and safety reasons in one country or something else in another.</p>	<p>... There have been some changes but they are not visible enough. That is related to the current political setup and the interests of the parties or the groups behind them. Officials understand that things should be changed but choose not to do anything.</p>
<p>... The ‘būvvalde’ here certainly needs to be strengthened, the quality of their work as well...” (Real estate company)</p>	<p>... Some associations are doing a good job; our company has invested a lot of time and there are decisions taken that are favourable not just for us and our business but also for public health. The structure of taxation has improved slightly.” (Wholesale and retail company)</p>

... some of the **positive aspects** highlighted during the interviews relate to the **insolvency process**:

“The interpretation is the problem, as is the application. It is helpful that the government plans to do something about insolvency issues.” (Retail trade and service company)

“There are some activities but overall they are not essential. One of the positive improvements is the involvement of the State Audit Office in the construction sector. This is positive, although I would call it an emergency measure.” (Manufacturing company)

All the rest of the information that we received during the 2016 study, however, **clearly shows that, according to foreign investors, quality of business legislation is still a major issue that remains to be solved.** Investors talk about various aspects, often specific issues related to their business operations, as well as criticise the development of business legislation in general. Furthermore, some highlight that an even bigger problem than the quality of legislation as such (i.e. some even say it is less of a problem) is implementation of the legislation. Quotes to illustrate such opinions are provided below (for more, see Section 8):

“I think no improvements. Laws are being interpreted in many different ways. ... Sometimes I tend to think it was written by a young student that does not understand the issue because from a professional perspective it is nonsense...” (Retail trade and service company)

“I would like to see an accurate revision of the business legislation because at the moment it looks like patchwork. ... We have seen many times where some ad hoc regulations are adopted, especially this year. Then new things are introduced without proper analysis, without any impact studies, etc. Accordingly, unpredictability is increasing. So no improvement.” (Wholesale and retail company)

“We haven’t seen really major improvements during the last 12 months. Our business is mostly influenced by the Labour Law and also by legislation that stipulates the submission of various accounting information. Often we are pleasantly surprised that e-governance is progressing and there are more things you can do online and in no time. That is a big difference from Old Europe.” (Consultancy and IT company)

“It has become more unpredictable. The reason is changes that came into effect from January of this year. For retailers, there is special legislation on the cooperation between retailers and suppliers. The idea is good but in real life it goes against competition and there is also a lot of room for misinterpretation. Thinking about the future, we are worried about plans to adopt rules regarding unused goods.” (Wholesale and retail company)

“I would stress issues regarding labour legislation. So far I can say that labour legislation is quite efficient. We have had just a few cases when we

“It is seriously stagnating. If nothing happens, this is already bad because the entire world is progressing and optimising things ... The key problem is that we have too many interested parties that are very influential and mess things up. And for some reason, regarding law and the court system, we are ineffectual and toothless.” (Finance and banking company)

“A lot of talk and only some minor improvements. If we look at the list of FICIL recommendations, it is still very long and many things are still on the ‘to-do list’. So only minor improvements.” (Wholesale and retail company)

“No change.” (Manufacturing company)

“This was not a good year. There were some new legislative initiatives that were made in order to protect small businesses, but in real life these initiatives are working against them. There are many rules and details that don’t work at all. Policymakers should think more about the quality of the laws.” (Wholesale and retail company)

“The legislation is OK; it is the implementation that doesn’t work. Insolvency for example – the application of the law is not there and until at least two or three people are put in jail, nothing will happen ...” (Professional assurance and advisory services company)

“There are too many improvements. We can’t complain about the quantity. In reading the agendas of meetings of the Cabinet of Ministers one would think that some supermen are working there. They review almost 100 legislative documents in an hour or an hour and a half. The key concern: is this a simple formality or are ministers really trying to solve something? ...”

had to decrease jobs. Again, in Estonia you do not need to go to court. There is a procedure where both parties come to an agreement and you can solve the problem within two months. ... The problem is about the implementation and interpretation.” (Wholesale and retail company)

“... There is quite a lot of new legislation. But it is not very clear. It is unpredictable.” (Service company)

(Professional assurance and advisory services company)

“If you formally compare the legislation in Latvia and the directives, we are a decent country. The key issue is the application. ... Everything by definition is very complicated. But after all this it is honest people who suffer most. There is nothing positive and nothing negative.” (Finance and banking company)

Quality of the Tax System

If in 2015 foreign investors highlighted that the main challenges for the investment climate in Latvia are in demography, access to labour, quality of business legislation and quality of education and science, the **2016 study suggests that there are major concerns with regard to the quality of the tax system**. That is, this issue is emphasised even more than it was in 2015. More specifically, **only 5 of the 32 interviewed respondents evaluate the quality of the system as either good or experiencing some positive change compared to the previous year:**

“It is hard to answer to this point. I would say that it is good overall, I hear a lot of criticism but overall it is transparent, the electronic declaration system is in place. I think Latvia is competitive in this area.”.
(Real estate company)

“Overall we think the tax system is ok. The only problem is the predictability, the lack of it.” (Service company)

“(Apart from lots of negative issues that are happening) I can see positive things happening now related to the mandatory component (OIK) reduction for energy-intensive producers. This is moving in the right direction.” (Professional assurance and advisory services company)

“Fuel is one of the bigger costs for us. We are not paying VAT on biomass, now it is also for fuel. This has made things easier; on the other hand, it makes the tax authority pay more attention to the differences. It is similar with the reverse tax regime – it requires more administration from us, but at the same time it also frees up money flow.

...

Overall, there has been a positive change. But there has also been a VAT increase on maintenance fees in residential buildings, which results in increased payments for households for the services they get. Then, starting next year, there will be no tax release or discounts for renewable energy. So again, as mentioned, in the end it will be the taxpayer who pays. And who knows, maybe in the future the cost will increase even more.” (Retail trade and service company)

“The tax system as such is not bad in general. ... Unfortunately, I see that different people and businesses get different treatment...” (Service company)

The opinions of the other 27 investors that we interviewed can be divided into 3 approximately similar groups. **Slightly more than one third (out of 27) of the**

interviewed respondents believe that the situation with the tax system in Latvia is as bad as it was last year (see more quotes in Section 8):

“I don’t have much to say here. There are no improvements; the situation has been the same for many years.” (Manufacturing company)

“I do not see any improvements. I do not even want to talk about the solidarity tax, which really worsened the situation for honest tax-paying businesses, reduced their motivation and competitiveness. No other radical changes and thank you for that. But looking into the future I can see there are quite a few discussions about changes.” (Wholesale and retail company)

“Our experience is not good. Since we have a franchise, we work with many small and micro entrepreneurs. The changes within the tax system (micro tax) will have an effect on the situation in the regions. Until now it has been a success, but with the increasing costs we do not know what will happen in the regions. At this moment we are looking into possible solutions. Profitability will decrease.” (Wholesale and retail company)

“Difficult to say if there has been an improvement. If we look at social security – sick leave, holidays and other social benefits – we are expensive compared to Scandinavians. We would need to see if we could compete with Lithuania and Estonia. If our business were to start from scratch, we would be in Lithuania.” (Consultancy and service company)

“... quick changes in the tax system. Last year the solidarity tax was introduced, which is unfair. In my opinion more discussions with business were needed before introducing it. Now a progressive tax is being discussed. I have the impression that those who are responsible for planning the tax policy are living in a totally different world.” (Retail trade and service company)

“No change. Continue to lose people to companies that pay salary via envelope payments to remove tax.” (Manufacturing company)

“Nothing has changed.” (Manufacturing company)

One fifth of the interviewed respondents that expressed negative opinion, however, are convinced that the quality of the tax system has become worse compared to the situation one year ago. Their opinion is reflected in the following quotes:

“Worse because there are additional taxes imposed, like the solidarity tax, for example. Taxation will grow, I can see that. And at the end of the day, everything comes down to economics – where to go and invest, where to open your office...” (Service company)

“The situation is worse. The solidarity tax was a mistake. If the state wants to raise the average level of salaries in the country, imposing this tax on higher salaries is sending the wrong signal.” (Finance and banking company)

“There are no changes. It is just getting worse. As we know, suddenly this summer the existing regime governing the special economic zones was changed, which has some significant impacts on the tax rate applied. This proved that local policymakers have the possibility to influence

“During the last 12 months I have seen a purposeful attack on the State Revenue Service (SRS), which was starting to do a very good job. As soon as it started working under Pētersone and delivered its first results, it was torpedoed. Pētersone was undeniably on the right path: she got to the VAT deals, there were many good things on the client service side, she had a good plan for how to improve the SRS accounting system (where she wanted to move towards the accrual principle. ... Certainly, there were some problems as well, but the big ship was going in the right direction last winter.

...

Today we are where we are. Unfortunately. And the ship is now drifting.

...

Nothing has changed in the area of labour tax; the

decision-making and even the tax regime applied and that is a huge negative move. That will seriously influence our business.” (Retail trade and service company)

solidarity tax is a big stupidity where we can see now that the negative impact is far bigger than the real gains.” (Professional assurance and advisory services company)

The rest of the respondents, a considerable proportion (approximately one third of all those interviewed), **direct policymakers’ attention to the lack of predictability of taxes and problems with tax collection and administration.** The good news here is that we see lots of positive opinions about the tax system as such... (more quotes in Section 8):

“... One of the most important things is to make less changes in the system and create a system that is more predictable. Better to have something that is probably not ideal but at least we know it. ...
(Real estate company)

“We can still see a tendency to retrospectively change tax legislation. Investors are very cautious about this. In Latvia changes in tax, lack of predictability, and project-type initiatives that are never finished are things that no investor appreciates, especially when compared with other Latvia is unfortunately lagging behind, in particular when compared with Estonia.”
(Consultancy and IT company)

“The biggest issue is that all changes are announced to businesspeople around November or December, when the following year’s budget is being discussed. ... Tax rates generally are ok. However, when investors start to do research in order to find out which country they might invest in, Latvia, because of the uncertainty, may lose its potential.” (Wholesale and retail company)

“... Like the famous Gan Bei case – the authorities found out that that they do not pay tax and nothing happened. This is a very bad example and sends a very bad signal to others. ... Court proceedings take years and years and everyone acts like this is all right. And then you wonder why investments are dropping and why it is difficult to attract investors. Look at KNAB and all the things that are happening there – a person is removed from the job, then the court reinstates her, then she is removed again and reinstated again. Is this a joke? And now they are losing documents.” (Service company)

“Predictability is what is missing. We are constantly adjusting our tax system to the needs of next year’s budget. And sometimes there is nothing wrong per se, it is just the way it happens every year again and again. This isn’t normal.”
(Finance and banking company)

“Overall we think the tax system is ok. The only problem is the predictability, the lack of it.”
(Service company)

Support from the Government and Communication with Policymakers

In the FICIL Sentiment Index 2016 study we see more positive than negative opinions, as the **majority of respondents highlighted that communication with the government has improved and some also see improvement with regard to government support for foreign investors.** Some of these opinions are summarised in the quotes below:

“For us it has improved, I can say it is perfect. We are working shoulder to shoulder to make Latvia better and

“At least the government has started to communicate and that is good. Would be great to have some evidence

create a more competitive environment. (Service company)

“My internal feeling is that it has become better during the last 12 months. I feel that business is more involved. It is possible that business is getting more active as well. So my feeling is that we are heard and that something positive will happen.” (Manufacturing company)

“I could give the government some credit for having the dialogue the way we are having it in FICIL. I think chambers of commerce are also having a rather constructive dialogue. I think dialogue is better in Latvia than in some other countries.” (Real estate company)

“It has not changed, but in a positive way. I think that overall it is good. The financial regulator had some conversations with us. I can see that FICIL and foreign chambers of commerce have access to the government and that is good. So it still is quite good.” (Finance and banking company)

that there is also a result and that this is not just chatting. My feeling is that there is a change in the sense that the government can't just push something through without having any dialogue with business. That is positive. ... I am very happy when I hear PM Kučinskis referring to what has been discussed between FICIL members and the government at the High Council Meeting. The question is whether actions follow, but I am an optimist!” (Consultancy and IT company)

“I think that the government listens to business. I always felt that the support was pretty good. The government has its own interests, of course, but I think this is a good thing about a small country that depends on trade and exports and that is at the mercy of NATO and the EU security-wise and we just can't do things like in Hungary, for example.” (Real estate company)

“I think it has improved.” (Service company)

Some, however, highlight that it all depends on the person in the ministry – often the minister himself/herself:

“We have been dealing with the Ministry of the Economy – the current minister is very active, he is promoting different industries, trying to increase competitiveness, and electricity or heat is also part of the competitiveness. There will be big changes if indeed the large end-consumers pay less (talking about OIK). The Ministry proposes to differentiate the price depending on your connection. We do not know how this is going to be split exactly. Regarding this, I must say, we don't have proper communication. There has been lack of guidance on how the policy and changes will work. As it happened, we just saw the document when it was already going to the Cabinet of Ministers. But we could have helped with this one. Communication was also not well organised when we discussed the document about subsidised renewables.” (Retail trade and service company)

“Communication very much depends on the personality and character of the person in charge. If the minister changes, his cabinet as well, communication with the sector can also change radically (in either direction).” (Wholesale and retail company)

“I think that communication depends on each and every ministry. With the Ministry of Finance it has been very good; for example, an investment account was introduced, so it is more convenient to accumulate and save funds in the long term. The Ministry of Justice has been slow; there are things that are being looked at for years and years.” (Finance and banking company)

There are, however, opinions that we received from as many as **10 of the 32 interviewed investors that no positive change has happened over the year or that the situation with regard to government support and communication is, in general, negative**. This should at least make policymakers cautious about celebrating some of the positive aspects highlighted in the quotes above. Some of the quotes that represent the negative opinions are provided below:

“There is a feeling that the ministries and the government are very available. However, in real life nothing is changing, it is just smiling and shaking hands. There are no meaningful changes. ...” (Retail trade and service company)

“It is difficult to judge. Generally, I look with great suspicion at everything that comes from the Minister of Finance. The way the search for the Head of the State Revenue Service happens is very strange and confusing.” (Finance and banking company)

“Unfortunately, I see a lot of talk and no action. Every government says they will listen to business and business organisations. And they do, but they listen to the ones that are closer to them. Business associations often get little say about a specific law and sometimes they are involved very late in the process. That is the issue.” (Service company)

“Communication – I would like to see better and higher quality communication. And from both government and municipalities. I read about the case of cars being parked in a yard the other way around and everyone being fined for that; well that is a classical case. We read and interpret the law literally letter by letter rather than looking at the purpose of it. Here again, I would say, I expect higher quality work from the police.” (Retail trade and service company)

“Nothing has happened.” (Professional assurance and advisory services company)

“There have been no specific changes within the last 12 months. We try to maintain communication but there are no additional benefits for our industry. Regarding our investments, we are planning to make some worth 17 million in the immediate surroundings. But it is difficult to find support from the government. We hear from the media that there will be special support and incentives for IKEA – roads, etc., – but nothing is mentioned about existing retailers. It is unfair competition and unclear and non-transparent policies.” (Wholesale and retail company)

“The government is trying to improve cooperation. Nevertheless, there are ridiculous situations where after spending hours in work groups some of the proposed amendments are not taken into account simply because a member of the group has not formulated the proposals in a nice written form and formally submitted it through an official letter to the Ministry. This is an example of technical work, not the sensible and meaningful cooperation that one would expect.

...

There are some positives. I think that the Prime Minister is really trying to get deeper into the problems. One of the biggest is that national authorities do not share data and information among themselves; they do not cooperate with each other. I think the right approach would be to give 3 to 4 specific tasks to the ministries and ask for the result afterwards.” (Professional assurance and advisory services company)

Unethical or illegal behaviour on the part of entrepreneurs, unfair competition

As in 2015, the FICIL Sentiment Index 2016 study reveals that the majority of foreign direct investors in Latvia are not satisfied with the situation with regard to unethical or illegal behaviour / unfair competition caused by the shadow economy in the country. **More specifically, approximately half of the interviewed investors see no improvement or have in general a negative opinion in this regard:**

“I think it is unfair that there are areas where the state is competing with business, with the private sector. And I can see that the state is getting more and more brutal in invading some business sectors. I have specific examples where the state is unfairly competing with us; they even steal our staff

“There are no particular changes. Take the excise tax as an example; when a proposal is favourable for the state budget, everybody wants to cooperate. But in fighting the shadow economy the effort is not efficient. I have noticed some activities going on and they are publicised. However, if you

members and the feeling is they would be happy to push us out of business completely.”

(Manufacturing company)

“The problem is bigger than the government wants to admit. It is bigger than different studies say it is.

This is a big challenge in Latvia. And tax collection is also a big challenge. ... There have been some new things that are good – for example, we need to check sub-contractors and that is a good thing, it is an example that works.” (Real estate company)

“In the retail business we feel it at all levels. It might be illegal employment, non-declared income, VAT schemes, illegal good sales, etc. There is a lot to do, it is similar to the construction sector. The SRS is not active enough in our sector.

Overall the feeling is that policymakers do not want to do anything about it. But there is potential, we have all the necessary data, enough resources. Political will is a problem.” (Wholesale and retail company)

“Is anyone sitting in jail for not paying tax? Not that I know of! No improvement.” (Service company)

quantify the actions, then actually it’s peanuts compared to what is hidden behind it. I do not think that’s how we can reach a result.”

(Wholesale and retail company)

“No improvement. It is a major problem undermining competition and weakening the fabric of society in Latvia. Very little government interest (beyond words) in this topic.”

(Manufacturing company)

“In Latvia actions are taken when we have some important goal to achieve – joining NATO, the EU or the OECD – once that is achieved nothing happens. But we need to be more active ourselves, not just react because of some pressure from outside.” (Professional assurance and advisory services company)

“No, in our sector there have been no changes.” (Service company)

“It has been rather flat, no changes. The VAT reverse charge regime should protect legally working companies.” (Retail trade and service company)

... some companies, however, feel that the situation has become even worse:

“It is an issue. We have three businesses and the situation in each sector is different. One of our businesses has direct competitors where we feel the shadow economy and corruption. We are affected and we need to do everything in order to keep up. Actually, in the last few months the situation has been getting worse.” (Retail trade and service company)

“I feel the situation is getting worse. At small companies and in start-up environments many are paying so-called ‘envelope salaries’. There are still VAT schemes out there. There are several sectors where there are issues of conflict of interest, political dealings, corruption.” (Manufacturing company)

Yet there are also some positive opinions, offered by about one fourth of the interviewed investors, illustrated by the following examples:

“I can say that there are some very good steps in the right direction. The plan for the shadow economy is a good thing; it needs to be implemented now. The SRS should work hard on the issue of unreported income.” (Real estate company)

“We are not suffering that much in our sector,

“In the area of our business, I would say most of our serious competitors are in the ‘white’ area of operation. From that perspective I can say at least things haven’t worsen.” (Wholesale and retail company)

“There are some activities and some of them will be implemented next year when employers have to

where there has been a radical move towards transparency, and I think very soon there will be no possibilities technically and practically to do anything unethical or illegal. I hope this is a matter of a few years' time for our sector.” (Wholesale and retail company)

pay social taxes in the full amount. There are certain steps and positive changes. But the question is whether it will be enforced. Overall, I can see there is improvement in fighting against unfair competition.” (Wholesale and retail company)

“I do not have a specific example. There are procurement processes where somebody knows a bit more than the others but I do not have specific cases to mention. ... There are a few companies that can offer a very competitive price because they do not pay tax, but they do not have a significant impact on our business. We have worked closely with the SRS Department of Excise Goods and have pointed out specific irregularities and illegal actions; there was a reaction from their side, some stations were closed for a period of time. So we had some dialogue and some results.” (Retail trade and service company)

“I thought it was a clever and intelligent way for the SRS to approach the shadow economy – they chose a sector (dentists or car repairs), they warned it and gave it some time to get things right, then they went and inspected it. That was the right thing to do and the plan was to do it sector by sector because those that are likely to operate in the shadows are well known. ... The positive news is that we hear about sectors that have decided to do a good internal clean-up process (construction). ... The application of reverse VAT for certain items that came into effect on 1 April 2016 is a good thing.” (Professional assurance and advisory services company)

Finally some investors claimed that this issue is simply “not relevant” in their field of business:

“In our business area I do not feel it because we have no competitors.” (Service company)

“It is not relevant in our business.” (Consultancy and service company)

“In our sector we do not see it directly; I do not think that in finance and banking anyone would receive so-called ‘envelope salaries’. But the very fact that there is an important part of the economy that operates in the shadows is bad, it has an influence on the various indexes, there are corruption cases and this influences investors and how investment decisions are being taken. No improvement there.” (Finance and banking company)

“In a highly regulated industry like ours, the regulator reacts immediately to that type of behaviour, so it is not a problem.” (Finance and banking company)

“We are dealing with employees who know what benefits you have working legally, paying tax, receiving bonuses and all kinds of benefits.” (Consultancy and IT company)

“In our area of business, I would say most of our serious competitors are in the ‘white’ area of operation. From that perspective, I can say at least things haven’t worsened.” (Wholesale and retail company)

Uncertainty

Only 3 of the 32 interviewed foreign investors in Latvia expressed either a positive or neutral opinion with regard to the decrease of uncertainty in the country. The same number of respondents, however, believe that the situation has become worse. These opinions are summarised in the following quotes:

Positive or neutral:

“There has been an improvement. It is important for the government not to change all the time. We had Dombrovskis, our longest-serving Prime Minister, but at some moment in time the situation was critical and there was great uncertainty. We were reporting the changes to our investors and headquarters and received back many concerns about what was happening. Now at least it does not seem to be a problem. The important thing we need now is a clear long-term vision and strategy.”
(Real estate company)

“Overall it is fairly stable. If we talk about domestic business, we do sell to domestic customers as well, but not much and only if they are ready to go for big volumes.” (Service company)

“I think my feeling is neutral: it is not more uncertain than for anybody else. Geopolitically – fortunately there is NATO and the US. We need to hurry up with securing the necessary 2% of GDP for defence. Trump in a way is right – if security is important for us, we need to show it through financing as well.” (Real estate company)

Worse:

“This issue has definitely got worse”
(Retail trade and service company)

“It is increasing not only in Latvia but all over the European Union and the world. Uncertainty is not Latvia-specific. As retailers, we are dependent on the local income and purchasing power. If consumers do not have enough spare money, the retail business will be the first to be affected.”
(Wholesale and retail company)

“The uncertainty is still there but there are no new factors that would increase it.” (Finance and banking company)

“Uncertainty has increased in many aspects. We have seen the problem of insolvency but there is zero progress in terms of responding to the situation. ...

There is a political unwillingness to look at the essence of the solidarity tax. In other countries you pay tax, you know where it is going and that it will come back to you. In Latvia it looks like stealing and laughing in your face.

...

In this context we can also talk about security as a direct and indirect problem. Why is there no American investment in Latvia? On the political side Latvia is perceived as a front line and this is why no business wants to invest there. From that perspective the situation is worse.”

(Manufacturing company)

The vast majority of the interviewed investors, however, believe that uncertainty has not decreased and that the situation overall has not improved compared to what they experienced 12 months ago. The results suggest that investors are still unsatisfied with the uncertainty arising from the geopolitical situation, unpredictability with regard to taxes, especially when the budget is decided, and legislation. Investors also highlight that the government often lacks long-term vision and even more importantly action in all these areas, which is not helpful for investors in the further development of their companies in Latvia.

“There is still unpredictability – geopolitically the situation hasn’t improved. In 2018 there will be presidential elections in Russia, so up to that time

“You should ask that question in a month’s time when the next budget is here. The new electricity bills provide good evidence that there are no

there will be efforts to keep up the reputation of Putin. I would say the environment is as unpredictable as it was. Brexit is not helping, nor is the Trump-Clinton duel adding any stability. It is actually the other way around. The environment has become more unpredictable...” (Wholesale and retail company)

“If we are talking about the geopolitical situation, we need to accept our neighbours, meaning Russia. A healthy environment should be our focus. We should work with our neighbours and not against them.” (Wholesale and retail company)

“I see a lot of it. Actions that are matched with the budgetary process, we change the law and then the changes take immediate effect, leaving no time for the industry to adjust.” (Finance and banking company)

“There is great uncertainty all the time. We are building our business plans on the basis of the situation today, but I have absolutely no assurances about what the future will be like. I will not be surprised if someone in the government comes up with an idea about how to get more money out of our business operations. I just have this feeling that someone might appear and take something from my business. ... I think geopolitically I feel safe, I do not have the feeling that something bad might happen. It is more related to internal things, how the government is run and how politics works.” (Consultancy and IT company)

“... For investors it is very important to be able to predict tax changes. At the High Council Meeting, the Minister of Finance promised there would be no changes in the tax system, that the government is not hiding anything in their pockets. And then one month later here come changes in the tax system.” (Professional assurance and advisory services company)

improvements. I’m talking about electricity distribution tariffs. There are also surprises regarding the mandatory purchase component (the OIK). We are constantly changing CO2 emission rates. Unfortunately I do not have any good examples to provide to show that there are good examples, that there is more certainty in some areas. My feeling is that there are no improvements. I wish there were.” (Retail trade and service company)

“It feels like last year. Together with the industry association we have managed to create a road map for the excise tax. But you never know what will happen. There is no vision for Latvia in 2020 or in 2030.” (Wholesale and retail company)

“It is exactly the same. Uncertainty in Latvia was high and still is high. Nothing has changed.” (Manufacturing company)

“There are no improvements. The key problem is lack of a clear vision for the future. We know, for example, that soon the EU funds will no longer be there, but what is the plan for the day after? Nobody knows. But we need a plan to know if there is a Plan A, B and C, what the different scenarios are. This is closely linked to the issue of competitiveness.” (Manufacturing company)

“The uncertainty is still there. I do not see a long-term vision, a consolidated vision of how it all goes together, how the increase in wellbeing is going to happen.” (Professional assurance and advisory services company)

“It is created by the annual exercise that is called the “budget patchwork”. VAT, income tax – there were some road maps but these are not being followed. The only thing that still is there and works is the second pension level.” (Finance and banking company)

The Court System in Latvia

Some of the interviewed investors highlighted that they see **some positive development within the court system** in Latvia, especially **some progress with regard to how the government deals with insolvency issues**:

“I can see some positives. The question of where the driving force is coming from. I can say my best words about FICIL, which championed the issue of insolvency – it exercised massive public pressure and it worked. We see in practice that administrators are more cautious; they are trying to comply with the deadlines. I wish this was the result of purposeful action from the Ministry of Justice, that there is a will to fix it at the political level. This is an extremely important issue for us. The pressure should be maintained to fix this issue.” (Finance and banking company)

... but also in **more general terms**:

“Legislation is good. Also, it seems that the judges are more professional. Yet the process is not as fast as in Estonia.

...

We should make the court system more systematised – introduce the open calendar method. Cases where few people are involved should be arranged within one month, and all the hearings, instead of planning hearing after hearing, within a two-month window.

...

The main issues are still on the table: insolvency administration, ethical issues and the human factor. We need to build the trust of the people.” (Wholesale and retail company)

“My feeling is that manipulating the system is possible to a lesser extent. I think it is becoming more honest. I can feel that there is a struggle in this area that is public and I can see there are efforts to achieve something.” (Manufacturing company)

“Probably the system is better than it used to be. Occasionally, our company has some things going through the courts, some tax or bad debt issues. It should be better but it is not terrible. We do see the net results of insolvency abuse and bad examples. We are fully in support of cleaning it up and this needs to happen much faster than it is happening, but there are political interests.” (Real estate company)

“We have had a positive experience in terms of timing – it was an issue related to labour law and was looked at very quickly by the court. In Latvia, if you are a responsible employer, you have a huge responsibility. Employees can take you to court for almost anything. And most of the time I hear employees win even if we as employers act honestly, pay all the taxes and a competitive salary.” (Consultancy and IT company)

“We are happy because there are positive trends – there are people from the judiciary who are starting to focus on real problems. Overall, the court system needs to have some conservatism; it can’t follow every gust of wind, especially if these are political winds. We need to be more effective from the inside and that is the real problem. In Latvia we have a complicated and hierarchical system that does not provide motivation for individuals to be rewarded after having done a good job. Efficiency needs to be increased and this could be done only as a result of some serious structural reforms.” (Professional assurance and advisory services company)

Some of the interviewed investors admit that they have no experience with the court system in Latvia, yet, **interestingly enough, some (5 of the 32 interviewed) add “luckily”**:

“Luckily I have no experience.” (Service company)

“I cannot comment on this since fortunately I lack experience in this area. The tendency overall is

“Luckily my own experience is almost non-existent in this area since I had only one case last year. So I will be very subjective in saying that from what I have seen it looks like there should be some serious improvements. My personal view.”

more negative from what I can tell. Our own company does have any issues with the Competition Council and sometimes we feel like our task is to prove we are not a camel.”

(Manufacturing company)

“Luckily we have not had huge issues. In the 10 years that we have been working here, we have had one court case that has been going on for four years and is still not finished. It is good that there are many things you can follow online and that you can even submit some papers electronically, but it takes too long.” (Real estate company)

(Wholesale and retail company)

“Luckily we do not have experience in this field. We can hear from our partners that the system is not efficient but I can’t comment on this.”

(Wholesale and retail company)

“Luckily in our business we haven’t had to do anything with the courts. Overall, probably the situation is slightly better because there has really been a lot of pressure on the government to get it right. There have been many public discussions and seminars, so slightly better, I would say.”

(Finance and banking company)

As many as 14 of the 32 interviewed investors, however, feel that the situation has not improved and, similarly to the previous year, highlight that there is room – in fact, a need – for improvement in this area. In addition, one respondent highlights that the situation has actually got worse...

“There have been quite a few articles and struggles regarding the court system, we have heard a lot about insolvency issues, but I am not sure that there is any change or improvement in practice. I have always been surprised by how long court hearings take in Latvia!

...

Also, I must say, in some aspects Latvian law tends to be very old-fashioned, for example, the Labour Law. Look at your neighbours – they have understood that today...” (Service company)

“I have no direct experience but my general comment is that there seems to be a problem with the length of the proceedings. Also, there is too much focus on application following the letter rather than the purpose of the law. ... I have observed that state institutions are overly cautious in trying out new ways of working, new approaches or partnerships. This could be due to lack of motivation – the thinking is: “Why should I do things differently, since things could go wrong? Even if I save money for the state, I will not be recognised for it, but if something goes wrong, I will be penalised for sure.” This should be changed, I think.” (Wholesale and retail company)

“There are no major changes.” (Wholesale and retail company)

“I hope the worst is behind us. The main focus should be on implementation.” (Finance and banking company)

“There is much room for further improvement. In fact, for our company, the only improvement we have seen is the possibility of remote litigation.”

(Finance and banking company)

“There is a problem related to the length of the proceedings and insolvency issues.” (Service company)

“No change.” (Manufacturing company)

“I do not see any improvement regarding the education and training of judges, improving their capacity to understand very complicated cases.

Our own experience with the court system is related to very complex matters and my feeling is that judges take decisions on the basis of their liking or not liking something rather than facts and information” (Consultancy and IT company)

“There have been no major changes over the past year.” (Professional assurance and advisory services company)

“I think we are at the lowest possible level. I do not think you can go much lower than that.” (Retail trade and service company)

The Healthcare System in Latvia

Finally, we asked foreign investors in Latvia whether the situation with the healthcare system in Latvia has improved during the past year. **Unfortunately the answer is “NO”**. Only a few quotes to illustrate the opinion of the vast majority of the investors (see Section 8 for more):

“In Latvia we have free medical care that works only if you pay. No improvement, maybe a slight deterioration.” (Wholesale and retail company)

“I have experience only in so far as it is a cost for our company. It is a cost that we have because we are competing with other employers and it is a cost for them too.” (Consultancy and service company)

“There are no improvements, the situation is the same. We have insurance for all our employees, it is cost for us.” (Manufacturing company)

“The Minister of Health had to leave; his acts were highly unethical. In general, things haven’t got worse but nothing has improved. The main problem is uncertainty and no vision about what is next. It is like the court system in Latvia, where I think my company will solve our case, but we never know what will be next. Still, no one knows what is coming.” (Finance and banking company)

“De facto it is a chargeable system although it is considered to be free of charge. There is also a system that works on the basis of people that one knows personally (‘blats’) but I am not familiar with it myself. ... The private sector has built hospitals, clinics and sees a business opportunity there. Apparently it works well for them. ... I like the idea about attaching the provision of a service to the social tax. I think even education could be attached to the social tax. You can also follow the road of mandatory private insurance. But I think linking it to paying tax is a good thing.” (Finance and banking company)

Some even believe that it has become worse:

“It is terrible. It is the worst thing that Latvia has to offer. The level of knowledge of medical personnel is terrible. First aid, from my experience, is in a terrible condition. The worst you could possibly have. Should be improved.” (Service company)

“There are problems, like quotas. The minister is lying and saying that there are no problems, but when I need to have a doctor for my child, they say that I need to come back at the end of October when the doctors will have quotas for the next year.” (Service company)

“We fund the healthcare system because we pay for our employees’ health insurance. This is called a health system that is funded by the private sector... and their e-health system, e-prescriptions. In Latvia we continue to spend time and resources. I hear that people are talking about it and thinking about it and I hope that something will happen as well, be it the introduction of mandatory health insurance or something else. Otherwise, no progress.” (Retail trade and service company)

“All the topics we have talked about are still open and relevant.” (Professional assurance and advisory services company)

“The situation is a total catastrophe. I had no idea how bad the situation is until I had to face it recently. If we look from the perspective of an investor, it is a huge problem and a high-risk factor because a shareholder can physically lose his top manager in the country just because of the health system! That is a very risky business.” (Manufacturing company)

... and **only 3 of the interviewed investors can see that something positive has**

happened in the healthcare sector in Latvia over the past year:

“... Many medical doctors can emigrate to Scandinavia, for example, because in this area the wage difference is substantial: in Norway you can earn six times more than in Latvia, so this is not sustainable. The health system does get some benefits from cohesion funding. So it is not as bad as you would think. At ‘Bērnu slimnīca’ I have been pleasantly surprised.” (Real estate company)

“My personal experience contradicts information from the media. In my personal opinion I see it works and it is good. But in the media it is said that 26% of the population doesn’t have access to healthcare. All our employees have medical insurance and have access to healthcare... .”
(Retail trade and service company)

“The quality of the healthcare system is good; I have also had a good personal experience. However, if we look from the employer’s perspective, we are losing out to our competitors because we need to spend significant amounts on health insurance for our employees.” (Finance and banking company)

We also asked investors **whether they could mention any other areas that are of major concern to foreign investors** in Latvia where considerable achievements have been made by Latvian policymakers. Some of the investors who answered this question highlighted that joining the OECD is a great success, pointed to the necessity of continuing work on RailBaltica, mentioned the unsatisfactory quality of civil service in Latvia, and cited the overall necessity of offering better support to investment and exports as well as to small and medium-size companies in the country. Some investors also pointed to the necessity of municipal reform, which “has been left out and is not done at all” (Professional assurance and advisory services company).

4. FICIL Sentiment Index 2015-2016

This section presents the FICIL Sentiment Index 2015-2016 – an assessment of the economic competitiveness of Latvia or, more specifically, an evaluation of the investment climate in Latvia by foreign investors operating in the country. The FICIL Sentiment Index was calculated for the first time in 2015. In 2016 it draws on the expert opinions of 32 qualified entrepreneurs / managers representing companies that are key investors in Latvia. Altogether, these companies represent more than 30% of total foreign direct investment in Latvia and contribute to more than 10% of total tax revenue in Latvia.

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 other sections 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 key foreign investors in Latvia.

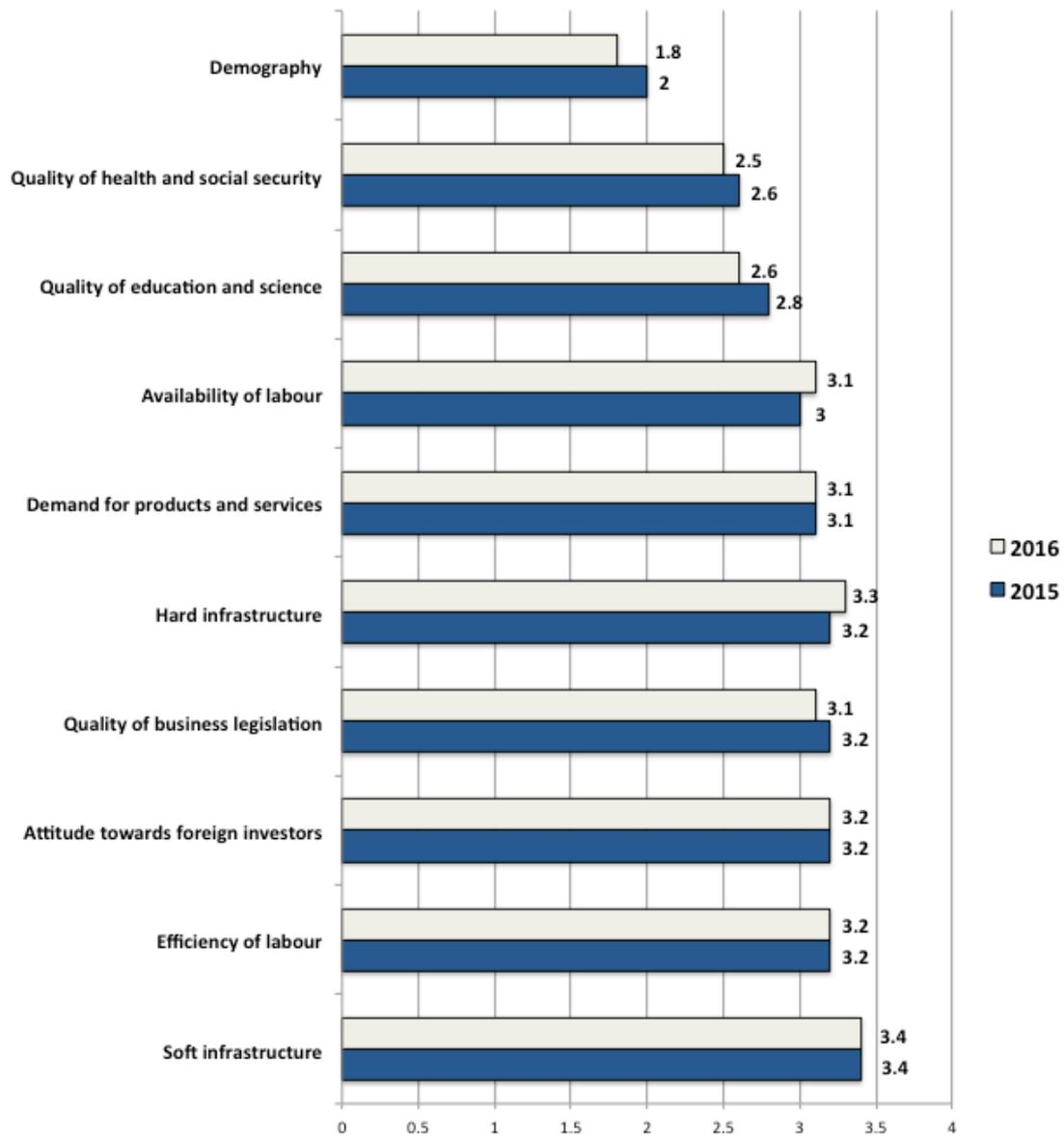
The main factors that potentially influence Latvian competitiveness were derived through reviewing relevant academic literature or emerged from in-depth discussions within the FICIL Sustainable Economic Development Work Group in 2015. As a result, the FICIL Sentiment Index – foreign investors' assessments of 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

Additionally we also asked foreign investors to evaluate **the standard of living in Latvia**.

During the 2015 study 28 selected foreign investors in Latvia evaluated each of these indicators – potential drivers of Latvia's economic competitiveness. The same 28 respondents as well as 4 new companies participated in the evaluation of the same indicators in 2016. We provided respondents with an evaluation scale from 1-5, where '1' means that the indicator is not competitive and '5' means that the indicator is very competitive. Some indicators included one item, some included several items – please see Table 1 below. The FICIL Sentiment Index was calculated as a simple average for each indicator. 26 of the 28 investors interviewed provided an evaluation for most of the indicators in 2015, whereas all 32 respondents took an active part in evaluating indicators in the 2016 study. The results are presented in Figure 3.

Figure 3: FICIL Sentiment Index 2015-2016.



Source: FICIL Sentiment Index 2016

As illustrated by Figure 3, in both the 2015 and 2016 studies foreign investors in Latvia mostly evaluate potential drivers of the economy as above average. To the same extent as in 2015, in 2016 investors are most satisfied with soft infrastructure, measured as “business culture in Latvia” (3.4 out of 5), but they are less satisfied with demography. For demography, the evaluation has decreased from 2.0 out of 5 in 2015 to only 1.8 in 2016. As in 2015, and as also represented by various concerns expressed in Section 3, foreign investors still see major problems in the quality of the health and social system (a decrease from 2.6 to 2.5 in 2016) as well as in the quality of education and science (a decrease from 2.8 to 2.6 in 2016). When it comes to the quality of health and social security, it should be noted that the component ‘social security’ has decreased from 2.8 to 2.5 in 2016 (see Table 1).

As in 2016 foreign investors seem to be relatively satisfied with one of the components of the indicator ‘attitude towards foreign investors’ – ‘policies towards foreign investors’. This component is evaluated as 3.6 in 2015 and 3.7 in 2016. Overall, assessment of the indicator ‘attitude towards foreign investors’ is, however, 3.2 – on the same level as in 2015. Evaluation of the indicator ‘availability of labour’ has increased slightly from 3.0 to 3.1 in 2016. This increase is driven by a slight increase in the assessment of both ‘availability of labour on the management level’ and ‘availability of blue-collar labour’ (see Table 1). Demand for products and services, however, is evaluated as 3.1 – on the same level as in 2016 on average. It should be noted, however, that we can observe a decrease in one of the components of this indicator, ‘domestic demand’, which has decreased from 2.8 to 2.6 in 2016 (see Table 1).

Evaluation of one of the potential drivers of Latvia’s economy, ‘hard infrastructure’, has increased from 3.2 to 3.3, which is driven by an increase in the evaluation of two components: ‘defence’ (from 3.4 to 3.6 in 2016) and ‘energy resources’ (from 2.8 to 3.3). ‘Quality of business legislation’, however, has decreased from 3.2 to 3.1, which is driven by a substantial decrease in one of the components of this indicator: ‘satisfaction of foreign investors with the tax system in Latvia’ – a decrease from 3.1 to 2.8 in 2016. (see Table 1). ‘Efficiency of labour’ has remained at the level of 3.2 – the same as in 2015.

Finally we asked investors to assess the overall standard of living in Latvia. In contrast to the 2015 study, where only 16 investors answered this question, in 2016 all 32 respondents answered the question. We hope, however, that this is not the only reason why the assessment of this indicator has increased from 3.4 to 3.9.

Table 1: Components of the FICIL Sentiment Index 2015- 2016.

	2015	2016
Soft infrastructure	3.4	3.4
business culture in Latvia	3.4	3.4
Efficiency of labour	3.2	3.2
efficiency of labour	3.2	3.2
Attitude towards foreign investors	3.2	3.2
policies towards foreign investors	3.6	3.7
investment incentives	2.8	2.8
Quality of business legislation	3.2	3.1
monetary policy	4.0	4.1
tax system	3.1	2.8
legal system	2.6	2.6
Hard infrastructure	3.2	3.3
defence	3.4	3.6
low production costs	3.3	3.2

infrastructure (roads, electricity, etc.)	3.1	3.1
energy resources	2.8	3.3
Demand for products and services	3.1	3.1
domestic demand	2.8	2.6
external demand (exports)	3.3	3.3
industry traditions	3.4	3.5
Availability of labour	3.0	3.1
availability of labour on the management level	3.4	3.5
availability of blue-collar labour	2.7	2.8
Quality of education and science	2.8	2.6
education and science / innovation	2.8	2.6
Quality of health and social security	2.6	2.5
health system	2.5	2.4
social security	2.8	2.5
Demography	2.0	1.8
demography (population growth)	2.0	1.8
Standard of living in Latvia	3.4	3.9

Source: FICIL Sentiment Index 2016

5. Further investment plans of foreign investors in Latvia

As in the previous year, in the 2016 survey we also asked foreign investors in Latvia, “Does your company plan to increase investment in Latvia? If yes, under what circumstances and in what period / amount? If not, why?” Given the importance of this question, we present below all the answers we received from the respondents, classified in three sections: (i) ‘yes, we plan to increase investment’, (ii) ‘no, we do not plan to increase investment’ and (iii) ‘not decided or ‘no particular need’’. To summarise, 16 investors said ‘yes’, 10 said ‘no’ and 6 are ‘undecided’. Indeed, the quotes speak for themselves, in our view, providing some food for thought for policymakers in Latvia responsible for increasing the level of foreign investment in the country:

Yes, we plan to increase investment:

“Yes. Our projects are moving forward.” (Real estate company)

“Yes, we are planning to increase investment and the amount is 11 million. Why? Because of the right circumstances and reasons – it is comfortable to work through Riga and Latvia and, second, the business demand is there.” (Service company)

“If the government shows some progress and improvement in the area of the Labour Law,

“We are looking for reasonable growth. We do not want bubbles or overheating of the economy.”
(Finance and banking company)

“Investments are increased all the time. We plan to extend the production facility, do some renovations and carry out a few other initiatives, like a new visitor centre. But we are struggling with the bureaucracy.” (Wholesale and retail company)

recovering of training expenses and availability of grants for job creation, we will most certainly consider investing.” (Consultancy and service company)

“We do plan to invest more in the next two to five years.” (Real estate company)

“Yes, we are planning to continue our usual annual investments. It is as a strategic plan. Of course we are depending on the business environment but we want to fulfil our natural growth plans.” (Wholesale and retail company)

“Our company is planning to expand its business. Overall, our purpose is solving complicated problems for business and society. And we can see that the demand is there...” (Professional assurance and advisory services company)

“On the one hand, we pay 100% of our profit in dividends and we have been repatriating capital; on the other hand, we have a lot of capital here in Latvia, so we plan to lend more but struggle to find areas in which to grow. So in terms of new capital, we have no plans, but in terms of being ready to risk more with our capital – yes.” (Finance and banking company)

“We have our plans. We are planning to continue investing 2 million EUR annually for expansion of our network, improvement of safety and environmental protection.” (Retail trade and service company)

“We usually plan to increase, we want to invest more and we will, but we will be doing this only in areas where we see developments. We always look at the return on our investment.” (Service company)

“Yes, we plan to invest. We continue to develop all the time. Our business is very long-term, so we tend to move ahead and invest long-term as well. We also look at the local players – we might buy a business... .” (Manufacturing company)

“Yes, we are planning to invest. We always react to the market situation. Strategically every 3 to 4 years we increase our investment and start some new manufacturing. The next step is related to the recycling sector.” (Manufacturing company)

“In the coming 2-3 years we plan to invest in the amount of 75 million. But the issue is bureaucracy, issues related to construction and cooperation among institutions. It takes a lot of time to go through the projects, sufficient recourses should also be available for building, etc. Will there be enough people with the knowledge and capacity to do that? There are changes related to electricity payments, there will be audits, but there are just a few companies that can provide this service....” (Wholesale and retail company)

“We are growing and developing naturally.” (Professional assurance and advisory services company)

No, we do not plan to increase investment:

“We do not plan any increase. I cannot blame anyone and there is no particular reason for such a move, it is just our business strategy for the next 12 months. For the next year we need stability, the year after might be different...” (Service company)

“No, because there is no clarity about development perspectives.” (Wholesale and retail company)

“No, not easy to find a way to increase our turnover and we are already a dominant player in our area.” (Consultancy and IT company)

“No, we are trying to secure existing investments – we have already moved IT and accountants to Lithuania for reasons of efficiency and we are now

“We do not plan to invest. I would like to invest more but when I am faced with the very complicated bureaucracy I have to think twice. If I started from scratch, I would choose Estonia as the place of business and would base the shared service centres in Latvia because Latvia has a very good workforce for that and good overall conditions.” (Retail trade and service company)

“Over the course of the coming year we do not plan to. But we also do not plan to restrict our operations.” (Wholesale and retail company)

“No. We will continue to slowly exit Latvia. Poor enforcement of existing laws. High cost of energy.” (Manufacturing company)

trying to retain what we have at the moment.”
(Finance and banking company)

“No, we do not. The risk is not worth additional investment (considering problems in the insolvency area, etc.).” (Finance and banking company)

“Next year we are not planning to invest. The company’s growth is natural. For now we have enough demand and capacity.” (Wholesale and retail company)

“No, we do not, since we are finishing our existing development projects. It is more of a global issue, there are no real US capital funds that would be open for us at the moment, Eastern Europe is not among the top regions, it is not very attractive. We could do more investment some years later but at this stage we are not initiating new projects. We find it generally difficult to find money for Eastern Europe...” (Real estate company)

Not decided or ‘no particular need’:

“We are looking at this right now. It is sad to see how hard it is sometimes to work here. There are countries where you know it will be hard. In Latvia it seems that it isn’t, but in reality it is. We are in the process of working on investments amounting to a billion. It is still under question but it would have a long-term influence. The money would come from Europe, the USA and China. It is now or never.” (Retail trade and service company)

“We are contemplating new areas of business, but in our area of operation, we speak of long-term investments: once we start to calculate the investment, the calculation itself takes 3 to 4 years. We need to be really comfortable about what we do. But we have several areas where we are interested in investing. And this is our usual way of working: first we enter a country and then we move to the expansion phase and this is exactly where we are now.” (Retail trade and service company)

“We do not really have a need. Only if we wanted to buy a competitor.” (Finance and banking company)

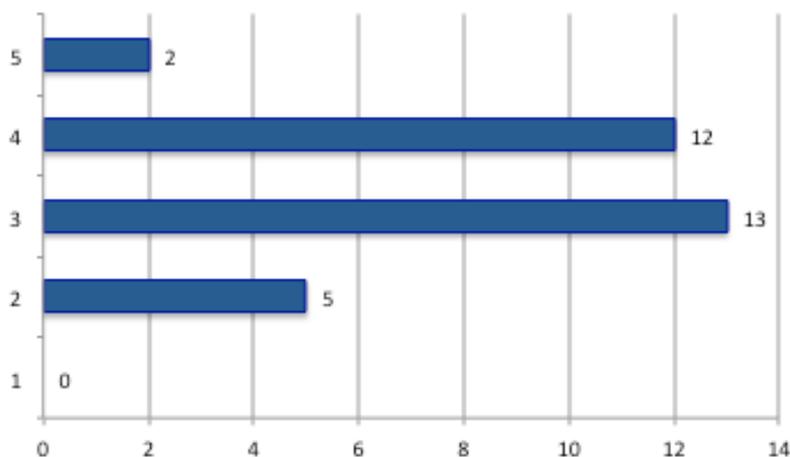
“No specific plans but we have ambitions to grow further.” (Finance and banking company)

“I think we have reached our maximum as a company. We can’t get more people. Every activity that involves more than 100 people is cumbersome. If you needed to find 25 accountants in three months, it would be impossible. You will find three or five but not 25. And we are talking about Riga!” (Professional assurance and advisory services company)

“The analysis is ongoing. The critical factor is labour availability and cost; anything that makes us more competitive vis-à-vis others.”
(Consultancy and IT company)

We also asked investors, “To what extent would you recommend investing in Latvia to your friends and business partners?” and offered an evaluation scale from ‘1’-‘5’, where ‘1’ is ‘would not recommend it at all’ and ‘5’ is ‘would highly recommend it’. All 32 respondents answered this question with an average assessment of ‘3.3’. A considerable proportion of the answers we received are in the ‘4’-‘5’ range (see Figure 4), which means that slightly less than half of the interviewed companies would still recommend Latvia as an investment place – despite all the concerns described in the sections above.

Figure 4: To what extent would you recommend investing in Latvia to your friends and business partners? Distribution of responses. n=32.



Source: FICIL Sentiment Index 2016

Some of the respondents added further comments justifying their assessment as presented in Figure 4. These comments are provided in Section 8.

6. The way forward. Foreign investors’ advice for the Latvian government: issues that cannot wait

In order to support policymakers in Latvia in shaping a better investment climate in the country, we also asked investors, “What would be 3-5 major tasks that have to be accomplished by Latvian policymakers over the next 12 months in order to improve the investment climate in Latvia?” Investors highlighted a number of issues that are summarised below.

Admitting that the results of these activities will most likely appear in the longer term, as in the 2015 study, in 2016 investors highlighted the need to work towards improving the situation with regard to...

DEMOGRAPHY and AVAILABILITY OF LABOUR

... in Latvia. The opinions of the foreign investors are summarised in the following quotes:

“Labour issues should be on the top of the list. Nothing is changing. If we do not have the labour here, then let’s bring it in from other countries – Ukraine, Belorussia, other neighbouring countries.

“The labour availability issue should be addressed. We need a sound and smart migration policy, we should provide opportunities for refugees to live and work here. Possibly we need to work more

We need to simplify the process for them to access the job market.” (Real estate company)

“Demography – difficult to improve since there is no single action that can help. But we need to pay more attention to regional cities, we need to invest there and attract new investment so that young people stay there and have work opportunities.”
(Finance and banking company)

closely with countries that are closer geographically – Belorussia and Ukraine. We need to attract shared service centres – this is where returning Latvians, for example, could work.”
(Wholesale and retail company)

“Demography – think about integration.”
(Manufacturing company)

“Demography!” (Real estate company)

Most of the interviewed foreign investors, however, highlighted 2 aspects that should be prioritised in the coming 12 months, classified as:

‘IMPROVEMENT OF THE TAX SYSTEM and LEGAL SYSTEM’

and

‘BETTER PLANNING AND IMPLEMENTATION OF VARIOUS POLICIES TO INCREASE THE COMPETITIVENESS OF LATVIA’

The following recommendations and comments were received with regard to **tax system improvement**:

“Taxation (is a challenge). You need to look at all the taxes combined. You need stable tax and a broad taxation base. In Latvia the practice so far has been to tax those who can pay. Taxation for commercial real estate is too high, in particular if you look at the rates in the old city. Sometimes I would like to suggest that Latvians cross the border and look at what Estonians are doing and then do the same here! The tax system, including tax collection, works so much more efficiently.

Reinvested profit is not taxed in Estonia and that is very stimulating; it is important to understand the dynamics. The Latvian system is too rigid.” (Real estate company)

“The tax system: if you change the system every year, you will not get anyone to come in. In terms of tax strategy I would say if the World Bank comes up with one, please stick with it.” (Finance and banking company)

“Establish a long-term tax system that is transparent and efficient from both the employer and employee side. Create a more attractive business environment than in neighbouring countries. We do not need to compete with Ireland and we do not need to be a tax heaven. We need to compete in the region.” (Wholesale and retail company)

“(Improve) the tax system!” (Service company)

“Look into the figures – the tax system. There must be a clear answer as to what the benefits are compared with Estonia or Lithuania. We need to stress the advantages.” (Wholesale and retail company)

“Create meaningful tax administration.”
(Manufacturing company)

... and the **legal system**:

“The legal system (is a major problem).” (Finance

“Improvement of the legal system (is crucial) – the

and banking company)

“The Labour Law (is a major problem) and in particular Article 96, providing some legal guarantees for investment.” (Consultancy and service company)

“The insolvency system should be fixed... health reform (needed).” (Real estate company)

“Transparency in all of the areas – the legal system and courts, tax and decision-making more broadly. I would expect more transparency regarding meetings of our government, like in the recent case when they met with Russian ministers – why would you hide this from your own businesspeople, investors and citizens? I would like the government to be transparent and to speak openly.” (Wholesale and retail company)

insolvency system, commercial law, functioning of the courts, ensuring the safety of investment, both foreign and local.” (Professional assurance and advisory services company)

“Efficient investment protection, a functioning insolvency system and legal operation of bailiffs should be ensured.” (Manufacturing company)

In particular, investors highlighted the need to REDUCE UNCERTAINTY in the tax system, some of them also highlighting this need in the legal and court systems:

“A predictable tax system!” (Finance and banking company)

“There should be clarity about the tax system; where the heck are we going, including with the solidarity tax?” (Real estate company)

“Ensure predictability and transparency of the tax system!” (Finance and banking company)

“Agree on a clear and predictable tax policy that is transparent and easy to understand, that does not include numerous “hidden” taxes and charges. The same applies to the labour tax. I am happy to discuss a progressive tax system and introduction of progressivity. I am personally very positive about it; the key question is at what level do we start to apply it and how big is it.” (Manufacturing company)

“I would like to put emphasis on the long-term predictability of the tax system, create trust that the taxes will not change every year.” (Wholesale and retail company)

“(We need) predictability so we can have a plan. This is very important. If we do not fix this, companies will relocate to Estonia and Lithuania.” (Finance and banking company)

“When a minister changes, it would be nice to be able to speak about the tax policy; for example, every government comes in with a revolution and that is something that investors do not like. No revolutionary

... third, avoid any sudden tax or legislation changes. If some are planned, they need to be discussed properly and agreed on with social partners. They shouldn’t simply come out from under the table. ... Finally, some improvements should be made in labour legislation, better control of sick leaves, etc.” (Service company)

“Business should be comfortable that if things go wrong they can have access to a predictable law and court system, within a reasonable time. I think business would be happy to say it was painful but it was just. And I think three or four cases would be enough to show that it works. We cannot afford any longer for the US Vice President to come to Latvia and announce that there is no confidence that the Latvian legal system works! This is the top priority.” (Professional assurance and advisory services company)

“First of all, show with their (i.e. policymakers’) own actions that we can trust their promises. That they will not keep changing the laws.” (Consultancy company)

changes, please. In our business we need stability and some strategic long-term planning. ... We do not know what to anticipate and what exactly the rules of the game will be – for example, regarding the OIK. Just to say that anything regarding the environment should be discussed a bit more carefully; sometimes we see that the aim of certain EU-level initiatives gets distorted and something pretty different from the original gets implemented in the end.” (Retail trade and service company)

“Predictability (is a major problem) – in Latvia, unfortunately, a very casuistic approach dominates. Big investors unfortunately cannot be sure about the energy prices next year. Also, very often business is stuck in some bureaucratic process, like getting a license or something similar. There has been an effort to establish institutions to assist investors, such as the Polaris process, there has been an Advisory Council, but I have not heard about any tangible outcome, say, that investors would consider this as a real help and ‘path finder’. We can look at the construction sector – if an investor has a business plan that includes construction of a building in 15 months, it should be possible! Why not? Overall, we really have a lack of very positive examples that we could show other investors and demonstrate.”
(Professional assurance and advisory services company)

Foreign investors in Latvia have also indicated a number of directions with regard to **‘better planning and implementation of various policies to increase the competitiveness of Latvia’** – that is, of course, a somewhat broadly defined problem with several components. Namely, some investors highlight that **there is a lack of strategic vision and long-term plans**:

“Competitiveness (of the country is the key) – developing the capacity of SMEs to export, creating some support mechanisms. ... Strategy and vision (is needed) about the key areas of development after EU funding.” (Manufacturing company)

“Having a long-term development plan, a vision, including for tax. Ensure that motivated professionals are advancing the plan. Improve competitiveness by reducing all the absurdities in the administrative process.” (Retail trade and service company)

“(We need) vision about where / in which sectors/areas Latvia wants to see foreign investment and proof points for government actions.” (Finance and banking company)

“There is a lack of strategic vision for the government, a lack of clear priorities. Would like to see some better planning and information about EU funds – we are being encouraged to use them for training and staff development but at the same time we are asked to “squeeze ourselves under” the transport sector. Why? I do not understand that and this is not how we operate. Is this bad planning from the Latvian side or is this the only way we can get support?” (Consultancy and IT company)

... others emphasise issues related to **EU funds**:

“EU funds will be over soon and we have no idea what we will do. Major companies are going away to Scandinavia and those that have left will not come back. In Stockholm you will see the names of all the bigger local construction companies. So who will build something here when this is needed? ...” (Real estate company)

“(Use) grants within the framework of EU funding for the creation of new jobs.” (Consultancy and service company)

“Sustainable implementation of cohesion funding that stimulates business investment (infrastructure projects, also social cohesion, very important not to mess up the Rail Baltica project).” (Real estate company)

... and activating regional reform:

“Regional reform (is needed) – look at schools and hospitals: some need to be closed. I understand this is difficult, we all have a sentiment about small schools and small hospitals and about all those little villages that are disappearing, but this must be done. I see there are cities that are striving, that value their local companies and entrepreneurs, they have some local prizes and diplomas and this is excellent. It is worse when everything is bad and is perceived to be so. When people lose trust and their sentiment is constantly negative.” (Consultancy and IT company)

“Municipal reform should be carried out. In this respect we need to spend EU funds wisely, not waste them, do something that will create value in the future.” (Professional assurance and advisory services company)

... as well as other **related issues**, summarised in the quotes below:

“It is necessary to simplify things in order to make procedures smoother and faster. Foreign engineers and architects cannot really operate here; they face serious hurdles. Could we liberalise the profession and make it open to international experts? That would be one way to deal with the issue. We need to find the right balance.” (Real estate company).

“Need to think about how to attract production to Latvia: what is Latvia’s advantage, is it innovative, is it labour-oriented, should we work on energy issues, education or something else. We need to differentiate ourselves from others, that is important.” (Professional assurance and advisory services company)

“Cut the bureaucracy.” (Wholesale and retail company)

“Given that Latvia has joined the OECD, this is a step forward, Latvia has a little bit of a higher value and it is a bit more in control of things from a management point of view. For our sector, for example, the members of the supervisory authority have already been announced. We do not feel the result yet but the intentions are there.” (Retail trade and service company)

“Generally, foreign investors do not feel welcome here. Latvia would need to change that and explain that foreign investors in the country are not the bad ones and in fact should be encouraged.” (Retail trade and service company)

“Go for the large investment projects. We lost some attractive ones to Lithuania and Estonia. And they were large investment projects; we should be more flexible.” (Wholesale and retail company)

“Keep the cash in Latvia, offer incentives to reinvest profit.” (Wholesale and retail company)

“We should do some real and effective tracking to see how we (Latvia) compare with our direct competitors in the region. It is possible that we should think about some sectors that we want to develop in Latvia where we have some advantage and some good know-how. Estonians have IT and e-governance. Possibly we should take a look at our sectors to see where we should go; what about chemicals or pharmaceuticals? Nothing very tangible has happened there...?” (Wholesale and retail company)

“De-liberalisation of the gas market is very interesting for any industry that is energy-dependent, so very great attention to that.” (Retail trade and service company)

“Management of state-owned (and municipality-owned) companies – mistakes should be analysed and management should be improved. ... Healthcare... Capacity of the civil service must be improved.” (Finance and banking company)

Along with the issues highlighted above, foreign investors emphasised the need to improve the situation with regard to the following three directions:

LAW ENFORCEMENT, THE COURT SYSTEM
THE SHADOW ECONOMY, CORRUPTION, TAX EVASION
EDUCATION AND DEVELOPMENT

The following quotes represent the opinions of foreign investors in Latvia:

Dealing with law enforcement, the court system:

- | | |
|--|--|
| <p>“Enforcement of existing legislation is key.”
(Manufacturing company)</p> <p>“Ensuring the rule of law – speed and efficiency of the court system, justice.” (Wholesale and retail company)</p> <p>“Rule of law should be a priority.” (Manufacturing company)</p> <p>“Getting the court system right!” (Finance and banking company)</p> <p>“Unfortunately, there are a lot of crooks, some related to the government, involved in insolvency cases and in the court system, and someone would need to be a good policeman and put them all in jail. Otherwise, no one will understand that this is serious and people will continue to think that no one cares. Unfortunately, the police are corrupt as well. Corruption is so embedded there that it is difficult to find the good guys. But this should be done; otherwise people will continue to rob others and people will think it is ok.” (Finance and banking company)</p> | <p>“The court system (is a problem) – efficiency, fighting corruption.” (Finance and banking company)</p> <p>“The court system needs to be improved. It is a shame to hear at a Baltic-wide conference that Lithuanians are proud that they do not have a situation like in Latvia. Corruption is still a problem.” (Wholesale and retail company)</p> |
|--|--|

Dealing with the shadow economy, corruption, tax evasion:

- | | |
|--|--|
| <p>“If Latvia wants to move forward and get somewhere, it needs to deal with corruption and stop establishing government policies in the interests of a person in one particular region. There is a lot of evidence that this is happening. Our business would like to invest here but we can’t struggle with one particular person who does not want this and makes it impossible for us.”
(Retail trade and service company)</p> <p>“Should work on the motivation to pay tax (by linking tax payment to some state-funded services).” (Finance and banking company)</p> | <p>“First of all, cracking down on people who do not pay tax. And for that you need a properly functioning corruption prevention bureau (KNAB) and state revenue service (SRS) in Latvia. Currently I hear a lot of talk and nothing is happening. If you increase the salary of the Head of the State Revenue Service, then you must also provide the power to do something. It is easy to write reports, but to get things working is more difficult.” (Service company)</p> <p>“Second, start a real battle against the shadow economy, so one can see the result.” (Service company)</p> |
|--|--|

company)

“The shadow economy (is a major problem).”
(Finance and banking company)

“Further work in combating the shadow economy – we know that Estonians, who have a smaller economy, cash in more money than we do. This is a clear sign that something is completely wrong. Why are we still messing around with the e-signature? It is our indecision, waiting and hesitation. Take the decision and go and do things! I also blame mutual antipathy and internal quarrels.” (Wholesale and retail company)

Dealing with education and development:

“EU funds and their use for education and development (is a major problem) – look at the compensation rates for companies.” (Consultancy and service company)

“Higher education – we still do not know what we want to achieve.” (Finance and banking company)

“Education – reform and develop it.”
(Manufacturing company)

“Higher education needs to be addressed. We are pouring money down the drain.” (Finance and banking company)

“In the education sector, professional and vocational schools still need to be improved; also, there should be a decent remuneration system for teachers.” (Wholesale and retail company)

“The education system – improved quality should be a priority.” (Manufacturing company)

“Fix the problem with the labour force: make it more accessible and invest in quality, and that means improving the education system as well.”
(Wholesale and retail company)

“Migration – there should be a specific plan in place that works, including smart migration; there should be a steady flow of international students and we should be measuring what works and what doesn't.” (Finance and banking company)

“Education reform (is needed).” (Real estate company)

To a lesser extent, investors pointed to the necessity to work on issues related to:

IMPROVING THE PERFORMANCE OF the CORRUPTION PREVENTION and COMBATING BUREAU (KNAB) and the STATE REVENUE SERVICE (SRS)

“The ongoing comedy with KNAB and the SRS should be stopped immediately. It looks like a serial drama. No one can take decisions because it seems there are some vested interests. This is certainly not creating trust for any investor. The head of the agency takes a decision to fire an employee, but the employee keeps coming back...

You could not afford to operate like that in business. The head would need to leave himself after the third time. Not the fifth. It is a shame and

“A solution must be found to ensure that KNAB and the SRS work and have good staff.”
(Professional assurance and advisory services company)

“Get the SRS working; make it transparent and easy to understand. It is not a normal situation when businesses are trembling in horror if the SRS people come in. It should be a normal practice and all parties would need to know what happens when they arrive, what is next, etc. And there are state

I often feel bad about what I see in the public sphere. The government struggles to take decisions in the interest of society.”
(Manufacturing company)

institutions that work in a civilised manner, like CSDD for example. They provide a good and high quality service, they are transparent and you know what to expect. It should be a top, top priority to make the SRS work.” (Consultancy and IT company)

“Address VAT schemes and establish a functioning SRS.” (Finance and banking company)

... as well as the need for

A BETTER FUNCTIONING PUBLIC SECTOR, COMMUNICATION

“Reforms should take place in the government sector – it should become smaller and more efficient.” (Professional assurance and advisory services company)

“Transparency and efficiency of the public sector needs improvement; the same goes for cooperation among different government institutions.”
(Wholesale and retail company)

“Improve communication and attitude – possibly there are many good things that we simply are not aware of.” (Retail trade and service company)

“Improve communication between sectors.”
(Manufacturing company)

“There must be a clear format for building trustful communication. The attitude from the government towards investors should be clearer and targeted towards cooperation. In other countries VID is an institution that serves and provides a service rather than exerts control as it does in Latvia.”
(Wholesale and retail company)

“(Improve) the political environment!” (Service company)

Finally, some investors are concerned with issues related to...

RENEWABLE ENERGY

“Talking about renewable energy, we should show that our burden is not growing and there are effective mechanisms in place that balance the interests of society with our liabilities. Let’s look at those who profit from the OIK and let’s stop paying those who should not receive anything anymore! In the case of wind generators – we continue to pay even when the costs of the generator have been fully recovered! We should simply cut off those old schemes. The right thing to do would be to take a tough decision, pay out some compensation and close the matter. Otherwise it is like running with a brick around your neck!” (Professional assurance and advisory services company)

“We can see some European-level plans regarding renewable energy and technologies, setting of targets, reduction of CO2. But in Latvia these plans are not implemented. If we need to implement 2030 targets, it would be important to know this now and start thinking about it.” (Retail trade and service company)

“Sorting out the cost of energy issues, in particular regarding renewable energy and the so-called ‘green tax’ – there are ideas that are ok, but probably not very clear, I would say (I know, some foreigners

might be hurt as well), but that is something that had to be sorted out anyway.” (Real estate company)

We also received **other** opinions, summarised in Section 8.

7. Mr. Prime Minister, You’ve Got Mail!

At the end of each interview, we asked investors to provide a short message for the Prime Minister of Latvia – on how to improve the business climate for foreign investors in Latvia. We promised to pass these messages on, and here they are:

“The need for improvement in governance and the destruction of the culture of corruption is clear. However, difficult decisions can only be made by courageous politicians who have the vision and determination to ignore vested interests and push through much needed change in the way Latvia is governed. Will your grandchildren in 20 to 40 years’ time say you were such a prime minister?” (Retail trade and service company)

“Many aspects should be considered. First, the rule of law. The situation has got worse in terms of law enforcement. The court system is weak. It is madness what is happening with the Corruption Prevention and Combating Bureau. We have good laws but the problem is enforcement. ... Second, demography. There have been no changes. There is an increase in birth rates but that doesn’t mean that this is because of the actions of the government. There should be some stimuli in place, I think, if we want to change the situation.

The next problem is social integration and immigration. It should not matter where an immigrant comes from. I see no long-term thinking on the part of the government. If there is a law that you can’t be Latvian if you do not prove that you have Latvian roots, that means there is no political support for integration. In the USA it doesn’t matter where you are from – nobody thinks about the fact that Google was created by a Russian, it was created by an American. At the political level in Latvia I see that the law cultivates racial and national hatred, and that is very negative for such a small country. There would be a great chance to attract smart young people from different countries if our graduate programmes were in English. But we have the State Language Law, which does not allow that. We need to somehow pull the schools out of the Stone Age and create a modern society for the modern world. Maybe we would need to sell some of the university properties and bring in some of the brightest professors from around the world.” (Manufacturing company)

“We must defeat negativity and stop being so focused on bad things. We need to step up and advertise our country. We should not scare investors away, we should share our success stories. If some big investor is coming, we need to celebrate, make it big and show that we are a destination for investment.” (Real estate company)

“There should be a clear message about the advantages that Latvia can provide as a member of the European Union. Clear and short messages that formulate what Latvia has to offer to investors. And I am not talking about a 50-page message; one page with a clear message.” (Service company)

“Stability is extremely important. I think our PM is capable of taking difficult decisions. I really hope to see some action regarding the tasks I mentioned. Regional reform is something that ought to be done because there are huge inefficiencies there.” (Finance and banking company)

“I would like to see sustainable and long-term development, motivated and professional work on the part of the civil service, improved competitiveness of Latvia and determined action to eliminate the absurdities in public administration.” (Retail trade and service company)

“Any darn fool can make something complex; it takes a genius to make something simple. So make things simple for business, open the door, create incentives, make the taxation system competitive and you will see that it is that simple to attract investment.” (Wholesale and retail company)

“Key things I would like to see addressed are: the shadow economy and the legal system; civil liability and suffering payments; fixing higher education; ensuring an efficient court system and putting in place a plan for smart migration. ... Additionally, public procurement and the concept of the cheapest price is not working in the insurance sector because the one that provides the best price most probably will not pay compensations or make any other payments.” (Finance and banking company)

“I would like to see less talk and more action. Concentrate on tax collection and especially on those who are not paying taxes. This is really important. ... You have to get both VID and KNAB right! My feeling is that KNAB is not monitored at all! ... You need a well-functioning civil service whose performance is not measured on the basis of the reports they produce. Would be interesting to see where Latvia ranks in terms of number of clerks per capita... ” (Service company)

“One should not be afraid to look out for the best examples and take on those that work! Step up communication with people, business and investors. Sort out things that do not work – VID, KNAB – we do not want to continue the reality show that is happening there. State administration should be of a high quality with people who have the right skills, excellent reputations and appropriate remuneration. ... Apply the “design thinking” method and think about the state or the government as a provider of a service to its main clients – inhabitants and entrepreneurs – and keep in mind that the state works for them. ... I think it should also be very useful to look at the price and quality relation in very specific sectors where the state provides a service to its client – the people of Latvia.” (Wholesale and retail company)

“(Latvia is) a nice place to live. Bad place to invest your money. ... The problem for credible investors (foreign or local) who have to decide where to invest is that Latvia does not offer good enough reasons to invest in Latvia. The local market is small and can be accessed from Estonia or Lithuania, where the governments are more supportive of industry. Latvia does not have enough of a differentiated advantage versus alternative European countries and the government is not committed to building an environment conducive to investment. 3 examples:

- (i) The government penalising companies that follow the rules: When looking to increase revenues (taxes) for 2017, the Environment Ministry decided to increase existing taxes and create new taxes, but did not consider collecting existing taxes from those that currently evade taxes (e.g., known illegal quarries). Equally the Ministry did not consider raising taxes on the waste industry through landfill taxes despite this being a stated European aim. The impact of this is that the market is skewed by asymmetric competition and so those companies that follow the rules (and pay their taxes) become less competitive and are forced to exit the market. Examples = the Riga waste collection industry. The Riga concrete industry.
- (ii) The slow pace of the government undermines local companies. One example relates to energy policy, which has seen multiple companies move investments and jobs to alternative manufacturing locations while the government ponders what to do with OIK. The impact of this delay in addressing a clear problem is that some energy-intensive industries are reducing investment plans. Some have moved production to other markets.
- (iii) The shrinking labour market is impacting all employment categories. This does not translate into higher salaries. International companies increasingly move to markets with better employment infrastructure and a wider pool of talent.

We considered opening a shared service centre and shared technical and engineering centre in Riga, but finally decided to locate the shared centre in Prague (85 people recruited in the past 4 months out of a team of 105) and the engineering centre in Spain. Both markets have higher labour costs than Latvia, but the key factor was finding enough people with the right skill sets.” (Manufacturing company)

“I wish the government would take a strategic approach regarding the attraction of investment – it should consider it as a good that you want to sell. So think about competitiveness. I really call on politicians to become businessmen in that sense and take a far more commercial look at how we advertise Latvia to investors and how we attract investment.” (Finance and banking company)

“Once during training, one of the teachers asked what the difference was between a politician and a statesman. The difference is that a politician thinks about the next elections, whereas a statesman thinks about the next generation. I sincerely hope and wish that our PM thinks about the next generation. A true statesman will think about demography and education even if he or she knows that any change will require a lot of time and will not have an immediate effect. I understand that there are restrictions and the next government can stop a good initiative. But if possible, it would be so nice if something really important was done for the good of the generations to come.” (Consultancy and service company)

“During the coming year specific actions should be carried out to show to businesses and investors that problems related to the courts and the legal system in Latvia (investment protection, civil disputes, insolvency, criminal trials, etc.) are being solved. That this is not an issue of adopting new guidelines or plans but that there are real and tangible results and justice has won. And all of society should be able to see that. There should be several cases demonstrating that the creditor has been protected and the swindler has received punishment (as opposed to a trial that goes on for ten years). This would be really helpful. ... It is extremely important that we do not kill the Rail Baltica project. We should keep going with it, overcome all the obstacles and make sure it gets done.

Need to think early enough about what to do after EU funds. Should prepare business and society that the time will come when the funds are over. ... I think at times we have also imposed unnecessary restrictions on ourselves. For example, we have a long coastal border that we can't use. I look at it the same way as at bicycle paths – extremely unpopular in the beginning, now very useful. It took political will and a decision. Why couldn't we have a bicycle path going along the coastline? We should reconsider all those restrictions.

Tax – I think it is not right that companies can sponsor societies and NGOs at the expense of tax. We would live better if we amputated that system. I see no logic where a big company distributes a big share of profit to some NGOs. If the same money went to the budget, all of society would benefit and a better result would be achieved. ... Also, the willingness to donate should not be linked to one's capacity to pay tax. If a company has decided to donate a million to a hospital, I think it would see no problem whatsoever in paying the tax for it as well.” (Professional assurance and advisory services company)

“The main task for the Prime Minister of Latvia would be to come up with a development plan for the next 20 years. The one that we have for now needs to be rewritten 100% – it was no longer valid from the moment we joined the OECD. Latvia should position itself better!. I suggest that the Prime Minister look at the success story of the Icelandic football team. It was a very purposeful move and did not happen overnight. It was a strategic and targeted policy of the country that become a huge success.”

(Manufacturing company)

“I need to come back to the issue of stability: we have a long-term investment here and we need to be sure about where things are going, there needs to be predictability. And I would strongly support an evolutionary approach to things rather than a revolutionary one. It is possible to have a good dialogue with partners in industry, go through negotiations and get an agreement. Our company would be happy to be more active in brainstorming, exchanging information and best practice, having more of a dialogue with industry players. In the long run, we all have the same goal: we want everyday life for everyone in Latvia to be better. This is good for the country and good for business. Everything takes time, it is very

important to understand that and not to change the rules of the game every second. Longer discussion would add to the quality. We are often asked for an opinion but we do not have enough time to evaluate government proposals in the requested time. ... We need to understand that bigger corporations have strong organisational values, they are often thinking – can I buy green energy, can I be more environmentally friendly? Also, they care about issues like equality, human rights, how we see equality (LGBT rights, etc.). ... Reforms are taking place at a very slow pace.” (Retail trade and service company)

“I wish the Prime Minister had the courage to solve the identified problems and that there was a permanent solution rather than cosmetic improvements. This does mean everything needs to be destroyed and you need to start building from scratch. But I think he would like to have that feeling himself of being a statesman that cares about the next generations rather than a politician that cares about his electorate. This is also the last period of EU funds in the current amounts. I think every effort should go to ensuring that EU funds are invested in a way that strengthens the competitiveness of Latvia.” (Wholesale and retail company)

“ (i) Business and politics should be separated.

(ii) The tax system – regarding the shadow economy, we keep struggling with shoemakers and hairdressers. But maybe think about the introduction of some license fee and move on. Concentrate on big things. You can identify companies operating in the shadows very quickly – it is all publicly available information, you can see that a company that employs three people gets a huge profit. How come? In the business I represent the shadow economy is a big problem.

(iii) There should be clarity regarding the tax review and the planned tax reform.

(iv) More attention should be paid to how efficiently we spend public resources. Are our police efficient? Probably more money is being spent on hooligans and their dealings than prosecuting and investigating insolvency cases.

(v) Involve business and sector organisations because often they are closer to specific issues and can see more detail, especially for very specific cases. Openness is important.” (Manufacturing company)

“Latvia should adopt a long-term view pertaining to the improvement of the business climate in the country. Investors need to understand the long-term ambition of the country, which should survive election cycles and changing governments, as large investments are long-term by nature. Such ambition should reflect the ‘brand’ of Latvia, distinguishing the country’s advantages from its peer group. As businesses need to differentiate themselves to stay competitive, so does an attractive investment destination. Gear education towards this ambition and nurture competence and innovation accordingly, which are the only sustainable competitive tools for the future.” (Real estate company)

“Do not promise what cannot be delivered.” (Consultancy and IT company)

“I think we should let some fresh air into the Riga Freeport – some sane management and transparency, some business-type operations. There is great potential that is currently not used. And we need to work with the Chinese and Singapore and get the business and business deals here. Under the current model, nothing will happen. A port is extremely important, and if it works, then so many other things work better! Somehow in Lithuania, if we compare, it all works better. ... Well, ministers should speak some English. I do not really see how you can be efficient nowadays, especially in sectors like transport, without speaking the language.

Getting the State Revenue Service on the right foot is a priority and should happen as soon as possible. ... The remuneration in the civil service must be reviewed – there should be some sound model that allows for the payment of adequate and competitive salaries.” (Finance and banking company)

“Be the one who really devotes himself to his country! Have the courage to make decisions that are right for Latvia, not just politically right. Choose the best team and good luck!” (Wholesale and retail company)

“I think consistency is very important. Clean up the business environment. The intentions are in the right place. Continue reforms, keep focussing on the insolvency system, get clarity about the tax system and its future, ensure the 2% expenditure on defence, carry out health and education reform, sort out the cost of energy issue.” (Real estate company)

“I would like to see the day when a politician says, ‘We want to have foreign investors in Latvia’ – and really, truly means it. ... Local businessmen have made it their style to lobby and they do this well. Unfortunately such methods go against our company values and code of conduct.” (Retail trade and service company)

“For me, it all goes back to the rule of law, and more importantly, it is not about the form – having the right letters in place – but showing that the law works. Put criminals in jail! That would send a very good message to dodgy politicians and others. Make them feel the pain of stealing money from the public and from investors. Would be a very good message. That is critical. But my feeling is that no one really cares about that. I have had so much interaction and communication with the media and officials, and my problem is that people do not want to be disturbed! They just want to be left alone. I would get Al Capone, fly people in from the UK if needed and get them to do something. Look outside for support if you are interested in getting things done. If not, of course, why bother. ... Sorry, I was more optimistic 3 years ago. When we arrived here, we were expecting Europe, we thought everybody pays taxes, etc.” (Finance and banking company)

“It is important to be very focused. Identify and find out what Latvia’s identity is, what Latvia wants to be associated with, and then perform actions to reach the goal. If I knew what the aim was, we could be more relevant to people, the economy, society, and other companies.” (Professional assurance and advisory services company)

“Efficiency should be improved along with cooperation among various governmental institutions. I wish the government was more supportive of business, supporting companies that pay taxes and that feed the financial heart of the country. I think any investment (whether or not it comes from a local investor) should be welcome because it contributes to a more competitive environment and improves the economic situation and also wages. There is too much protectionism and I often hear and feel that a foreign company is not as good as a local one. But there is no basis for such a statement. Investors are not the bad ones.” (Wholesale and retail company)

“Foreign investors are important, and if we are not hospitable to foreign capital, Latvians will go and work for the same foreign capital elsewhere. We are a comparatively young country and we do not have enough capital ourselves. And nowadays capital is a global thing. ... Also, when it comes to reputation and trust in the court system – they are both very important. If you as an investor plan to pay all the taxes and because of this become uncompetitive, then this is probably not the place you want to be. It is not only a struggle about justice; it is about integrity, honesty, about planning to pay taxes. ... Intention and motivation are important – next time the state budget needs more resources, please do not try to reach for the lowest hanging fruit and invent a tax for companies that are paying tax. Think about companies in the shadow economy! ... Think about why foreign investors pay half of all tax. And about why two parishes in Latvia have the highest salaries in all of Latvia.” (Finance and banking company)

“The Prime Minister of Latvia needs a story: a clear idea about why Latvia is good place to invest. A clear answer to the question of why Latvia should be on the wish list for investors. What is inside of this country and why should it be the preferred choice among the Baltic countries? Really focus on such issues as infrastructure, tax administration, competitiveness, e-systems.” (Wholesale and retail company)

“During one of the High Council Meetings we had, one FICIL member asked a question that I still remember and would like to ask our current Prime Minister rhetorically: what are the three key things that you will be proud of and that will be considered as your legacy to the next Prime Minister?” (Professional assurance and advisory services company)

“I would like to see a vision for the government and a strategy. More specifically, I would like to see a vision about the shared service industry – is it a priority or not, how much tax revenue does it bring in, what is the value of the industry in Latvia. On the basis of that analysis, the government could plan the following steps: potential tax breaks, support for education and training. Our business in a way is intellectual manufacturing. Reduce the uncertainties, define a clear goal and vision, come up with strategies for how to get there, like how to reduce the shadow economy, then work on things and share the results and successes.” (Consultancy and IT company)

8. Quotes from the Case Studies

Quotes for the Section 3. Key challenges faced by the foreign investors in Latvia: changes since 2015

1. Demography

Negative- no improvements or situation is getting worse

“Our business operates in Riga and in region. In Riga the situation generally is better but we have problems to find experienced engineers. Outside Riga employees are aging. In the future we plan to attract qualified labour from Belarus. Generally, the situation is getting worse in different ways: there are technical issues and hurdles, unpredictability, aging and the problem of labour tax. Overall, there are no improvements, it is getting worse.” (Retail trade and service company)

“I know that situation is not good and haven’t seen or heard that there would have been some special measures to cope with it. No progress.” (Service company)

“Demography is the biggest and the most important area. I haven’t evidenced any progress. If we talk broadly and think also about migration aspects, it is more of a negative view I have on the last 12 months – UNHCR campaign and the localized version that DBB produced about the refugees. The re-emigration campaign also did not achieve any result – they started the initiative but it has no outcome. But I can see there should be more activity in the regions and in the regional cities, like Daugavpils, for example, that should be strengthened. To sum up, I do not see anything important.” (Finance and banking company)

“We don’t see improvements. As our business is placed in Riga we can see that it is not growing and there are concerns regarding the future. Even though there is a trend to move from the regions to Riga people continue to go away. It is a serious challenge looking at the future. Seeing different types of the market researches we can see that the population is declining and the situation will get worse. It means that the investment will most likely not increase. So the situation is actually even worse than it seems at the moment.” (Real estate company)

“Total population is decreasing, now it is fewer than 2 million. The aging problem is coming closer and more dangerous. 20% of all are elderly. It is not easy in terms of finding the workforce. After 20 – 30 years this will be even a bigger problem.” (Service company)

“I do not see that there would have been any improvement at all. The situation is difficult; the countryside is empty. I have been traveling quite a lot around Latvia looking for new business possibilities and I see that the countryside is empty, young people are leaving, so I do not see any business opportunities there. I think it is because there are no support mechanisms for families, for example. I would say no progress.” (Retail trade and service company)

“Nothing has changed and nothing has improved. Latvia is still losing people. Probably Brexit will help – some Latvians might be forced to return and it would be good. But this is a problem not only for Latvia – all countries in Europe now face labour shortage. At the same time, no country is really happy with the immigration. So, you need to really think hard what to do and how to approach this.” (Service company)

“I think demography still has a negative trend and the predictions are that the problem will increase in long-term. Retail is very intensive industry and we need not only fast but also smart hands.

Figures tend to show negative development.

Overall looking from the business perspective situation in Riga is ok, but the situation in regions is catastrophic. Regions are not only affected by domestic migration to the bigger cities, meaning,

Riga, but also by emigration outside of the country. It is a serious problem how to get people back to Latvia. The plans that are made are just “on paper”, we need serious improvements, something we can offer for the entire family not just an individual to come back and stay in Latvia.

And by that we need to look at the whole country’s picture and make it more attractive from different perspectives.” (Wholesale and retail company)

“It is a challenge; there are no big improvements.

In any case if we want some people, we should look to what is happening in “Mucenieki” rather than demography as such where changes cannot happen very fast.” (Finance and banking company)

“From our perspective demography is a big issue. This is linked to our long-term commitment in the Baltics and this is one item that presents the biggest concern for us. It is not only about people and emigration; it is also a story about an aging population and this why the fact that so many young people are leaving reinforces the problem.

Emigration and aging is a very bad mix if you think long-term. If you think about investing in shopping centres, it is a long-term project and Latvia is not really the right place in this case. Luckily Riga as a region is stable; this is why investors do not leave. This is something of a big concern. Maybe there are initiatives I have not identified; I think in this case government needs a

“I do not see anything significant; I do not see any strategic actions.” (Wholesale and retail company)

“No real change.” (Manufacturing company)

“Immigration issue and debate is not topical for our company but for Latvia it is. From company perspective, we would welcome re-emigration from Scandinavia, since these languages are very important for us and we do not find that resource within the country. We educate and provide language training basically for every employee. We work with language specialists and I can say it is very difficult to find good language teachers that could do that at a high level. ... We represent a sector where you invest a lot in training. So we would very much welcome any support in this area. There are European funds but they cover now only 30 % and that is not good enough. My feeling is that the state is providing us some low hanging fruits. If the state cannot have any impact on demography, it should think about other options and ways how to maximize the potential of the people it has and attract more people from outside. If the state would do something about availability of people and demography, we could create up to 300 new jobs. ... Overall, I do not have seen any change in this area over last 12 month.” (Consultancy and service company)

“There have not been many changes during the year. We are in a hole at the moment and at the very bottom of it. Statistically it means there are less graduates right now. But there are no compensatory mechanisms in place, like, for example, smart immigration could have been one but nothing has happened, there are just talks. We can see that the re-emigration plan is not really viable and not functioning.” (Professional assurance and advisory company)

“There are no changes comparing to 2015, zero level.” (Manufacturing company)

“I can respond more from what I know following the news flow – it seems that lately this is discussed in relation to uncertainties in some other countries. Generally, in Latvia I would say there has been no progress. Some people are returning back from other countries but in terms of demography there are no big changes. I haven’t seen anything in terms of long term planning or policies; it all has been just short pre- election

long-term approach starting with a social program to increase birth-rates. Latvia situates in North of Europe where traditionally there are higher birth-rates but now it ranks where the Europe's Southern countries are. It is a signal that economic situation for families need to be better. It is a long-term thing. The country should be more generous in spending on and support for families so that it is easier to have more kids. To attract Latvian emigrants back is a much harder thing to do. But again, need to start with some targeted social programs to stop young people leaving but stay here and have children. ... It is about economic development – about labour market and salary increase. If the salary increase goes together with productivity it is very good. But people do need to receive better salaries to stay in the country.”

(Real estate company)

“It is certainly one of the top concerns, especially when it comes to the size of the country and number of people. Our response to that is that we accelerate digitalization and review our branches every year. We do struggle when it comes to attracting enough young people, namely, for our shared services centre where we have around 400 youngsters, every year we find it a bit more difficult. This is one of the reasons why we move our own back office operations to Valmiera. We are growing but we would like to grow even more.

If you compare with Vilnius, it is significantly larger in terms of shared service centre. Availability of youngsters is the key issue and it is extremely important not to lose those youngsters.”

(Finance and banking company)

“Last years tendency is that the birth rate goes up (5 000 more kids every year), however, the number of permanent residents is decreasing. Even refugees are running away from us. There is a need for a wise and predictable allowance system and social security system. The predictability is one of the main issues in our latitude. If we are comparing our life with families in India, I doubt that they are as comfortable as we are. As far as it depends on Latvia, it is slowly moving in the right direction. We need to break the stereotype that young mothers need to choose either career or children. The possibility to return to the working place must be ensured and shouldn't be even questioned. This is the mind-set that government

campaign type activities and talks.” (Retail trade and service company)

“I see no real change. We have a re-emigration plan. In principle and “on paper” it includes all the right things. The problem is that nothing happens. A great idea is to attract foreign professors and teachers, also, students but I am not aware that there is any progress. From what I know, it looks like the speed of emigration is slowing down but it doesn't solve anything. Minister for Economics said a few days ago that around 300 thousand low skilled people would be jobless in the coming years. Are we prepared for that? Because if we are not, there will be a new wave of emigration. ... I think what we should and could have done is to attract bright and excellent professors to our universities; this would make a massive change. Young people would be happier to stay and there would be more international students. But as far as I understand, language is the problem because of the Law on Latvian language. I do not understand that. And to be honest scientific literature will never be available in Latvian.” (Wholesale and retail company)

“I do not see any improvements. Maybe they are somewhere on the paper but not in reality. From what I know there is nothing that would provide some real help to young families. I am talking here also about those living in the country side – who knows if their children will have schools, transport, medical services etc. ... In the area of smart migration that FICIL raised I do not see any improvement. At the same time, I am very proud of my company – we have facilitated the return of three people with their families who used to live and work in Ireland and now they are back in Latvia working in our company. I would like to see many more cases like this and on a broader scale. I can see that those who have been abroad they have acquired there some new skills; they have learned something that is not always available here in Latvia. I think there should be more active help and support for those who are ready to return and I mean in very practical ways – assistance to find a living space or maybe the state or municipality can cover some utility bills. Unfortunately, we still can't compare in terms of salary levels with Ireland. To sum up, I do not see that there is anything tangible in place from the

should have. Our company is happy for every new family but I do hear from time to time that there are still places where only men are being recruited.

... There is a need to popularize the good examples, success stories that businesswoman perfectly fit in the society; also we need to talk more about father benefits and holidays. This issue is very much linked to the issue of school and day care accessibility and availability.” (Professional assurance and advisory services company)

Government to show they want people to come back.” (Manufacturing company)

“There are no improvements that would enhance the hopes. There are indications that the situation can improve but it is not related to local activities. The overall situation in Europe is problematic at the moment.” (Manufacturing company)

“We use our own internal personnel selection. We can see that the number of young people in Latvia is reducing. There are no big changes if we compare to the last year. Our company faces difficulties to recruit people with higher education and with good knowledge of foreign language other than English. Our own business operation is competing with a similar structure operating in Portugal and we can see that on the cost side we are in very similar situations. We feel that the knowledge of languages (or absence of other languages than English) is a problem in Latvia. And often it is the other way round - a person has several foreign languages but doesn't have any professional skills. ... On average, we have very young people working in our company and we see they have different values. This is a different generation. They often do not know what they want. We have a pretty high staff turnover. We have had a few cases where people are coming back from some similar business operations abroad – often we can offer a job. Often these are people coming back from UK with some great experience. We are open to EU workforce and have some EU nationals working in Latvia, in most cases this happens due to personal reasons. ... For us the Latvian labour law and related legislation is a problem. Ours is a very specific business but for various reasons it is almost impossible to ensure a person after a 1, 5 years of maternity leave exactly the same working place and conditions. The organization is changing so quickly that it is impossible. And on this aspect if we compare with other EU countries, we are less attractive and less competitive for business. But there could be also some ways to incentivize the young mothers to come back to active work earlier – some tax relief or something, especially in Latvia, where the active working age population is limited.” (Consultancy and IT company)

“The short answer is that nothing has changed during the last 12 months. There are some small improvements. In Estonia, we can note that their birth rate is higher than death rate. Their tax administration has more positive results as Latvia. In case of Estonia citizens that emigrated are returning to their country. It is not possible to notice that here. This is as open topic when we are talking regarding the access to labour and it is closely linked to the reputation of the country and capacity to have systemic approach to the issue. There is no chance that the family that left Latvia 15 years ago will return. Those who left the country five, seven years ago - I don't believe we can do much about. ... The problem regarding the birth rate will grow bigger and bigger. We do not have idea what will happen in 2019 when all the concentration of EU funds will have to be exploited in real terms. The deficit of employees will be very high. We will need to spend enormous amount for the infrastructure in two years. Who will work? The expenses will increase so the price will go up. In generally this is about the humans, education, health, trust to the government. People want to see continuous development and that the government is ready to make decisions. As a country we are not ready to go for simple government decisions and to copy - paste from Estonian successful projects. E-government is a good example. In Estonia everything is possible through e-communication and e-signatures. We can learn and implement this project here. Estonia has built a great success story; even US and Australia knows that Estonia is the country where everything is digital. Do we have a story? Our story is to be in the middle of the Baltic countries. We do not have a story to tell when we are abroad. There is nothing memorable but we need to find our diamond story.” (Wholesale and retail company)

“It depends how you look at the issue. If we look at the birth-rates, I do not see any improvement. I think

this is very much linked to the education – availability and access to schools, childcare and kinder gardens. Now there is a big discussion about starting the school at the age of six years. My personal view is that it is absurd. I understand the idea – an effort to get the children out of school one year earlier and have them ready for the labour market which is shrinking in Latvia and will be a big problem. But at the same time I see nothing behind the idea and how this will work, how the teachers and the education program will be changed. ... Another issue is the health – at the moment, we pay for most of health services, we have private health insurances. But this makes me ask – what else is going to be dumped on the shoulders of the working person? And we are not that many in working age in Latvia and we need to finance everything. ... FICIL raised a year ago the issue of smart migration as a way how to deal with the demographic challenges that Latvia is facing – well, in this area absolutely nothing smart has happened. On the contrary, as we heard in the media, one of the refugees or immigrants applied for the work and got it as a sewer but he is already prepared for being fired soon because he is not fluent in Latvian.” (Consultancy and IT company)

Some improvements or positive aspects highlighted:

“To me the key issue is jobs. If the employment levels in the country are good, less people will leave. High emigration in fact is more damaging than demography. I would say there is slight improvement.” (Real estate company)

“If we speak about migration, I believe that the government has done something; at least that is what we can hear at the news. However, in reality Europe is getting older and it is the same for Latvia. On top of that there is emigration, and employers need to think about possible solutions. An example is employment opportunities for the seniors; this is something that we do as a company. Regarding the demography there have been some activities, I have heard something about re-emigration but I do not know the actual results of that. If we are talking about the death rate against the birth rate the situation is slightly better, although I am not sure that this is the result of government policy. I believe that maternity leave benefits that have improved lately do help. Unfortunately demography issue affects directly the income and the consumption. In rural areas situation is worse than in Riga.” (Wholesale and retail company)

“Neither positive nor negative. We are working with a nuclear medicine centre, it is a high tech company that started early in summer but they struggle to get business here in Latvia, we are not able to support the involved costs. It is good that there are these projects and ideas but on the other hand they are struggling to get patients and ministry has no possibilities to subsidy.” (Finance and banking company)

“The birth-rates are slightly positive lately but of course this is not solving the key issue. Our company works for the local market only and we haven’t felt that people would be returning. We can’t say that there are significant changes. We did see the re-emigration campaign, there was some criticism but the key question is do we have something to offer those people who want to return. We shouldn’t expect miracles either but would be good to have a step in the right direction. May be this campaign comes too early? The salaries in Latvia are still at pretty low levels. It is key that Latvian emigrants keep some connections with our country and do not lose those. Then we still have a hope they will return one day. For our business this has a massive impact because the ones who left Latvia are exactly our target audience. Our partners in Estonia have bigger market because less working age people emigrated. The difference could be as much as 30 per cent.” (Finance and banking company)

“If we are looking from our perspective we do not have issues. 75% of our business is export. The local market really is the challenge where the aging is huge issue which influences spirit and wine consumption. Problem is identified not just here but also in other Baltic markets. We had an important impact due to emigration; now I do not feel that is becoming worse, however the market is shrinking. If we look from the perspective of actions taken by the Government, I do not see any particular improvement.” (Wholesale and retail company)

This is a long term challenge, not possible to change during one year:

“This is an extremely important question. We discuss it often from national, regional and business perspective. It is a pain. It has serious impact on our business and also on future prospects of it. There could be no change in 12 month in this area but I could not say that Government would have an active approach in this area. There is no significant change and there is no significant decline.” (Finance and banking company)

“During one year it is not possible to solve this issue. Big issue for us because we offer products and services to people and the countryside gets empty. This means less transport and less consumption of fuel. 26 years ago there were 2.6 million inhabitants in Latvia, but now it is decreased by half. So it is still issue and need more time. Similar problem was in Finland in 1960’s and it was solved, but it in more than 30 years.” (Retail trade and service company)

“I haven’t seen any immediate changes; but it is a long-term challenge. From that perspective I haven’t seen a long-term effort from the government that would allow me to think that demography will improve in 3 to 5 years. ... It is important because demography impacts directly the size of the economy and, for example, our business is very directly linked to the size of the economy. We are currently growing, but if there is no increase in the size of the economy, our growth will be limited as well.” (Professional assurance and advisory services company)

2. Access to labour

Negative- no improvements or situation is getting worse

“The primary goal should be not to lose the educated person we have here in Latvia, those who have spent 20 to 25 years here and have just graduated. For the banks the situation is relatively good – for us the access to labour is not a huge problem, we invest heavily ourselves in education and training, we are like a university on our own. I do not think unemployment is an issue in Riga. It is a problem in regions where there are fewer opportunities. I would say nothing has changed.” (Finance and banking company)

“We have around 500 employees. Our sector is rather unique and we need well-trained employees. Currently we face that problem and I am not looking for the well educated people because we can train and educate them ourselves. We do so even for trainees and entry-level people. We have good conditions, we provide training for free, free meals and other benefits and yet it is a problem.

“We employ 600 in Latvian operation. Generally access to the labour is challenging for us which ties with the next question about the education. There are some particular areas that I would like to stress out, for example, technical people such as engineers, where it is really difficult to get enough workers and with the right education and skills; the mid management level is also an issue. The problem is also related to the pay and the productivity which is very low, the tax burden. It is a challenge to pay competitive salaries when the market is shrinking. It is also difficult to fill marketing positions. Qualification of the graduates is not sufficient for our business. I am on the board of the Latvian Association for Marketing Professionals. The reason for establishing this association three years ago was to launch a system of certification and also programs in order to get the specialists who could work at the international scale. My team is working with the global

As an investor and working worldwide, this sounds strange. People here choose to work as waiters because they will work and get tips instead of working as the ground handlers. We are going even to the universities with offers to cooperate under conditions that would be flexible and would not affect the student life but they do not seem willing to help.” (Service company)

“Unemployment is going down which is good and it will go down even more as soon as the EU funds will be back and the construction sector will restart. Not sure if there is any evidence that all the funds we have spent on training is having an impact and bringing some value. But hopefully it is step in the right direction. ... I know that some higher education institutions are cutting the banking oriented programs because banks employ less people now and there is even over production in this area. Insurance sector will go in the same direction; it will become more efficient. There are not enough people in sales because you need to be able to sell or create a specific demand for your specific product and that is not easy. Today youngsters do not want to fight and work hard because there are plenty of alternatives where it might be easier to earn money. There are jobs abroad as well. ... Potential for efficiencies is huge in our sector and it is in two directions: use of IT and changes in processes. In IT the competition will increase. Regarding changes and review of processes – they key is to have the right people and it is difficult but it everywhere like this, abroad as well. ... Smart migration is something I very much support and we need to create some kind of urgency in this respect. We need people to understand it is needed. I expect that very soon there will be very harsh competition among countries to attract labour force. But unfortunately this is unpopular for politicians. We also need to think about attracting foreign students – education can be exported that way.” (Finance and banking company)

“We are doing all right; in some areas we see no problem. But there are cases – recently we lost two people who left because of the economic environment, they went abroad. At the moment we are able to get people. Mostly we see difficulties at a professional level - we look for accountant, for engineers and we know it is not easy to get good

business; we have many brand directors from Lithuania. I would like to recruit people from Britain or Netherlands but we just can't afford it.

We had a situation where we had to work 8 months without marketing director because we just couldn't fill the position. Overall, access to the labour is at the same level; there have been no improvements.” (Wholesale and retail company)

“Our business operation involves work with potentially dangerous substances. We need all the permits and have special requirements when hiring people. From our experience it is very difficult to hire technical people. For our sector, I must say luckily “Aldaris” and “Liepajas metalurgs” stopped their operations, so we got some people from them. Otherwise it is a very big issue. I am surprised that we do not get any inquiries – often in the business you would receive CVs with people expressing interest to work for you but we haven't received any. I would say not much has changed, we are coping because we pay better salaries than in other companies.” (Service company)

“We are in a privileged situation. We are the best employer and we can pay substantially more than the minimum wage. Our salaries are closer to the average salary in Latvia. In that respect we are not facing staff turnover and access is also not a huge issue. But I can see that in the country it is a problem – when I see jobs being advertised on TV, for example. One of the problems is Russian language – 25 years ago we said it is not needed and as a result many young people don't have now Russian language skills. But we have many places in Latvia where you need it, where clients request it – be it tourists or locals. ... At the moment for us it is ok; we have vacancies and we can fill them. I hope it is linked to our working conditions, our corporate reputation. ... In general, in Latvia it is a big challenge, many are leaving, and there are areas where you don't find the necessary qualifications. The same applies to office and administrative personnel.” (Retail trade and service company)

“Our employees are locals between the age 20 and 30. From our perspective IT competence is a scarce resource and requires a long-term approach and solution that Government should think about. It should also think about the digital age we are

ones. ... Access to labour and its quality is closely linked to the higher education, for example, if we look at engineers with technical skills there are only two places where they are educated – in Riga Technical University and in Jelgava. In my view, that is not enough. And also if we look at the quality – if you want and need somebody with real practical skills it gets very difficult. Universities tend to go the easiest way, they teach lawyers and social sciences. So, no improvement in this area.”
(Service company)

“No change.” (Manufacturing company)

“Looking from my industry point of view, it is not that there would be a vacuum. But one thing is true - companies have changed radically their approach to labour and they go the road of consolidation and optimization, so the overall number of employees is going down constantly but the business and the output stays the same or even grows. Over 5 years’ time I think we have kept half of our employees due to efficiency gains. ... In our sector, it is slightly difficult to find new people mainly because most of the times graduates are dedicated and decide to become doctors or they leave, go abroad and make good money there.” (Wholesale and retail company)

“Unfortunately, nothing has changed. Luckily there are some young people who are very good, who have a goal and their own vision. But in general the equipment is getting more complex; you have IT systems on the basis of every process of production and this demands different type of skills and capabilities that often are not available, especially outside of Riga.

We tend to develop our own staff members and invest quite heavily in training and development. People usually start as seasonal workers. Then we can retain some 3 or maybe 4 and develop them further. The good ones usually start their own business and that is good but at the same time we manage to attract enough people. You cannot get quality people immediately here. You need time. Over five year period we have managed to build a pretty strong team.” (Manufacturing company)

“The situation is getting worse. Riga and regions are totally different worlds. We are working with the franchise system outside Riga. It seems that access to labour is easier there and that employees

living in – it allows providing and receiving services remotely. How do we respond to that and how do we benefit from that? At the moment there is serious shortage of people with IT skills. Demand is huge and exceeds the offer several times.” (Consultancy and service company)

“There are two important topics. One is smart migration and here we should be absorbing and attracting talents from countries where we see those people - be it Minsk or Kiev. And we should orient ourselves towards a clear result - for example - attract 1000 people. The other thing is that we should not be allowing people to graduate secondary school without any profession. We know, 45% of secondary school graduates do not go to any university and if they have no profession they have no place to go and are in the risk zone or might even leave the country. The only remedy here is having a profession. Education or profession is something that allows to weather through difficult periods in your life. I strongly think that secondary education should equip youth among other things with at least some professional skills – driver or cook or anything.” (Professional assurance and advisory company)

“We hear from retailers and others that they are struggling and having a big turnover in staff. The same goes for hotels. It is not only about people but also about the right people. Often the quality is not there and rotation is quite high. It is a challenge in certain areas. ... I see no progress in this area; it is the same. From what I can hear, the problem remains.” (Real estate company)

“It is a big issue. It is very difficult to get good people. At the management level you can find people the only question is about the package you are able to offer to the person – salary, benefits and other bonuses. The biggest issue is at the entry level: first, there are not enough young people and, second, the young generation is completely different – they have absolutely different understanding about the values, responsibility, their own free time, private life and leisure often comes first, they are critical about whatever happens.” (Consultancy and IT company)

“This is closely related to demography. I think we need to accept that more and more seniors will work and will be part of the active work force. It is

are more loyal than in Riga. I need to mention that it is also cheaper than in the capital city. The labour market in Riga is more competitive. The situation is seasonal; we face huge problems during the summer period. It is affected by the amount of students as well and their attitude. I can say that Latvia has many “professional unemployed persons”. This is due to the social system we have. There are many people who work just 9 months in order to get the unemployment benefits. These employees do not even want to work. We have rather high unemployment rate and we have many vacancies but it is hard to find the match. People prefer to live on benefits rather than work. Situation is better if we speak about management level personnel.” (Wholesale and retail company)

“I would say that the situation is worse. And we feel it in all levels – at the top management and the workforce.” (Manufacturing company)

“No development. We feel that shared service centres are expanding; it is getting more difficult to get IT people. But overall this issue is directly linked to access of education and demography. There is no decline either but the competition has increased.” (Finance and banking company)

Some positive aspects highlighted

“My feeling is that there have been some activities in this area but I can see that already next year in some areas there will be dramatic shortages. Overall, small improvement.” (Wholesale and retail company)

“There are still areas where it is more difficult to get people but overall access to labour is fairly good. In our case we have been able to hire and fill the vacancies we had and we haven’t had long openings. We always have had issues with automation engineers but this is not only in Latvia’s case, it is widespread, there is no natural breeding of the sort, I guess.” (Retail trade and service company)

“Our own experience this year has been positive and slightly better than before. Instead of looking for a specialist that is ready to work and deliver immediately, we tend to take somebody with good academic background and train him or her. But

important how we help them integrate into the company by providing trainings, for example. Overall, we see more problems regarding access to labour. As a huge improvement I can mention that professional schools are again more active (that was something ignored for a long time). Currently we are not looking to recruit people from third world countries but we are preparing for it, meaning, that we are thinking about translating the instructions etc. In fact, it is not a far future form now.” (Wholesale and retail company)

“It is an issue and this is why we move our back office operations to Valmiera. We start exploiting second tier. Also, higher education in Latvia is an issue; it is very far from being at the right level. I can see SSER as the only bright spot. And education in finance is particularly a problem. For last few years we target almost exclusively SSER graduates.” (Finance and banking company)

“There is no strategy that would convince us that things will go better. We can motivate young people to work abroad and get experience but the question is will they have equal possibilities here afterwards. It is also related to how companies communicate with the potential employees; is the quality important, for example, in construction. ... Our own company has around 200 employees in Latvia and luckily we do not face big issues at the moment regarding the access to labour.” (Manufacturing company)

“There are no significant changes. We have been hiring, we have had some turnover in workforce but overall I see no major changes.” (Finance and banking company)

“It is very interesting, currently I see no real issues in the labour market. The real issues are related to the speed of salary increase and that is due to lack of adequate competition in the market. At the

overall we haven't had many recruitment campaigns lately and we do not have a big staff turnover." (Finance and banking company)

"We have never had a big issue in that area, we have some manufacturing companies in our group but they never had any real issues with labour. At the moment, we can afford the fast growing salaries and it is ok. I think that fast salary growth is a good driver in fact. We can increase productivity. How can we otherwise keep people here in Latvia? If we talk about quality of people, it is very good. The salaries our company pays are above average, overall we have small turnover in staff and we have some turnover where we want it." (Real estate company)

"There is overproduction of labour with a degree in social sciences. It's a challenge to get people in blue collar field – professional sciences." (Retail trade and service company)

"It is the same explanation as for the previous topic. The situation will not change overnight. For us as a company it is not such a big threat but we are influenced by our clients who need to find employees who will sit in the office buildings. They will not expand and probably will choose to invest in neighbouring countries. In this sense the biggest competitors are Lithuania, Poland, and Rumania where the pool of people is bigger. Situation is tackled and discussed "on the paper" but there are no real steps taken. So it stays the same." (Real estate company)

"The average age in our company is between 26 and 27. We operate in an extremely competing market where there is a permanent pressure on salary and bonus increases. For our sector the salary costs are increasing all the time and often we feel like a candy store. The initial motivation for our investor was labour costs but now we are competitive only compared to the "old" Europe. Now it is more our experience that we can market and sell." (Consultancy and IT company)

moment we do not see reduction in quality, currently the quality is good. I would say there could be even more competition among employers. I could say that the trend of salary increase could continue. But we are white-collar employers. For blue-collar employers the situation is different - they are not afraid to be fired because there are plenty of vacancies and so the quality starts to shrink." (Professional assurance and advisory services company)

"Our business, we employ 300 people and we have around 10 – 15 % rotation. I believe we can handle. The numbers are the same in other countries. I can see a tendency that in a system where salary depends on the performance there are people who go for the easier solution – fixed salary, even though they could earn more. It is a tendency that shows - many do not want to feel the pressure on the delivery. The rotation is natural and actually good. In Riga there is no problem really to find employees if you offer a competitive salary, social benefits and health insurance. The problem may appear when you look for very technical expertise. That will be a challenge. Outside of Riga you need to train employees. You can take young people and educate them." (Wholesale and retail company)

"It is hard to say if there are some improvements. On one hand there is an overproduction of lawyers, on the other hand, there is a lack of good specialists. The question is about the content and quality. We see there are more than 10, if not already 20 or 30 legal graduate programs. At the same time, maybe only two or three are of a quality. The problem is that these programmes are made often as a business project. And if you can pay there is a tolerance towards plagiarism, for example, even if it is very easy to verify that. I think it is the responsibility of the state to follow up and check the quality and ensure that it is there." (Professional assurance and advisory services company)

3. Level of Education and Science in Latvia

Negative- no improvements or situation is getting worse

"From my experience, I would say the level is

"No change." (Manufacturing company)

very low. In our company we have 140 people at the moment and the level of knowledge when they come out from Latvian education system is very low from what I can tell. Mostly, we rely on older generation. Level of education definitely must be much higher. I would be more than happy that students if they want to get some professional experience, come and see us, do some traineeship, we would be more than happy.” (Service company)

“In our case, we have specialized workforce that are often not specialized when they come to us, most need to be taught when they arrive. Overall, I think we are satisfied. In our professional environment usually basic level of knowledge is acceptable and then we teach the specifics ourselves. People with technical skills are mostly the older ones, not coming directly from university. We can evaluate the progress from recruiting point of view mostly. Universities for sure are working to have more students but I am not sure if anything has been done relating to quality. So, no real improvement.” (Retail trade and service company)

“In our sector there are no big differences. My biggest expectation and wish would be that young people, graduates would come with better soft skills, such as, teamwork, project work etc. This is really in demand at the moment. We speak about skills that are very practical and can be easily applied. And education sector should be oriented towards giving and teaching those skills.” (Wholesale and retail company)

“Hopefully there are less so called “budget places” for the Humanities and Social sciences and more for technical sciences. ... I think that state should take particular care about orienting young people, especially in the countryside, at the age of 15 – 16 years, towards vocational education. For example, you can’t find mechanization specialists in Latvia. No progress really.” (Manufacturing company)

“There is lack of competition. The question is about the accreditations of universities and programs. Do we know how many have lost their accreditations? In Latvia for the lawyers there is no unified qualification exam. Country should ensure a certain standard of quality. A positive thing would be if students would have more opportunities to have an international

“We have many people in Latvia with the higher education. We have the quantity but we do not have the quality. I am aware about the education reform but I can’t say I fully understand what is happening, what the essence of the reform is and how the success will be measured. I would say things are the same. There was a will to change something, this is now happening. It remains to be seen what the result will be.” (Finance and banking company)

“Language skills are an issue and I see no progress in that respect. In our business we get to teach everything ourselves. So for us the “quality of the material” (if may say so) is of a major importance. The person needs to be able to learn language skills in 2 to 3 months, which is a challenge. We have developed our own teaching programmes and would very much welcome some support from the Government and here again I need to mention – I don’t understand why under EU funds we can recover only 30% of expenses we have.” (Consultancy and service company)

“I can’t elaborate on this topic and compare with the previous year. I do not see any changes.” (Manufacturing company)

“I do not see any positive improvement. Moving the school age to six years is a downgrade! I heard that this will happen mechanically – the system will be just shifted one year back. But what about the quality? We all know that the young generation is different, their needs are different and teachers should be able to adapt to that. I can see that there are some initiatives but mostly these are privately funded and they can’t influence the system.

The same applies to the vocational education – it should be promoted by all means but I see nothing, it is all very declarative. ... The university graduates that work for us usually come with a good academic knowledge but the understanding about how things happen in real life and in business in particular, is very limited. They are very detached from the real life.” (Consultancy and IT company)

“Education is a challenging topic for Latvia. I can’t say that there have been any changes last year. In our business we have started some initiatives with SSE Riga. If we are looking at the

experience in high quality universities. It is good for their professional life, for their future job and for their experience in general. At the same time the hierarchical model that exists still from the soviet times stops many universities from developing and creates stagnation. There is certainly a need for dynamic development, foreign investments, private investments, that could bring a positive competition. Comparing the three Baltic States, Latvia is the only one whose students are having huge problems if they go to study abroad after the high school. Our exams are not competitive enough.” (Professional assurance and advisory services company)

“Haven’t seen any changes in either way.”
(Finance and banking company)

“It is more important to answer the bigger question: what is the master plan for the country? As example, what is this idea about sending the kids to school from the age of 6 years? What they want to do with it? After finishing 9 classes at the age of 15, they are finishing first level education. The problem is that the country is pushing the kids to go to the secondary school and not talking about the professional schools. After 12 years in school, most likely the kids will continue the education in some kind of university. Students know how to learn, but they do not have the experience at work. And at the age of 22 when they finish the university they want to be immediately managers. This situation is wrong, in my opinion. If more people would learn the profession earlier they would become more competitive in the business. They can create the businesses or start to work in the profession as a technician, chef, waiter etc. Young people want to travel, they need good cars, but they are not ready to work from the entry level. Within all the main universities we are looking for the first or second year students and we are ready to give the experience within the industry. We are ready to be flexible and adapt to their study level and schedules. Universities say that they are not interested. In the aviation system you need to work and have certain level of the experience in the sector. For several logistic programs the government is paying for the studies; however people tend to leave the country. There should be the system that if the government is paying for education then they should stay in the market and work for the country for some time. In this case we will not lose very important knowledge and employees. If the student pays for himself then of course he can do whatever he likes. This should be applied for the many sectors where government subsidizes the studies - logistics, doctors, teachers etc.”
(Service company)

“Simple example of two universities in Latvia: SSE Riga and University of Latvia. In SSE Riga you are doing studies but in LU teachers are still reading the lecture from the book. They really need to do something radical about this situation. Ratings are improving. ... Technical experts are at the same level in Estonia and in Latvia. There are cultural differences between three Baltic countries: in Estonia you have less rules and you need less rules, everything happens anyway; in Latvia you have a lot of rules and you should definitely follow the rules; in Lithuania you have rules and you need somebody who follows if the rules are being followed. Health and education fields’ have similar characteristics. The government has spent too much money on e-education and e-health but none of the projects is completed and none works. In Estonia you can perfectly take care of your health in the e-system. In Latvia you need to make copies of everything, otherwise you may lose important examinations. The same is about the education. It is madness that computers and iPad are not available. Abroad at the car repairs they use tablets so that customer can follow the process of the car repair as mechanic updates the

entire system, we know that we need knowledgeable people for the industries. Latvians have problems with their attitude; the negativity is too big. People have the feeling they can’t influence anything. But we need to change that mind-set; we need strong personalities. Citizens need to have the feeling that they can and that they are influencing something and this in turn will be a stimulus to be socially active.” (Wholesale and retail company)

“No changes in higher education at all.” (Finance and banking company)

“There are no major changes that could be felt in the market or noticed, however, there are some things going in the right direction.” (Professional assurance and advisory services company)

progress through the e-system. We will not have the specialists for the future with sufficient technical skills. At the schools there are computers but they are too old and out-dated. Education needs an upgrade and it should be more efficient. There will be some changes in the system but we have no idea when. There are no fixed deadlines. If our budget will decrease then there will be real pressure to make some decisions.” (Wholesale and retail company)

Positive aspects- at least some improvements

“All over the Europe we have the problem of education quality and the capacity of graduates in the business. Latvia overall has a good education. Students have language and mathematical skills. This conclusion is coming from the comparison with some other countries.” (Retail trade and service company)

“Reforms slowly take place but it is difficult to measure to what extent things have really changed within the last 12 month. Overall, we should think more broadly – look at Daugavpils, for example. By law their university cannot offer programmes in the languages other than those of EU. But for many Byelorussians Daugavpils is much closer than Minsk. We could have been exporting this product. At the same time the University of Latvia is opening new centres – academic centre for natural sciences, for example, they are strengthening the experimental capacity, but there are only locals there and finally we have this building where three or four PhD students study but the actual return could have been so much bigger. We need to become smarter about this. The small institutions should merge. The distribution of state funding and so-called “budget places” is a separate story; we talk about subsidies here.” (Finance and banking company)

“Technical education is problem and also capacity and qualification to work at international business level. Our education system is outdated and so are the tutors working there. They will rather die at their work places than give the position to somebody younger. The situation is becoming worse. There are just a couple of high schools that can prepare young people for studies outside of Latvia and couple of Universities that are competitive internationally. The rest are going totally in a wrong way.” (Wholesale and retail company)

“Minister Kļiņis was right on many issues, he

“Higher education probably overall is still ok – we can see that Latvians go abroad and work there, so the education must be good enough. And we also see some foreign students here in Latvia.” (Service company)

“Also, small improvements. Education is extremely important, so is dual education and vocational education.” (Wholesale and retail company)

“I think in this area we are competitive and there are initiatives to change and improve the situation. But it is of utmost importance to implement structural changes within the institutions of higher education; their financing should be streamlined. I can see that EU funds are used for building new campuses that are modern and attractive for international students and that is good. Future seems bright at this stage.” (Real estate company)

“I can see reforms but it is difficult to tell if these are improvements. I think it is important to get to a smaller number of education institutions – we still have too many schools and universities, there are not enough people in the vocational education. In Germany, for example, already after the 5th grade you choose some professional orientation or you choose to go to academic stream. ... In Latvia you can see that many starts working during their studies, in a way it is good - they gain some professional experience. Professional experience and knowledge of languages is a problem. In our own company we constantly are optimizing our processes, so we can move people as well from one place to another and offer some development and professional growth. We always give preference to our internal candidates.” (Retail trade and service company)

“Those coming from universities are ok; they have learned something. I can see now a funny trend – universities are so much focused on teamwork that some are unable to work alone. Funny. But being

probably wasn't that good on implementation side. Feeling is that we do not know where we go and not clear what we want to achieve. Also not clear if the university is for students or for professors. But education is extremely important – the quality of your education system is the same as the quality of people. We have this “Iespējamā misija” and some other initiatives but that is not enough. We do not have a strategy. ... I would have liked to see some benchmarks and some dash reports just to see where we go and how are we moving towards the goal.” (Finance and banking company)

“In general, it is quite good. The education system in Latvia is constantly going through a reform, all the time. It does need a reform but I have no idea what reform exactly. My both children went to school in a semi-rural area; they got a relatively good basis but my feeling is that some things need to be done differently. They now both study abroad. But, on the other hand, I realize that many countries are struggling right now. Even Finland. In general, I think, the level of education is above the average. People care.” (Real estate company)

“My personal feeling is that university education in medicine is at a very good level and there are even many foreign students. But vocational education for metal industry, technical education is behind the necessary level. ... For example high school education is very ok in Jurmala, Majori School were my kids are learning. It is a subjective feeling, but I think that in other high schools the level is not that good. ... With regards to our employees and their education – since we are using contractors, who have to compete with other companies – we are able to choose the best qualified subcontractors. It is very difficult to find professional employees for work at oil terminal.” (Retail trade and service company)

“We can see some positive trends. The higher education institutions are more open, they have some good and innovative initiatives and we are happy to cooperate. We have done the “Open Days” and we have had visits from universities and schools etc.” (Consultancy and IT company)

serious I think we have far too many lawyers, economists, social science graduates. We should change the approach and orient ourselves and education process towards competency based education. We still have not enough people with technical knowledge and skills.” (Professional assurance and advisory services company)

“The quality is improving. It is related directly to investments in technical equipment. Students and teachers have access to technologies but often they don't use it enough. So, we can feel there are some improvements in the system but these could be larger and more massive. It is necessary also to change the mind-set of young people that it is good to study in Latvia and that the quality is there. But if we look at the ratings of Latvian higher education institutions – things does not look that good. There are problems with the content, motivation and the reward system. If these things would improve, then there would be better results.” (Manufacturing company)

“The overall level of competence and qualification is quite high and you can find a good quality people at a good price. But it is important to invest in education system. Teachers have lost their reputation. They are not paid enough to be able to recruit good quality people. This definitely needs to be dealt with.” (Real estate company)

“Many industries need students from professional schools. We encourage our employees to have a profession. If we speak about education in general, looks like the science is now more emphasized as being important. I know that higher education institutions and universities are cooperating now more with employers. We are also cooperating with some educational institutions, not many. I think it is overall at a better stage than it was last year.” (Wholesale and retail company)

“The good thing is that we do see more high quality IT people. We have recently hired quite a few and it is possible to hire at affordable prices. Last year at some point we even thought about going to Ukraine to recruit IT people and we got approval for that but we never used that opportunity because finally local market turned out to be not that bad. So, I could say that recently local market has provided more IT people. Strategically we think about moving more IT

functions here. And Riga has advantage as a place because you can get people also from neighbouring countries.” (Finance and banking company)

4. Quality of the Business Legislation

Negative

“I think no improvements. Laws are being interpreted in many different ways. For example, on mandatory bio - component in fuel – ministry has one view on that, business – another and there is no appropriate controls. Sometimes I tend to think it was written by a young student that does not understand the issue because from professional perspective it is nonsense. There are no sanctions or penalties and accordingly everybody interprets the law as they please. ... It seems to me that the government is not performing its main function in good quality. I can just guess if this is on purpose or not.” (Retail trade and service company)

“Worse. Solidarity tax is one thing but overall there is a big uncertainty.” (Manufacturing company)

“I would like to see an accurate revision of the business legislation because at the moment it looks like a patchwork. During the crisis there were so many of those patches. We have seen many times where there are some ad hoc regulations adopted, especially this year. Then new things are being introduced without proper analysis, without any impact studies etc. Accordingly the unpredictability is increasing. So, no improvement.” (Wholesale and retail company)

“If we talk about sector specific legislation, I do not see an improvement. Recently the responsible Ministry discussed the rules governing the rental of state owned land. This is very important because it is about how you determine the value of the land plot and this relates directly to the use of subsoil resources. The good practice would be to discuss this in consultation with the respective industry but in this case we were not involved at all because the Ministry said we were the “interested party”. We are but we should know about the developments. Our business requires a

“It is seriously stagnating. If nothing happens, it is already bad because the entire world is progressing and optimizing things. We have a few cases in courts, mostly some recourse actions. The good thing is we don’t have to go to Rēzekne, for example, we can do remote litigation. ... The key problem is that we have too many interested parties that are very influential that mess up things. And for some reason regarding law and court system we are ineffectual and toothless.” (Finance and banking company)

“A lot of talk and only some minor improvements. If we look at the list of FICIL recommendations, it is still very long and many things are still on “to do list”. So, only minor improvements.” (Wholesale and retail company)

“No change.” (Manufacturing company)

“In the area of construction, for example, the legislation hasn’t changed but when you introduce new legislation you need some time to see how it works, to test it. Construction is a very complex matter. Our company now is in the process of obtaining a building permit. In fact, we now need to renew it because we didn’t start the construction process within a year. But for big projects I do not see why there should be this limitation of one year? Another issue is the problem of building something on several land plots – this is not very clear. We have formulated the problem but sometimes you can’t wait for the legislation to be fixed and it is easier to redesign your entire project. We are dealing with challenges all the time. To fix the legislation takes too much time. So we need to find other solutions, employ a good lawyer etc. ... Overall, it has not improved. It could be there are things I don’t see.” (Real estate company)

“I do not see any particular improvements. We

careful planning and investment that is sometimes 25 and more years long. This is the business cycle in the sector we work because the capital investments are very high. ... To sum up, I do not see any progress. Maybe it is even getting worse. I am often afraid that we are being told one thing but then something completely different will be done. And in addition, there are various political influences that increases the uncertainty but we need predictability.” (Manufacturing company)

“We haven’t seen really major improvements during last 12 months. Our business is mostly influenced by Labour Law, also by legislation that stipulates the submission of various accounting information. Often we are positively surprised that the e-governance is progressing and there are more things you can do online and in no time. That is a big difference with the old Europe.” (Consultancy and IT company)

“For us the Labour Law is extremely important and, in particular, the Article 96 regarding recovery of employers’ training expenses. We consider that a good result for our company is where we invest in an employee for two years and he or she remains in the company for another two. And our company has many positives – we have a good and healthy climate and working conditions etc. So, we absolutely can’t talk about some sort of social dumping. But unfortunately there is no change in this area – the Labour law was opened at some point and it was amended but not in the sense we were looking at. So, no improvement.” (Consultancy and service company)

“This is a very broad question that I will try to narrow. For us the main issue is the new construction law and relating regulations. Already two years have passed and we are still struggling. Engineers and architects can’t finish their projects and can’t make the promise to finish the project on time just because of the bureaucracy. It is really disturbing for the project realization. Statistically we are at the lowest moment comparing to the last years. Of course, industry is changing and we need to ensure the security and to avoid risks. But then the process of getting approvals from the authorities often is dragging the project for years. The bureaucracy is huge and the authorities can’t handle the amount of work. International designers can’t hand in here anything, because of the rules

have been talking about the importance of having the intra-group loss transfer possibility but unfortunately nothing happens. It is very good we are having right now the debate about the SRS – how they work, are they efficient, what should be the remuneration of the Head of the state revenue service. My only worry is that there will be no outcome. A lot of talks and nothing will happen. And in fact the same applies to other institutions and KNAB as well. About KNAB, I must say, when I hear what happens there, I feel like hiding, it is such a shame.” (Consultancy and IT company)

“This was not a good year. There were some new legislative initiatives that were made in order to protect the small businesses but in the real life these initiatives are working against them. There are many rules and details that don’t work at all. Policy makers should think more about the quality of the laws.” (Wholesale and retail company)

“The legislation is OK, it is the implementation that doesn’t work. Insolvency for example – the application of the law is not there and until at least two or three people will be put in jail, nothing will happen. The cases we hear are horrifying and now even foreigners know about it. The quality of the judicial system is extremely important. Bailiffs probably are also part of the problem – part of the famous “kolkhoz”. ... Corruption – I haven’t been exposed to it myself. I know about it from the stories in newspapers. On the other hand I have heard some people being positively surprised that they have been through a normal legal proceeding and nobody has asked for any bribes. If we talk about the speed and harmonization of the legal practice, there is nothing good I could tell. ... The Corruption Prevention Bureau (KNAB) unfortunately is going from bad to worse. Staff members leave, as an institution it is not taken seriously and looks ridiculous, possibly it needs to be closed down and built from scratch. At the time back in 2004 FICIL participated in the early formation process of KNAB, possibly it needs to get involved again.” (Professional assurance and advisory services company)

“The Commercial Law as such has not been written with the idea of developing the stock market. We can see, for example, that small and medium size companies are also interested to

for the licenses. The situation should have been improved already but it isn't." (Real estate company)

"The banking regulation is the one that is important for us. The central topic is the data regarding the politically exposed persons (PEP). This is an area where nothing really happens and things are not going right. The banks have been tasked to survey all the inhabitants of Latvia, a huge effort and work is invested in doing that and we know nothing about what is going to happen with the data. And the system is pretty confusing – it seeks for the information on two levels - as a person I need to know if I am an exposed person and if I am related to such a person. If there were a register it would have been easier. Who can tell me if Ambassador is a PEP? And what about attaché? And a retired politician? This is evidence where a defective regulation has been produced. But we can't afford to do things badly. We need to catch up with the rest of the Europe." (Finance and banking company)

"There are no real improvements. Looking at the insolvency issues and commercial law, for example, we hoped for faster changes, also in the area of amendments to the Labour law but it is all still pending, in fact, insolvency system and real business environment has not changed." (Professional assurance and advisory services company)

"It has become more unpredictable. The reason is changes that came into effect from this year's January. For retailers there is special legislation on the cooperation between retailers and suppliers. The idea is good but in the real life it goes against competition, also there is a lot of space for misinterpretation. Thinking about the future, we are worried about the plans to adopt rules regarding the unused goods. There will be some benefits but these changes will impact other companies that are relying on some particular rules. This creates unstable and unpredictable environment." (Wholesale and retail company)

"If you formally compare the legislation in Latvia and directives, we are a decent country. The key issue is the application. If you compare the business legislation with that of Estonia, you can see that the law is changing more often in Latvia

participate. At the EU level we can see that development of capital market is increasingly important issue. So, investment culture should be better developed.

Regarding the pensions, I think the state could release the second pension pillar and everything will be fine there. ... The quality of work and the competence of the Regulator should be improved." (Finance and banking company)

"Solidarity tax was very strange. It is "nice" way to boost the budget, but there has been no clarity how the money will be spent. It looks very strange to me. Now they have a new strategy on the table for the tax system, it might be good might be not, I don't know. It just seems very strange to me. For the business this means additional costs. Some businesses have decreased salaries, some increased. If that additional charge was to improve health sector, I would agree, but I don't know where it is going." (Finance and banking company)

"I would stress issues regarding the labour legislation. So far I can say that the labour legislation is quite efficient. We have had just a few cases when we had to decrease jobs. Again in Estonia you do not need to go to the court. There can be a procedure where both parties come to an agreement and you can solve the problem within two months. You do not need to go to the courts, spend time and even not always you need to involve lawyers. In more complicated cases they go to the courts. Estonia has legislation that speeds up the process. Latvia is good in writing regulations. The problem is about the implementation and interpretation." (Wholesale and retail company)

"There are too many improvements. We can't complain about the quantity. By reading the agenda of meetings of the Cabinet of Ministers one would think that some supermen are working there. They review almost 100 legislative documents in an hour or an hour and a half. The key concern: is this a simple formality or Ministers are really trying to solve something? ... President Vējonis had a positive initiative recently stressing the importance of the quality of the legislation and that there should not be so called "last minute changes" in the very last reading in Parliament that often looks like being pushed through in

and it is less predictable. If our company would be pulling our resources together, Latvia would not be on the map. Estonia would. ... Often the law is written with assumption that everyone is a crook, it is written by a soviet for a soviet. Everything by definition is very complicated. But after all these are honest people who suffer most. There is nothing positive and nothing negative. ... I can see rabbits are being pulled out from hats. We always get surprises.” (Finance and banking company)

“It depends. If we speak about tax legislation – you can get several radically different answers to the very same question about a particular tax issue.

And that had been the same all the time, no improvement and no change. ... I can read now about energy efficiency – very good, we would be most happy to invest so that in the future our company saves more but it is not very clear how this will happen. ... Support to companies operating in specialized economic zones is decreasing and getting more and more complicated. Now you need a special consultant who would work on getting all the documents right. Before we could do it ourselves. ... There is quite a lot of new legislation. But it is not very clear. It is unpredictable.” (Service company)

“No major changes in legislation in last year. According to EU directive 10% of all fuel should be renewable energy fuel. In Latvia situation in this area has not changed since 2009. Now there is 3-4% renewable energy fuel, but the EU goal has to be reached until 2020. Local biofuel producers are protecting local market. We feel Ventspils impact regarding this topic. Government is changing frequently and therefore there is no continuity of decisions.” (Retail trade and service company)

“When you talk about the business legislation it is the same, repetitive issue that is constantly coming up – insolvency. The main problem is that there is not enough punishment. In our business we had two issues in the court and it was seriously stopping the business and at the same time we needed to continue to pay or bills. On the street if you cross on the red light you are immediately punished. But this does not apply to abuse of insolvency system. But who will pay my business loss?”. (Service company)

somebody’s individual interest. Remains to be seen if this will result into something concrete. We had a case where FICIL brought to the attention of the President that important changes to the law were made at the 3rd reading and President didn’t stop that. So, looks like these words are just words. Nevertheless, there have been two or three cases when the President returned the law back to the Parliament.” (Professional assurance and advisory services company)

“Two aspects here. First, the general vision – I expect focus on digitalization. Creation of an environment where we can offer and buy wide range of services online. There is a slight progress in the right direction, there are sectors where things go a bit better (commercial pledge) but the speed is not good enough. If we compare ourselves with Estonia, we are at the baby stage. Second, financial sector. There has been an active work by the legislator. Until now the work was not efficient and sufficient, the supervision was not there really, in particular, if we talk about reputational issues. Now things are different. It is actually the other way round now. We have 100% of attention and the supervisor or regulator wants to implement 200% everything. It has an impact on us. I have a feeling there is a slight tendency to exaggerate.” (Finance and banking company)

“There has been big rocking of the boat lately – change in regulation regarding the energy efficiency, then all the subsidy related discussions. The assumptions we had as an investor when we arrived here are not there anymore. And of course it is a problem. The other thing is that we still might be able to cope. But it is a change: if before we had a risk this would happen, now this happened. Last year there was no damage to the business, now it could be coming. At the beginning we were told that the existing regime would last at least for ten years, now it has been there for seven years. For the moment we are putting investment on freeze.” (Retail trade and service company)

Positive

“I think overall it has improved, some small things.” (Service company)

“It is ok. I never found it to be a limiting resource, and I think in particular thanks to the fact that Government listens to FICIL. Latvian business organizations are also becoming more efficient. My own history with FICIL goes back to the time when Commercial law was already adopted and had to be enacted soon. Business people have ignored the legislation (including me) and suddenly understood that very soon it will be applicable but many things were not clear at all. Then I went to FICIL and I was in charge of the presentation to the Government about what works and what doesn't. What I learned is that business organizations need to be involved early in the process, before enactment of the legislation. We learned and other Latvian business organizations learned as well. ... Looking at construction sector more specifically – we have had some projects approved recently; I can't say that something has been stuck. Comparing to other countries, I would say that the situation is not that bad. In UK the process takes long time, the same for Norway and things get stuck in different places, it could be health and safety reasons in one country or something else in the other. “Būvvalde” here certainly needs to be strengthened and the quality of their work as well. But again we have had projects approved, probably timeline is slightly longer but things do move forward. It is an issue but it doesn't stop us from working.” (Real estate company)

“Predictability has improved which is a good thing. At least all officials are more open to dialogue and they listen to professionals and industry associations. That has some good results. But overall this is the only improvement. The bureaucracy has not gone down. All tax related procedures are so complicated even if we are comparing it with the other Baltic countries. Estonians have a better offer to the business, in particular, if you look at the reinvested profit. That makes a difference and there is a question: who wants to invest in Latvia if there is Estonia? There have been some changes but they are not visible enough. That is related to the current political setup and the interests of the parties or the groups behind them. Officials understand that things should be changed but choose not to. Some associations are doing a good job, our company has invested a lot of time and there are decisions taken that are favorable not just for us and our business but also for the public health. Structure of the taxation has slightly improved.” (Wholesale and retail company)

“The interpretation is the problem as well the application. It is helpful that Government plans to do something on insolvency issues.” (Retail trade and service company)

“There are some activities but overall they are not essential. One of the positive improvements is the involvement of the State Audit office in the construction sector. It is positive although I would call it an emergency measure.” (Manufacturing company)

5. Quality of the Tax System

Overall good or with positive change

“It is hard to answer to this point. I would say that it is overall good, I hear a lot of criticism but overall it is transparent, there is the electronic declaration system in place. I think Latvia is competitive in this area.” (Real estate company)

“Fuel cost is one of the bigger ones for us. We are not paying VAT on biomass, now it is also for fuel. It has made things easier; on the other hand, it makes tax authority to pay more attention to the differences. It is similar with the reverse tax regime – it is asking more administration from us but at the same time it

is also freeing up money flow. Overall, there has been a positive change. But there has been also a VAT increase on maintenance fee in residential buildings that results in increased payments for households for the services they get. Then also from next year there will be no tax release or discounts for renewable energy. So, again, as mentioned, at the end it will be taxpayer who pays. And who knows, maybe in future the cost will be increased even more.” (Retail trade and service company)

Bad or as bad as year ago

“Banks have been calling to look into Estonian example where the reinvested profit is not taxed but nothing has been done. Since the adoption of the last year’s state budget I have the feeling that things are getting worse. Solidarity tax is an example. The feeling is that the budget is being patched together with some sporadic activities and in great panic. In my view there are several topics that have not been solved – what are we taxing - business activity, property, real estate or consumption? My personal view – real estate should be taxed because you can’t run away from it. But this has not been looked into and then at the time when your economy is expanding Government is talking about some ad hoc tax rebates. Knowing the importance of the shadow economy, we should work on that and in all possible directions. As we know, people are very creative.” (Finance and banking company)

“It is nonsense to have these advance payments for corporate income tax; it is filling the budget but it is killing business initiatives. This puts economy on the brake, discourages small businesses that do not want to show their profits. If we talk about labour, there is a tendency to employ Lithuania based workers in Latvian companies. If the company is working in international market there is a chance to register their corporate offices in Estonia. They choose to register where the conditions are more favorable. And they pay taxes there. Latvia is losing as a result because of the tax burden.” (Wholesale and retail company)

“I do not see any improvements. I do not even want to talk about solidarity tax that really worsened the situation for honest tax paying businesses, reduced their motivation and competitiveness. No other radical changes and thank you for that. But looking into the future I can see there are quite a few discussions about changes.” (Wholesale and retail company)

“Our experience is not good. Since we have a

“We are a “white list” company, we think we know the laws, we work long time. But take for example the issue about the new cash register systems we need to introduce – it will demand from us more than 400 thousand. This is a big investment. My question is – do you really think that by introducing this new system you will manage to cash in that much? I do not think that Latvia is a good example if we talk about administrative practice and experience. We can compare with Estonia and see very well the difference. And I even do not want to mention solidarity tax. The big issue now – we are raising the minimum wage by 10 EUR. Ridiculous. Regarding raise in excise tax – nobody has ever asked us anything. So it is difficult to say anything good. ... It is as bad as it was before. At the same time we can live with it, we can cope but I can’t say thank you, things have improved. ... Talking about SRS – during last 2 to 3 years I have seen a massive change. We need to appreciate the things that have been improved. But now again very difficult to say what is going to happen.” (Retail trade and service company)

“Solidarity tax was a surprise (including the calculations and assumptions). I guess some will pay it, some will not and find ways not to do it. ... I think the key problem is the shadow economy. My own feeling is that, I believe Pētersone when she said that Government wants to fight shadow economy only in words and not with actions. Fight against shadow economy is number one for me. ... Second thing – implementation. I absolutely do not understand how the “Gan Bei” case could have happened? The message Government sends is you can steel and we have no problem with that. The amount of money is not important here. It is the precedent we set that counts! In this case a special tool was created, so it was well planned and prepared crime and the penalty is so light? It is unbelievable. I can understand that in those circumstances it is difficult to fight shadow

franchise, we work with many small and micro entrepreneurs. The changes within the tax system (micro tax) will have effect on the situation in the regions. Until now it was a success but with the increasing costs we do not know what will happen in the regions. At this moment we are looking into possible solutions. The profitability will decrease.”
(Wholesale and retail company)

“In fact, I haven’t expected the tax system to be changed. We talk about predictability in the long run and thinking proactively in the long run. Short term, revision of the tax system is important, at the moment we have only preliminary results but this should be approached as a totality of all the government revenues and what we want to achieve with them. From that perspective there is no any progress yet.” (Professional assurance and advisory services company)

“There is rather negative PR about the tax system at the moment, in particular regarding the SRS issues, incapacity to find its leader. There should be improvements and now it is highlighted even more than before. The previous Head of the SRS started some reforms and overall she was rather good. But now everything has stopped; there are no important activities.” (Wholesale and retail company)

“During last 12 months I have seen a purposeful attack on State Revenue Service (SRS) that did start to do a very good job. As soon as it started working under Pētersone and delivered first results, it was torpedoed. Pētersone was undeniably on the right path: she got to the VAT deals, there were many good things on the client service side, she had a good plan how to improve the SRS accounting system (where she wanted to move towards accrual principle) but there were forces that decided that Pētersone needs to be stopped and ended all of that. Certainly, there were some problems as well but the big ship was going in the right direction last winter. Today we are where we are. Unfortunately. And the ship now is drifting. ... I can see positive things now happening relating to Mandatory component (OIK) reduction for energy intensive producers. This is moving in the right direction. Nothing has changed in the area of labour tax, solidarity tax is a big stupidity where we can see now that the negative impact is far bigger than the real gains.” (Professional assurance and advisory services company)

Worse than a year ago

“My personal view is that there should be some progressivity, I am not against the principle of solidarity. I am strongly against ad hoc type of solutions. In addition, this was such a populist move to name it “solidarity”. Solidarity would

economy. The feeling of impunity is culminating.”
(Finance and banking company)

“Difficult to say if there has been an improvement. If we look at the social security - sick leave, holidays and other social benefits – we are expensive comparing to Scandinavians. We would need to see if we could compete with Lithuania and Estonia. If our business were to start from scratch, we would be in Lithuania.” (Consultancy and service company)

“I want to mention two aspects: 1) for example in Finnish system data from State Revenue Service are synchronized with other data therefore the system is transparent. Here in Latvia EDS system of State Revenue Service is not synchronized with other data and therefore those who want to misuse this system can easily do that; 2) quick changes in tax system. Last year Solidarity tax was introduced, which is unfair. In my opinion more discussions with business were needed before introduction of it. Now progressive tax is discussed. I have an impression that those who are responsible for planning of tax policy are living in totally different world.” (Retail trade and service company)

“No change. Continue to lose people to companies who pay salary via envelope payments to remove tax.” (Manufacturing company)

“There are no changes. It is just getting worse. As we know suddenly this summer the existing regime governing the special economic zones was changed which has some significant impacts on the tax rate applied. This proved that local policy

have been if the money from the tax had redistributed among the less well off. But that is not the case. We have no clue where this money is going. And more generally we have absolutely no assurance whatsoever that our money paid in tax is well spent.” (Wholesale and retail company)

“I don’t have much to say here. There are no improvements; the situation is the same for many years.” (Manufacturing company)

makers have a possibility to influence decision making and even tax regime applied and that is a huge negative move. That will seriously influence our business.” (Retail trade and service company)

“Situation is worse. Solidarity tax was a mistake. If the state wants to raise the average level of salaries in the country, imposing this tax on the higher salaries is sending a wrong signal.” (Finance and banking company)

“Nothing has changed.” (Manufacturing company)

“Worse because there are additional taxes imposed, like solidarity tax, for example. Taxation will grow, I can see that. And at the end of the day, everything comes down to economics - where to go and invest, where to open your office. We would consider relocating some business despite our infrastructure. We could certainly move away if important tax changes come unpredictably. We chose Latvia for many reasons. Around 70 % of our products go through this area. Our main markets are in Americas, Europe. We chose Riga also for tax reasons. If we look at our staff, many come from other countries than Latvia, some are Russian speaking, and for them it is a comfortable place for living – their children can go to schools here and have no problem. Airport and good connections also are a factor and makes commuting very convenient with Scandinavia and other countries. But overall, we certainly would like to stay here and as long as we know the rules of the game for next ten years, it is fine. Market situation for our products is fairly bad. After the financial crisis situation is quite different and prices have dropped a lot. I can see that 2017 will be a very hard year.” (Service company)

Lack of predictability, problems with collection, administration

“Overall we think the tax system is ok. The only problem is the predictability, lack of it.” (Service company)

“Predictability is what is missing. We are constantly adjusting our tax system to the needs of next year’s budget. And sometimes there is nothing wrong per se it is just the way it happens every year again and again. This isn’t normal.” (Finance and banking company)

“In general, Finance Ministry and the Government are quite receptive. There has been some improvement. One of the most important things is to make fewer changes in the system and create a system that is more predictable. Better to have something that is probably not ideal but at least we know it. You should not play with adopting new legislation. One example - solidarity tax. I am not against progressivity as such. But it should not be a way to milk more taxes. You could relieve low earners and tax a bit more the others etc. But just introducing a new tax like that is crazy. My colleagues said to me immediately – move the

“Tax system as such is not bad in general. I do not think you need a World Bank investigation in there to make it better (actually, I am not sure why the World Bank is doing it as if the Ministry itself couldn’t have done it). Where I see a real problem is tax collection and declaring. Unfortunately, I see that different people and businesses get different treatment. Like the famous “Gan Bei” case – authorities found out that that they do not pay tax and nothing happened. This is a very bad example and sends a very bad signal to others. Government has a list of companies that do not operate honestly and it does absolutely nothing about it. I think it is an issue of having better controlling mechanisms. ... There are still in Latvia people like Lembergs who are accused of corruption, money laundering etc. And nothing happens. The Court proceedings take years and years and everyone acts like it is all right. And then you wonder why investments are dropping and why it is difficult to attract investors. Look at KNAB and all the things that are happening there - a person is removed from the job, then the Court

headquarters to Estonia and pay tax there. But you make more business in the place where you physically are and I feel also attached to Latvia, so I didn't. ... The very principle is not unfair – the fact that those who have higher salaries are taxed higher (at the same time, I do not favour some systems where you have no incentive to work more because you will be heavily taxed). But if you would tax a bit less the low earners and more the high earners, that would be a good approach. Introduce it gradually and that would be clear to everyone. And in that case the investors can also choose to move somewhere else or to stay.” (Real estate company)

“We can still see a tendency to retrospectively change tax legislation. Investors are very cautious about this. In Latvia changes in tax, lack of predictability, project type initiatives that are never finished is something that no investor appreciates, especially if compared with other Baltic countries. Latvia is unfortunately lagging behind, in particular, if compared with Estonia.” (Consultancy and IT company)

“Estonian tax system from financial perspective is fantastic. There have been no changes in last ten years. It is fantastic. Somebody once said - it requires a brain of mosquito to understand Estonian tax system and so it is! Imagine, no changes for the last ten years. In Latvia, it is October and I can't promise to stakeholders that there will be no changes. ... It is all about predictability that we lack here. When in Latvia politicians speak about reviewing something, you need to prepare that this is just the beginning.” (Finance and banking company)

“The biggest issue is that all changes are announced to the business people around November or December, when the next year's budget is being discussed. Good example is the discussion about company or corporate cars. The law has been adjusted each year since 2010. Every year there are some changes. ... Tax rates generally are ok. However, when the investors will start research in order to find out in which country they might invest, Latvia because of the uncertainty may lose its potential. We can attract the investors to establish the headquarters here but we need to make the tax system more transparent and predictable. We need to be competitive among

reinstates her, then removed again and reinstated again. Is it a joke? And now they lose documents.” (Service company)

“Solidarity tax influenced our business. Look at Nordea and DNB merging – they will not register their business in Latvia but they will in Estonia. This is a clear example about Latvia and investors. I hear now that potentially there will be a health tax or tax on car registration, different ideas are flouting around. But I remember very well PM Kučinskis promised not to change tax!” (Consultancy and IT company)

“Employment taxes are too high and they are high because it is easy to take them. The situation was made much worse by the introduction of the solidarity tax, which was very unprofessional; the way its introduction was handled was very unprofessional. And then the next Government came and said it is not that bad and left it unchanged. ... The country needs more progressive tax system; that is the way where the world is going right now. I would generally say the system is ok; the way it keeps changing all the time is not good. ... I do agree that for the lower skilled workforce there is this feeling and attitude that they are treated un-respectfully, like aborigines as some say, and it is unacceptable, we need more progressive tax system, but the solidarity tax and the way it was introduced was ridiculous. I think we need higher un-taxable minimum and we should be taking more from the top. Taxation is difficult: you should tax things where you can. If you can't chase envelopes then you tax somewhere else. Our overall stake (in terms of tax) from the GDP is still lower than in most countries. If we want social system, we need a certain rate. ... Increase of the pension age could be one thing. Some people here hope to continue to work and also get their pension. But that is not the idea of the welfare and the social system. We need to increase age when people can receive their pension. We are probably one of the oldest societies in the EU. And that will allow to lower salaries as well.” (Real estate company)

“If we compare Latvia with other countries, tax burden is not the worst thing. Unpredictability is the issue. When you wake up on the 2nd January, the news portal Delfi has an entire article with the changes in the tax system with at least 7-8 parts.

our neighbouring countries. All the amendments to the law should be legitimate and not just a result of some lobby. We need good research, analytical capacity and qualitative discussion why a particular law has been changed and what will be better now. There is a huge lack of predictability within the system. ... The good point is the labour tax, if we are looking from the social insurance perspective. We have a significant percentage paid by the employee. This is something that employers like. But overall I would like to stress out that in Lithuania and Norway they are stimulating the real estate market. They have very good and developed business within the reinvestment system. Tax situation is more simplified. If you are smart you can do many activities in order to keep the business running. The problem is the short time thinking.” (Wholesale and retail company)

And there are many fundamental changes. Some of these changes have been adopted by Parliament in November and December and some of them are pushed through as “urgent matters”. Some are adopted in a single day: in the morning there is vote that an issue is an urgent matter, then there is first reading, then members of parliament go to the lunch, drink a beer, and right after a second reading takes place and we have a new law (we can’t really complain about the efficiency, can we?). The biggest problem is uncertainty for the business. We are planning our budgets and we do some long-term strategic planning; all these last minute amendments have a fundamental impact.” (Professional assurance and advisory services company)

“I don’t say that the system is bad but the problem is that this year we saw clearly that the administration of the SRS gets politicised. And this is very bad.” (Manufacturing company)

6. Support from the Government and Communication with the Policy makers

Positive opinion

“Before joining the FICIL we did not directly communicate with the Government. Now we do as part of FICIL, we participate in work groups and we think it is going very well. I was surprised at the High Council that ministers were well prepared and briefed and participated in the discussions.” (Real estate company)

“For us it is improved, I can say, it is perfect. We are working shoulder by shoulder to make Latvia better and make a more competitive environment. We want to get into the Scandinavian market. We have an expansion project that we are working on.” (Service company)

“My internal feeling is that it has become better during the last 12 months. I feel that the business is better involved. It is possible that the business is getting more active as well. So, my feeling is that we are heard and that something positive will happen.” (Manufacturing company)

“The situation is not getting worse. I can even say that there are some improvements. We

“They are open to listen; moreover, they have provided support and have been helpful in some specific cases. I can see a will to listen. They are also afraid to loose businesses. So not bad, but it could be better if they would listen about, for example, the reinvested profits and other issues that would help to attract investment projects.

There are problems with transparency.”
(Wholesale and retail company)

“Slight improvement. From my perspective we should not complain that much about the work of the SRS. We have been receiving letters from SRS that say - we see that you pay tax and we will not disturb you; live in piece. So there is a progress.”
(Finance and banking company)

“For us the cooperation partner is LIAA and overall their work is ok although it heavily depends on the person you work with. Two years we had somebody very active responsible for our sector, then - a bit less active. But of course it is important that we have somebody to work with. In 2013 we wrote a letter about the changes in the

communicate through FICIL and through the Association of Producers of Building Materials.

There is a dialogue with the Minister of Economics, the President is also supportive. And there is a feeling that government listens to what we say.” (Manufacturing company)

“I could give the Government some credit for having the dialogue the way we are having in the FICIL. I think Chambers of Commerce are also having rather constructive dialogue. I think dialogue is better in Latvia than in some other countries.” (Real estate company)

“At least the Government has started to communicate and that is good. Would be great to have some evidence that there is also a result and that this is not just a chatting. My feeling is that there is a change in the sense that the Government can’t just push through something without having any dialogue with the business. That is positive. ...

I am very happy when I hear PM Kučinskis referring to what has been discussed between FICIL members and the Government at the High Council. The question is will the actions follow but I am an optimist!” (Consultancy and IT company)

“Government last year was communicating with investors, in terms of support – I haven’t seen really any difference. This year the change is that the Government is more focused, it is not taking a very broad agenda, and topics are narrower.” (Professional assurance and advisory services company)

“I think it has improved.” (Service company)

“We have positive experience with LIAA that put us in touch with other players from the shared service centre industry. They have a lot of data that we can analyse and work with. But overall we get the impression that there is no understanding in the Government about our industry, about potential of it and what value we could bring. The industry changes very quickly and we need to be able to adapt accordingly if we want to survive. The Government is very reactive; I do not think they have a plan how to compete with Vilnius, for example, or that they would have considered that by introducing some simple support mechanisms there could be a big potential for further development and more investment.

I hear talks about support to farmers, exporters, and wood workers but never about support to our industry although we employ a lot of people and we would very much appreciate any support regarding, for example, the training or education costs and similar things. Our business is competing with other countries and I constantly need to find what can I offer.” (Consultancy and IT company)

Labour Law and nothing has changed. So from the perspective of our sector and company, can’t be very positive.” (Consultancy and service company)

“It is all right. Wherever we go, deputies are happy to talk. However, we need to look at the actions. I think the business also needs to get more active. Also have a bigger perspective – not speaking only on behalf of their own business but look at wider sector interests, look at regional perspectives etc. Here in Latvia there are favourable climate conditions for food industries and we need to use the potential in order to gain maximum benefits.” (Manufacturing company)

“I think that Government listens to the business. I always felt that the support was pretty good. Government has its own interests, of course, but I think it is a good thing about a small country that depends on trade and exports and that is at the mercy of NATO and EU security wise and we just can’t do things like in Hungary, for example.” (Real estate company)

“It has not changed but in a positive way. I think that overall it is good. Financial regulator had some conversations with us. I can see that FICIL and foreign chambers have access to the Government and that is good. So, it still is quite good.” (Finance and banking company)

“Thanks to FICIL for the insolvency abuse report. On that, we feel we have been heard and that politicians are listening.” (Finance and banking company)

All depends on the person in the ministry- often minister himself/ herself:

“We have been dealing with the Ministry of Economy – the current minister is very active, he is promoting different industries, trying to increase competitiveness, and electricity or heat is also part of the competitiveness. There will be big changes if indeed the large end-consumers will pay less (talking about mandatory purchase component (OIK)). Ministry proposes to differentiate the price depending on your connection. We do not know how this is going to be split exactly. On this, I must say, we don’t have a proper communication. There has been lack of some guidance on how the policy and changes will work. As it happened, we just saw the document when it went already to the Cabinet of Ministers.

But we could have helped with this one. Communication was also not well organized when we discussed the document over subsidized renewables.” (Retail trade and service company)

“Communication very much depends on the personality and character of the person in charge. If the Minister changes and his Cabinet as well communication with the sector can also radically change (in either direction).” (Wholesale and retail company)

“I think that communication depends on each and every ministry. With Ministry of Finance it has been very good, for example, I can give as an example that investment account was introduced, so it is more convenient to accumulate and save funds in long-term. Ministry of Justice has been slow, there are things that are being looked at for years and years.” (Finance and banking company)

No positive change has happened over the year or situation is negative

“There is a feeling that the ministries and the government are very available. However, in the real life nothing is changing, it is just smiling and shaking hands. There are no meaningful changes. There is this upcoming event with China (16 + 1) that could be a big opportunity. But from what I have seen I have no evidence that the Government is prepared and will use this opportunity.” (Retail trade and service company)

“It is difficult to judge. Generally, I look with great suspicion to everything that comes from the Minister of Finance. The way the search for the Head of State Revenue Service happens is very strange and confusing.” (Finance and banking company)

“Unfortunately, I see a lot of talk and no action. Every Government says they will listen to the business and business organizations. And they do but they listen to the ones that are closer to them. Business associations often get little to say about a specific law and sometimes they are involved very late in the process. That is the issue.” (Service company)

“Communication – I would like to see it better and higher quality. And from both, Government and municipalities. I read about the case of cars being parked in a yard the other way round and all being

“There are no specific changes within the last 12 months. We try to maintain communication but there are no additional benefits for our industry. Regarding our investments, we are planning to do some worth 17 million in the near surroundings.

But it is difficult to find support from the government. We hear from the media that there will be special support and incentives for IKEA – roads etc. but there is nothing mentioned about the existing retailers. It is unfair competition and unclear and un-transparent policies.” (Wholesale and retail company)

“We are proactive and we approach the Government and the municipalities ourselves; we organise and participate in conferences and there are sufficient number of other fora. There is a new Head of Regulator who is very conservative, very cautious. The tone of discussion is sort of penalizing and punitive with the idea to punish the sector and then we shall see what comes next. If we look at the non-resident banking sector, there is still no vision as to where we go. And then there is also Bank of Latvia with the biggest apparatus in the banking sector that lives from the management of reserves. They are a little bit out of touch with reality and drain the human resources that could have been available to financial and other sectors.” (Finance and banking company)

fined for that; well that is a classical case. We read and interpret the law literally letter by letter rather than looking at the purpose of it. Here again, I would say, I expect higher quality work from the police.” (Retail trade and service company)

“No change.” (Manufacturing company)

“Unfortunately, I do not see any improvement. I still wait for a wide step in the right direction from the Government.” (Wholesale and retail company)

“Nothing has happened.” (Professional assurance and services company)

“Government is trying to improve the cooperation. Nevertheless, there are ridiculous situations where after spending hours in work groups some of the proposed amendments are not taken into account simply because member of the group has not formulated the proposals in nice written form and formally submitted it by an official letter to the Ministry. This is an example of a technical work, not a sensible and meaningful cooperation that one would expect. ... There are some positives. I think that Prime Minister is really trying to get deeper into the problems. One of the biggest is that national authorities do not share the data and information among themselves; they do not cooperate with each other. I think the right approach would be to give 3 to 4 specific tasks to the ministries and ask the result afterwards.” (Professional assurance and advisory services company)

... and another opinion

“There is some communication. One of the reasons is that we are a small country; therefore, you can easily keep in touch and meet everyone. The real question is if policy makers really want to listen and do something. ... Looks like policy makers are not thinkers. We do not have a strategy to follow, no long-term vision. Government still does not have any idea what will happen in 2017, not even mentioning 2018 or 2019. ...Part of the problem is changes in the government. Also, we are very good in writing large documents. There is a lack of essence and real efficiency. We should start to work on more practical topics. They had some activities in order to praise good taxpayers, this “white list” that was established. What wasn’t clear from this activity was the real benefit to the company? In public procurement at least we could see some benefits. ... The cash payments should be reduced. In Latvia you still can insure your car and after the accident you can take out the cash. But the Government could reduce the cash in circulation. At this moment there would be no problem with projects like Ubertaxi. If everybody orders taxi online and pays with credit card, it becomes very easy to track all payments. Fight against shadow economy could be more efficient and smarter. For example, when in the public procurement process you see that the winning company offers price that is two times lower than the average offered by others, there are immediately doubts: how this is even possible? And where is the problem: is it the system or the legislation?” (Wholesale and retail company)

7. Unethical or illegal behaviour by entrepreneurs, unfair competition

No improvement, negative opinion

“I think it is unfair that there are areas where the state is competing with the business, with the private sector. And I can see that the state is getting more and more brutal in invading some business sectors. I have specific examples where the state is unfairly competing with us; they even steel our staff members and the feeling is they

“There are no particular changes. Take excise tax as an example, when a proposal is favorable for the state budget, everybody wants to cooperate. But in fighting the shadow economy the effort is not efficient. I have noticed some activities going on and they are publicized. However, if you quantify the actions then actually that’s peanuts

would be happy to push us out of the business completely.” (Manufacturing company)

“The problem is bigger than Government wants to admit. It is bigger than different research say it is.

This is a big challenge in Latvia. And tax collection is also a big challenge. ... There have been some new things that are good – for example, we need to check sub- contractors and that is a good thing, it is an example that works.” (Real estate company)

“Piracy is a big issue and it is difficult to push it forward. Some things are happening; I hope it will bring some results because it has direct effect on our business. ... Unfair competition within the area of intellectual property is a big issue. We can see a lot of that happening in Latvia – stealing of ideas or simply copying some shows or programs.

We have several cases and I must say unfortunately there is a pretty high tolerance in the society towards that. Sometimes it seems like the supervising bodies are also not too worried.”

(Consultancy and IT company)

“In the retail business we feel it at all levels. It can be illegal employment, non-declared income, VAT schemes, illegal good sales etc. There is a lot to do, it is similar to construction sector. SRS is not active enough in our sector. Overall the feeling is that policy makers do not want to do something about it. But there is potential, we have all the necessary data, enough resources. Political will is a problem.” (Wholesale and retail company)

“We talked about the issue of truck weight and abuse of the regulations by some. During summer time every Friday driving out of Riga I did see weights and trucks being checked. For me this means that the issue was heard, something was done. At the same time I don’t think we can see activities that are due to promote ethical behaviour and restrict unethical. There are some corruption cases that are opened recently but in fact I am looking for an entrepreneur being penalized in front of the court.” (Professional assurance and advisory services company)

“Some things are happening and it is closely related to the abovementioned. Again it is very much about planning and anticipating the future. We need to be visionary there and not reactionary. I mostly see declarative actions. There are people

compared what is hidden behind. I do not think that’s how we can reach a result.” (Wholesale and retail company)

“Is anyone sitting in the jail for not paying tax? Not that I know! No improvement.” (Service company)

“No improvement. Major problem undermining competition and weakening the fabric of society in Latvia. Very little government interest (beyond words) in this topic.” (Manufacturing company)

“Fortunately, we do not get involved into municipal or government bids but what I read and feel is that it is still there, including, in construction and that is why we have so few foreign companies operating in this business. If we look at the results, Shadow economy is still there,

I don’t know if it is getting better but it is not getting worse at least. ... Another thing - chasing after banks and closing them is sending a good signal. This is happening because of money laundering activities but forcing that money is legal is a good thing. There is also the other side -

all the compliance issues: in UK, for example, it takes us six months to open a bank account.

Everybody is wondering why the growth is so slow but it is the result of lot of people getting caught and now the overall operating rules being

more complicated.” (Real estate company)

“This problem needs to be solved. The attitude we often see is that it is ok to go bankrupt since there is no problem whatsoever to start a new business;

just change the name of the company and instead of one “S” put two and this will be a new company. And the state is not fighting this.

Companies easily transfer their assets and that is it. But there must be some accountability.

Otherwise, if one company is cheating, the others will think they can do the same because there is no punishment. ... SRS had a good sectoral approach - they checked various companies within the same sector; this year they will not do that. But there is a constant need for action in this area; otherwise it is like diet that you do for a week. Unfortunately, in

Latvia actions are taken when we have some important goal to achieve – join NATO, EU or OECD – when that is achieved nothing happens.

But we need to be more active ourselves, not just react because of some pressure from outside.”

who want to do things, I have expectations from some of the Government members but overall the Government does not want to achieve a quick and tangible result.” (Finance and banking company)

(Professional assurance and advisory services company)

“No, in our sector there are no changes.” (Service company)

“It has been rather flat, no changes. VAT reversed charge regime should protect legally working companies.” (Retail trade and service company)

“We are aware that in our industry there are unfair players. The scheme is to send back and forth machineries in order to avoid the VAT. Government should be far more active in responding to that. ... The activities SRS had in checking the industries were very good. Although, companies were warned in advance and they “fixed the gaps” and after having been inspected the usual way of working was back on the table. The key problem here is that people and businesses do not believe that the tax paid will be spent efficiently. There is no transparency in the tax system. It is a huge challenge to change this. ... Other key issue is the Competition council where they look at the unfair competition. The penalties run from 1 – 10% of the previous years turnover. But the Competition council can also reduce it by their own decision. They produce long documents where in the last paragraph they explain why penalty has been reduced for a company. At the same time for other companies it is not applicable. They are very good in interpreting the EU legislation. The reputation has been undermined and it does not encourage companies to show their actual profits. We are good on copying legislation from EU but we have huge issue to understand and implement it. The main idea of the Competition council is that they are protecting the consumers. All the decisions should be based on the facts and not on the interpretation.”

(Wholesale and retail company)

“The system as such is a problem. There is such a thing as legal reiderism whereby some protected groups can do whatever they want. The Ministry of Justice has not solved that yet; not regarding insolvency administrators and neither regarding bailiffs. After the Finance and banking company campaign there was some activity and I am not aware where they stand with that. The same applies to notaries – what is their role in the future, what they will be responsible for? On all of these aspects I have seen media attention, articles in the IR magazine but I do not know if there has been some effective action, results and outcomes. ... The non-banking sector is a very active and aggressive player in Latvia. I think their behaviour is unethical. Is it illegal, I don’t know? What I know is that their budgets for marketing activities are many times bigger than that of the banks. The question is – are they here to stay?... Something I do not understand is why those involved in the various VAT schemes are not being caught?! This is an area where you can easily detect a problem; there is nothing complicated and everybody can see that. Why only journalists and media talk about specific cases? Where is SRS? What is it that they do not have and that prevents them from catching the involved people? Nobody is behind the bars.” (Finance and banking company)

Getting worse

“It is an issue. We have three businesses and the situation in each sector is different. One of our businesses has direct competitors where we feel the shadow economy and corruption. We are affected and we need to do everything in order to keep up the level. Actually, since last few months the situation is getting worse.” (Retail trade and service company)

“I feel the situation gets worse. In small companies and start up environment many are paying the so called “envelope salaries”. There are still VAT schemes that are there. There are several sectors where there are issues of conflict of interest, political dealings, corruption.” (Manufacturing company)

“Again, from our position, we can see things across industries in Baltics. In construction, for example, it is impossible to be a decent western-minded company and win tenders. It is not possible because of the shadow economy, unfair competition etc. If we look at the wood processing, it is the opposite. You see several companies and they are competing. ... More and more often you see cases where allegedly there has been some scheming involved, like VAT tax schemes. Often they are in place to outcompete others who pay tax. And these things are still happening, there are lawyers and finance people who still do that and they outcompete the honest businesses. ... In this area I do not see any improvement, it is worse than we thought actually.” (Finance and banking company)

Positive (at least minor) improvements- some example mentioned

“I can say that there are some very good steps in the right direction. The plan to fight against the shadow economy is a good thing; it needs to be implemented now. SRS should work hard on the issue of unreported income.” (Real estate company)

“In our sector there are mostly companies with foreign capital and we do not have big problems with that. We have also agreed among ourselves that we operate and promote fair competition. ...

Motorists mandatory civil liability (OCTA) guarantee fund is under the limit set by the law and will need to be replenished, so all members of the market will need to pay in quite significant amounts of money. In some part it is because the fund is being used for paying out compensations instead of AAS BALVA. Possibly, if Regulator supervised better all the market participants, there wouldn't have been those issues.” (Finance and banking company)

“We are not suffering that much in our sector where there has been a radical move towards transparency and I think very soon there will be no possibilities technically and practically to do something unethical or illegal. I hope this is matter of few years time for our sector.” (Wholesale and retail company)

“I do not have a specific example. There are procurement processes where somebody knows a bit more than the others but I do not have specific cases to mention. Our company is operating in Latvia for many years, we have never been involved in any unethical things, so no one is offering us illegal things because we don't do that. There are a few companies that can offer a very competitive price because they do not pay tax but they do not have a significant impact on our business. We have worked closely with SRS department of excise goods and have pointed out to specific irregularities and illegal actions, there was a reaction from their side, some stations were closed for some period of time. So we had some dialogue and some results.” (Retail trade and service company)

“I thought it was a clever and intelligent way how SRS approached the shadow economy – they chose a

“In the area of our business, I would say most of our serious competitors are in the “white” area of operation. From that perspective I can say at least things haven't worsen.” (Wholesale and retail company)

“In our business the situation has improved in the last 2-3 years and has become better. For example, situation with Russia has changed. Due to the imposed Russian sanctions the use of Latvian diesel has increased about 10%. Before that we had problems that Latvia truck drivers went to Russia and tanked their trucks there and came back with full fuel limit. So for us economy has grown and illegal market has reduced. ... But unfortunately there are other economical sectors where shadow economy still persists and is growing. Recently I watched TV show “Aizliegtais paņēmiens (Forbidden method)” about Riga Central market.” (Retail trade and service company)

“There are some activities and some of them will be implemented next year when employers will have to pay social taxes in full amount. There are certain steps and positive changes. But the question is will it be enforced. Overall, I can see there is improvement to fight against unfair competition.” (Wholesale and retail company)

sector (dentists or car repairs), they warned it and gave some time to get things right, then they went and inspected them. That was the right thing to do and the plan was to do a sector by sector because those that are likely to operate in the shadows are well known.... The positive news is that we hear about sectors that have decided to do a good internal clean up process (construction). ... The application of reverse VAT for certain items that came into effect on 1 April 2016 is a good thing.” (Professional assurance and advisory services company)

“There are some improvements but again they are minor and limited. The new ID system in construction is promising; it would improve the issue of quality and qualification, transparency, also security and communication aspects. It is also about solidary liability. First time it was used when the Riga castle underwent reconstruction and the reason to introduce it was security. The ID systems are used for works in hotels or airports, also in large construction objects. Using ID in the construction sector would certainly give the results. It is now in planning phase and is not implemented yet. Ministry of Economics has the necessary resources, the key issue is - who will implement it. ... Having IDs would certainly allow improving the business environment, transparency and we support that. I think it would also give results if used in public procurement for the big projects. ... Companies that work in the shadow economy are not a direct threat to us. In a way we are in a good position because we also produce products ourselves.” (Manufacturing company)

No opinion/ ‘not relevant’ for particular business

“In our business area I do not feel it because we have no competitors.” (Service company)

“It is not relevant in our business.” (Consultancy and service company)

“In our sector directly we do not see it, I do not think that in finance and banking anyone would receive so called “envelope salaries”. But the very fact that there is an important part of the economy that operates in the shadow is bad, it has an influence on the various indexes, there are corruption cases and it influences investors and how investment decisions are being taken. No improvement there.” (Finance and banking company)

“In a highly regulated industry like ours where we are very regulated the regulator is immediately reacting upon that type of behavior, so it is not a problem.” (Finance and banking company)

“We are dealing with employees who know what benefits you have working legally, paying tax, having bonuses and all kinds of benefits.” (Consultancy and IT company)

“In the area of our business, I would say most of our serious competitors are in the “white” area of operation. From that perspective I can say at least things haven’t worsen.” (Wholesale and retail company)

8. Uncertainty

Improvement or positive opinion

“There is an improvement. It is important that Government does not change all the time. We had Dombrovskis, our longest serving Prime Minister but at some moment in time the situation was critical and there was a big uncertainty. We were reporting the changes to our investors and

“Overall it is fairly stable. If we talk about domestic business, we do sell to domestic customers as well but not much and only if they are ready to go for big volumes.” (Service company)

headquarters and received back many concerns about what is happening. Now at least it does not seem a problem. The important thing we need now is clear long term vision and strategy.” (Real estate company)

“I think my feeling is neutral, it is not more uncertain than for anybody else. Geopolitically – fortunately there is NATO and US. We need to hurry up with securing the necessary 2 % of GDP for defense. Trump in a way is right - if security is important for us, we need to show it through financing as well.” (Real estate company)

Worse

“This issue has definitely got worse”
(Retail trade and service company)

“It is increasing not only in Latvia but all over the European Union and the world. Uncertainty is not Latvia specific. As retailers, we are dependent on the local income and purchasing power. If the consumers will not have enough spare money the retail business will be the first one to be affected.”
(Wholesale and retail company)

“The uncertainty is still there but there are no new factors that would increase it.” (Finance and banking company)

“Uncertainty has increased in many aspects. We have shown the problem of insolvency but there is zero progress in terms of responding to the situation. ... There is a political unwillingness to look at the essence of the solidarity tax. In other countries you pay tax, you know where it is going and that it will come back to you. In Latvia it looks like a stealing and laughing in your face. In this context we can talk also about the security as a direct and indirect problem. Why there is no American investment in Latvia? On the political side Latvia is perceived as a frontal line and this is why no business wants to invest there. From that perspective situation is worse.” (Manufacturing company)

Not improved

“We don’t know what is the long-term strategy for the country, what is the plan. Estonians do. Long term strategy for Latvia is missing.” (Service company)

“If we talk about the stability of the existing government – unfortunately this one is quite stable at the moment and the same goes for the Riga City council. ... Talking more broadly about uncertainty – one of the problems for the Government is that it lacks money – there is not enough tax revenue to cover everything the society needs. This is why they wanted the World Bank to look into tax reform. And I am afraid that the Government once again will go the easy way and tax more those who pay instead of tracking down and going after those who don’t.” (Service company)

“There is still unpredictability – geopolitically the situation hasn’t improved. In 2018 there will be presidential elections in Russia, so up to that time there will be efforts to keep up the reputation of

“You should ask that questions in a month time when the next budget will be there. The new electricity bills provide good evidence that there are no improvements. I talk about electricity distribution tariffs. There are also surprises about the mandatory purchase component (the OIK). We are constantly changing the Co2 emission rates. I do not have unfortunately any good example to provide to show that there are good examples, that there is more certainty in some area. My feeling is that there are no improvements. I wish there were.” (Retail trade and service company)

“It feels like last year. We have managed together with the industry association to set some road map for the excise tax. But you never know what will happen. Even in Estonia it has gone wrong. Hopefully we won’t go there. Last year there were some last minute decisions, like the solidarity tax. Now the budget process is at a very early stage. We do not know what will pop up during the next reading. There is a lot of uncertainty. There is no

Putin. I would say, the environment is as unpredictable as it was. Brexit is not helping, nor is Trump and Clinton duel adding any stability. It is actually the other way round. The environment has become more unpredictable. If we look more locally, the feeling is that the local companies have established themselves better, have found their niche and now work and grow. I think at the level of employees, they are also feeling better, more stable, their trust in the future has slightly increased and crediting as well. There is some interesting reflex that works and people do feel better and more stable from what I can tell.”

(Wholesale and retail company)

“I see a lot of it. Actions that are matched with the budgetary process, we change the law and then the changes take immediate effect leaving no time for the industry to rearrange.” (Finance and banking company)

“There is a big uncertainty all the time. We are building our business plans on the basis of the situation today but I have absolutely no assurances about what the future will be. I will not be surprised if someone in the Government comes up with an idea how to get more money out of our business operations. I just have this feeling that someone might appear and take something from my business. ... I think geopolitically I feel safe, I do not have the feeling that something bad might happen. It is more related to the internal things, how Government is run and how politics works.”

(Consultancy and IT company)

“Ukraine was a big concern. I was in front of the biggest investors of our company explaining in person what is the situation in Latvia. We even invited geopolitical experts. We consciously slowed down at the time to see what happens. I have received the question of Latvia being a problem many times. Now I have been asked what happens to Latvia if Trump becomes a president; that bothers my investors. But on the other hand we get better paid for the risk we take here. So, probably we do get paid for the uncertainty. But it is something that holds back the investment, to say true. Tax, demography and corruption also cause uncertainty. It is hard to understand if you are not in politics. Unfortunately, sometimes we have cases in media and it becomes illustration of how

long term vision. We have some visions and policies that are far from being realistic. And the worst thing is that we never go back to review them. There is no vision for Latvia in 2020 or in 2030.” (Wholesale and retail company)

“Does not have a big impact on our company because we are located in Latvia but our market is Scandinavia. Overall, I am looking for the perspective of an end user – I would like to see more clarity where we as a country go and what we want to achieve.” (Consultancy and IT company)

“Still there.” (Professional assurance and advisory company)

“There was always uncertainty and for us now it has materialized. In some other areas (differentiation of prices) there is a process that is transparent and predictable. There is a potential improvement but overall regarding politics and investment climate in Latvia there is an understanding that it is still a little bit turbulent, a bit unstable. Also, we see in politics that there are some voices that are very loud and very influential.” (Retail trade and service company)

“It has not improved in any way. We live in a total unknown situation. If we take health, we know that the system is short of some 600 millions but I haven’t heard anything about what is the long-term vision? This lack of vision is in all areas – workforce, localization of hospitals and services etc. Financing model has been discussed but also not within a long-term perspective. So I could not say that the uncertainty in this area is less visible, definitely no.” (Wholesale and retail company)

“It is exactly the same. The uncertainty in Latvia was high and still is high. Nothing has changed.” (Manufacturing company)

“There are no improvements. The key problem is lack of a clear vision for the future. We know, for example, that soon the EU funds will be no longer there but what is the plan for the day after?

Nobody knows. But we need a plan to know if there is a plan A, B and C, what are the different scenarios. This is closely linked to the issue of competitiveness.” (Manufacturing company)

“Here in Latvia government changes too often.

things work in Latvia. We need to convince investors that things are much better than it was earlier and we need to convince investors that this market is predictable.” (Real estate company)

“There is no more discussion about the principle of left keys. The Minister of Economy is sending some good signals. It is positive that there is a discussion about tax review. It is positive signal and intention is there as well.” (Finance and banking company)

“If we talk about the geopolitical situation, we need to accept our neighbours, meaning Russia. The healthy environment should be our focus. We should work with our neighbours and not against them.” (Wholesale and retail company)

“I already mentioned this problem talking about the tax system. For the investors it is very important to be able to predict the tax changes. At the High Council Minister of Finance promised there would be no changes in the tax system, that Government is not hiding anything in their pockets. And then one month after here come changes in the tax system.” (Professional assurance and advisory services company)

“Uncertainty is still there. We can see there are not enough revenues in the state budget, shadow economy is big but we continue looking for possibilities to raise tax even more. And then there are also changes that are difficult to foresee – changes in the micro tax regime, solidarity tax etc.” (Consultancy and IT company)

“It is created by the annual exercise that is called the “budget patchwork”. VAT, income tax – there were some road maps but these are not being followed. The only thing that still is there and works is the second pension level.” (Finance and banking company)

Political persons change and their priorities also change. In this aspect there is a big difference between Nordic and Eastern Europe countries. ...

Regarding the geopolitical situation- those investors who are already here are not that heavily impacted by that. Those investors who are still thinking about investing in Latvia – might consider this factor. ... But in situations when investors are reviewing some bigger investment plans then it is a bit more challenging. For Retail trade and service company it is a reality – investment plans have changed.” (Retail trade and service company)

“The problem is that no one knows what is coming. In the banking sector we saw there was a pressure to join the OECD. Banks were forced to undergo American regulation and we had a huge amount of work to do. The report is there now, but we do not know what is next? What was the point of doing this? Uncertainty remains high because we do not see a plan where the Government wants to go. Accordingly it is very hard for us to plan, given that you don’t know what happens with the Government, will they be there next year etc.” (Finance and banking company)

“The uncertainty is still there. I do not see a long-term vision, a consolidated vision of how it all goes together, how the increase in wellbeing is going to happen.” (Professional assurance and advisory services company)

“There are some uncertainties for a while already; some risks that still exist. For the business, the tax system is the issue. Changes come often very fast without leaving us time to adjust and to prepare.” (Wholesale and retail company)

“No change.” (Manufacturing company)

9. The Court System in Latvia

Improved or some positive aspects mentioned

“I can see some positives. The question where the driving force is coming from. I can say my best words about FICIL that championed the issue of insolvency – it demonstrated massive public

“Probably the system is better than it used to be. Occasionally, our company has some things going through the court, some tax or bad debt issues. It should be better but it is not terrible. We do see the

pressure and it worked. We see in practice that administrators are more cautious; they try to comply with the deadlines. I wish this was the result of a purposeful action from the Ministry of Justice, that there is a will to fix it at the political level. This is an extremely important issue for us.

The pressure should be maintained to fix this issue.” (Finance and banking company)

“Legislation is good. Also it seems that the judges are more professional. Yet the process is not as fast as in Estonia. We should make the court system more systematised – introduce open calendar method. The cases where few people are involved should be arranged within one month, and all the hearings, instead of planning hearing after hearing within two-month distance. It would save so much time and increase efficiency. The main issues are still on the table: insolvency administration, ethical issues and human factor.

We need to build the trust to the people.”
(Wholesale and retail company)

“My feeling is that the manipulability with the system is possible to a lesser extent. I think it is becoming more honest. I can feel that there is some fight in this area that is public and I can see there are efforts to achieve something.”

(Manufacturing company)

Not improved, situation the same- room for further improvement

“There have been quite a few articles and fights about the Court system, we have heard a lot about insolvency issues but I am not sure that there is any change or improvement in practice. I have been always surprised how long the court hearings take in Latvia! We had one relatively simple case about paying out some damages and it took 4 years... Also, I must say, in some aspects Latvian law tends to be very old fashioned, for example, Labour law. Look at your neighbours – they have understood that today when the labour relations change so quickly, the legal framework needs to adapt as well and they have or are in a process to change the Labour law. I understand, of course, that this is a subject matter of discussions with trade unions and employers and takes time. Consensus needs to be found but you should start doing something in this area.” (Service company)

net results of insolvency abuse and bad examples.

We are fully in support of cleaning it up and it needs to happen much faster than it is happening but there are political interests.” (Real estate company)

“We are happy because there are positive trends – there are people from the judiciary who start focusing on real problems. Overall, the Court system needs to have some conservatism; it can’t follow every wind blow, especially, if these are political winds. We need to be more effective from the inside and that is the real problem. In Latvia we have a complicated and hierarchical system that does not motivate individuals to be rewarded after having done a good job. Efficiency needs to be increased and this could be done only as a result of some serious structural reforms.”
(Professional assurance and advisory services company)

“We have had a positive experience in terms of timing – it was labour law related issue and was looked at very quickly by the court. In Latvia, if you are a responsible employer, you have a huge responsibility. Employee can bring you to the court for almost anything. And most of the time I hear the employees win even if we as an employer act honestly, pay all tax and a competitive salary.”
(Consultancy and IT company)

“I hope the worse is behind us. Main focus should be on implementation.” (Finance and banking company)

“There is a huge room for further improvement. In fact, for our company, the only improvement we have seen is the remote litigation possibility.”
(Finance and banking company)

“There is a problem related to the length of the proceedings and insolvency issues.” (Service company)

“No change.” (Manufacturing company)

“For us, luckily, insolvency is not a huge issue but from what we have seen it is a big problem. We have had to do with some unpaid debts, some relatively minor issues, and in that respect there haven’t been any changes. So, no real change in

“I have no direct experience but my general comment is that there seems to be a problem with the length of the proceedings. Also there is too much focus on application following the letter rather than the purpose of the law. ... I have observed that state institutions are overly cautious in trying out some new possibilities of working, some new approaches or partnerships. This could be due to lack of motivation – the thinking is: “why should I do differently because things could go wrong? Even if I save money for the state, I will not have recognition but if something goes wrong I will be penalized for sure.” This should be changed I think.” (Wholesale and retail company)

“I have no personal opinion, but I have seen in media that there are cases that are ongoing for many years without result. If it is complicated case like Zolitude tragedy then yes, but if it is bribery case it is not acceptable.” (Retail trade and service company)

“We have had many issues, we have had one huge case in the Court, we have had issues with insolvency. The key problem is that cases are long. I know that at some point a judge said “I will be sick tomorrow” meaning that the process will not move on, and guess what, so it happened. Next hearing was scheduled in five months. This is a huge issue for Latvia and there is plenty of evidence that things are not good.” (Finance and banking company)

“There have been no major changes last year.” (Professional assurance and advisory services company)

“WEF recently published their latest competitiveness ratings. Looking at efficiency of legal framework in settling disputes we can see that Latvia ranks 116 out of 138 countries and Latvia ranks below countries like Malawi, for example, meaning that the legal system is more predictable there. In my view, when it comes to the legal system it is currently worse than in Russia. If you are a decent foreign company, probably in Russia if we talk about legal system things are not as bad as in Latvia. It hasn't improved. If you take a definition of what organized crime is, the famous people we all know involved in insolvency matters will tick all the boxes.” (Finance and banking company)

Worse

“I think we are at the lowest possible level. I do not think you can go much lower than that.” (Retail trade and service company)

Luckily I have not had an experience...

this area.” (Retail trade and service company)

“We have almost no dealings with courts at all. From our experience as a company – can't say much. But I hear things. For example, arbitration court seems unpredictable. From what I hear they are relying too much on contacts with arbitration court judges which is not really an unbiased practice. ... Legal framework as such is rather good. It is more about the judges and the practice and application of the law. I have heard about a case where the hearing was moved to somewhere outside Riga and looked like there was some guidance to do that. ... Our company spends a lot of money to invest in legal due diligence. We do it for a reason and save a lot of money on that. But it is only if you can afford to do it. For smaller companies it might be very difficult.” (Real estate company)

“I do not see any improvement regarding the education and training of judges, improving their capacity to understand very complicated cases. Our own experience with the Court system is related to very complex matters and my feeling is that the judges take decision on the basis of their liking or not liking rather than facts and information. ... The positive thing is that case hearings are now being moved to other cities as well to speed up the process. And that is good.” (Consultancy and IT company)

“There are no major changes.” (Wholesale and retail company)

“Luckily we have not had huge issues. Within 10 years while we are working here we have one court case that is going on already four years and still is not finished. It is good that there are many things you can follow online and even submit some papers electronically but it takes too long. It is strange that you can’t solve some relatively simple cases in four years’ time. I see that this should be addressed as an issue.” (Real estate company)

“Luckily I have no experience.” (Service company)

“I cannot comment on this since fortunately I lack experience in this area. The tendency overall is more negative from what I can tell. Our own company does have some issues with the Competition Council and sometimes we feel like our task is to prove we are not a camel.” (Manufacturing company)

“No experience.” (Consultancy and IT company)

“Not topical issue for our business.” (Manufacturing company)

“I haven’t had any experience.” (Retail trade and service company)

“I am not related to this area.” (Wholesale and retail company)

“Luckily my own experience is almost non-existent in this area since I had only one case last year. So I will be very subjective saying that from what I have seen it looks like there should be some serious improvements. My personal view.” (Wholesale and retail company)

“Luckily in the business we haven’t had to do anything with the Courts. Overall probably the situation is slightly better because there has been really a lot of pressure on the Government to get it right. There have been many public discussions and seminars, so slightly better, I would say.” (Finance and banking company)

“Luckily we do not have experience in this field. We can hear from our partners that the system is not efficient but I can’t comment on this.” (Wholesale and retail company)

10. The Healthcare System in Latvia

Not improved

“We have hospital buildings, we have invested in modern technologies and that is very good and positive. Seeing from the personal experience, I can say that if you are insured and you can pay, it is all right. If you have no insurance then you are in a bad situation. Something in this area should be done. The good thing is that it seems this question is on the table of the Government now.” (Real estate company)

“We have in Latvia free medical care that works only if you pay. No improvement, maybe a slight deterioration. Again, my personal view.” (Wholesale and retail company)

“I have experience only in as far as it is a cost for our company. It is a cost that we have because we are competing with other employers and it is a cost for them too.” (Consultancy and IT company)

“There are problems, like quotas. The minister is lying and saying that there are no problems, but when I need to have a doctor for my child, then they are saying that I need to come back in the end of October when the doctors will have quotas for the next year.” (Service company)

“De facto it is chargeable system although it is considered to be free of charge. There is also a system that works on the basis of the people that one knows personally (“blats”) but I am not familiar with it myself. ... Private sector has built hospitals, clinics and sees there a business opportunity. Apparently it works well for them. ... I like the idea about attaching the provision of the service to the social tax. I think even education could be attached to the social tax. You can also follow the road of mandatory private insurance. But I think linking it to paying tax is a good

“I think the worse thing that can happen is that the loans that during the “fat years” were handed out to hospitals on the basis of political belonging now move back to the state budget. Hospitals were supposed to come up with a business plan how the loan will be repaid but in many cases the plans were totally unrealistic and now they face serious problems. Now the minister says these loans might be moved to the state budget. But this is very unfair towards those few hospitals that did have good and viable business plans.” (Professional assurance and advisory company)

“We have health insurance for most of the employees. Generally haven’t seen any progress.” (Retail trade and service company)

“We are waiting for the reform. In a way it is good that there is an understanding now at least about the area of problems that should be solved, I can also see some political commitment that solution should be found. The key thing is – will the solution be structural or it will be one off solution for the problem we have today.” (Wholesale and retail company)

“No improvement, not an inch.” (Manufacturing company)

“There are no improvements, situation is the same. We have insurance for all our employees, it is a cost for us.” (Manufacturing company)

“No improvement. I do not see any structural reform. I also do not see that Latvia would think about prevention. This will have a direct effect on the generation that needs to earn money now for all the others. HIV and AIDS in Latvia is a huge problem, I am terrified when I see the statistics. In Latvia only kids and elderly go to the doctor; all the others work until they drop. There is not enough attention to prevention and prophylaxis.” (Consultancy and IT company)

“Similar as with the court system I lack experience to give good examples and comments. I have heard a lot of discussions that there is a need for a serious reform. I would say that there are zero changes.” (Wholesale and retail company)

“Minister of Health had to leave; his acts were highly unethical. In general, things haven’t got worse but nothing is improved. Main problem is

thing.” (Finance and banking company)

“We fund the healthcare system because we pay our employees their health insurance. This is called a health system that is funded by private sector. Going back to the issue of efficiency – look at Estonia and their e-health system, e-prescriptions. We in Latvia continue to spend time and resources. I hear that people talk about it and think about it and I hope that something will happen as well be it introduction of mandatory health insurance or something else. Otherwise, no progress.” (Retail trade and service company)

“There are no improvements. We have privately funded medical care. Already years ago (2009) we had proposal to clearly differentiate the basket that is provided by the state, one that is provided by the employer, and on that is private or luxury which is up to every individual. This issue is very much linked to the emigration as well: there are significant resources allocated from the budget but they are used by people who do not pay tax in Latvia. Many of the emigrants come and benefit medical treatment free of any charge. Our company ensure our employees.” (Wholesale and retail company)

“We are very cautious. I am not sure that the road the Central Bank has taken is the right one. I think it is the efficiency where we need to look more closely at. So, we are following the issue but not very closely. ... In health sector in Latvia there are probably 4 to 5 groups that compete but they have the same and mutually agreed price policy, so we can’t talk really about competition in the health sector. It is an oligopoly. That is the problem with the model adopted by the Central Bank; they assume that there is a free market in health sector. But there isn’t. ... Efficiency is very important. Also it is important if there will be some kind of a regulator that will regulate the price levels. The quality is also of a very high importance.” (Finance and banking company)

“Similarly to the education, it needs a reform but I have no idea how to get it done. I know many countries are struggling, including UK and USA but I am not an expert.” (Real estate company)

“All our employees have health insurance. As a business, we do not rely on the state funded health services in Latvia, so we provide as a bonus to all

uncertainty and no vision about what next. Similarly like with the Court system in Latvia where I think my company will solve our case but we never know what will be next. Still no one knows what is coming.” (Finance and banking company)

“All the topics we have talked about are still open and relevant.” (Professional assurance and advisory services company)

“There are no improvements. As I said previously, there is an issue of non-existing e-system. We should also think more about issues like expensive medicines - there should be more offers than just one available. For the citizens it should be possible to choose from the price categories what they can afford.” (Wholesale and retail company)

“I see no improvement in this area. But there are many things that we should look at. For example, state compensated medicines and other where there are inefficiencies and a heavy influence of private interests. In my opinion one solution could be to try to offer some of the big hospitals for listing in the stock exchange. The hospital as such ticks many boxes that are important to do that: 1) they have clients; 2) they have subsidies from the state. They need to work on the corporate governance issues, transparency. I think if we encourage that process, there could be some interesting outcomes and possibilities to attract funding. If that works, maybe some pension funds would invest.” (Professional assurance and advisory services company)

Worse

“It is terrible. It is the worst thing that Latvia has to offer. Level of knowledge of medical personnel is terrible. First aid, from my experience, is in a terrible condition. The worst possible you could have. Should be improved.” (Service company)

“Health related payments are increasing for us – for example, sick leaves have increased. This is complex: one reason is that population gets older and old people need more medical assistance. But there is also certainly a lack of control how the sick leaves are given. As we all know, when there is a problem at work or when a court hearing starts, people get sick immediately. We had a person on sick leave and then found out that in fact he is working full time for another employer. ... I know that in

our employees health insurance. Unfortunately, the cost of the insurance is increasing: this year it increased by 10-11% and it is very difficult to estimate it for the following years. This is another aspect where our costs are going up and we become in a way less competitive.” (Consultancy and IT company)

“In Latvia it is impossible not to provide health insurance for your employees. The health system is not accessible and available for everybody who needs it (from the financial perspective). We consider that there are no changes. Health is not available free of charge. The insurance helps but sometimes it is not enough. Those are special cases and we have some funds for these cases when we provide additional support.” (Wholesale and retail company)

“Private sector is paying for what the Government is not able to and I think it is fair enough. We can't have German health system and continue to pay Latvian tax. ... If you count all the private money that goes into health sector, it is a lot. Efficiency is not very high. It is the state part of the system that is falling completely apart. This is like watching car crashing in slow motion, as someone in Latvia said. If we look at the overall occupancy ratios in Latvian hospitals and at capacity utilization – it is very low.” (Finance and banking company)

“The situation is a total catastrophe. I had no idea how bad is the situation until I had to face it recently. If we look from the perspective of an investor it is a huge problem and high-risk factor because a shareholder can physically lose his top manager in the country just because of the health system! That is a very risky business.” (Manufacturing company)

Malta, for example, they solved the issue by going after the dishonest doctors rather than employees because doctors are the ones who sign off the sick leave. At some point in our company we even thought of introducing some company doctors who could check what is going on in reality and possibly help the “sick” person to recover faster.” (Service company)

Improved or some positive opinion

“Similar to education, the health system is part of a very important structure that needs to work and the remuneration there should be also ok. Many medical doctors can emigrate to Scandinavia, for example, because in this area the wage difference is substantial, in Norway you can earn six times more than in Latvia, so this is not sustainable. The health system does get some benefits from cohesion funding. So it is not as bad as you would think. In “Bērnū slimnīca” I have been positively surprised.” (Real estate company)

“My personal experience and information from media contradicts. From personal opinion I see it works and it is good. But in media it is said that 26% of population doesn’t have access to healthcare. All our employees have medical insurances and have access to healthcare. For example, my daughter goes regularly to dentist and has programme for teeth correction and that all was funded by state. But after two years in the middle of the process it turned out that we have to continue this programme with our own financial support.” (Retail trade and service company)

“The quality of the healthcare system is good; I have also had a good personal experience. However, if we look from the employer’s perspective, we are loosing out to our competitors because we need to spend important amounts on health insurance for our employees.” (Finance and banking company)

11. Other

“(i) OECD accession is a great success and it is very good from the perspective of foreign investors. It is like a brand and it increases the trust in the country. And it is a good thing we did it before Lithuania. (ii) RAIL Baltica project. I see as a very good project and it is great that we manage to move forward and closer to get it done. (iii) Refugee issue – I think Government handled it well. There is no panic about it as opposite to some other countries, it is not felt as a threat.” (Real estate company)

“Transport sector and the Rail Baltica are very important. This is a big opportunity for Latvia. The connectivity is very important, as is the railway, highway and airport. One of the problems we have in Riga relates to the trucks - there is no place for them to stop and sleep. In the airport there is also no place for that, so drivers need to sleep in a car. Good sample is the Cyprus airport.” (Service company)

“How many high quality professionals do we have in the civil service? I would like to see more and I would like them to be able to show some results about what has been achieved. I sometimes think what if an experienced manager from private sector would go to civil service and what if he would be given enough resources. I am sure he or she would achieve something. I know from my own experience, there are always ways to be more efficient, to optimize even further. It would be good if we had an example. But it is a fact that many would be left unemployed.” (Retail trade and service company)

“We have ideas to support investment and exports. Both Latvia and the Baltic is small, so most of our business is going on the global scale. We used some support from investment agency (LIAA). Now, what is interesting, our projects do not qualify and that is strange. And the reason is that we are a big company and therefore do not qualify. I think this is wrong. Most of the small companies most probably will not benefit from the available support because of the scale of their operations.” (Wholesale and retail company)

“Within our organization, we have met the Estonian leader of their e-governance system and my understanding is that Latvia’s problem in big part is the lack of vision. I would go even further, we do not have charismatic leaders in the civil service that would try to achieve something. If we look at Estonia and their president Ilvess who has done so much for the digitalization of Estonia and is mentioned everywhere it appears even clearer. Estonians are hands on. In the case of Latvia – we have some information, some strategy and plans but we would need to get very serious about implementing it and getting something done. For me a very important aspect is communication and how the state or Government does it. I would like to see a much better communication from the side of the Government.”
(Wholesale and retail company)

“There are two factors that are interconnected. We need to provide better support to small and medium size businesses, for example, through business incubators that in fact could work also with companies that have already experience but that need additional support. LIAA has finances for these types of activities but they could do a better job in communicating with the different sectors. This is linked. ... Energy resource is another issue and the price of the energy. There should be some clarity. Nobody knows about the pricing policy, where it will go. So, there is a lot of unpredictability.” (Manufacturing company)

“Municipal reform has been completely left out and is not done at all.” (Professional assurance and advisory services company)

“We have been trying to advance the topic of corruption in the Court system and I see there is an understanding that something needs to be done. Next is the health issue that needs to be addressed. I see that the VAT schemes are something that needs attention and that should be tackled. The angle is that again the crooks are outcompeting decent western companies.... Another topic is electricity pricing and seems there are good intentions to properly address this issue finally.” (Finance and banking company)

“As a success story I can mention the insolvency issue. FICIL has done here a lot and the feeling is this is going in the right direction. It was time to make changes, hopefully they will materialise in practice.”
(Retail trade and service company)

Quotes from the Section 5

“To what extent would you recommend your friends and business partners to invest in Latvia?”

“We work with Finland as well and we know fairly well the Finns and their market, what is happening, what they can offer etc. It is well known that Russia plans to relocate their cargos through other ports. But Finland continues to develop their ports; they continue to work with Russia at the highest levels of the government despite sanctions and all the rest. I would say that Latvian Government should think more about trading and business and Latvia’s own interest rather than only focus on Latvia and the EU. All the other countries think about their own pockets first. But Latvia and the Government think not enough about its own interests. They have to wake up and change their thinking; the way it is now is not doing any good for anybody.” (Service company)

“I would recommend. We still have a potential. Our potential will be even bigger if we manage to get rid of the industries that should not be there. The potential is in IT, call centers etc.” (Finance and banking company)

“People and their attitude is very good, the quality is good. I can see there might be challenges but finding the right experts you can solve those and achieve good returns on investment. In my view in Latvia there are not enough high level managers, people who would have a bigger vision and an international experience.” (Retail trade and service company)

“I would generally recommend; it is a country of medium production costs – Latvia is competitive at the EU level, if one seeks to provide service for Scandinavia, also for Western Europe – we can do IT, Help desk services, accountancy, human resource management at the first and second level. Of course there are countries outside the EU where Latvia could not compete (including Ukraine that has much bigger pool of people and resource, lower labour costs).” (Consultancy and service company)

“As long as the issues regarding the rule of law, justice and courts are not sorted out, I can’t recommend! You should not invest in a country where Courts are not functioning properly and the entire legal system is in a constant turbulence, where KNAB, SRS have no real leader and manager and insolvency administrators do whatever they want to.” (Professional assurance and advisory services company)

“There is no better country to live in! I would give 5. However, it sometimes feels like a very expensive hobby. If we talk about business environment, there are competitive advantages but no innovations. It really depends on the field you work in.” (Manufacturing company)

“Latvia is transiting away from low labour cost area. We have a feeling that Latvia is looking for an identity and this is the issue – is it a low cost resource area or is it something else? There are still interesting aspects that could be explored for potential investment depending on the business. ... But overall as with every investment: you need to be cautious and professional.” (Retail trade and service company)

“I would like to recommend but there are reasons to be cautious.” (Real estate company)

“It is relatively calm here, situation with safety is also ok and refugees do not want to be here. Good shared service centres, good recreation and natural tourism opportunities, we have high tech and many success stories, so there are opportunities.” (Consultancy and IT company)

“There are many positives - high living standard, good air connections, Riga is a big city, and it is relatively easy to find people.” (Finance and banking company)

“It is a good place overall, I like living here, we do have challenges, we have our neighbor, but if not it is a wonderful place. In the UK I have had more management problems than here. It is reasonable. You have to be on the ground, have to know the people. And in Latvia due to its relatively small size you can get to know the people.” (Real estate company)

“It depends on the sector. For retail business (rating between 1-2)– I would say that investing in Latvia is not a good idea, because competition is very tough. For example, Prisma came 10 years later to Latvia than Rimi and Maxima and this resulted in losses every year. Private healthcare services, forestry business (rating between 4-5) – very big potential. Forestry has know how, resources, skilled labour force.” (Retail trade and service company)

“It depends on the business and on the contacts you have, your capacity to get a by-in etc.” (Finance and banking company)

“2 - currently, if the reforms not done. However, if Government goes for reform agenda it could be 4 or even 5.” (Professional assurance and advisory services company)

“If you live here, you accept many things. There are certainly issues that can be improved and be like in Estonia. We have good geographical location, reasonable legislation system and reasonable tax system.” (Wholesale and retail company)

“For someone in construction I would not recommend, for somebody in the forestry I would recommend. And I would advise anyone to stay away from the courts.” (Finance and banking company)

Quotes from the Section 6

‘Other’:

“A register should be set up in the banking industry.” (Finance and banking company)

“Price of energy resources – (need for) having a clear strategy.” (Manufacturing company)

“Introduction of ID cards in construction sector.” (Manufacturing company)

“Really think about the infrastructure issues. It is significant point when the investors consider investing in the country. Take the story about IKEA - in Lithuania there was no problem to build the road, electricity etc. How fast is it going to be here? The policy makers want to see investors but they have problems in providing some real assistance and help. Like, there are a lot of space and fields available in the proximity of Riga. However, the issue is who owns the access roads. Not always it is municipality. If investor needs to face the situation where the access roads are owned by 25 owners it makes everything very complicated.” (Wholesale and retail company)

“Civil liability and suffering payments – establishment of rules and guidance.” (Finance and banking company)

“We should ensure 2 % expenditure on defence.” (Real estate company)

“Having a team that goes and represents the country to foreign investors attracting investment. There are areas for positive development - call centres, green technology, there are more, but you need people to go out and advertise. People should start thinking how to present Latvia to foreign investors. I know that there are some financial centres that do a good job at marketing themselves.” (Finance and banking company)

“Military system is good and should be maintained.” (Wholesale and retail company)

“There is a lack of success stories in terms of investment.” (Professional assurance and advisory services company)

“Holding companies – I think this is an area where Latvia has a potential to develop for many reasons and that could allow attracting more investment.” (Professional assurance and advisory services company)

“Would like to see a more articulate vision on the shared service industry from the Government. It would be good for us to understand if Government sees in our industry a potential for tax revenue and profit and what it means in practice. This is not something unique we are asking for. For example,

Poland has done it already. I am not sure if anyone has looked into how much tax we pay? Not sure if there is a proper analysis of the data.” (Consultancy and IT company)

“Teachers’ salaries. Retirement and pensions, should be attached to the availability of health services. Private insurance system (health, life etc.). People need to feel safer.” (Service company)

“More open to multicultural environment.” (Service company)

“More things should be available electronically. The project about the e-signature failed. Banks even do not recommend to use the system. It should be more easily accessible and then it will be used. This also applies to the e-health. When you look at Estonia - already for many years they have prescriptions electronically which means they do not need to go to the pharmacy with a paper prescription. I think the problem in Latvia is mismanagement.” (Real estate company)

Appendix 1: Guidelines for interviews, 2016

1. A year ago, in a similar survey, foreign investors in Latvia identified number of key challenges regarding the investment climate of Latvia. Also you/ your company representative highlighted major areas of concern with respect to the long-term sustainable economic development of your business in Latvia.

Could you please provide your expert opinion on **WHETHER THERE HAS BEEN ANY PROGRESS DURING THE PREVIOUS 12 MONTHS** within the following major areas of concern, as expressed previous year, with respect to development of your business in Latvia:

(Interviewer, please ask for an extended opinion, examples of initiatives on the policy level etc. and how this has helped to overcome these challenges).

- Demography

(Interviewer, please ask whether demography is still one of the key challenges for the foreign investors, such as your company, in Latvia and whether there has been any improvements - at least in 'work in progress level' over the past year to address this challenge?)

- Access to Labour

(Interviewer, please discuss improvements with regards to both quantity and quality of the labour force in Latvia)

- Level of Education and Science in Latvia

(Interviewer, please discuss about improvements within various levels of education- from both quantity and quality of labour force in Latvia)

- Quality of the Business Legislation

(Interviewer, please discuss improvements within business legislation over the past 12 months)

- Quality of the Tax System

(Interviewer, please discuss improvements within the tax system in Latvia over the past 12 months)

- Support from the Government and Communication with the Policy makers

(Interviewer, please discuss whether communication between policy makers and foreign direct investors has improved over the last year and whether there has been any successful initiatives to support foreign direct investors, such as your company)

- Unethical or illegal behavior by entrepreneurs, unfair competition

(Interviewer, please discuss improvements with regards to fighting various forms of the shadow economy, including envelope wages, hidden profits)

- Uncertainty

(Interviewer, please discuss improvements with regards to the 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, uncertainty with regards to the geopolitical situation)

- The Court System in Latvia

(Interviewer, please try to identify improvements in some areas of the court system, such as improvements in fighting corruption in courts, implementation and enforcement, speed, etc.)

- The Healthcare System in Latvia

(Interviewer, please try to identify improvements in some areas of the healthcare system, such as improvements with regards to the non-transparency of the healthcare system and the costs of health insurance)

- Could you please mention any other areas that are of major concern to the foreign investors in Latvia where considerable achievements has been made by the Latvian policy makers?

2. **Challenges that we just discussed were presented to the Latvian Government during the FICIL High Council Meeting in September 2015. In this meeting, Government representatives promised to work towards removing these obstacles in order to improve the investment climate in Latvia.**

To WHAT EXTENT, in your opinion, THIS PROMISE HAS BEEN FULFILLED, please assess the work of the Latvian policy makers in scale from 1 to 5 (where ‘1’ is fail, ‘3’ is average and ‘5’ is excellent):

1	2	3	4	5
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Please justify your assessment:

3. **Overall, from your, as an investor’s, perspective, has the investment attractiveness of Latvia improved during the previous 12 months?**

1	2	3	4	5
Not at all	Only minor improvements	Some positive improvements	Yes, has improved	Yes, has improved significantly

4. **Which would be the major 3-5 tasks - homework that have to be done by the Latvian policy makers over the next 12 months in order to improve the investment climate in Latvia?**

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

Area	1 (very low) to 5 (very high)
Business Culture	

Demography (population growth)	
Education and science/innovation	
Health system	
Social security	
Infrastructure (roads, electricity, etc.)	
Domestic demand	
External demand (exports)	
Traditions of the industry (your company represents) in Latvia	
Availability of labour (management level)	
Availability of labour ('hands')	
Efficiency of labour	
Low production costs	
Monetary policy	
Tax system	
Legal system	
Standard of living in Latvia	
Policies towards foreign investors	
Investment incentives	
Defence	
Energy resources	
<i>Other (please specify) Riga as metropolitan of Baltics</i>	

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

7. To what extent would you recommend your friends and business partners to invest in Latvia? (1- would not recommend at all, 5- would highly recommend)

1	2	3	4	5
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8. At the end of this interview, we would like to ask you to provide a short message (up to 5-7 sentences) to the Prime Minister of Latvia - preferably on how to improve business climate for the foreign investors in Latvia. We will pass this message when presenting results of this survey, of course, without identifying the messenger.

Appendix 2: Companies that participated in 2016 interviews

Amber Beverage

Amber Beverage Group LTD is a holding company and the head office for SPI Group businesses in the Baltic States. Amber Beverage Group unites over 1400 employees in seven companies across the Baltics, including the region's leading producer of alcoholic beverages, experienced distribution companies in Estonia, Latvia and Lithuania, a specialized retail chain of over 60 shops operating in Latvia and Lithuania and logistics services across the Baltics.

Balta/PZU

The PZU is one of the largest financial institutions in Poland, as well as Central and Eastern Europe. Continuing a 200-year tradition PZU provides comprehensive insurance coverage in all key sectors of private, public and economic activity. The PZU Group also manages an open pension fund, investment funds and savings programs. PZU acquired Balta in 2014. Balta has more than 540 employees and 42 branches in Latvia.

Baltic Container Terminal

Baltic Container Terminal Limited (BCT) is a privately owned container terminal operating within Free Zone of Riga Freeport. Mariner S.p.A. of Italy has acquired the full shareholding interests in BCT. BCT today is one of the fastest growing shipping terminals in the Baltics in terms of container throughput tanks, in part, to its status as the leading entry point from the Baltic states to the important Russian market.

Cemex

CEMEX is founded in 1906 with the opening of the Cementos Hidalgo plant in northern Mexico. Now CEMEX is a global building materials company that provides high-quality products and reliable service to customers and communities in more than 50 countries throughout the world, and maintains trade relationships in over 100 nations.

CIRCLE K

SIA Circle K Latvia was established in 1992 and has 700 employees in the country. SIA Circle K Latvia (SIA Statoil Fuel & Retail Latvia - the name of the company till 31 March 2016) is an indirect subsidiary of Circle K AS (Statoil Fuel & Retail AS - the name of the company till 31 March 2016), which in turn is a wholly - owned indirect subsidiary of Alimentation Couche-Tard Inc. (Couche-Tard). In Europe, Couche-Tard is a leader in convenience store and road transportation fuel retail in the Scandinavian and Baltic countries and in Ireland with a significant presence in Poland.

DnB

DNB is Norway's largest financial services group and one of the largest in the Nordic region in terms of market capitalisation. The Group offers a full range of financial services, including loans, savings, advisory services, insurance and pension products for retail and corporate customers.

Ernst & Young

Ernst & Young is a multinational professional services firm that works in assurance, tax, transactions and advisory services. It has more than 500 professionals in Estonia, Latvia and Lithuania equipped with deep industry knowledge in various market sectors.

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. Eversheds operates at the leading edge of business and is recognised by Acritas as a Global Elite Law Firm. It operates in Western Europe, Central and Eastern Europe, the Middle East, Asia and Africa.

EVERY

As one of the largest IT companies in the Nordics, EVERY provides extensive deliveries to Nordic companies, financial institutions, national public sector entities, municipalities and health authorities. EVERY Latvia is 100% owned by Norwegian www.evry.com. The company started up in Latvia at the end of 2012 and it is an IT company with service desk functions. It exports 100% 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 in 1971). Food Union employs more than 800 people.

Fortum

Fortum is a power and heat company, which operates in the Nordic countries, Russia, Poland, the Baltics, and India. The Company has been operating in Latvia since 2007. Fortum has been operating in Latvia since 2007. The company has served as the district heating operator in Jelgava. It is in charge of district heating production, distribution and sales as well as maintenance and operations of plants and the district-heating network. Fortum sells electricity produced in the CHP plants on the wholesale market in cooperation with the largest power traders in Latvia.

GlaxoSmithKline

GlaxoSmithKline is a British pharmaceutical company headquartered in Brentford,

London. Now it is a science-led global healthcare company. It works with the researches and development of a broad range of innovative products in three primary areas of Pharmaceuticals, Vaccines and Consumer Healthcare.

Klasmann-Deilmann

The Klasmann-Deilmann Group is the world's leading company in the substrate industry. It supplies growing media, organic substrates and base and peat products in over 80 countries on all continents. 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.

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 was founded 9th January 1948 to secure Finland's oil supply. Neste Oil Corporation is a refining and marketing company specializing in high-quality fuels for cleaner traffic. It is listed in the Dow Jones Sustainability World Index and the Global 100 list of the world's most sustainable companies. Neste Oil's Latvian company was established in 1990.

Møller Auto

Møller Auto is one of the leading car retailers in Baltic countries. The core business is connected to new and used car trade, original spare parts trade, car service and maintenance. Møller Auto is part of Norwegian "MøllerGruppen" and in the Baltic countries it operates since year 1997.

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 1997 and employs 409 people in the country.

Nasdaq

Nasdaq stock exchanges in Tallinn, Riga and Vilnius form the Baltic Market, the core idea of which is to minimize to the extent possible the differences between the three Baltic markets in order to facilitate cross-border trading and attract more investments to the region. The Riga Stock Exchange was founded in 1993. Finland's Stock Exchange HEX Group became its biggest shareholder in 2001.

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.

PricewaterhouseCoopers

PwC is a multinational professional firm that focuses on audit and assurance, tax and consulting services. The company operates in Latvia since 1993, and currently employs over 140 employees. Its goal is to contribute to the development of country's economy by advising local businesses, governmental institutions and foreign investors.

Reitengruppen (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.

Rimi Baltic

Rimi Baltic is one of the leading retailers in Baltic States and they are operating three chains appreciated by customers – Rimi supermarkets, Rimi hypermarkets and hard discount shops Supernetto. Rimi Latvia currently operates 43 Rimi supermarkets, 31 Rimi hypermarkets and 45 Supernetto stores. The company employs 5496 people.

Robert 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 thermo technology brands Junkers and Buderus, the automotive aftermarket and diagnostic technology products, and security system products.

SEB banka

SEB is the second largest bank in Latvia, with a comprehensive offering of banking services. SEB has a strong position in both private and corporate banking, particularly in long – term saving and lending for corporate customers, where SEB is the market leader. Together with the other banks of SEB of the SEB Group SEB Banka forms one of the most influential financial institutions in Northern Europe, which serves more than 4 million clients in 20 countries.

Solvay

Solvay Group is an international chemical and advanced materials production company. Solvay is headquartered in Brussels with about 30,000 employees spread across 53 countries. Cytec Solvay Group in Riga operates as Global Business Services Center and provides variety of services to Solvay group. 200 employees work in Data Management, Finance, HR, IT, Order Fulfilment, Procurement and Hazard Communication.

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.

Uralchem

Uralchem is one of the largest producers of nitrogen and phosphate fertilizers in Russia and CIS. Its main competitive advantage is the development and production of innovative fertilizers tailored to particular countries, markets and segments along with ammonium nitrate and urea.

Vastint

Vastint is an international real estate organisation with over 25 years of experience. The cornerstone of their operation is the management of portfolio properties and the development of commercial real estate, including residential development and sales.

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.

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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