



## **FICIL Sentiment Index 2017**

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

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## Foreword

The “FICIL Sentiment Index 2017” has been compiled at a time when economic growth rates in Latvia are strong, and have surpassed expectations set a year ago. In the 3rd quarter of 2017 the gross domestic product of Latvia grew by 6.2% over the year and we can be relatively sure that this growth will extend into Latvia’s centenary year.

There are several reasons behind this growth. First, there are positive developments in the external environment - Latvia’s main export markets are showing solid development with the Eurozone area set to grow at the fastest pace in a decade this year. Second, growing investment levels reflect the impact of the influx of long-awaited EU structural funds, which finally began in 2017. Third, as a result of wage growth stronger consumption has been observed – average household income is gradually increasing allowing to spend a little more than a year ago.

Periods of strong and stable economic growth are often considered to be an opportunity for developing further growth potential. This means thinking about the future – embracing the new possibilities presented by the development of new technology, artificial intelligence, innovation and digitalization - making sure that they contribute to efficiency gains and provide opportunities for businesses, the public sector and all of society.

The key topic for the High Council 2017, which brought together the government and foreign investors, was “Do!” - highlighting the importance of mutual trust as a crucial part of good governance, and a prerequisite for implementing further reforms and building a future legacy for the country. As part of the High Council dialogue, there was an agreement to position Latvia in 2025 as a 'smart nation', and as the most attractive place for business and investment in the Baltic sea region. It's an ambitious vision, which requires bold actions. We need to be smart, courageous and efficient in order to achieve these goals.

FICIL’s work in 2018 will concentrate on the availability and quality of the labor force, the fight against economic crimes and the promotion of digitalization. We are committed to working in close partnership with the government to achieve real progress, along with an improvement in the business environment and investment climate in Latvia.



Zlata Elksniņa-Zaščirinska  
Foreign Investor’s Council in Latvia  
Chairperson of the Board

## Executive Summary

The FICIL Sentiment Index was established in 2015 by the Foreign Investors' Council in Latvia (FICIL) in cooperation with the Stockholm School of Economics in Riga (SSE Riga), to foster more evidence-based policy decisions in promoting a favourable investment climate in Latvia. This is the third FICIL Sentiment Index report, following the two reports written in 2015 and 2016. The key aim of the current report is: (i) to explore whether, according to foreign investors in Latvia, there has been any progress in the development of the investment climate in Latvia over the past 12 months; (ii) to find out how investors evaluate the government's efforts and current policy initiatives aimed towards improving the investment climate in Latvia, and (iii) to discover how investors react to key challenges brought about by the external environment in Latvia. Empirically, the FICIL Sentiment Index study draws on mini case studies: in-depth interviews with the CEOs of key foreign investors in Latvia. 42 CEOs were interviewed during September-early November, 2017, including representatives of those 32 and 28 companies that also participated in the 2016 and 2015 studies, respectively. Altogether, these companies (including their subsidiaries) contribute to 11% of Latvia's total tax revenue, 17% of total profit and employ 5% of total workforce of companies above 145000 EUR turnover and 50% foreign capital (data from Firmas.lv).

The results of the 2017 study suggest that the investment attractiveness of Latvia, according to the viewpoints of foreign investors, has slightly improved, as compared to 2016. Namely, on the scale of 1 to 5, where '1' means that there are no improvements at all, '3' - some positive improvements and '5' - the investment climate has improved significantly, the development of the investment climate in Latvia over the past year was evaluated as '2.5', which is 0.5 higher than the previous year. The investors' assessment with regards to the policy makers' efforts to improve the investment climate in Latvia over the past year, has also improved in 2017, as compared to 2016, namely, respondents graded the work of policy makers as almost 'average' (2.9) on a scale of 1-5, where '1' and '2' are fail and '5' is excellent, whereas in 2016 the grade was 2.3. The main conclusion is that, even though there is still substantial potential to increase both the policy makers' efforts and resulting overall foreign investment climate in Latvia, some progress has been achieved over the past 12 months. Investors also commented on each of those areas, identifying both positive and negative trends that have influenced their assessment.

Similarly to the 2016 study, foreign investors were once again asked to evaluate whether there has been any progress within key areas of concern as identified in 2015. According to our results, the majority of the interviewed foreign investors do not see any progress with regards to the most significant areas of concern: demography, access to labour and improvements in the healthcare system in Latvia. For example, 30 or more out of 42 interviewed investors answered that no progress has been achieved in any of these areas over the past 12 months. Investors concede that the demographic situation is a complex one and may take time to resolve. However, access to labour and improvements in the healthcare

system are areas where policy makers should invest more time and efforts to achieve results in the short term.

Over half the respondents also consider that no progress has been made in the court system, the quality of the business legislation and, to some extent, reducing uncertainty was also evaluated as having made no progress by more than half of respondents. However, 16 out of 39 respondents that answered this question see at least some progress with regards to the development of the quality of business legislation, 20 (out of 42) with regards to uncertainty and only 7 (out of 37) with regards to improvements in the court system. As many as 18 foreign investors see no progress in the positive development of the level of education and science, improvements with regards to unethical or illegal behaviour by entrepreneurs and unfair competition, as well as quality of the tax system. Finally, as many as 14 respondents answered that they see progress in support from the government and communication with the policy makers, 10 answered that progress has been ‘partly’ achieved, but 16 feel that there has been no progress in this area over the past 12 months. Foreign investors provided more in-depth insights with regards to all those areas of concern and these have been summarised within the report.

Overall, similarly to the overall assessment of the development of the foreign investment climate in Latvia, assessment of the development of its main components has slightly improved, in comparison with the previous year. Still, as our results suggest, there are many challenges to be solved by policy makers in most, if not all, those areas of concern, that still lie ahead. This is also reflected by the “FICIL Sentiment Index”- foreign investors’ assessment of the drivers of Latvia’s competitiveness – that 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 and demography. In addition, foreign investors were asked to evaluate the standard of living in Latvia.

During the 2015 study, 28 selected foreign investors in Latvia evaluated each of these indicators – the potential drivers of Latvia’s economic competitiveness. The same 28 respondents, as well as 4 new companies, participated in the evaluation of the same indicators in 2016, whereas in 2017 an additional 10 companies joined the survey. 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. According to our results, in all three years (2015, 2016 and 2017 studies) foreign investors in Latvia mostly evaluated the potential drivers of the economy as above average. In 2017, to the same extent as in 2015 and 2016, investors are most satisfied with soft infrastructure, measured as “business culture in Latvia” (3.4 out of 5). Investors are, however, least satisfied with demography where the evaluation has gradually decreased: from 2.0 out of 5 in 2015, 1.8 in 2016 to 1.6 in 2017.

As in 2015 and 2016, also represented by assessment of the progress within the main areas of concern as presented above, foreign investors still see major problems in the quality of the health and social system. Assessment of the availability of labour in 2017 has decreased substantially (from 3.1 in 2016 to 2.7 in 2017), and it is clear that investors see major problems both in the availability of management level labour (decrease from 3.5 to 2.9 as compared to year ago) as well as ‘hands’ (a decrease from 2.8 to 2.5). According to the FICIL Sentiment Index study, however, substantial improvements are seen in the development of the quality of education and science. A slight decrease can also be observed in indicators such as efficiency of labour and overall attitude towards foreign investors in Latvia (from 3.2 to 3.1), whereas there is a slight increase in the indicator ‘quality of business legislation’ (from 3.1 to 3.2.) as well as ‘indicator ‘hard infrastructure’ (from 3.3. to 3.4). Furthermore, according to viewpoints of the key foreign investors in Latvia, demand for products and services has increased (3.1 to 3.4 as compared to a year ago), driven both by domestic and external demand. Finally, evaluation of the standard of living in Latvia has dropped to ‘3.7’ from ‘5.0’ which is a 0.2 decrease as compared to 2016, yet a 0.3 increase as compared to the situation in 2015.

Foreign investors were also asked whether and under what conditions they plan to increase investment in Latvia. To summarise, as many as 24 of the interviewed 42 investors answered with ‘yes’, 10 said ‘no’ and 7 replied that ‘it depends on the circumstances’, or they have not yet decided. In one case, an investor mentioned that there is no particular need to increase investment. As exemplified by the quotes summarised in the report, there are both very positive and very negative opinions with regards to further investment plans, yet there are considerably more positive cases than negative ones. For comparison, one year ago, when 32 foreign investors were interviewed, 16 investors said ‘yes’, 10 said ‘no’ and 6 were ‘undecided’.

In 2017, foreign investors were also asked to evaluate the number of currently initiated or recently implemented initiatives by the policy makers to improve the climate for foreign investment in Latvia. The list of initiatives was created drawing on the planned actions of the government of Latvia as presented by the Minister of Economy at the FICIL High Council meeting, on 26<sup>th</sup> May, 2017. According to the viewpoints of foreign investors, policy makers have been most efficient while implementing initiatives that foresee 0% on reinvested profit (5.2: on a scale of 1 to 7, where ‘1’ is ‘very inefficient’; ‘7’: very efficient). Efficiency with regards to implementing export credit guarantees and start-up ecosystems was evaluated by the respondents as above average (4.1 and 3.6 from 7 accordingly). Policy makers’ work on initiatives such as, ‘Innovation and technology transfer system’, ‘Human capital development’, ‘Smart immigration’, ‘Restart of FDI attraction’ and ‘“Zero bureaucracy’ was evaluated as considerably less effective (below 2.0 from 7).

Furthermore, in 2017 investors were asked to share situations from their experience (or the experience of other companies), when ‘on paper’ everything appeared fine, yet, in reality this

was not the case. This question was asked to address the gap between ‘formal’ (laws and regulations) and ‘informal’ (norms and values) institutions in Latvia. The situations that were most often described by the foreign investors included inconsistencies in the legal framework and ‘what happens in reality’ with regards to bureaucracy, the court system, as well as a number of cases in situations with (or related to) unethical or illegal behaviour, situations involving the State Revenue Service, as well as the situation with uncertainty, among others.

Finally, respondents were asked to reflect on how they adapt and react to challenges within the external environment, as identified during the interviews, as well as how specific advantages have supported their adaptation to the environment in Latvia. Namely, apart from highlighting some strengths of the business environment in Latvia, during the interviews most of the foreign investors identified various challenges that their company is facing in the country. In this light, in order to establish how exactly companies deal with these challenges enabling them to stay and grow in Latvia, they were asked to share with the factors that allow them to compete successfully and whether there are any particular characteristics that allow foreign investors to deal with the difficulties in the business environment. The situations foreign investors mentioned most frequently are summarised in the report in the form: ‘Challenges: how companies solve them’, where the most discussed areas are related to solving challenges with unethical or illegal behaviour; bureaucracy; access to labour; language requirements; construction and juridical challenges.

The foreign investors’ answers to the former two questions described above are additional proof for the necessity to continue putting efforts into improving the investment climate in Latvia. The report authors hope that, similarly to the two previous reports, this report will also support policymakers with better grounds for making informed policy decisions in such a way that the overall competitiveness of the entrepreneurship climate in Latvia will be improved. It is also hoped that it will continue to foster further constructive communication between foreign investors and the government of Latvia.

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## 1. Introduction and methodology

This is the third FICIL Sentiment Index report, following the two reports written in 2015 and 2016. 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 the current 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 regards to policy initiatives to meet the main challenges as identified in the 2015 and 2016 studies?
- (2) How do investors evaluate the government's efforts and current policy initiatives aimed towards improving the investment climate in Latvia?
- (3) How do investors react to key challenges as brought about by the external environment in Latvia?

As in 2015 and 2016, this report draws on a survey: mini case studies of foreign investors in Latvia. From September to the beginning of November 2017, we interviewed the same 32 companies that took part in the 2016 study. In addition, 10 new companies took part, making a total of 42 foreign investors in Latvia in the 2017 study. Altogether, these companies (including their subsidiaries) contribute to 11% of Latvia's total tax revenue, 17% of total profit and employ 5% of total workforce of companies above 145000 EUR turnover and 50% foreign capital (data from Firmas.lv). 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 and, for this reason, 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: Mrs. Zlata Elksniņa- Zaščirinska (Chairperson of the FICIL board, PwC), Mr. Guntars Krols (Vice-chairperson of the FICIL board, EY) 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 2016, 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
- *Evaluation of the work of the Latvian policy makers with regards to improving the investment climate in Latvia during 2016*
  - *Assessment of how, according to foreign investors, the investment attractiveness of Latvia has improved during the past 12 months.*
  - *Evaluation of current initiatives by policy makers to develop a favourable 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 their investment in Latvia, as well as to share situations from their experience (or the experience of other companies), when ‘on paper’ everything appeared fine, yet, in reality this was not the case. The latter question was asked in order to address the gap between ‘formal’ and ‘informal’ institutions in Latvia (please see section 6 for more information). Finally, respondents were asked to reflect on how they adapt and react to the challenges within the external environment, as identified during the interviews, as well as how specific advantages have supported their adaptation to the environment in Latvia.

The report is structured accordingly and, whenever possible, investors were asked to provide more detailed opinions and examples. We hope that similarly to the two previous reports, this report will also support policymakers with better grounds for making informed policy decisions in such a way that the overall competitiveness of the entrepreneurship climate in Latvia will be improved. It is also hoped that it will continue to foster further constructive communication between foreign investors and the government of Latvia.

## **2. The attractiveness of the investment climate in Latvia and the government's input: evaluation of previous and current initiatives**

One of the key aims of the FICIL Sentiment Index is to measure the progress of investment climate development in Latvia. To do so, similarly to 2016, investors were asked for their

perspective on whether the investment attractiveness of Latvia has improved over the past 12 months. Investors could evaluate the improvement of the investment attractiveness of Latvia using a 5-point scale, where ‘1’ means that 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 42 respondents answered this question, in most cases evaluating the development of investment attractiveness with ‘3’- there have been some positive improvements. This contrasts with the 2016 study when the most widespread answer was ‘2’ – only minor improvements. Almost one quarter of respondents evaluated the development of the investment attractiveness of Latvia with ‘2’ and slightly less with either ‘1’ i.e. investment attractiveness has not improved at all or ‘4’- investment attractiveness has improved (see Figure 1). No respondent, however, answered with ‘5’, i.e. that investment attractiveness has improved significantly (see Figure 1). ***On average, the development of the investment climate in Latvia over the past year was evaluated with ‘2.5’, which is 0.5 higher in comparison to answers to the same question a year ago*** (see Table 1). Thus, even though investors still do not see major progress in the development of the investment climate in Latvia, overall there have at least been some positive improvements in this regard.

**Table 1: Progress of investment climate development in Latvia: development over the past 12 months: 2016 and 2017 studies.**

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

2016: n = 32; 2017: n = 42

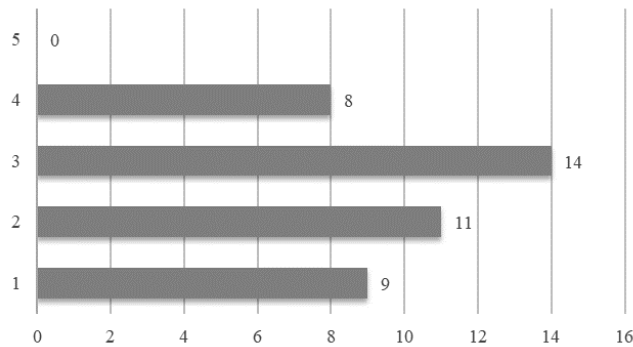
<i>year</i>	<i>rank</i>
<b>2017</b>	<b>2.5</b>
<b>2016</b>	<b>2.0</b>

Source: FICIL Sentiment Index 2015- 2017

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

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

2016: n = 32; 2017: n = 42



Source: FICIL Sentiment Index 2015- 2017

We also asked investors to justify their assessment and received the following opinions, some of them (i.e. negative ones) highlighting major issues foreign investors also expressed in the FICIL Sentiment Index 2015 and 2016 studies:

“Our company has pumped lots of money into Latvia and we haven’t seen any support whatsoever. If we were a Latvian investor, the attitude would have been very different – much better. We play by the international rules; we do things according to the law and not according to the local “traditions” and that is not appreciated. From that perspective, Latvia is unfortunately uncompetitive regionally, especially compared to Lithuania and Estonia.”  
(Service company)

“I see that our Investment and Development Agency of Latvia (LIAA) is the weakest amongst the Baltic countries. Yes, there are some efforts to improve the situation, but it is not enough. The investment agency in Estonia has created great communication with their government and the business sector. Lithuanians seem to be more aggressive and insistent in their actions. They have a good ecosystem for shared service centres.

The problem in Latvia is that we feel too complacent and this attitude leads nowhere.”  
(Wholesale and retail company)

“The new tax reform does not really help.”  
(Service company)

“Uncertainty and strange decisions of the government remain. The same problems remain with the labour market.”  
(Manufacturing company)

“When I present the vision of business to the company’s board, they are sick of seeing that, in Latvia, there are constant changes in business legislation and policies; this leads to uncertainty. This is not good for business in general. Our company constantly has to adjust to regular changes. Of course, we will not move our business out of Latvia due to constant changes, because it’s not so easy to do so.”  
(Wholesale and retail company)

“No- because of demography and availability (or unavailability) of labour.”  
(Professional assurance and advisory services company)

“Has not improved at all and is due to the amendments in the National Security Law. Basically, these amendments say – we (the government) are going to control how you use your assets and what you do with them.”  
(Consultancy and IT company)

... however, there are also more positive opinions:

“Key economic indicators seem quite optimistic. The big players like Lidl, Ikea, Akropole are entering the market that inspires hope that the situation will improve.” (*Consultancy and IT company*)

“I think that overall Latvia abroad is well perceived and even on some aspects it stands out from other neighbouring countries. I see there are many business visits, for example, this is very good. It is important to also think about raising awareness abroad about the country, businesses etc.” (*Retail trade and service company*)

“From an insurance point of view, the situation is improving. Small fraudulent firms that provide shady services and don’t keep promises have left the market, or at least consumers don’t choose them.” (*Finance and banking company*)

“Improved- due to EU funds.” (*Manufacturing company*)

“I see that many foreign companies are visiting our office. They see that we have established business here. The English-speaking intellectual people are an attractive factor for investment. Also, the salary level is attractive in comparison with other EU countries. I think that Latvia should open its doors to good, English-speaking employees. Our business would benefit from that.” (*Consultancy and IT company*)

We are doing ok in some areas. There is regulation and support for start-ups and fintech - we have a good internet infrastructure. It’s good value for many. Rail Baltica is developing. But more ambitious changes are needed. (*Finance and banking company*)

“The economy is growing, banks are giving out loans, and investment attractiveness is increasing. I don’t have very reliable data, but my feeling is that it’s much better than 10 years ago.” (*Real estate company*)

In addition, we asked 42 main foreign investors in Latvia to assess the work of the Latvian policy makers and what has been done to improve the investment climate in Latvia during the previous year. The policy makers’ contribution was evaluated on a scale of 1 to 5 (where ‘1’ is fail, ‘3’ is average and ‘5’ is excellent). Answers to this question are directly comparable to the similar question that were asked in the 2016 study: “To what extent has the government’s promise to improve the investment climate in Latvia – made during the FICIL High Council Meeting in 2015 – been fulfilled?”, as both involve assessment of policy makers’ efforts to improve the investment climate over the past year. Results from both 2016 and 2017 studies are summarised in Table 2.

All 42 respondents answered this question and the distribution of answers is provided in Figure 2. In short, Figure 2 suggests that, similarly to the 2016 study, the majority (i.e. one third) of respondents evaluated the government’s efforts with regard to the development of the investment climate in Latvia as ‘3’ – average. Yet one quarter of those that answered the question felt that the government has not invested enough effort to improve the investment climate in Latvia, hence the ‘grade’ ‘2’. Approximately the same number of respondents answered with ‘4’, which is a better result than in the 2016 study. Only in a few cases investors evaluated the work of the Latvian policy makers with ‘1’, yet not a single respondent responded that the government has done an excellent job in this regard (see Figure 2). ***On average, foreign investors evaluate policy makers’ efforts to improve the investment climate over the past year as better, in 2017 (2.9 from 5) as compared to one year ago (2.3)*** (Table 2). Thus, the main conclusion is that even though there is still

substantial potential to increase both the policy makers’ efforts and the resulting overall foreign investment climate in Latvia, some progress has been achieved in this regard.

**Table 2: Foreign investors’ assessment of policy makers’ efforts to improve the investment climate over the past year: 2016 and 2017 studies**

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

2016: n = 30; 2017: n = 42

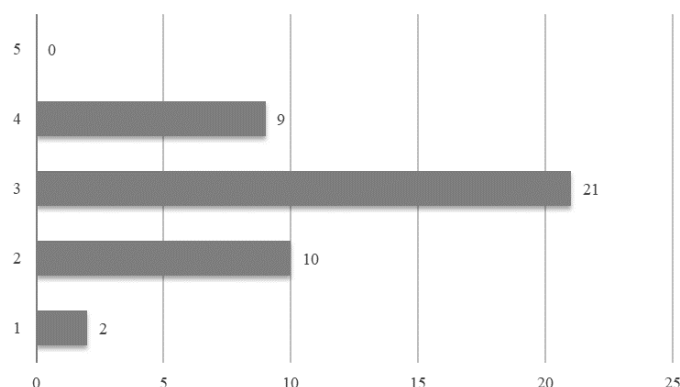
<i>year</i>	<i>rank</i>
<b>2017</b>	<b>2.9</b>
<b>2016</b>	<b>2.3</b>

Source: FICIL Sentiment Index 2015- 2017

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

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

2016: n = 30; 2017: n = 42



Source: FICIL Sentiment Index 2015-2017

Again, respondents were asked to justify their assessment and the following opinions - both negative and positive – were received:

“Something has been done but if compared to Lithuania, we are very far away in terms of investment attraction.” *(Consultancy and IT company)*

There are activities carried out, but not implemented properly. In my opinion, some initiatives are aimed at improving the investment climate, but the people standing behind implementation are not competitive enough.” *(Professional assurance and advisory services company)*

“There is some positive activity related to start-ups. The labour costs are still low.

The biggest stepping stones for Latvia are the bureaucracy, uncertainty and tax administration.” *(Consultancy and IT company)*

“At least the government hasn’t done anything bad for the investment climate which is already good enough.” *(Retail trade and service company)*

“Nothing has been done in the business area we operate in. There has been rotation at the highest levels of people responsible for the area we work in, but since then nothing has happened, no-one talks to the industry and companies; we receive information from the media.” *(Service company)*

“LIAA has not developed even one single new marketing material to promote Latvia. For example, during the last economic forum in Azerbaijan, which is an extremely important existing and potential export market for Latvia, LIAA showed 5 year old marketing material .”  
*(Manufacturing company)*

“I heard from the LIAA that they are still losing some of the deals to Lithuania. For example, when it comes to the back-office actions, companies (for example, Luminor) are moving their headquarters elsewhere. LIAA should put more effort into attracting businesses to locate them where it is geopolitically more profitable – in Latvia .” *(Real estate company)*

“I can see that the Prime Minister has a plan and he regularly follows the plan and its implementation. He delivers on his promises.”  
*(Finance and banking company)*

“The initiative about reinvested profit is good.”  
*(Consultancy and IT company)*

“I will mark this with ‘3’, because changes in reinvested profit is a good idea, but in the times when transit is decreasing and availability of workforce is also diminishing, politicians could have done more to improve the investment climate in Latvia. Policy makers should make immigration easier.” *(Consultancy and IT company)*

“Looking from the point of view of my sector, the situation is pretty good. I see that the government is open to discussion, the responsible ministry works with all the stakeholders starting from children and pupils to students, start-ups, businesses etc. The public sector is happy to test innovative solutions itself and I can see that there is a move towards a change in the approach – instead of asking for some tool or instrument, the government is asking for a specific result and that is the right approach.” *(Consultancy and IT company)*

“There are many unknowns on many important issues, for example, cooperation with China – it is absolutely not clear what the policy of Latvia is. There is zero progress.” *(Manufacturing company)*

In addition, in the 2017 study, foreign investors were asked to evaluate the number of currently initiated or recently implemented initiatives by the policy makers to develop the entrepreneurship climate in Latvia and, in particular, for improving the climate for foreign investment in Latvia. In cooperation with FICIL, a list of initiatives was created, drawing on the planned actions of the Government of Latvia as presented by the Minister for Economics at the FICIL High Council meeting on 26<sup>th</sup> May 2017. In particular, investors were asked to evaluate:

- whether policy makers have worked effectively to implement these initiatives during the previous 1-2 years (measured on a scale of 1 to 7 where ‘1’ is ‘very inefficient’; ‘7’: very efficient;
- whether investors think these initiatives are valuable or, on the contrary- “do not make much sense” for improving the climate for foreign investors in Latvia.

Table 3 summarises the results with regards to the efficiency of the policy makers to implement the selected policy initiatives, according to the viewpoint of key foreign investors in Latvia.

According to the viewpoints of foreign investors, policy makers have been most efficient in implementing the initiative that foresees 0% on reinvested profit (5.2 from 7). Also, efficiency with regards to implementing export credit guarantees and start-up ecosystems was evaluated by respondents as above average (4.1 and 3.6 from 7 accordingly). Policy makers' work on initiatives such as 'Innovation and technology transfer system', 'Human capital development', 'Smart immigration', 'Restart of FDI attraction' and "Zero bureaucracy" was evaluated as considerably less effective (below 2.0 from 7).

**Table 3: Foreign investors' assessment of selected initiatives by policy makers to develop the entrepreneurship climate in Latvia and improve the climate for foreign investment in Latvia**

*Scale 1 to 7, where '1' is 'very inefficient'; '7': very efficient.*

2017: n = 42

<i>policy initiative</i>	<i>rank</i>
<i>0% on reinvested profit</i>	5.2
<i>Export credit guarantees</i>	4.1
<i>Start-up ecosystem</i>	3.6
<i>Openness of economy</i>	3.4
<i>Insolvency regulation</i>	3.3
<i>Consult first</i>	3.1
<i>Innovation and technology transfer system</i>	2.9
<i>Human capital development</i>	2.7
<i>Smart immigration</i>	2.6
<i>Restart of FDI attraction</i>	2.5
<i>"Zero bureaucracy"</i>	2.3

**Source: FICIL Sentiment Index 2015-2017**

In most cases, foreign investors expressed the opinion that current initiatives are 'valuable', i.e. with potential positive impact on the development of the investment climate in Latvia- yet with some exceptions. For instance, 10 out of 42 investors expressed an opinion that '0% on reinvested profit' is not a valuable activity to improve the investment climate in Latvia. In 6 cases 'Export credit guarantees', in 5 cases 'Start-up ecosystem', in 3 cases '0 bureaucracy' and 'Consult first', and, finally, in 2 cases 'Smart immigration', 'Innovation and technology transfer system' and 'Restart of FDI attraction' were evaluated as having no impact in this regard.

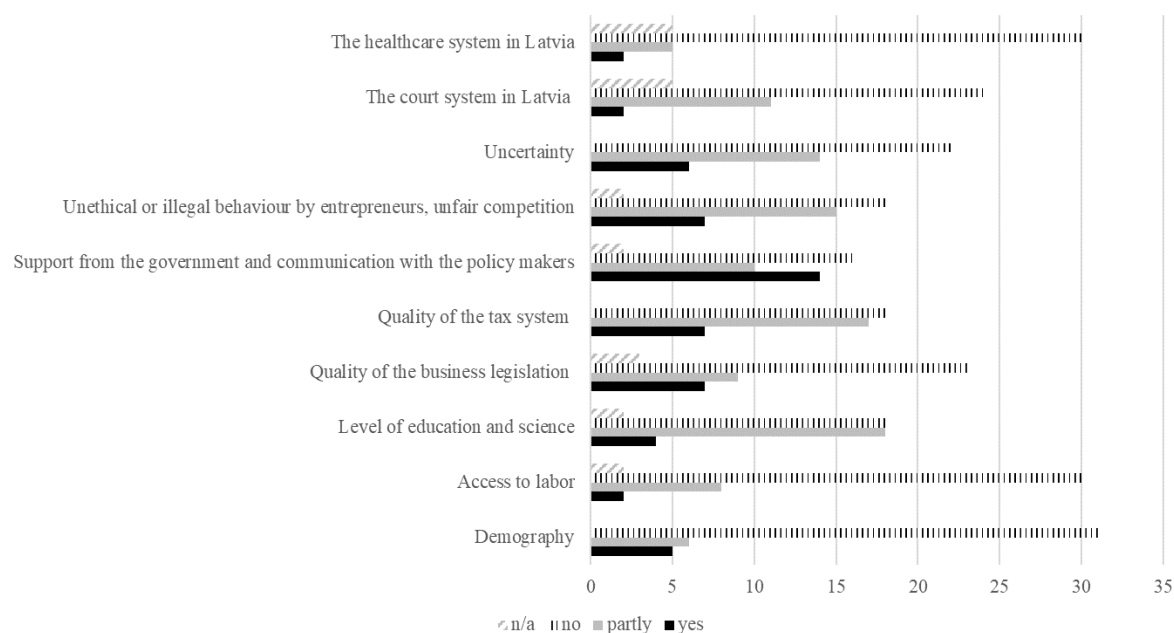


### 3. Key challenges faced by foreign investors in Latvia: progress or regress?

During the 2015 and 2016 surveys, a number of key challenges that foreign investors in Latvia face while developing their business were identified. These include: demography, access to labour, level of education and science, quality of the business legislation, quality of the tax system, support from the government and communication with the policy makers, unethical or illegal behaviour by entrepreneurs, unfair competition, uncertainty, the court system in Latvia and the healthcare system in Latvia. In the 2017 survey, we asked the 42 biggest foreign investors in Latvia whether, in their opinion, there has been any progress during the previous 12 months within those areas of concern. The findings are summarised in Figure 3.

**Figure 3: Foreign investors' assessment of the progress over the past 12 months with regards to the key areas of concern as identified in the 2015 and 2016 studies: findings from 2017**

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



Source: FICIL Sentiment Index 2015-2017

As exemplified by Figure 3, the majority of interviewed foreign investors do not see any progress with regards to the situation with *demography*, *access to labour* and improvements in the *healthcare system in Latvia*. Namely, 30 or more of 42 interviewed investors answered that there is no progress in these areas of concern. As demonstrated by quotes from the interviews (see below), if investors admit that the situation is difficult to resolve with regards to demography, and that it simply takes a longer time, then access to labour and improvement in the healthcare system are areas where, according to respondents, the government should invest more time and efforts to achieve results in the short term. The same also applies to the

improvement in the *court system*, *quality of the business legislation* and to some extent also reducing *uncertainty*. Also, the situation in these areas of concern has been assessed as having made no progress by at least 24, 23 and 22 respondents, respectively. However, 16 out of 39 respondents that answered this question do at least see some progress with regards to the development of the quality of business legislation, 20 (out of 42) with regards to uncertainty and only 7 (out of 37) with regards to improvements in the court system.

The situation seems to be somewhat more positive with development of the level of *education and science*, improvement with regards to *unethical or illegal behaviour by entrepreneurs and unfair competition* as well as quality of the *tax system*. Also, for those three aspects, as many as 18 foreign investors, however, see no progress, whereas another half or slightly more, depending on the indicators, stated that they see at least some progress in development of those areas. Finally, as many as 14 respondents answered that they see progress in the *support from the government and communication with the policy makers*, 10 answered that progress has been achieved ‘partly’ but 16 that there has been no progress in this area over the past 12 months.

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

### *Demography*

“The situation is worsening. We have seen that there are fewer applications for our advertised positions.

We cannot fill all the vacant positions in our company because Latvia lacks a labour force. The labour market is shrinking. This is due to a decline of the population.” (*Consultancy and IT company*)

“If there was something big going on then we would have heard it, but I’m afraid that it is not.” (*Finance and banking company*)

“We don’t see any developments. Not even regress. We need to have a smart migration policy, but there isn’t currently one. We had a case where Lithuanian/Estonian staff were required to have Latvian language skills even though they only came here for 2-months’ seasonal work.” (*Service company*)

“I don’t see big progress; even though the government is attempting to do something to improve the situation, it doesn’t lead to real results.” (*Retail trade and service company*)

“This is a most challenging topic, not only for people who do business in Latvia, but also for the whole of Latvia. It’s obvious that there is a negative trend in demography.” (*Wholesale and retail company*)

“This is a slowly moving animal. Lithuania and Estonia are in a much better situation than Latvia. In my opinion, state support to motivate parents to have a third child should be increased. We are a two-children society” (*Finance and banking company*)

“The current system has many restrictions for hiring third country people. We are also struggling with employing foreign students. A requirement for Latvian language skills in international companies especially that are operating with international customers, is exaggerated.” (*Service company*)

“I do not believe that you can solve demography issues with some financial incentives – giving 20 EUR more per children will not make women decide to have more children. It will be typically about different type of incentives.” (*Consultancy and IT company*)

“The situation is getting worse, both in terms of labour and in terms of consumers.” (*Manufacturing company*)

“Many people leave the country and our business is losing customers. Although the situation is more or less stable in my opinion then we are still losing the population.” (*Finance and banking company*)

“The housing programme from Altum is a very positive aspect – if there is housing available for new families, they will be more likely to think about children.” (*Finance and banking company*)

“Shortages remain in the regions.” (*Manufacturing company*)

“There are some actions taken. The housing programme with Altum is a good example. One can see that the young people do want families and children but you need to come up with smart solutions from the government side. Giving 100 EUR per child is not good enough.” (*Real estate company*)

### ***Access to labour***

“In the context of the previous question on demography, the situation of the labour market is worsening. We lack a qualified labour force. We are already attracting additional people from Ukraine, Belorussia and Russia. At the beginning, there was a problem only with IT staff, but now we cannot find project managers/ HR managers in the local labour market. We are spending up to 9 months using different types of recruitment methods to find appropriate employees.” (*Consultancy and IT company*)

“The situation is becoming more difficult over time, but we are not so affected yet, due to a strong brand, working environment and compensation levels.” (*Retail trade and service company*)

“We can assess positively the recent changes in the Immigration Law, but still bureaucracy is an issue. If we are losing three months because of bureaucracy (applying for visas and filing out other applications), it’s not efficient.” (*Consultancy and IT company*)

“After amendments to the Immigration Law, qualified specialists have easier access to the Latvian labour market. The real estate driven “tourism” has been stopped, that is good. But there should be a clear move towards smart immigration. There are various options, for example, issuing government bonds. Currently, some two or three persons have taken this opportunity. There is no systemic approach.” (*Professional assurance and advisory services company*)

“It is getting worse. We are currently planning to start looking for people outside Latvia. We invest a lot in training. We are forced to take people with no education and no skills and then train them. Truck drivers, for example, these days are very difficult to get.” (*Service company*)

“It is getting worse. You can find good people. The only option is to take them from your competitor, but then again sometimes the price is just not worth paying.” (*Real estate company*)

“The Prime Minister of Latvia has said that we need a labour force and there are some political movements in that direction. Construction is one of the most significant sectors where we need a labour force.” (*Manufacturing company*)

“I have read that unemployment is 4,5% in Riga but in rural areas the situation is much worse. In our company, the most challenging moment is to find a proper labour force. I had a case when we couldn't find qualified employees for six month. So far we are hiring only Latvians, but we are thinking about labour force attraction from foreign countries.” (*Consultancy and IT company*)

“We have had vacancies during the past 12 months and we did find people. For manual work and night shifts it is more difficult. But I know companies in catering are really struggling.” (*Retail trade and service company*)

“There is not enough information. Maybe something has been done but nobody really knows about it.”  
(*Real estate company*)

“The government could do more to attract labour force from foreign countries.” (*Consultancy and IT company*)

I do not see any real work from the Ministry of Welfare.” (*Professional assurance and advisory services company*)

“It depends on which sector you talk about: in the IT sector, there are efforts to talk more about the importance of STEM. I see as a very good signal the project regarding the competence based education – teachers, parents, children will be trained according to the new system. There is now a more liberal regulation for start-ups, that is good but it is not enough.” (*Consultancy and IT company*)

### ***The healthcare system in Latvia***

“The government has promised progress as of next year.” (*Consultancy and IT company*)

“I can see big ideas on the table but we don’t have any real actions to fix the system.” (*Wholesale and retail company*)

“We are paying for insurance of employees, but if the healthcare tax is implemented, what will the benefits be? Our employees don’t use state paid services. Why should we pay additional social tax (10eur per employee), if we don’t know what will be included in the basket of benefits?” (*Service company*)

“A constant lack of resources is a problem. Personnel is also a huge problem but without motivated personnel nothing will happen. This needs to be addressed immediately.” (*Professional assurance and advisory services company*)

“At least the sick-leave here in Latvia is a small problem compared to Norway. Because there, the healthcare system is too generous in terms of compensating sick-leave. I have heard that there are talks about healthcare reform but I haven’t seen any improvements and progress.” (*Real estate company*)

“I attended a meeting with the Minister of Health where she herself admitted this is a big issue. She admitted that the e-health project doesn’t work as it should, the hospitals in Latvia lack doctors, etc. I have witnessed huge queues in the healthcare institutions. From the perspective of our company, the sick leave system is also not working properly. The employees of our company are using sick leave for fake purposes. Another thing about the health system is that we should admit that we don’t have a state paid healthcare. When we need to visit a doctor, we see a private practitioner rather than waiting in long queues.” (*Consultancy and IT company*)

“There are private hospitals in Latvia. Those might be performing better than public hospitals which makes me think that there are some holes in the system. But thank God, I haven’t used the healthcare system during my seven month stay in Latvia.”  
(*Consultancy and IT company*)

“Insurance, sick leave etc.; there is not enough control from the state, also the health inspectorate is not doing everything it should. The state is tolerating inaction and illegal actions in the health sector and that creates problems.” (*Retail trade and service company*)

“No positive changes, only some discussions.”  
(*Manufacturing company*)

“A downgoing trend. Medical services are not available to everybody. We have health insurance as a compensation benefit.” (*Retail trade and service company*)

“There is some progress because there is some level of discussion about the right issues, such as how to centralise procurement, how to make hospitals more transparent etc. But there is huge inertia from the sector and doctors. That is the biggest problem.”  
(*Professional assurance and advisory services company*)

## *The court system in Latvia*

“Very slow and inefficient.” (*Manufacturing company*)

“Court case procedures are long, heavy and painful. Sometimes they paralyse the everyday operation of a company. The court system lacks human resources, too.” (*Consultancy and IT company*)

“Courts do not communicate among themselves, there is no cooperation.” (*Manufacturing company*)

“A very long time for court cases.” (*Retail trade and service company*)

“Luckily no personal experience, but from what I see in the media there is no change.” (*Real estate company*)

“Not really an independent court system, we have experienced political interference in particular court cases. But there is some progress too. Some of the weaker judges have been removed. Overall, the system is very inconsistent. A lot depends on what judge you get.” (*Service company*)

“Non-efficient. They are not able to take any decisions. I have had an open case for 7 years. It is not normal.” (*Consultancy and IT company*)

“The length of court cases is a big issue. We had one court case. The case was about sacking an employee who was a member of the trade union. It was a lengthy process; at the end the results were favourable for us, but we still needed a lot of resources (we hired legal experts) and this cost us a lot.” (*Consultancy and IT company*)

“The Winergy case and other cases show that nothing has been done to improve the system. It’s easy to abuse the system, to get to the judge you need. You submit the case, and it’s rejected, then you submit the case again and again, until it finally lays on the table of the right judge.” (*Finance and banking company*)

“There are some citizens in jail, some parliamentary inquiry committees, so there must be some improvement.” (*Professional assurance and advisory services company*)

“We have several court cases, and from our experience it is getting better.” (*Wholesale and retail company*)

## *Uncertainty*

“This is a huge problem in the context of tax policy and legislation. We think there is no uncertainty in policy making regarding the business environment.” (*Consultancy and IT company*)

“It is getting worse and worse, and in particular regarding the tax system.” (*Service company*)

“Because of the tax reform, the uncertainty has grown.” (*Real estate company*)

“As always in Latvia, too many legal changes do not allow to plan the future, investments etc.” (*Manufacturing company*)

“Economy is growing and business is developing.” (*Real estate company*)

“I don’t see any progress in this direction. Uncertainty could be related to many aspects. In the media, we see something every day related to the geopolitical situation and Russian activities. One day there are the Zapad exercises, the next there is something else. I constantly get questions from my boss abroad about my feelings on Russia’s activities. But this is a thing we can’t influence.” (*Wholesale and retail company*)

“I am still missing confidence in a strong long-term plan. The government was forced to do something and it did, but I am still not confident about what they did.” (*Retail trade and service company*)

“Latvia is a difficult place for a foreign investor because of uncertainty. Also, you do feel that foreign investors are not very welcome in Latvia. Before 2008, it was certainly a friendlier place for a foreign investor. You can’t trust the government on their promises, in most places in the world that would be impossible. It is strange for an EU country.” (*Service company*)

“Economy is growing. It makes the situation certain, but I don’t know how the recently adopted tax regulation will be implemented. There is great uncertainty in the tax reform.” (*Professional assurance and advisory services company*)

“The neighbour (Russia) can trigger some uncertainty. But when the company decided to open a shared service centre, we wanted it to be in an EU country. The EU provides some sort of stability and certainty. NATO also, as an umbrella organisation, provides security.” (*Consultancy and IT company*)

“When it comes to legislation –something new appears all the time. Not even for a single year can we live in peace without any changes to the legislation.” (*Consultancy and IT company*)

“We are increasing our production amounts every year and business is developing, therefore uncertainty decreases.” (*Manufacturing company*)

“The situation is slightly improving – economy is developing and hopefully will continue to grow; from that perspective there is less uncertainty than a year ago.” (*Professional assurance and advisory services company*)

### ***Quality of business legislation***

“Qualification of civil servants is important and how they apply the legislation. There is no consistency in the work of civil servants, although the law is the same. There are different and non-consistent interpretations of legal acts. This can be seen in the work of the State Revenue Service when you do your accounting and reports. There is big unpredictability and uncertainty.” (*Consultancy and IT company*)

“Some changes took place e.g. Insolvency Law, but otherwise the situation remains the same.” (*Manufacturing company*)

“Catastrophe! At this time they should be working towards predictability, making businesses feel safe and secure, but instead the business environment was made worse with a totally demotivating tax system. So, they made everything two times worse.” (*Manufacturing company*)

“Let’s remember the amendment to the insolvency regulation in relation to the “Trasta Komerbanka” put forward by member of parliament Mr. Parādnieks – it was an example where you can influence the quality of the business legislation. To a negative effect, in this case.” (*Professional assurance and advisory services company*)

“It has decreased and the National Security Law amendments are clear evidence of that. The amendments have worsened the investment climate considerably. The way it was done (in 2 weeks’ time for very important amendments, no stakeholder discussion, little analysis of legal implications and practices elsewhere) is not transparent.” (*Consultancy and IT company*)

“So far I haven’t heard bad things about business legislation. I don’t see any restrictions on business.” (*Consultancy and IT company*)

“No improvement. We are aware of at least four cases where very specific and fundamental amendments have been “sneaked in” before the last reading. This is unacceptable; this impacts the investment environment. All amendments, including those submitted before the third reading, should have annotations! Let’s follow the best practice in other countries, for example, the UK.” (*Professional assurance and advisory services company*)

“The system regarding the cash registers was changed and it was a big change requiring an important investment from the company in a relatively short period of time.” (*Retail trade and service company*)

“There are some efforts to make the business legislation better, but at the same time introducing a new compulsory working time and attendance system for construction in just 4 months is absurd. The same applies to the obligation that construction supervisors have to be present at the construction site starting from a certain size of buildings. It is simply impossible. We don’t have that many licensed persons and by trying to improve the legislation, the government is not relying on the real situation and resources.” *(Retail trade and service company)*

“Some inevitable, necessary steps esp. regarding non-resident banking have been taken. Stricter regulation is now in place. But some regulation (e.g. regarding PEPs) is not that relevant, is overrated and should not be there in my view.” *(Finance and banking company)*

“The situation is getting better. I can judge by the quality of various checks from the authorities – they are becoming more structured every year.” *(Service company)*

“Changes in legislation are often not done in a systematic way. You realise there is a problem, you quickly change the law and think that this is it. Often the industry is not consulted and there is no impact analysis.” *(Wholesale and retail company)*

“There are some construction laws that are too complicated. But it’s not about lacking ambition to improve things. It is more about legislation often being introduced before it has been sufficiently discussed and clarified with the stakeholders that will be most affected by the new legislation. New initiatives are introduced too fast and without thinking about the consequences.” *(Real estate company)*

“We as banks are in a special position. We see that some regulation is in place but it’s not driven more by other forces (such as the EU). For example, recently some EU Directives have come into force (IDD/PSD2).” *(Finance and banking company)*

### ***Unethical or illegal behaviour by entrepreneurs, unfair competition***

“We could do more to secure our market from Russia, Belarus, China. For our products, we have created a CE label. But it takes 15 minutes to fake this and the fake certificate works in the market as a valid label, unless you prove it is otherwise.” *(Manufacturing company)*

“The tolerance regarding unfair competition and illegal action is very high. If we talk about using illegal products, it is a huge problem in Latvia.” *(Consultancy and IT company)*

“There are positive developments tackling illegal behaviour and unfair competition - more communication about it, including in society and the media, which is good. There is also new management in place in the State Revenue Service and I can see some improvement in their operation. My impression is that there is a move towards a more professional approach.” *(Finance and banking company)*

“The shadow economy is enormous in Latvia. You don’t need to be a genius in mathematics to calculate that we are losing at least EUR 400 million in expensive cars, parties, “business trips” etc. You just need to take Estonian consumption amount of GDP multiplied by VAT rate (that is the same in Latvia) and the result is clear. By implementing the reverse VAT, we think that the situation is getting better.” *(Finance and banking company)*

“The construction industry doesn’t work in the way it should, and it is exposed in terms of the shadow economy. But I don’t think that it is getting worse. The government is really trying to fight against the shadow economy. The progress is there, but it is slow. The situation with Gan Bei was a kind of a wake-up call to show that there are reasonable penalties for crime.” *(Real estate company)*

“There are positive signs from the tax authority, there are improvements. People seem to be less tolerant about envelope wages.” *(Professional assurance and advisory services company)*

“Illegal alcohol and smuggling issues have not been properly addressed, either by the government, or security structures.” (*Wholesale and retail company*)

“There are problems with insolvency issues. For Riga airport, the recent judicial decision by the court on the taxi issues has created a lot of trouble and mess.” (*Service company*)

“It seems like it is getting better, at least this is definitely on the radar for the media – we hear about envelope salaries and see concrete names of companies etc. But we certainly have a long way to go in this area.” (*Service company*)

“This has gone in a good direction in our sector: there are fewer illegal products on the market, there is some consolidation in the sector as a result and some unfair players are leaving.” (*Retail trade and service company*)

“We have made a compromise with the State that there is no harm done on either side.” (*Consultancy and IT company*)

### ***Quality of the tax system***

“100% catastrophe. What is coming is a dead end.” (*Service company*)

“Tax reform is something that the government wanted to do and they did, so - check! It is done and from that perspective it is good. It could have been done better, no doubt, but at least they did it.” (*Consultancy and IT company*)

“No improvement. We have a new tax system and no idea about its implementation three months before it takes effect. Overall, it is very important to monitor the situation, to see how the companies will behave and make conclusions.” (*Professional assurance and advisory services company*)

“The tax system is the best recent example of how not to do things. There were several proposals and overall the beginning was promising – it felt like we were moving towards a simpler, better structured tax system. But then, very quickly, we got something very different. Now we have an illusion of progressivity. The biggest winner is the electorate.” (*Consultancy and IT company*)

“Hard to judge. One measurement – Transparency International – Latvia is at the same level as Georgia. That is something that raises questions – what is in there, what is happening? The recently published oligarch conversations – it is important for the government to properly deal with that. It is what it is, and authorities need to look into the matter appropriately. In fact, the conversations are the first tangible public information for everyone about how things are being done.” (*Consultancy and IT company*)

“So far we have cooperated with good service providers. Also, a shared service market is not so widespread, but among us there are good companies (Circle K, Allnex, SEB, Tele2) that act according to ethical standards.” (*Consultancy and IT company*)

“The tax system is not predictable and we cannot make business forecasting properly. Since 2006, there have been regular changes in taxes. The state imposes taxes and changes taxes as they wish. And it’s shocking when the Member of Parliament, Parādnieks, hands in a letter with their proposals for legislation. We don’t want to know all the political deals but we want a predictable tax regime. It’s hard for us to explain the legislative process to our mother company in Stockholm. The rule of law is not working in Latvia.” (*Consultancy and IT company*)

“The former one was OK for us. No-one knows about the new one; it is less fair. Tax payments are not enforced and that is a real problem; it is unfair to us because it reduces competitiveness.” (*Retail trade and service company*)

“As far as I heard from my tax specialists, many proposals for the tax system are negative. They are not happy about what has been proposed and the actual legislation is not good.” (*Finance and banking company*)



“The new reform is not solving the key problem in Latvia’s economy – the fact that the size of the working age population is going down dramatically. At the same time, the size of those who are relying on social support is growing. This has not been solved.” *(Service company)*

“In general terms, it is OK. The main purpose of any government is to collect tax and then think about its redistribution. The manner in which the tax reform was done this year is of concern: the new system is applicable from January 1<sup>st</sup> 2018, but today there is still no clarity about implementing regulations. This is unacceptable.” *(Consultancy and IT company)*

“It has been revised and there are many good things in the tax system. But I am not sure that we have increased our competitiveness in the Baltic market. Labour taxes are not the best. I agree about splitting the tax burden fairly between those who earn more and earn less, but putting 31,4% on the higher wages is not considerate. In smaller companies, people will still figure out ways in which to avoid paying these higher taxes.” *(Retail trade and service company)*

“In general, I support the initiative of the tax reform. For example, introducing a progressive taxation system and raising the non-taxable minimum. It might reduce the inequality among the people that is a big problem of Latvia. Solidarity tax has been made too complicated. In the end, the only ones who benefit from the system are the tax lawyers. It is kind of a set-back even though the intention is good. The 0% on reinvested profit might increase the economic growth.” *(Real estate company)*

“Mostly moving in the right direction. We have to be realistic regarding what it could accomplish. Tax has been vastly exaggerated by the business community. Latvia has for many years had an external locus of control. Similarly, there has been a drive that taxes are bad and should be blamed for the failure of some of the business cases. Parliament improved the original proposal, it is more directed towards equality now, and that is good.” *(Banking and finance company)*

“There is some progress – the fact itself that the reform has been adopted is good - but the quality is not there unfortunately. A prominent example is the amendments to the Law “On Lottery and Gambling Duties and Tax” raising the tax by 30%. Before the second (and final reading) a proposal was submitted to apply the tax also to companies that supply video streaming and IT solutions, as a service to the gambling organisers, that have nothing to do with gambling: we are talking about companies that do not even have a licence to operate because they are IT companies! This is crazy and it is just one little example that illustrates perfectly the “quality” of the job done.” *(Professional assurance and advisory services company)*

“A more business friendly approach (is needed)”  
*(Retail trade and service company)*

“Speaking about the excise tax increase starting from next year, we have talked with the State Revenue Service and ministries that we have to align the tax rate with Lithuania. Our Lithuanian colleagues are not willing to do so, but if they will increase the excise tax, then almost certainly it will still be lower than in Latvia. Estonia lost a lot to Latvia because of the difference on the excise tax rates, but we will lose even more to Lithuania.” *(Retail trade and service company)*

“Micro-entrepreneurship is my worry. I think Latvia needs to motivate small businesses to start up their businesses, and the Micro-entrepreneurship Law was a good incentive to start-up a business and pay a limited amount of taxes, before your company reaches a certain size. Of course, the system was abused when bigger companies split up their businesses into smaller units, but this is not reason enough to shut down the whole system.” *(Wholesale and retail company)*

“No big improvements.”  
*(Manufacturing company)*

“So far it seems good. There are some changes in the tax system, but I don’t have an informed view. Zero tax for reinvested profit makes a lot sense.”  
*(Consultancy and IT company)*

## *Level of education and science*

“Not much progress. Our company opened an innovation lab and established some programmes where entrepreneurs go together with researchers. Our company also implemented one activity together with the university. There was a common interest for both sides.” (*Finance and banking company*)

“Nothing has really changed over the past 12 months. It looks like finally we are moving towards a competence based education model in early education, so something is happening, but the impact will be seen in 10 years or so. That is a long time to wait. For now, we often act as an educational and even social institution.” (*Retail trade and service company*)

“The positive sign is that universities are trying to cooperate with business. The negative – there is still no strategy from the state side regarding the development of the education sector in Latvia.” (*Manufacturing company*)

“No improvements. One way to advance the level of education and science in Latvia would be to stimulate donations to sectors related to education by giving some incentives such as tax exemptions, for example.” (*Professional assurance and advisory services company*)

“I do not notice limitations in education, but in terms of problem solving. Independent problem solving without guidance. Limitations in terms of being capable of handling ambiguity. This is the key problem, especially for young people in Latvia.” (*Wholesale and retail company*)

“In the field of finance and economics it’s good, but in construction, for example, there aren’t enough employees.” (*Professional assurance and advisory services company*)

“We need to be careful with the IT education potential and phenomenon – we shouldn’t run to the extreme that now everyone needs to learn IT! No- we do not have enough professors and teachers and we can’t afford to lose quality.” (*Consultancy and IT company*)

“What we see now is segmentation, professors that run around 10 universities and HEIs. But HEIs have to be an efficient centre for science. The question is also about the methods of teaching. I speak as an employer, but also as a PhD student. We need to be able to put together top global excellence with our own. But in Latvia the higher education is still very much self-centred. It has no value.” (*Consultancy and IT company*)

“Various ministers have been working on this and fighting for it, but there are no results, no achievements. There are some vested interests as well, and many good initiatives have been torpedoed. A few universities want to change but the others don’t.” (*Real estate company*)

“There are some good universities, but overall the educational level is quite low in Latvia. There were some changes during the past year, but results are still missing.” (*Manufacturing company*)

“The system itself is good from a theoretical perspective, but there is no linkage with the labour market. We are even ready to invest and pay for studies, but it’s somehow hard to agree on something with the higher education institutions.” (*Service company*)

“It very much depends on the sector. Latvian HEIs can prepare very practically thinking people in finance, management and some other areas. There are definitely negative dynamics in the education sector: too many HEIs, low standards, a lot of self-government by non-professional people. And the situation is reflected by the drop in international ratings.” (*Finance and banking company*)

“I will say there are positive improvements thanks to the competence based education project. But the effect will be after many years. There is some progress in the higher education, there is some concentration of resources and cooperation, but more should be done. They need to learn how to sell themselves, how to get closer to the business world.” (*Consultancy and IT company*)

“As far as I am aware, Latvia has a good level of education system and good universities.”  
(*Consultancy and IT company*)

“The good thing is that there is a vast improvement in secondary vocational education.” (*Finance and banking company*)

“People often do not have soft skills in Latvia.” (*Retail trade and service company*)

### ***Support from the government and communication with the policy makers***

“Latvians have the mentality that if you came up with a good idea it will be difficult to incentivise the decision makers to act. In order to stay in power, politicians are not ready to take risks and make mistakes. It is really hard to make progress if you really cannot challenge the system a little. I think it is a cultural thing that is not improving much. Communication lines are open but the decision makers are not progressive.” (*Real estate company*)

“The government pretends to listen. It tries to explain something to the person on the street and that is good. They have some good infographics.”  
(*Consultancy and IT company*)

“Central government is very good. At the municipality level it is terrible.” (*Real estate company*)

“Access to the ministry it is not easy. You need to initiate discussions that should be in principle initiated by the government and that are far bigger than our company.” (*Wholesale and retail company*)

“I don’t see that this government is better than its predecessors. The PM is just sitting in his chair and doing nothing.” (*Finance and banking company*)

“It wasn’t very bad before but nothing much has changed.” (*Finance and banking company*)

“We have been very active with the Ministry of Economics as a company and also through the association, and it works well.” (*Retail trade and service company*)

“For example, there should be an open and clear explanation of solidarity tax, to avoid misunderstandings.” (*Consultancy and IT company*)

“We have good communication, I can’t complain. Any time I need to meet the minister, I have met him. We can openly discuss issues and solve problems. So, no problem in this respect.” (*Service company*)

“Definitely not improved! It is very sporadic. We often receive last minute requests to provide comments on a law or regulation proposal but it is often impossible to comment in one day’s time.”  
(*Service company*)

“It has improved. We have been heard and we were able to make some changes. We have very good dialogue with the Ministry of Economics which is good.” (*Manufacturing company*)

“It is the same government that it was a year ago and I see no change.” (*Professional assurance and advisory services company*)

“The public sector is open for various things, they are happy to discuss both directly and through various associations even if they disagree with us.”  
(*Consultancy and IT company*)

“The Minister for Economics is very accessible.”  
(*Professional assurance and advisory services company*)

“It is getting better. We are building dialogue and it works. We treat each other as equals.” (*Retail trade and service company*)

#### **4. FICIL Sentiment Index 2015-2017**

This section presents the FICIL Sentiment Index 2015-2017 – 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 2017, it draws on the expert opinions of 42 qualified entrepreneurs/managers representing companies that are key investors in Latvia. Altogether, these companies (including their subsidiaries) contribute to 11% of Latvia's total tax revenue, 17% of total profit and employ 5% of total workforce of companies above 145000 EUR turnover and 50% foreign capital (data from Firmas.lv).

However, 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. FICIL therefore recommends using these figures as complementary information to the information summarised in other sections of this report, i.e. as a brief approximation, aimed at shedding more light on the overall assessment of 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**

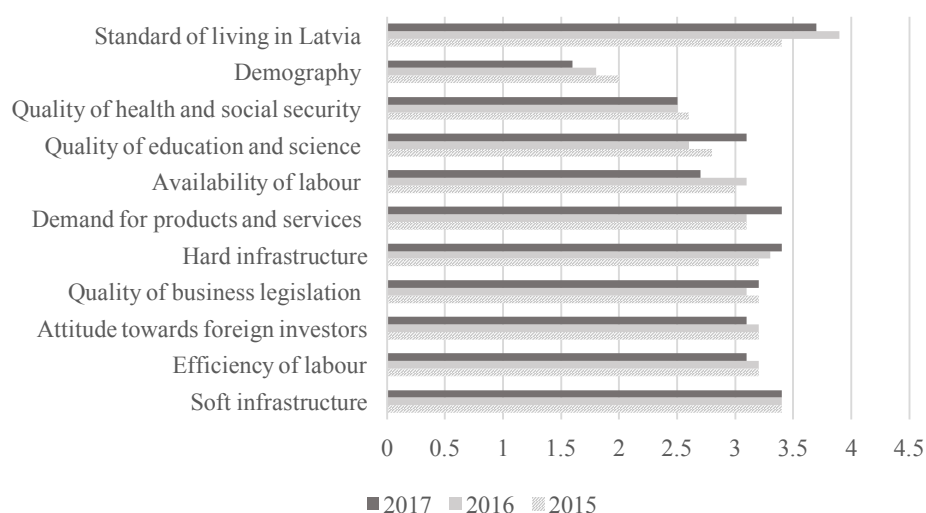
Additionally, foreign investors were also asked to evaluate **the standard of living in Latvia**.

During the 2015 study, 28 selected foreign investors in Latvia evaluated each of these indicators – potential drivers of Latvia's economic competitiveness. The same 28 respondents as well as 4 new companies participated in the evaluation of the same indicators in 2016, whereas in 2017 an additional 10 companies joined the sample. 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, all 32 and 42 respondents took an active part in evaluating indicators in the 2016 and 2017 study, accordingly. The results are presented in Figure 4.

**Figure 4: FICIL Sentiment Index 2015-2017**

*Evaluation scale from 1-5, where ‘1’ means that the indicator is not competitive and ‘5’ means that the indicator is very competitive. n=42.*



**Source: FICIL Sentiment Index 2015-2017**

As illustrated by Figure 4, for all three years (2015, 2016 and 2017 studies) foreign investors in Latvia mostly evaluate potential drivers of the economy as above average. To the same extent as in 2015 and 2016, also in 2017 investors are most satisfied with soft infrastructure, measured as “business culture in Latvia” (3.4 out of 5) (see Figure 4 and Table 4). Investors are, however, least satisfied with demography where the evaluation has gradually decreased: from 2.0 out of 5 in 2015, 1.8 in 2016 to 1.6 in 2017.

**Table 4: Components of the FICIL Sentiment Index 2015- 2017.**

*Evaluation scale from 1-5, where ‘1’ means that the indicator is not competitive and ‘5’ means that the indicator is very competitive. n=42.*

	2015	2016	2017
<b>Soft infrastructure</b>	<b>3.4</b>	<b>3.4</b>	<b>3.4</b>
business culture in Latvia	3.4	3.4	3.4
<b>Efficiency of labour</b>	<b>3.2</b>	<b>3.2</b>	<b>3.1</b>
efficiency of labour	3.2	3.2	3.1
<b>Attitude towards foreign investors</b>	<b>3.2</b>	<b>3.2</b>	<b>3.1</b>
policies towards foreign investors	3.6	3.7	3.5

investment incentives	2.8	2.8	2.8
<b>Quality of business legislation</b>	<b>3.2</b>	<b>3.1</b>	<b>3.2</b>
monetary policy	4.0	4.1	3.9
tax system	3.1	2.8	2.8
legal system	2.6	2.6	2.8
<b>Hard infrastructure</b>	<b>3.2</b>	<b>3.3</b>	<b>3.4</b>
defence	3.4	3.6	3.6
low production costs	3.3	3.2	3.2
infrastructure (roads, electricity, etc.)	3.1	3.1	3.3
energy resources	2.8	3.3	3.4
<b>Demand for products and services</b>	<b>3.1</b>	<b>3.1</b>	<b>3.4</b>
domestic demand	2.8	2.6	2.9
external demand (exports)	3.3	3.3	3.7
industry traditions	3.4	3.5	3.5
<b>Availability of labour</b>	<b>3.0</b>	<b>3.1</b>	<b>2.7</b>
availability of labour at management level	3.4	3.5	2.9
availability of blue-collar labour	2.7	2.8	2.5
<b>Quality of education and science</b>	<b>2.8</b>	<b>2.6</b>	<b>3.1</b>
education and science / innovation	2.8	2.6	3.1
<b>Quality of health and social security</b>	<b>2.6</b>	<b>2.5</b>	<b>2.5</b>
health system	2.5	2.4	2.4
social security	2.8	2.5	2.6
<b>Demography</b>	<b>2.0</b>	<b>1.8</b>	<b>1.6</b>
demography (population growth)	2.0	1.8	1.6
<b>Standard of living in Latvia</b>	<b>3.4</b>	<b>3.9</b>	<b>3.7</b>

**Source: FICIL Sentiment Index 2015-2017**

As in 2015 and 2016, and as also represented by various concerns expressed in Section 3 of this report, foreign investors still see major problems in the quality of the health and social system. Assessment of the availability of labour in 2017 has decreased substantially (from 3.1 in 2016 to 2.7 in 2017) and it is evident that investors see major problems both in the availability of management level labour as well (decrease from 3.5 to 2.9 as compared to year ago) as ‘hands’ (decrease from 2.8 to 2.5). According to the FICIL Sentiment Index study, however, substantial improvements are seen in the development of the quality of education and science (increase from 2.6 to 3.1 as compared to year ago) (See Table 4).

A slight decrease can also be observed in indicators such as efficiency of labour and overall attitude towards foreign investors in Latvia (from 3.2 to 3.1), whereas there is a slight increase in the indicators ‘quality of business legislation’ (from 3.1 to 3.2.) as well as ‘hard infrastructure’ (from 3.3. to 3.4). Furthermore, according to viewpoints of the key foreign investors in Latvia, demand for products and services has increased (3.1 to 3.4 as compared to year ago), driven both by domestic and external demand. Finally, the standard of living in

Latvia is evaluated with '3.7' from '5.0' in 2017, which is a 0.2 decrease as compared to 2016, yet a 0.3 increase as compared to the situation in 2015 (See Figure 4 and Table 4).

## 5. Further investment plans of foreign investors in Latvia

As in the previous two studies, in the 2017 survey, foreign investors in Latvia were asked, "Does your company plan to increase investment in Latvia? If yes, under what circumstances and in what period / amount? If not, why?"

To summarise, as many as 24 from the interviewed 42 investors answered with 'yes', 10 said 'no' and 7 answered that 'it depends on circumstances' or they have not yet decided. In one case, an investor mentioned that there is no particular need to increase investment. As shown by the quotes below, there are both very positive and very negative opinions with regards to the further investment plans, yet there are considerably more positive cases than negative ones. For comparison, one year ago, when 32 foreign investors were interviewed, 16 investors said 'yes', 10 said 'no' and 6 were 'undecided'.

Below are selected answers from the respondents, classified in four sections. As in previous years, the quotes speak for themselves, in the report authors' 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, we will continue to invest for the next three years." (*Consultancy and IT company*)

"Yes. We are investing and will continue. Currently there is a big shift in the global market because of the wider use of shale gas. For us, the US market has dropped down, but we have new markets already because we saw this coming; we just need to adapt our structures internally. Pure logistics. Investment is worth 12 million." (*Service company*)

"Yes, our company is expanding, therefore, we will invest through our growth. Although by investing in Latvia we accept some risks. We are planning to increase our investment. (*Finance and banking company*)

"Yes, we will open a new manufacturing line worth more than one million."  
(*Manufacturing company*)

"Yes. We are increasing. We have allocated 100 million for the next 10 years. We are here to stay."  
(*Real estate company*)

"We have a project underway and we will continue with it. That means that next year we will invest an additional 10 million. We are looking into new projects as well, but everything depends on the new tax system, how it works, and if the general unpredictability in Latvia decreases."  
(*Real estate company*)

"Yes, as a company, we are managing investments. So in the next 2 and a half years, we will invest 120 million EUR."  
(*Real estate company*)

"Yes. Our company will increase. Mostly acquisitions. A lot still to work out and it is a work in progress, therefore no figures. It is just that we chose a long time ago to do our business from here and our business is international. So, we will continue to do so."  
(*Service company*)

"Yes, we plan to increase investment, approx. 7 million EUR."  
(*Service company*)

“We have growth plans; we have invested since 2010 every year, that amounts to a couple of million. We will continue in the same way.”  
(*Retail trade and service company*)

“Yes, 75 million over 3 years.” (*Retail trade and service company*)

“Yes. We have a multimillion project with the main aim to improve efficiency and quality, to achieve greater competitiveness and introduce more automation.”  
(*Manufacturing company*)

“Yes, we will but this is part of our regular business model.” (*Professional assurance and advisory services company*)

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

“No, we do not. Unfortunately, in our case Riga lost in competition with Vilnius for hosting the shared service centre, so the investment will go to Lithuania.” (*Finance and banking company*)

“In the next 12 months, we don’t have any big investment plans.” (*Wholesale and retail company*)

“Plus/minus investments will remain almost at the same level. It depends on decisions and restrictions from the headquarters, but this is just natural. It has nothing to do with the overall investment climate in Latvia.” (*Retail trade and service company*)

No, we do not because our business strategy does not provide for additional investment.” (*Retail trade and service company*)

“No. Too much tax uncertainty and not enough focus on the grey economy.” (*Manufacturing company*)

“No big investments are planned at this stage. Legislation and the economic situation in the country remain uncertain.” (*Manufacturing company*)

“No plans for us to increase the investment or increase the number of staff. Currently we have 200 staff members and we will keep it that way, since we are quite new in Latvia. But, if the front office grows and our company changes its strategy there might be changes in the back office in Riga.”  
(*Consultancy and IT company*)

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

“We are thinking about acquiring some more companies but for the moment there are no real options. There are very few companies where, from the point of view of products, we would be ready to invest. Quite a few companies have transparency problems. If there were real options, we could invest up to several tens of millions EUR.” (*Consultancy and IT company*)

“If we buy competitors or other insurance companies, then we do. If an acquisition deal comes up, then we will invest and our investments in Latvia will grow. We can’t say anything negative about investing in Latvia.” (*Finance and banking company*)

“We would like to continue to invest in Latvia, but it depends on the changes in the tax system- those that will come into force on 1<sup>st</sup> January. If the tax amendments are adopted, we will change our decision on future investment plans. We are already actively looking into offers from other EU countries.” (*Consultancy and IT company*)

“Yes, if business and tax legislation stabilises and/or is more predictable and favourable to foreign investments.” (*Wholesale and retail company*)



“We will only invest if the political climate is going to improve. If we have full access to the Russian market. Lithuanians achieve more within the same framework of sanctions etc. Latvia should work on its own. Lithuanians are more vocal. They have Kaliningrad, it is different but still there are more things Latvia could do as well. Some things are political but you can work bilaterally. Patriotism will not win the battle. There is an appetite to do more but we can do business on the basis of certain factors; local politics and Russia are important ones.” (*Retail service and trade company*)

“We are considering it. We think about creating international synergies but this is conditional and it is not clear yet. Conditions: availability of qualified workforce, command of English (quite good but inconsistent), productivity.” (*Wholesale and retail company*)

### ***‘No particular need’ to increase investment at this stage***

“We do not really have a case for growing. We are leaders in the market. We could possibly consider offering more services from Latvia to other places in the world, but there is no labour. If there was, we would consider additional investment and growth.” (*Professional assurance and advisory services company*)

## **6. Laws, regulations and mindsets: written rules vs implementation**

At least some, if not most, entrepreneurs have probably faced situations when laws and regulations are in place (and, in fact well developed), yet ‘something still does not work’. Namely, there are challenges with regards to implementation of those laws and regulations. According to institutional theory (e.g. North, 1990; Scott, 2014) and empirical evidence (e.g. Welter and Smallbone, 2014; Welter, 2011) such situations are more likely to appear in so-called transition or developing countries, also in countries such as Latvia which is at the advanced level of development in this regard. One of the reasons for this is that there is still a considerable gap between so-called ‘formal institutions’ (laws, regulations) and ‘informal institutions’ (attitudes, culture). For example, if laws and regulations can be introduced quite quickly, then actual behaviour, for instance, whether and how these laws and regulations should be followed, very much depends on attitudes, perceptions and culture: in a word, a mindset of people. Mindset, however, usually changes slowly and this might have an impact on how laws and regulations are followed by, for example, entrepreneurs, or implemented by policy makers, which are both part of the same society. It can also influence what control mechanisms are to be introduced at various stages.

To see whether there is still a considerable gap between ‘formal’ and ‘informal’ institutions and how this affects implementation of certain laws and regulations, in the 2017 study all 42 foreign investors were asked the following: “*Please share any situation from your experience or experience of another company, where this has been the case, namely when ‘on paper’ everything appeared fine, yet, in reality it did not really work (due to e.g. legal framework, bureaucracy, court system etc.).*”. Selected answers to these questions, reflecting the order of situations foreign investors mentioned most frequently, are provided below:

## *On the situation with bureaucracy*

“Bureaucracy: we have regretted a submission for EU funding, because it takes too much time arrange all the documents.” *(Consultancy and IT company)*

“Latvians in general take legislation very seriously, in particular, the public sector: transposition of directives is taken into account very seriously and sometimes the local regulation is far stricter than the original directive. There are many examples and stories heard from businesses illustrating this.”

*(Finance and banking company)*

“If you want to achieve something, you need to make sure that your issue or topic gets into the governmental or some sectoral planning document: that is the most efficient way. If not, there is no hope that anything will happen. Political decisions take a very long time.” *(Finance and banking company)*

“The request to certify cash registers is an example.

We had clients who wanted us to do so and we started to look into it and discovered that the public sector has created a very heavy and complicated set of requirements for the certification process. We were surprised how complicated it was and how big an investment is required. To achieve an important and positive policy result, the public sector chose an extremely complicated mechanism. It is clear the system had to be put in order but the way it was done is far too complicated.” *(Professional assurance and advisory services company)*

“The implementation of the new cash registers. The positive side – for the first time we saw an advantage of being in the so-called “white list” but overall I am not sure what the general advantage of the new registers will be. Hopefully there will be some.”

*(Retail and trade service company)*

“There is a lot of bureaucracy and some procedures are extremely heavy from a bureaucratic point of view. This very much influences our marketing activities. We work with the Lottery Board and we see that there are a lot of procedures and obligations! Some are unreasonably tough. There is an additional legal framework for controlling procedures. We are being told that this is needed to protect consumers, but in comparison to Estonia and Lithuania they are really unreasonably tough. And unfortunately, there is little willingness from the state institutions to cooperate and to assist you. So, a heavy framework, that does not seem efficient.”

*(Retail trade and service company)*

“Also, we see that there is no business-minded thinking in government offices. It shouldn’t take a year to get a permit because the opportunity might be long gone! And never come back. This is killing any business opportunity.” *(Retail trade and service company)*

“If you need to add or change something and if you want to do it in person you need to wait for hours. But I have switched to EDS and it works better. State institution service level is still not at high level (with the exception of CSDD).” *(Retail trade and service company)*

“A lot of examples of bureaucracy. To do simple things, you need an entire book. You need to create an entire project with a project manager to achieve only a small result. Our observation is that almost any clerk is very much afraid to take responsibility. Very often the responses to our letters contain many references to the laws and regulations but they do not contain clear answers on what the action from our side should be, or is it a yes or a no?! And there is no efficiency. Everything takes too much time, you cannot do things quickly. You can’t even put up a fence without an entire project.” *(Service company)*

“I still see the need for the public sector to be more efficient regarding the spending of public money. On paper, they should be, but in reality, you see a lot of strange things – public procurement that results in very strange choices. Also, we know the current territorial organisation is not economically viable, but we keep spending money to maintain a system we cannot afford with many schools, hospitals etc.”

*(Wholesale and retail company)*

“Another important aspect – latest developments in the financial sector. Due to all the anti-money laundering and other procedures, banks in fact do not want to do business! They are aware of all the administrative procedures they will need to do and then they quickly calculate that it is not worth it. I have had to change banks because of that – I was told that Stockholm sees that in my case too much paperwork is involved, so no, thank you. Development of the banking system should be better. Nowadays, it is getting impossible to work with banks – there is simply too much bureaucracy. They push it to the limits where it becomes simply insane. It is especially difficult for small entrepreneurs. I guess financial systems are tightening everywhere and becoming crazy; it is holding everything down. You can’t do anything. The banking system is not going to be any good in the very near future.” (*Service company*)

### ***On the situation with ‘E-systems’ (also related to bureaucracy)***

“E-governance – it should work but it doesn’t. In principle, information is available on e-Latvija but you cannot find a thing! It is all over the place, very hard to find what you need. And then in parallel you have plenty of other platforms – e-skola, e-klase, e-riga etc. This is good evidence that one of the problems Latvia has with big project management – no capacity. But that should be dealt with! For example, why not introduce a Minister for IT issues that would take care of getting the e-governance right, making sure we have the right approach to IT and fully use the potential.” (*Real estate company*)

“Unsolved IT issues still remain in the country forcing plenty of paperwork and documents to be delivered to the authorities personally instead of using e-systems.” (*Manufacturing company*)

“Everything regarding e-systems is not working. The range of services is wrong. On paper the e-services are there, the amount of services is big but for the average person the usability is minimal. The EIS is probably the only system that really works from a platform point of view. (*Consultancy and IT company*)

“E-health for example – just the fact that even the first level implementation (sick leave, prescriptions) has been postponed for so long, that currently I am not sure that it makes sense at all. Objectives are not clearly communicated. If you do not know what the benefit of the project should be, it doesn’t make sense.” (*Wholesale and retail company*)

### ***On the situation with construction (also related to bureaucracy, etc.)***

“In Riga, it is currently close to impossible to build something. There are a lot of old sites where cables or pipelines are missing. When you need to approve a construction permit or other construction related plans it is very difficult, a lot of bureaucracy, long waiting times. In the countryside, it is easier.” (*Retail trade and service company*)

“Construction is an example where nothing really works in reality, while on paper all the procedures are there. The approval of the project takes a very long time; there are many people and institutions involved; you need to go to every party involved separately. You can’t submit documents electronically. It is really complicated and takes an awfully long time.” (*Real estate company*)

“Bureaucracy is widespread. For example, small things like printing licences. The building authorities are rejecting submitted documents because of typing errors. Fixing the construction papers takes too much time, it is complicated and expensive. The bureaucracy in the construction process is not even comparable with the State Revenue Service, which has improved the quality of communication a lot. It seems that the municipalities are just trying to keep power. Some of the local authorities are doing a good job, but some are just stuck, working on local interests.” (*Retail trade and service company*)

“My current example - construction of the new terminal – in fact, every day I ask myself why it is all so complicated. When it comes to administrative things – getting the signatures on documents etc. it takes a really long time. Procedures are very long, people are afraid to take responsibility. I would like to build and do things in parallel but I have been told – no, you first need to finish this and then do that – but it is my business how and when I do things!”

*(Service company)*

“Construction is a huge problem, in particular, in the last couple of years. Officials are afraid to take responsibility and to approve any document, so it goes on forever. The fear of making a wrong decision means that the length of time for a decision to be made is protracted. This results in costs for business. Sometimes, your building is finished and you just wait months to get the final approval and nothing happens, but you have to pay the cost for running an empty building!”

*(Wholesale and retail company)*

“Construction is a nightmare. Our company is involved in construction processes in Bulgaria, in Romania and in many other countries, but compared to those countries, in Latvia it takes a lot of time, bureaucracy is huge, and often there are clear signals that we will not receive permission to do anything. “Interpretation of local regulation is so broad that it allows officials and clerks to speculate. Responsibility is often divided among so many persons that there is no responsibility at all at the end of the day! No transparency in the process of getting construction permits: in our case, the building is ready but it takes 3 months to put into operation. We wrote several complaints but nothing happened. No corrective actions were taken but it did cost us real money!”

*(Retail trade and service company)*

### ***On the situation with (or related to) unethical or illegal behaviour***

“There is a fundamental problem of Latvia which stems from the Stalin era - every citizen is considered to be dishonest and a bad person. That’s why the legislation has been written to punish, not to protect. It makes it more difficult to reach the EU funds because in almost every document you have to prove that you are innocent and an honest company/person.”

*(Finance and banking company)*

“The clearance system for access to classified information is not transparent and I have reasonable doubts that sometimes it is used to get rid of certain people. In particular, I am concerned regarding people in the councils or boards of companies.”

*(Finance and banking company)*

“We know that Latvia has had the so-called “small Cyprus” in the banking sector – mostly local banks that have made big business in the non-resident banking sector. Now they have understood that they need to comply.”

*(Finance and banking company)*

“The political environment often is not healthy for honest businesses and does not promote existence of an efficient market. Often investments are politically motivated (for example, Latvijas piens).”

*(Manufacturing business)*

“The “Rīdzene” conversations also make us question the real situation vs what is “on paper”. In principle, we have KNAB, the prosecutor’s office, a country that respects the rule of law but then again – what happens in reality? How many people have been put in jail as a result of the work of KNAB? Also, the State Audit Office – I have not heard about real outcomes and results of their revisions. In my opinion, the function of the internal audit is not working in Latvia.”

*(Manufacturing company)*

“I have a strong suspicion that when it comes to big projects ordered by the public sector, the situation with corruption might be much worse than the politicians are actually saying.”

*(Real estate company)*

“The case with the Unfair Commercial Practices Prohibition Law was meant to be good, but the result was a misinterpretation or unwillingness to hear what businesses actually need. The shadow economy combating plan is another example where strong words are present but effective implementation is lagging behind. The plan is general and specific action points are missing.”

*(Wholesale and retail company)*

“I think on this issue we need to mention illegal and unethical behaviour, also the greed, corruption which is still at a very high level in Latvia. One of the areas – construction - is a classic example where the honest companies often become victims of the system – if they do not cheat, they are not competitive. What to do? It is a huge task. It takes a change in the mindset. There are companies where the entire management team is changed and you can see there is a new mindset and things are improving.”  
*(Finance and banking company)*

“Corruption is a huge issue. In the area of waste management in Riga municipality, for example, there is a clear monopoly situation in Riga – Riga has one of the leading waste management companies that takes administrative resources and enjoys a monopoly position. In addition, it goes to the companies and threatens to cause them problems if alternative solutions are being considered. If you are a new company, or have recently entered the market, this gives a very bad impression. A huge problem. Overall, in Latvia there is a strong establishment that does not go against corruption.” *(Manufacturing company)*

### ***On the situation with (related to) the court system***

“The court system could have been better. I didn’t consult with our legal department, but I have heard that lawyers are complaining about the court system. We don’t feel much bureaucracy in our work.”  
*(Finance and banking company)*

“As for the court system, I can say that some court cases in which we were present showed that there is no consistency in their decisions. They are adopting decisions on a case by case basis. Although there is an informal rule in courts that cases related to the Labour Law, are decided before the others, it’s still not regulated and can be different the next time you go to the court.” *(Consultancy and IT company)*

“It’s hard to get rid of people, if they are members of a trade union. You have to go to court, to fire them. At the end you win anyway, but while you are at the court you are losing money and time, you have to pay the employee’s salary and there are also court expenses. For some people, it’s easier to reach an agreement – you agree on a solution and the job is done, but some employees get their feet on the ground and then it gets dodgy. We have had some cases like this in the past few years.” *(Finance and banking company)*

“Procurement procedures are not transparent in Latvia and are manipulated. They are unethical on both sides – business and government; in addition, the government is not really interested in the quality. We have seen cases where companies are not disqualified even if they do not comply with the rules! This shouldn’t be happening. Overall, I must conclude that a lot of tender processes provide financial gains to politicians and this is why foreign companies cannot win.” *(Service company)*

“The ecosystem works well until you get to court. Dishonesty is not rooted out. We can still feel the Soviet times where form is more important than substance. We have had the courts where a judge sees that the truth is on our side, but he/she can’t help because there are some uncertainties/stupid mistakes in the documents.” *(Finance and banking company)*

“The legal system and courts are slow and inefficient. Courts do not meet international standards.” *(Manufacturing company)*

“We see clear issues with the Competition Law and the responsible authority that should be ensuring fair treatment. We are also involved in a court case that is long. I do not think that 5 to 7 years fighting in court should be a normal situation. This is not how the courts should work. We observe that in several cases the public sector interprets the law in various ways, and not consistently. When the legislation allows the public sector to interpret the law how they want, then you never know what to expect. We have seen cases where the Competition Council interprets legislation in its own way and pushes a case to the court hoping that the judge will be on their side.” *(Wholesale and retail company)*

### ***On the situation with the State Revenue Service***

“The State Revenue Service is still a heavy partner. If you are involved in overpaid tax returns or similar issues, the process is lengthy and slow. The use of the English language in communications should be extended.”

*(Finance and banking company)*

“The State Revenue service (SRS) is trying to fight the grey economy, but they still punish more than explain. The SRS is trying to do good things but implementation is lagging behind.” *(Finance and banking company)*

“In reality, cooperation with the State Revenue Service is not really working – there is the concept that in principle you can reach an agreement with the SRS on certain issues, but in reality, it has never really worked. You cannot rely on it.” *(Professional assurance and advisory services company)*

“There was the case of the Law on Annual Reports. The idea was to reduce the administrative burden for SMEs.

The plan was to create a universal registry between state institutions and create one universal database for companies to fill in by themselves and hand in to the State Revenue Service (SRS). This example was taken from Estonia. In the end, the product wasn't user friendly. It took too long to implement it, and the project was ultimately abandoned. It took a lot of resources for companies to fill in all the obligations which only increased, rather than decreased, the administrative burden. And on top of that, the SRS used a consultant who was paid a high fee. As far as I know, the consultant wasn't competent and the company didn't have the proper accounting and auditing experience which is something that public administrations lack. Therefore, the project ended badly.” *(Professional assurance and advisory services company)*

### ***On the situation with uncertainty***

“Uncertainty: even though the bill was announced with a definite due date, the policy makers cancelled the bill the day before. We had already prepared new contracts and explained the new rules to our employees, so we wasted time, money and energy as a result.” *(Consultancy and IT company)*

“A law has been opened for technical amendments (it was stated initially that the purpose would be to make technical changes) but in fact fundamental changes are being made.” *(Professional assurance and advisory services company)*

“Support to Start-ups – we decided: we want to develop the start-up ecosystem. A special law was created, a lot of effort was made and work invested, but ultimately we have only one company working under that law. So, it turns out it was not necessary!

We invested in publicity that the environment created but nobody really needed it and nobody really uses it.” *(Professional assurance and advisory services company)*

“The fact that municipalities are getting increased power to influence the business. In some cases, it can change the conditions under which the business entered the Latvian market and can break the promises that were given and that were on the basis of the business, which is unheard of. With this kind of behaviour it will be increasingly difficult to find investors. Environment rules is another area where the local municipality and their powers are in many cases over exaggerated.” *(Retail trade and service company)*

“If something is decided in Latvia it doesn't mean it is going to be implemented. We know that the healthcare sector will receive an additional 200 million EUR. The question should be - are we achieving the goal of getting the system right? Where are the KPIs? Who is asking for control in the parliament? State institutions need to build something to be better.” *(Wholesale and retail company)*

## *Other issues of significance*

“Corporate governance “on paper” is present, however, in practice we see it does not work. Some of the approaches/provisions are very old fashioned. Now in 2017, the old rules do not work anymore and should be brought up to speed with the latest corporate governance practices.” (*Consultancy and IT company*)

“Remigration is another example where the initial idea is very good, but future implementation is also lagging behind, or is even wrongly implemented. On one hand, the government wants to create a link between Latvians in Latvia and Latvians abroad, but on the other hand imposing taxes on the money that the diaspora sends back to Latvia is wrong and not beneficial for this policy.” (*Finance and banking company*)

“Why should there be language restrictions for board members and council members? The Language Law is too strict and means we are losing international talent that would be much needed for Latvia.” (*Finance and banking company*)

“The Winergy case from 2014/2015/2016 was big. We have resolved some things but there are still bugs in the system that need to be fixed.” (*Finance and banking company*)

“Non-bank lending is also an example where the government pays lip service but the real work is non-existent. Some people are leaving the country because the system is not in order.” (*Finance and banking company*)

“Ports and business in ports account for a very significant part of GDP. But no one is teaching port management (except for the Maritime Academy). In Europe, you have the so-called port schools, there is funding available to re-educate people etc. Next to the school they create pools of workers in the ports – graduates of the schools - they cover peak moments in the companies, so you can get qualified people quickly for a short period of time when you have peak moments in your business operations. No company keeps the maximum number of people full-time; they keep one, and for peak periods use ad hoc instruments.” (*Service company*)

“The weight of trucks on the road. Trucks are overloaded and not checked. Implications: not safe, roads are damaged, Taxes are not fully collected.” (*Manufacturing company*)

“Our company has a painful case about dual education. On paper, civil servants from the State Education Development Agency (VIAA) are saying that they have implemented it properly, but the reality is different. There are clear standards for internship, but it is implemented differently. One company executes paid internships without financial reward.” (*Manufacturing company*)

“In my opinion, the principles of energy efficiency are also not implemented properly. For example, one real estate company didn't know about the energy efficiency policy and certificates. It turns out that you can't even buy and sell real estate without such a certificate.” (*Manufacturing company*)

“The public sector should start looking at the essence of the issues rather than just formally. The State Audit Office is an example – they should be an advisory body for all public institutions; they should be looking at how the state is spending the money of taxpayers and advise them how to do it more efficiently. But instead they just check to see if the documents are all present. As a result, if a state official has taken a bad decision, but all the documents are in place, then everything is fine and justified. But if a state official has taken the right decision but made a procedural mistake – it is almost a criminal offence. This is wrong and does not motivate the people who work in the public sector.” (*Professional assurance and advisory services company*)

“There are too many agendas (on paper) at government level that don't support or coordinate efforts to improve any particular industry in Latvia.” (*Real estate company*)

“There are things that don't work in the construction area, but not always the clerks are the ones to blame – sometimes we – the business – do not take the time to explain all the details properly.” (*Real estate company*)

“Working permits/residence cards should be separated between big and small companies. I have the Schengen visa for three years, but my working permit is only for one. The system is general, but specification is needed among different cases.”  
(*Service company*)

“Recent amendments in tax legislation (tax reform 2018-2020), has been proposed as “significant improvement of the business environment” in Latvia. However, while some issues have improved (from an employer’s viewpoint e.g. zero tax on reinvested profit), simultaneously some others have worsened (e.g. other tax discounts and reductions), additional administration.” (*Wholesale and retail company*)

“The government decided they want double treatment of HIV patients (+1500 patients). They came up with a plan that has not been thought through. There is too much focus on pharmaceuticals. Patients are not managed at all, only prescription of medicine. How is this possible? There is no wider thinking! The ministry has to report the results on 1<sup>st</sup> July 2020. The question is – what is the implementation control? Maybe do less but do it properly?!” (*Wholesale and retail company*)

“I know one case where an employee decided to leave one of the leading consultant companies in Latvia after going on maternity leave. She started working in a State authority. She realised that a lot of officials are just spending their time at work doing small tasks and not being efficient. It is an unjustified use of human resources. Why are Estonians, with fewer officials, more effective than Latvians? They are willing to work and find solutions to improve efficiency. For example, their e-residency is less time-consuming and bureaucratic.” (*Wholesale and retail company*)

“EU-level food and veterinary regulation translations are of a very bad quality, but a minor mistake in translation can have a major impact for us. That is not helpful, often we need to fight back, explain what is in the original languages in the respective directive or regulation.” (*Retail trade and service company*)

“From personal experience, contacts with the Office of Citizenship and Migration Affairs are not straightforward regarding residency documents, work permits etc. Often you need to wait hours and hours.” (*Retail trade and service company*)

“The Competition Council is a strange organisation, especially, if you look at it in the context of Baltic countries where only in Latvia can you see some incomprehensible decisions. Often their policies and approaches are far stricter than in other comparable countries. I often see the approach whereby it is the form over the substance and not the other way around.” (*Retail and trade service company*)

## **7. Dealing with challenges brought about by the external environment**

The 2017 study also aimed to address how foreign investors’ companies adapt and react to the challenges within the external environment, as well as how specific advantages have supported their adaptation to the environment in Latvia. Namely, apart from highlighting some strengths of the business environment in Latvia, during the interviews most of the foreign investors identified various challenges that their company is facing in the country. In this light we were wondering how exactly companies deal with those challenges enabling them to stay and, even grow in Latvia. In particular, respondents were asked to share:



- What are the factors that allow your company to compete successfully? Are there any particular characteristics that allow you to deal with the difficulties in the business environment?

Selected answers to this question, in the order to reflect the situations foreign investors mentioned most frequently, are summarised below, mostly in the form: ‘challenge - what the company does to solve it’:

### ***Solving challenges with unethical or illegal behaviour***

“It’s hard to do everything according to the law (pay taxes etc.), but we are doing it. Everything in our company happens officially, but it’s a real challenge because we think that there are companies who are disobeying the system. It’s not fair competition. Companies that are on the white list should get more benefits. Currently there are not enough incentives to be on the white list.” *(Service company)*

“In our case, because of Russia, we have changed our business model – we became more flexible, have more niche products, new products (that are higher value etc.). We will see if this works and if this compensates. We also consider whether we can act more as a hub. You have to adapt the business very quickly, the speed of implementing is crucial. In Lithuania, you can get things done much quicker so our competitors often do not understand that. Some things do not need to work in sequence, but they can work in parallel, for example. One approach how companies deal with this is that they work without permits – our company does not do that but others do! And we lose out because we comply with the law. This is really frustrating.” *(Retail trade and service company)*

“Transparency and ethics is an issue – we are working in an honest manner and face situations where we are losing clients either because we see irregularities and point towards them but the client does not want to listen. Or we lose tenders because we pay all taxes.” *(Consultancy and IT company)*

“We are respected for being honest. Much credit and respect goes to FICIL in the battle against the insolvency issue. Otherwise, the issue was considered just a problem of the banking sector.” *(Finance and banking company)*

“Our company has a code of ethics, it is transparent and that is the way we live and work and there will be no change regardless of the environment we operate in. We try to work as closely as possible with the relevant ministries, the Prime Minister’s office and all the other stakeholders as well as work through various non-governmental associations.” *(Finance and banking company)*

“The grey economy – we have closed businesses and reduced our activity. Labour taxes – we have moved jobs to alternative countries. Low availability of people – we have located expert teams in Poland to support our businesses.” *(Manufacturing company)*

“Tax avoidance – we still see it and it is distorting the competition; it is a very big problem. Our reaction – we have a “no cash” policy, everything is done through the bank account – we really hope that the AML procedures that banks have can achieve more than we can. We also make sure we are as transparent as possible – regarding pricing, for example, all information is available.” *(Real estate company)*

“There are companies that are working for the export market only because they understand that to compete locally with companies that work in the shadow economy and do not pay tax is not possible. There are some companies that do compete and that are not afraid to talk about abuse and distortion of competition; they are ready to name companies and people that work in the shadows, cooperate with State Revenue Service etc. I have a very deep and personal respect for these people.” *(Professional assurance and advisory services company)*

“We have been in Latvia for more than 25 years. We are an international player and an international leader in our area. We cultivate that. And this, in fact, is a contradiction if we look at the perceptions in Latvia, which don’t seem to value this experience and leadership. Public perception is also a big surprise for us. Latvia is a unique case with such an attitude.

We have our fingers on the big trends of globalisation and technology and yet it does not seem important in a Latvian context.” (*Consultancy and IT company*)

“Attraction of highly qualified specialists is problematic. We try to cooperate and to work with higher education institutions to deal with this.

Digitalisation – there is a heavy drive to use more and more technologies and apps in professional life. Our office is also planning and thinking about how we can constantly improve in this area. We purposefully try to invest in creating an environment where the rule of law is respected and this is why we belong and contribute to several associations and NGOs.” (*Professional assurance and advisory services company*)

“This year we are facing a dramatic increase of car thefts. The number of car thefts in Latvia has increased from 200 000 last year to 900 000 this year. The police are tackling it but the problem still exists. We require a new antitheft system for newly bought cars. This reduces the number of thefts, but still the numbers are big. GPS signal trackers can be an option but thieves can buy GPS signal blockers for 1000 euros, so this is not a solution anymore. We are constantly thinking of new and additional security layers to add to cars. But the technical solutions for thieves are also developing.” (*Finance and banking company*)

### ***Solving challenges with bureaucracy***

“We are constantly strengthening our internal policies, we have various e-learning tools, we work on how to prevent situations when even in doubtful cases we could be considered guilty. We spend a lot on our internal routines and controls just to avoid penalties. It is an entire internal compliance programme to protect the business. If in doubt - better avoid it. Since we work in the Baltics I can compare and say that in Estonia they document less than Latvia, there is less bureaucracy. The entire thinking and approach is different, for example, if you compare the tax authority in Estonia and Latvia, they are very different, even in their approach to tax collection and what their mission is – to collect tax or to provide a service to companies.” (*Wholesale and retail company*)

“On bureaucracy, you just need to get the relevant people on your side and be ready to bear the costs. Also, in case of legal issues – be ready to involve a team of lawyers.” (*Service company*)

“Nothing goes according to the timeline you prepare because in fact there are often no deadlines for the various public bodies involved. They may push any deadline as far as they want. You can have a building that is finished but you can’t put it into operation because final inspections are postponed etc. But this is at a cost for the company!” (*Real estate company*)

“Construction field – at first, we put out an architectural tender and then we went to sketch approval stage (level 1) which is really difficult and tricky. After many years, on receiving approval, we went for technical design work approval (level 2), which is really expensive. But the city refused to accept it because the building was standing on several land plots. That kind of problem should have been prevented at level 1. In the end, we redesigned the building, but it cost us a lot of money, time and uncertainty. It is not acceptable to interpret the law differently between levels 1 and 2.” (*Real estate company*)

“Getting building permits from the building authority is also a challenge. We are witnessing huge bureaucracy and lengthy processes. But I don’t think it’s down to laziness or corruption. It’s due to the traumatic experience of the Maxima supermarket collapse. It’s just the national response to a tragedy. There is nothing to do about this. It just takes time to overcome the trauma.” (*Real estate company*)

“For us the bureaucratic procedures seem very heavy and tough. But for us as a company, the main rule is where we want to obey the laws. We have the attitude that we do not want to have shortcuts, we trust the local legal framework and we want to be a trusted member of society, so we do not accept any shortcuts. That means we need to increase our budget for legal services just to understand different angles and aspects of the law. The law often allows very broad interpretations and there are things you can easily misinterpret.” *(Retail trade and service company)*

“Here I would like to mention one big thing- digitalisation, which brings several smaller bullet points under it:

(i) The e-signature has been implemented badly. The EU is applying some pressure and providing some funding for implementation of the e-signature, but there is still room for improvement. Our response to that is that we are creating our own IDs and the state has allowed us to use bank authentication to access public services. For example, accessing the portal Latvija.lv. But I have heard that there is a plan to shut down the bank ID authentication system which is wrong. You can't shut something down when you haven't created a new system in place.

(ii) Non-linkage of state databases is also a problem. We need to spend a lot of resources to get information from the databases. For example, we cannot easily access information, if a person has died.

Overall, banks have become digital leaders. We are also helping other sectors to implement our innovative solutions.” *(Finance and banking company)*

### ***Solving challenges with access to labour***

“On the issue of availability of human resources, we are working directly with the Maritime Academy, for example. We have established our own relationship with them and it works pretty well.” *(Service company)*

“In terms of labour availability, we are planning more steps ahead to arrange timely recruitment. It's hard and takes a lot of time to get good and skilled people but when you find them they are good. We do a lot to change the business culture. We do 9-18 working hours with lunch included. And try to motivate our employees. This leads to cost increases, but we do it.” *(Finance and banking company)*

“Availability of labour and demography are certainly the biggest challenges for Latvia today and in the future. There are various approaches how companies deal with it – they try to work with higher education institutions and attract their future employees from these, or they try to attract people from other countries etc. But one thing is clear – even with these activities, it will remain a considerable challenge. The government should take this very seriously.” *(Professional assurance and advisory services company)*

“The biggest challenge for us is to attract employees, if someone leaves, which can take six months. On top of that, we have clear and strict guidelines on salary levels. This forces us to do internships in schools, advertising through social networks, we send our experts to schools so that they can recruit staff from there. We offer benefits (covering taxi costs), providing some other in-house services for free, doing socials and events also at weekends.” *(Consultancy and IT company)*

“We see that the new generation is not interested in doing boring and monotonous work, therefore, we are introducing robotisation in our company to keep work attractive.” *(Consultancy and IT company)*

“The company's competitiveness is based on professional human capital. We do everything to keep professionals in our company because it is really hard to find new ones.” *(Consultancy and IT company)*

“A lack of labour is a big challenge. Our response – we look for people in the regions, outside Riga and bring them in, provide housing, meals etc.” *(Retail trade and service company)*

“Another challenge is global – how to work with a new generation of people. It’s not a challenge to find them but to keep them. After one year at the company they come and ask for a reduced workload and a double salary. We are forced to review remuneration packages. But this is more or less a global issue and by the time we find a solution for this, there will be a new generation with new issues.” *(Professional assurance and advisory services company)*

“Labour force issues - in some parts of Latvia it is better than in Riga, for example, in Latgale – there is a high unemployment rate, so the rotational rate in the company is lower, people are also more loyal. In Riga, people are more mobile and loyalty is low. We also employ people from the regions and bring them in to Riga for work. If the connectivity in Latvia was better, this could be a good solution for solving labour shortages in Riga. We invest a lot in internal education systems: we have a management school – we teach future managers various skills, including soft skills to promote people who have a poor educational background but with potential for growth. We provide industry-specific knowledge on how the company operates. And we do it mostly by internal trainers. They go on an educational programme – 20 days per year. Reputation and communication. Train them to be more than just employees.” *(Retail trade and service company)*

### ***Solving challenges with language requirements***

“Translation of all the regulations into Latvian is a headache. Not a good attitude towards investors. The language regulation is very strict in Latvia.” *(Wholesale and service company)*

“The Language Law is very strict in Latvia, too strict. I would love to see more services available also in English.” *(Retail trade and service company)*

“Language regulation for us is an issue. It also prevents our company from employing third country nationals. In Estonia, for example, the language regulation is less strict. Also, we can see that the older generation doesn’t speak English but the younger generation doesn’t speak Russian and it is a problem. When you are in the service sector, it is difficult to manage without Russian. The general trend is to switch to English. For our group the “official internal language” is English; many of our internal documents are in English only.” *(Retail trade and service company)*

### ***Solving challenges with construction***

“The construction challenge is the biggest for us – to educate officials is one of the things we do. We invite them and show them best practices. There are differences in various parts of Latvia. In the regions with smaller municipalities it is better – there is more interest and we feel we are more welcome there. Mostly they are very positive (as long as we do not endanger the interests of some other small business already operating there).” *(Retail trade and service company)*

“Building something is very complicated. A lot of bureaucracy. Back in the nineties, we had cases where somebody would ask for a bribe. Nowadays this doesn’t happen anymore because everyone knows the culture of our company and that under no circumstances would we do that. However, from time to time there is the feeling that the person in front of you is playing a game, and if somebody offered to pay them, things would go faster. How to handle those situations – you simply need to be patient and stay honest, of course.” *(Retail trade and service company)*

### ***Solving juridical challenges***

“The judicial system has huge issues but our approach is that we concentrate on our immediate business and work with that. We are one of the biggest investors. Our entry ticket has been so big or so expensive that now we have no other choice than to adapt ourselves. The value of our shares has gone down, but we need to find alternative solutions in order to ensure the income to our stakeholders that they were counting on. The issue of moving somewhere else is on the table, but taking into account how much has been invested, it is not an easy decision. Education and health care are the issues – if we want to create headquarters in Latvia, we will need to create digital solutions and a digital environment, to substitute the absence of a physical infrastructure with a digital one.” *(Manufacturing company)*

“We have got a team of lawyers that works and checks every single document we produce, just to make sure that it is good enough to be able to take it to the court if needed. It is simply a must if you are involved in construction.” *(Real estate company)*

### ***Solving challenges by using international expertise***

“In my company, the size of the country affects the specifics that need to be applied for particular projects. If you do the specific project, you, need to know your industry and many projects carried out in Latvia require specification. Therefore, if Latvia lacks expertise, our company has expertise in the network. For specific projects, we can borrow experts from other countries, but smaller consultant companies don't have such an option. Therefore, I don't know how small consultants that win specific projects/procurements later implement them properly.” *(Professional assurance and advisory services company)*

“We look internally for more efficiency and effectiveness. We have a lot of internal competence outside of Latvia and easier access and different prices when we are buying resources. Open discussions in the FICIL or meeting the director of the State Revenue Service helps with ideas.” *(Retail trade and service company)*

### ***Other challenges and solutions***

“Leadership is a real problem. Things need to be seen in context. We are distributors in fact. We can do the job ourselves or outsource it. When the business starts getting too small, it is difficult to see a reason to continue investing. Worldwide business is getting more and more complex. Small opportunities are no longer that interesting. In Latvia, I need to be more competitive than in Germany to survive. Inflation and salary increases are way too high. There is no way to keep pace with that in Latvia. This is really an issue. My impression – this is an imported price increase. So, from that perspective Latvia is becoming less attractive to investors because the production factor price is increasing.” *(Wholesale and retail company)*

“We had a decision from the Competition Council about price inequity. The Competition Council said that we were doing something incorrectly and giving bigger bonuses for some companies. But we can't provide one price for everyone. One has bigger purchases, another has smaller ones. Therefore, prices differ due to transportation costs and amounts. It turned out however that it was a communication mistake.” *(Manufacturing company)*

“We will fire 20% of employees to remain competitive. Others will need to do the same because the business opportunities are not there anymore. You need to constantly look at cost savings. We downsized because it is part of how business works, you need to optimise.” *(Retail trade and service company)*

“We face challenges with tax issues and respond to that by optimising within the legal framework of legislation if possible. Also, alcohol business regulatory issues - those are unfair among different categories (e.g. beer has less strict regulations than strong alcohol). We have permanent discussions with government and lobbying within the industry’s NGO. Overall, we constantly monitor the government’s policies and implement lobbying within industry’s NGOs as well as business NGOs like FICIL and LCCI.” (*Wholesale and retail company*)

“We compete successfully thanks to innovations and our company using the latest technology. We have the most modern IT systems in the Baltic Sea region. We have many innovative things you will not find anywhere else. We are limited only because the central or government-led IT management is not updated and developed, they still work manually. We are hearing a lot about the necessity to integrate systems, but it doesn’t exist in real life. They are working on different projects, the ministry and others each have separate systems. Our clients are big companies; they can provide whatever is necessary. This is promoting business, good planning, we have no unnecessary moves; we do more services than our competitors.” (*Service company*)

“A lack of independent journalism is a problem in Latvia – there is nobody better to discover clear abuses of power than a free press. But, unfortunately, it is non-existent in Latvia. The printed press is not free at all, it has very problematic ownership. From our own company perspective, we give far fewer interviews to the press because of the media ownership and because we are never sure of the quality of the journalist. But journalism can hold people to account and that is very important.” (*Service company*)

“AML and compliance in some way is an external factor but very important. By being better and improving those processes we can get rid of crooks and criminals and develop the general business climate in the right direction. It is a matter of time. I think pretty soon the entire off-shore business area will disappear. So, the tendency is to move out of the risky business area.” (*Finance and banking company*)

“One needs to bear in mind that some companies are stuck here. There are investors that simply physically cannot get out because they have invested a certain amount of money, as part of a long-term investment, and they simply need to adapt as necessary. The typical areas would be real estate, manufacturing – for them initial investments are typically high and they are done on the basis of certain assumptions. So, if you keep changing these assumptions from the government side, you are sending a very bad signal to those businesses.” (*Professional assurance and advisory services company*)

“We try to work through various associations.” (*Real estate company*)

“About holding taxes - we wanted to distribute dividends back to Norway, and because of unimportant documentation which had not been substantiated with the State Revenue Service at that moment, we risked a penalty of several million euros in taxes. The point is that the substance is not over the form in this country. For the investors, these cases are really annoying. Institutions that are working with companies here need to think about the intention of the law for a decision they make and not some totally non-practical paperwork.” (*Real estate company*)

“One of the biggest challenges for our company and other real estate companies is to find new customers. To respond to this we are exploring potential companies more energetically to find new customers. ‘The problem in Latvia is, many want big discounts or for the same product want to pay less than in Western countries. We are forced to explain how the costs are created.’” (*Real estate company*)

“A specific problematic aspect in Latvia is the absence of a deposit system. We are trying to promote an integrated point of view for doing business in Latvia, involving all stakeholders to solve issues, but this is very difficult. The level of cooperation is very low in Latvia. If you take, for example, the deposit guarantee system – it is very broad with many actors involved. It is about circular economy etc .” (*Retail trade and service company*)

“There are new regulations (PSD2) that makes the banks more vulnerable from other players, but it forces the banks to adapt. There are so many new things like mobile payments etc. it makes us constantly wonder what value we are adding. We need to find out how to get where there is a need for our service. It is connected directly to the use of technologies and requires quite a big investment.”

*(Finance and banking company)*

“Company culture is what counts. In our case, people are always treated equally and fairly. In our company, there are people who have worked for us for more than 20 years. The average is 12 years and that means that we are responsible to our employees, they are motivated to work. We have a good team. This is a result of 20 years’ work and of a leadership style where managers are examples – they don’t just set the rules but they lead by example. It is the culture of our company.”

*(Retail trade and service company)*

“There are two factors that allow us to compete successfully – the economic growth of the country and the situation in mortgage lending. In both aspects, the situation is improving. People, and also businesses, are becoming more courageous in their business behaviour. In general, the business environment is also better than 8-10 years ago. It took us a while to improve the situation but we are there now. As for the main factors, I can mention that we have a very experienced team. We are constantly investing in the team’s development which allows us to maintain a stable team. As a result of this, we have a low staff turnover.”

*(Real estate company)*

“Taxation is a problem. To solve that, we have recruited two additional staff members who observe the constant amendments to the taxes and follow the media too. These are additional costs but the current situation, when the government changes the tax system constantly, doesn’t leave us any choice.”

*(Finance and banking company)*

***... and some (further) positive insights, that foreign investors provided while answering this question:***

“In our case, we do not need to compete. We are too big to compete. But if we talk about the specifics of our business – generally, the infrastructure is OK, even the railway is OK. The railroad is in good shape, it is not a bottleneck for us. Maybe some more infrastructure could be built in Riga. It is a pity that Liepāja and Ventspils are not used more broadly (they are by definition more expensive and that kills any appetite to go there). Now, there is more competition with Russia - it is normal that Russia tries to attract cargo to its own ports. The whole world is changing; we are selling to countries we never sold to before. For us, it is important to predict the change and adapt accordingly. Latvia will stay an important transport and logistics hub. Latvia is the best place to go if you look on the map for many reasons. It is never going to be empty. And Latvia still has a huge competitive advantage in the area of logistics.”

*(Service company)*

As for the general business environment, we must say that Latvia is a safe place with a great location between Russia and the Nordics.

*(Consultancy and IT company)*

Latvia is a perfect place for prototyping. It has the right size, the public sector is open and there is a strong basis of potential partners.

*(Consultancy and IT company)*

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## Appendix 1. Guidelines for interviews: 2017 study

- 1. HAS THERE BEEN ANY PROGRESS DURING THE PREVIOUS 12 MONTHS within the following major areas of concern, as expressed in the previous year, with respect to development of your business in Latvia:**

	<i>Y</i> <i>(yes)</i>	<i>P</i> <i>(partly)</i>	<i>N</i> <i>(no)</i>	<i>Brief comment</i>
Demography				
Access to labour				
Level of education and science in Latvia				
Quality of the business legislation				
Quality of the tax system				
Support from the government and communication with the policy makers				
Unethical or illegal behaviour by entrepreneurs, unfair competition				
Uncertainty				
The court system in Latvia				
The healthcare system in Latvia				

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

1	2	3	4	5
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**Comment:**

- 3. Overall, from your investor's perspective, has the investment attractiveness of Latvia improved during the previous 12 months?**

1	2	3	4	5
Not at all	Only minor improvements	Some positive improvements	Yes, it has improved	Yes, it has improved significantly

**Comment:**

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

Area	1 (very uncompetitive) – 5 (very competitive)
Business culture	
Demography (population growth)	
Education and science/innovation	
Health system	
Social security	
Infrastructure (roads, electricity, etc.)	
Domestic demand	
External demand (exports)	
Traditions of the industry (your company represents) in Latvia	
Availability of labour (management level)	
Availability of labour ('hands')	
Efficiency of labour	
Low production costs	
Monetary policy	
Tax system	
Legal system	
Standards of living in Latvia	
Attitudes towards foreign investors	
Investment incentives	
Defence	
Energy resources	
<i>Other (please specify)</i>	

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

**Comment:**

6. The ecosystem for entrepreneurship in Latvia 'on paper' and how it actually works

*Please share any situation from your experience or the experience of another company, where this has been the case, namely when 'on paper' everything appeared fine, yet, in reality it was not so (due to e.g. legal framework, bureaucracy, court system etc.).*

**7. How foreign investors' companies adapt and react to the challenges within the external environment, as well as how specific advantages have supported their adaptation to the environment.**

*Which aspects of the business environment in Latvia have been most problematic; why and how has the company adapted and responded to them? Please share 2-3 specific cases:*

**8. Evaluation of current initiatives by policy makers to develop the entrepreneurship climate in Latvia - what looks 'useful'; which initiatives might not reach the target and why; which initiatives might even be harmful for the economy**

*Could you please assess:*

*(a) whether policy makers have worked effectively to implement these initiatives during the previous 1-2 years (1 - if very inefficient, 7 - if very efficient)*

*(b) whether you think these initiatives are actually valuable (V) or, on the contrary, do not make much sense (N) for improving the climate for foreign investors in Latvia. Please briefly comment why the initiatives are or are not valuable.*

<b>Actions (as per the presentation of the Minister for Economics at the High Council meeting on 26<sup>th</sup> May 2017)</b>	<i>V</i> <i>(valuable)</i>	<i>N</i> <i>(not much sense)</i>	<i>1-7</i> <i>(1 - very inefficient, 7 - very efficient)</i>
<b>Actions to improve the business environment:</b>			
Start-up ecosystem			
"Zero bureaucracy"			
Insolvency regulation			
Consult first			
Openness of economy			
0% on reinvested profit			
<b>Actions to promote knowledge and resources:</b>			
Smart immigration			
Human capital development			
Innovation and technology transfer system			
<b>Actions to increase investment:</b>			
Restart of FDI attraction			
Export credit guarantees			

*Some final comments and remarks from respondent:*

## **Appendix 2. Foreign investors that took part in the 2017 study**

### **AFI Europe**

AFI Europe is a leading real estate development and investment company operating in Central and Eastern Europe and focusing on the development of large-scale commercial and residential projects. The company owns, develops and manages properties and projects in Bulgaria, the Czech Republic, Germany, Hungary, Latvia, Poland, Romania and Serbia, with on-the-ground teams comprising nearly 200 professionals. Headquartered in the Netherlands, AFI Europe is part of the AFI Group – an international holdings and investments conglomerate.

### **AM Baltics**

On 18th October 2017 Providence Equity Partners (PEP) has acquired MTG Free-TV, Pay - TV, digital and radio businesses in Baltic region. Company continues to operate as All Media Baltics. AM Baltics brands are: TV channels TV3, LNT, TV6, Kanāls 2, 3+, TV8, radio channels Star FM, Radio Volna and Power Hit Radio, largest AVOD video portals TVplay and TV3play, news and entertainment portals Skaties.lv, Uudised.ee and TV3.lt, as well largest video content platform in the Baltics Viaplay, satellite TV provider Viasat and SmartAD.

### **Amber Beverage Group LTD**

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 1450 employees from the Baltics to Mexico. The Group is the leading producer of alcoholic beverages with experienced distribution companies in Estonia, Latvia and Lithuania, a specialised retail chain of over 70 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 is the leading non-life insurance company in Latvia, with more than 600 employees, including a distribution network of 300 tied agents and 42 branches throughout Latvia.

### **Baltic Container Terminal**

Baltic Container Terminal Limited (BCT) is a privately owned container terminal operating within the free zone of Riga Freeport. Mariner S.p.A. of Italy have acquired the full shareholding interests of BCT. The terminal has become the fastest-growing container handling facility in the Baltic States and enjoys a proven track-record with its clients through the quality of its work, high standards, productivity, safety and efficiency. Currently BCT employs 190 people.

### **CEMEX**

CEMEX was 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 services to customers and communities in more than 50 countries throughout the world, and maintains trade relationships in over 100 nations.

### **Circle K**

Couche-Tard is a Canadian convenience store industry and, in Europe, operates a broad retail network through ten business units. Its network comprises of 2,754 stores, the majority of which offer road transportation fuel and convenience products. Approximately 25,000 people, including employees at its branded franchise stores, work in its retail network and service offices. Circle K is Couche Tard's global convenience brand, which has become one of the most widely recognised convenience store brands. SIA Circle K Latvia (previously Statoil) is the leading fuel retailer with the largest network of full service fuel stations and convenience stores.

### **Citadele**

Citadele Group is a full-service financial group for both individuals and companies, offering a complete portfolio of banking, financial and private capital management services in Latvia and through an international presence. In 2015, a consortium of international investors led by New York-based Ripplewood Advisors LLC acquired a 75% plus one share stake in Citadele from the Latvian Privatisation Agency.

### **Coca-Cola**

The Coca-Cola Company is the world's largest beverage company, offering over 500 brands to people in more than 200 countries. In the Baltic countries the Coca-Cola Company is represented by Coca-Cola Balti Jookide AS. The partner in the production and delivery of beverages to consumers is the local branch of Coca-Cola Hellenic Bottling Company.

### **Deloitte**

Deloitte refers to Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, its network of member firms, and their related entities.

In Latvia, the services are provided by Deloitte Latvia SIA, which is part of Deloitte Central Europe Holdings Limited. Deloitte Latvia is one of the leading professional service organisations in the country, providing tax, legal, audit and advisory services through over 130 national and specialised expatriate professionals.

### **EY**

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services EY delivers help build trust and confidence in the capital markets and in economies the world over. The company develops outstanding leaders who team together to deliver on its promises to all their stakeholders. In so doing, EY plays a critical role in building a better working world for the people, the clients and the communities.

### **Eversheds Sutherland Bitāns**

Eversheds Sutherland is one of the world's largest corporate law firms. Committed locally with Latvian office – Eversheds Sutherland Bitāns, but connected globally, with offices based in the world's major economic centres in 61 offices, in 29 countries. The company 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.

**Evolution Gaming**

Evolution Gaming Group AB develops, produces, markets and licences fully integrated B2B Live Casino solutions to gaming operators. Since the company was established in 2006, Evolution has become a leading B2B provider in the European market with 100+ operators among its customers. The group today employs approximately 3,500 people, the majority being based in Latvia and Malta. The parent company is domiciled in Sweden.

**Food Union Group**

Food Union Group is an international group of dairy and ice cream producing companies operating in nine countries in Northern and Central Eastern Europe. In Latvia, Food Union Group unites companies and sales offices like “Rīgas piena kombināts”, “Valmieras piens”, and “Rīgas Piensaimnieks”. Currently, Food Union Group is the leading milk processing company in Latvia and the largest ice cream manufacturer in the Baltics and Denmark. The Group employs more than 2,500 people.

**Fortum**

Fortum is a leading clean-energy company that provides its customers with electricity, heating and cooling, as well as smart solutions to improve resource efficiency. Fortum operates in the Nordic and Baltic countries, Russia, Poland and India. Since 2007, Fortum has operated in Latvia and is district heating operator in Jelgava city and electricity producer in its CHP plants. Electricity is sold on the wholesale market in cooperation with the largest power traders in Latvia.

**GlaxoSmithKline**

GlaxoSmithKline (GSK) is a British pharmaceutical company headquartered in Brentford, London. As one of the world’s leading research-based pharmaceutical and healthcare companies GSK is committed to improving the quality of human life by enabling people to do more, feel better and live longer. GSK’s three world-leading businesses research and deliver innovative medicines, vaccines and consumer healthcare products. The GSK office employs 47 people in Latvia.

**Klasmann-Deilmann**

Klasmann-Deilmann is the leading corporate group in the international substrate industry, with daughter companies in Europe, Asia and America. In the Baltic region, the company produces white and black peat as raw materials, and substrates for professional growers worldwide. As a supplier of renewable resources in Latvia and Lithuania, Klasmann-Deilmann is also established in the field of renewable energy. In particular, the company’s woodchips from short-rotation coppice (SRC) plantations, wood trading and forestry services contribute to the supply of climate-friendly energy.

**Knauf**

Knauf is one of the world’s leading manufacturers of modern insulation materials, dry-lining systems, thermal insulation composite systems, paints, floor screed, systems, and construction equipment and tools. Knauf has 150 production facilities and sales organisations in over 86 countries and 27,500 employees worldwide. The Latvian branch of the company was established in 1994 and employs 190 people.

## **KPMG**

KPMG operates as a global network of independent member firms offering audit, tax and advisory services; working closely with clients, helping them to mitigate risks and grasp opportunities. KPMG member firms can be found in 152 countries. Collectively, they employ more than 189,000 people across a range of disciplines. KPMG practices in the Baltics operate within KPMG in Central and Eastern Europe. In Latvia, KPMG was established in 1994.

## **Linstow**

Owned by the Awilhelmsen Group, a large international investment company, Linstow is one of Norway's leading real estate enterprises. Since 1996, Linstow's Baltic subsidiary has been Linstow Centre Management – the region's leading developer and operator of shopping centres. Linstow has established five shopping centres in Latvia: Alfa, Mols, Galerija Centrs, Origo, and Dole and the largest shopping centre in Estonia – Ülemiste. Linstow also owns seven hotels in the Baltic region, all operated by Rezidor under the Radisson Blu and Park Inn brands. The value of Linstow Group's real estate portfolio in the region totals EUR 700 million.

## **Luminor**

Built on the extensive experience of the two leading Nordic banks, Nordea and DNB, Luminor aims to become the leading financial services' provider for Baltic businesses and entrepreneurs. Luminor is the 3rd largest financial services' provider in the Baltic banking market with a 16% market share in deposits and 23% in lending. The bank has a wide customer base of around 1.3 million customers and 3000 working professionals.

## **Maxima**

“Maxima Latvija” is one of the leading retail chains in Latvia, the largest private employer in the country and one of the largest tax payers in Latvia. The company is part of the “Maxima Grupe” holding company that is the largest retail store chain and employer in the Baltics, employing more than 30 000 employees in five countries – Lithuania, Latvia, Estonia, Poland and Bulgaria.

## **Microsoft**

Microsoft is the worldwide leader in software, services, devices and solutions that help people and businesses realise their full potential. Microsoft's representative office in Riga was established in 1999 and for the first four years operated as a Baltic region office. Together 360 Microsoft partners employ several thousands of people in Latvia. Professionals from Microsoft Latvia have provided support for partners, service and solution development and marketing campaign development. Microsoft has donated and invested in various public-benefit projects in Latvia.

## **Møller Auto**

Møller Auto is the leading car retailer in the Baltic countries. The core business is connected to new and used Volkswagen and Audi car sales, original spare parts, car service and maintenance. Møller Auto employs over 600 employees in the Baltic countries. Møller Auto is part of the Norwegian “MøllerGruppen” and has operated in the Baltic countries since 1997.

### **Neste**

Neste is a forerunner in oil refining and renewable solutions by offering cleaner traffic solutions and industrial products based on cutting-edge research. It is listed in the Dow Jones Sustainability World Index and the Global 100 list of the world's most sustainable companies. SIA Neste Latvija is engaged in direct sales of petroleum products, as well as retail sales via its Neste service station network. The company has its own oil terminal in Riga harbour and 69 fuel stations in Latvia.

### **Nasdaq**

Nasdaq Baltic is a regional marketplace which represents the joint offer of the Nasdaq Tallinn, Nasdaq Riga, and Nasdaq Vilnius securities exchanges, as well as Nasdaq CSD. Nasdaq Baltic maintains a regulated, open and efficient market infrastructure. It strives to be an efficient channel for companies to raise capital and to facilitate the participation of institutional and private investors in primary offerings and secondary trading.

### **NCH Advisors**

NCH Capital's deep-value strategies are executed, depending on the local opportunity set, through investments in real estate, agribusiness, private equity and publicly quoted securities. NCH is one of the largest farm operators in the world and manages approximately \$3 billion of capital through a network of nine offices in Eastern Europe, Russia and Brazil.

### **Norvik Banka**

Norvik Banka is one of the oldest commercial banks in Latvia. Norvik Banka is a part of Norvik Group which also covers Vyatka Bank in Russia and Norvik Banka UK Limited in Great Britain. The bank has the widest network of branches and finance and accounting groups in the country.

### **PricewaterhouseCoopers**

At PwC, their purpose is to build trust in society and solve important problems. PwC is a network of firms in 157 countries with more than 223,000 people who are committed to delivering quality in assurance, advisory and tax services.

### **Reitengruppen (Narvesen)**

Narvesen is the leading food-to-go, press and service retailer in Latvia, owned by the Norwegian company Reitan Convenience (part of Reitangruppen). Narvesen development is based on values, franchise and professional employees. There are 252 Narvesen retail points in Latvia and overall Narvesen employs more than 900 people (incl. franchisees and store employees).

### **Rimi Baltic**

Rimi Baltic is one of the leading and fastest growing retailers in the Baltic States and they operate three chains appreciated by customers – Rimi supermarkets, Rimi hypermarkets and discount chain Supernetto. The company employs over 12 300 people in all three Baltic countries. Rimi Latvia currently operates 120 stores and employs more than 5600 people.

### **Robert Bosch**

The Bosch Group is a leading global supplier of technology and services. The German engineering and electronics company founded its subsidiary in Latvia in 1993 and currently employs 56 people in Latvia. Robert Bosch SIA is a wholesale company, which represents



power tools, thermo technology (including brands Junkers and Buderus), the automotive aftermarket and diagnostic technology products, and security system products.

### **SEB**

SEB is a leading financial services group in Scandinavia and the Baltics. SEB Latvia has a strong position in both retail and corporate banking, offering a full range of banking services for Latvian people and companies. In Latvia, the bank serves more than 400 000 private individuals and 40 000 companies. SEB Latvia is the first financial institution in Latvia to receive the Sustainability Index Platinum level – the highest possible position, reflecting the bank's long-term thinking and responsible business practices.

### **Solvay Group**

Solvay Group is an international chemical and advanced materials production company. Solvay is headquartered in Brussels with about 27,000 employees spread across 58 countries. Solvay Group in Riga operates as the Global Business Services Centre and provides a variety of services to Solvay group.

### **Swedbank**

Swedbank is the leading bank in Sweden, Estonia, Latvia and Lithuania. Swedbank Latvia is the largest bank in Latvia which nearly 1 million people and over 71,000 businesses have chosen as their partner in financial matters. Swedbank is a key driving force behind the country's economic and regional development that ensures continuous availability of financial services, offering clients support with a modern consultation centre and the widest branch and ATM network in Latvia.

### **TAV**

TAV has become a global brand in airport operations and construction. In 2006, TAV reorganised its operational activities under TAV Airports Holding and construction activities under TAV Construction. In addition to airport operations, the holding also operates in auxiliary airport services including duty-free, food and beverages, ground handling services, IT, security and operation services. TAV Airports' group companies operate 18 airports across three continents, including Latvia, where in 2017 it employed more than 500 employees.

### **Telia**

Telia Company AB is the leading network access and telecommunications services provider in the Nordic/Baltic region and operates one of the largest IP networks in the world. In Latvia, Telia has been a trusted partner for many local and international companies in the business technologies segment. Operating since 1992, it is wholly owned by the Telia Company. Telia Company is also a shareholder in Lattelecom and LMT – Latvia's biggest telecommunications companies.

### **URALCHEM**

Uralchem is one of the largest producers of nitrogen and phosphate fertilisers in Russia and CIS. Its main competitive advantage is the development and production of innovative fertilisers tailored to particular countries, markets and segments, along with ammonium nitrate and urea. SIA URALCHEM Trading belongs to URALCHEM Group and focuses on consolidating URALCHEM export sales. The company provides shipment of the goods in ports and chartering of vessels.

**Vastint**

Vastint Group 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. Vastint has been present in Latvia since 2003.

**Ventspils nafta terminals**

Ventspils nafta terminals (VNT) is the largest and the most technologically advanced crude oil and petroleum product transshipment company in the Baltic States operating for more than 50 years in the ice-free port of Ventspils. 49% of the company's shares belong to Eurotank Holding Sarl, part of the international terminal operating company VTTI, while 51% belong to Martank. Currently, VNT employs 250 specialists from different fields.

**Vitol**

Vitol Baltics is a part of the Vitol Group, which is an energy and commodities company. Vitol is a private company founded in Rotterdam and for over 50 years has served the world's energy markets; trading over seven million barrels of crude oil and products a day and delivering energy products to countries worldwide. In Latvia, the Vitol Group invests mainly in these companies: Ventspils nafta terminals, LatRosTrans, Latvijas kuģniecība.

**Visma**

The Visma group comprises five software business areas, which corresponds with Visma's strategic positions in important segments: SMB, Enterprise, Retail, Custom Solutions and IT & Hosting. Visma is present in twelve countries with a pivot in Northern Europe, and headquarters located in Oslo, Norway. Visma in Latvia is the market leader in the field of ERP and HCM solutions, provides custom solutions for government and private entities, supports development of Visma group's new products and currently employs 230 specialists.