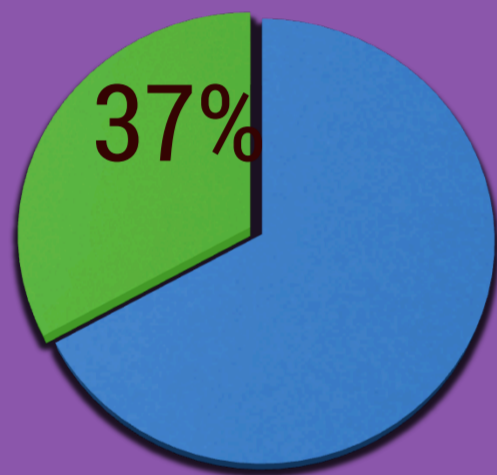


The Investment Climate in Latvia: The Viewpoints of Foreign Investors

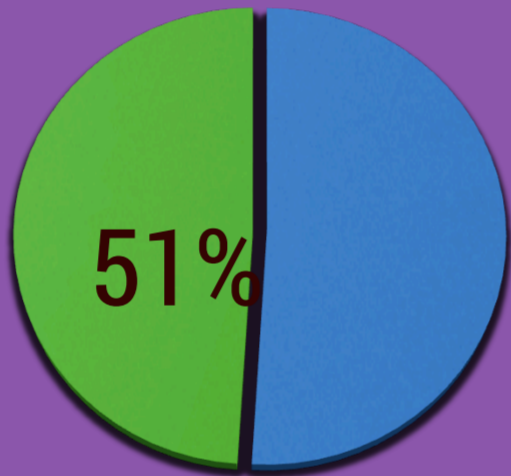
Foreign Companies in Latvia

The number of companies above 145K EUR turnover and 50% foreign capital (majority)

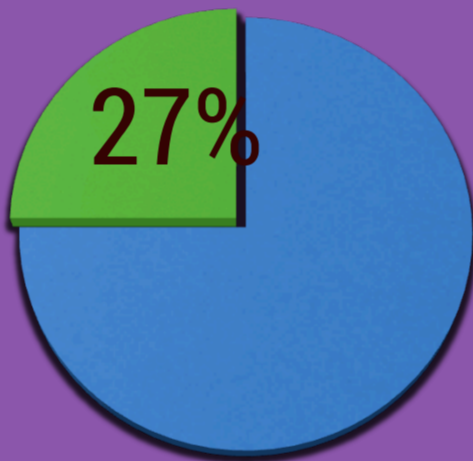
4495
or 1/5 of total number of companies in Latvia



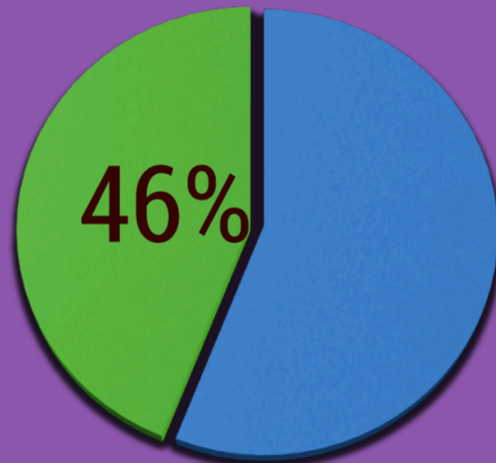
of total
social tax



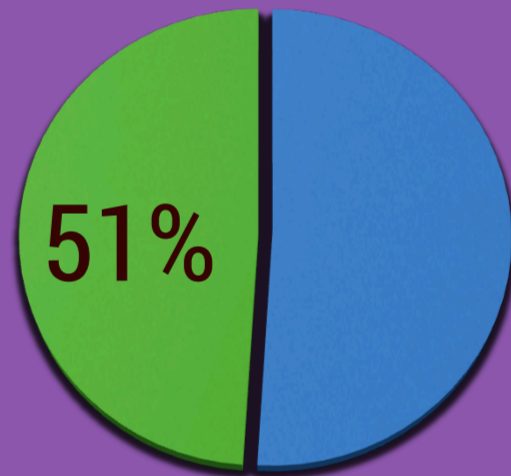
of total
taxes paid



of total
workforce



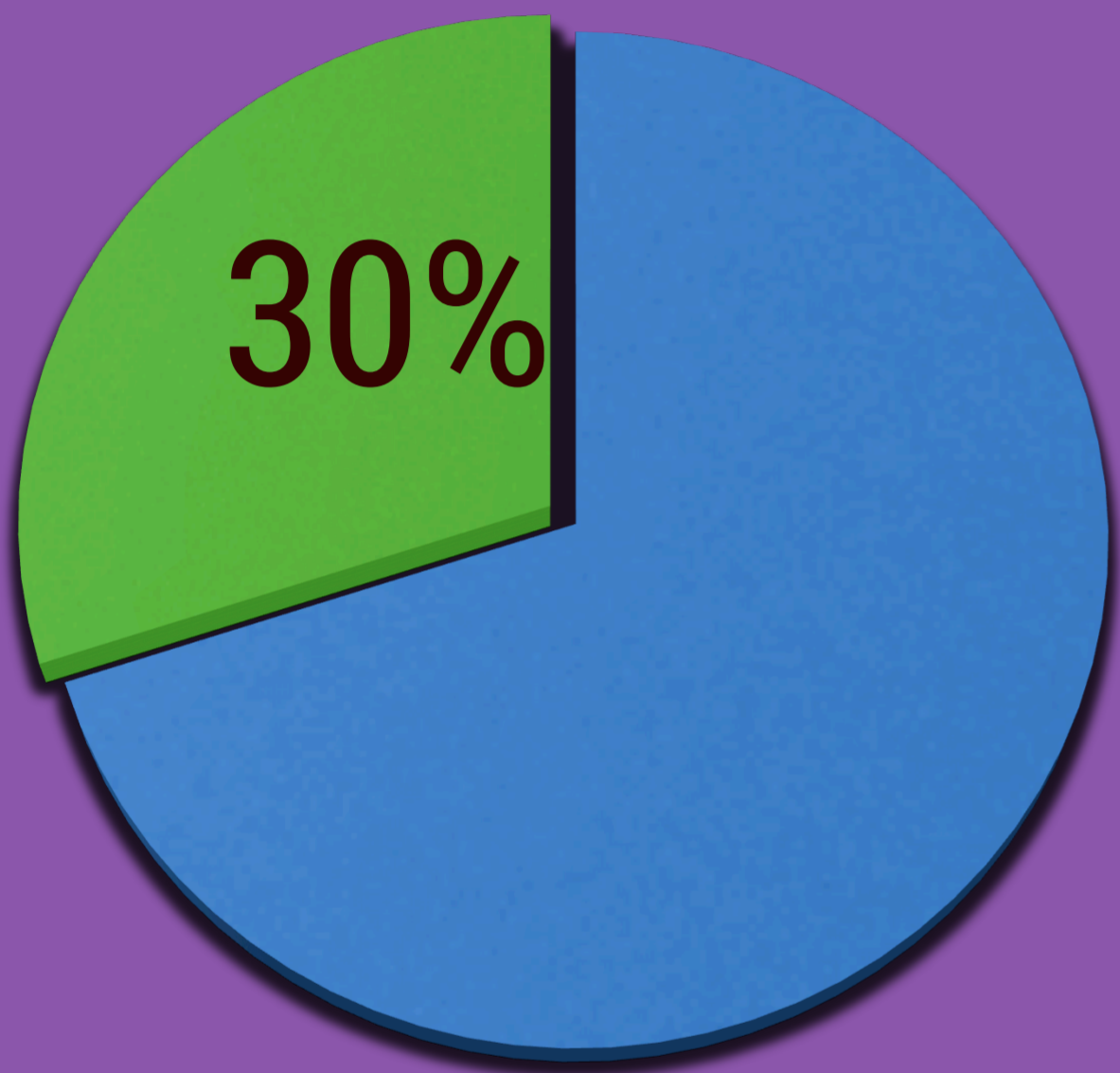
of total
turnover



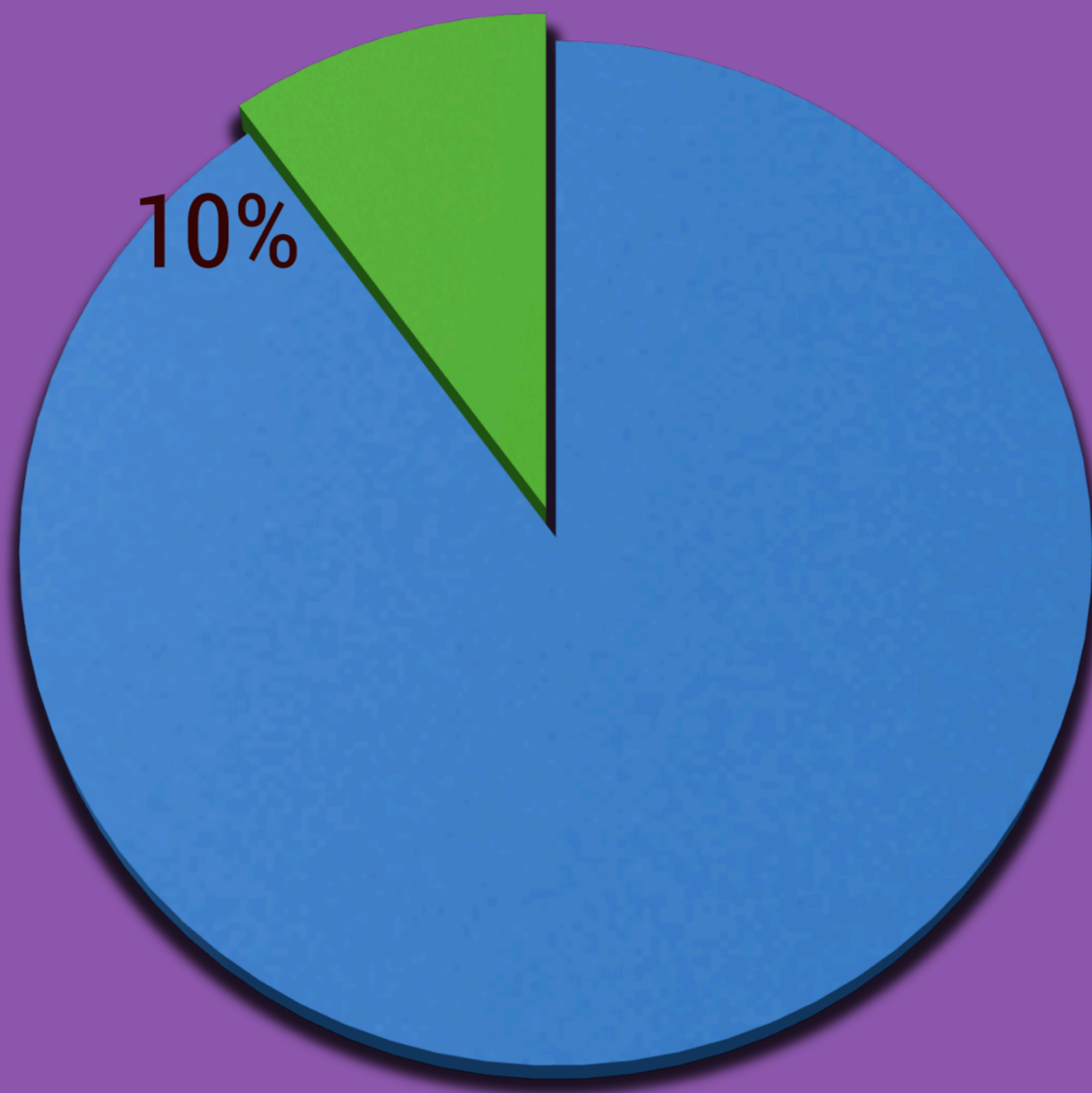
of total profit

Source: Firms.lv, Data: 2014

Foreign Investors Council in Latvia



of total FDI



of total tax contribution

around
20 000
employees

Source: Lursoft, SRS

Joint effort of
FICIL Sustainable
Economic
Development
work group



Aldis Alliks
ALLIKS un PARTNERI



Valts Ābols
GlaxoSmithKline



Ingrīda Blūma
Food Union



Oliver Bramwell
Norvik banka



Agnese Garda
Lawin



Aivars Jurcāns
KPMG



Kristīne Kalvāne
KPMG



Kaspars Kauliņš
Pedersen & Partners



Mats Kjaer
SSE Riga



Guntars Krols
Ernst & Young



Hamid Ladjevardi
American Baltic Investments



Jānis Loze
Loze & Partners



Alla Mamikina
Pfizer



Jūlija Māsāne-Ose
KPMG



Toby Moore
Imprimatur Capital



Edgars Pīgoznis
Food Union



Mārtiņš Pujats
Telia Sonera



Arnis Sauka
SSE Riga



Normunds Staņēvičs
Food Union



Juris Stinka
Philip Morris Latvia



Juris Ulmanis
Riga Business School



Ieva Urbanoviča
Varul



Nelliya Titova
SSE Riga

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FOREIGN INVESTMENT
COUNCIL IN LATVIA



Guidelines



Oliver Bramwell
Norvik banka



Jūlija Māsāne-Ose
KPMG



Arnis Sauka
SSE Riga



Discussion

**FICIL Sustainable
Economic
Development
Group**



Case Studies

**Conducted under
supervision of
FICIL**

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FOREIGN INVESTMENT
COUNCIL IN LATVIA

Case study interviews conducted by:



Ginta Cimdiņa
Fortum Jelgava



Cameron G. Greaves
British Chamber



Valts Ābols
GlaxoSmithKline



Mats Kjaer
SSE Riga



Zlata Elksiņa-Zaščirinska
PWC



Ivars Slokenbergs
AmCham



Johan Askbom
SEB banka



Graham Russell
CEMEX

Assisted by:



Marta Jaksona
Project Director



Anita Mengote
Office Manager

Companies that
took part in the
study



Microsoft



NASDAQ



Cytec Latvia



EVERY



Bucher Schoerling



Ernst & Young



Linstow



SEB banka



Latvijas Gāze/
E.ON



Food Union



Narvesen



Eversheds
International Limited



TAV



Klasmann-Deilmann



Vitol



MTG



Statoil Retail & Fuel



Bosch



Fortum



KMPG



Balta/PZU



Knauf



Swedbank



Neste



SPI Group



Norvik



NCH Advising



PWC

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FOREIGN INVESTMENT
COUNCIL IN LATVIA

Economic development		Investments		Overall evaluation & suggestions		
 <p>Concerns</p>	 <p>Success</p>	 <p>Decisions</p>	 <p>Dynamics</p>	 <p>Expectations v.s. reality</p>	 <p>Potential</p>	 <p>Communication</p>

FICIL SENTIMENT INDEX 2015

foreign investors' in Latvia assessment of the potential drivers of economic competitiveness of Latvia



Latvia's economy from 1 to 5

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FOREIGN INVESTMENT
COUNCIL IN LATVIA

Concerns prioritized



Ability to co-operate

Short-term thinking

Slow economic growth

Availability of specific infrastructure

Social inequality

Concerns prioritized



Quote:

Court system

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

(Professional assurance and advisory services company)

Healthcare system

“A rather non-transparent system that affects employee productivity and availability. Costs of health insurance in Latvia are constantly growing, thus affecting the cost of doing business.”

(Technology and IT company)

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FOREIGN INVESTMENT
COUNCIL IN LATVIA

Concerns prioritized



**Unfair
competition**

Uncertainty

Court system

**Healthcare
system**

**Ability to co-
operate**

**Short-term
thinking**

**Slow economic
growth**

**Availability of
specific
infrastructure**

**Social
inequality**

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FOREIGN INVESTMENT
COUNCIL IN LATVIA

Quote:

**Unfair
competition**

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

(Manufacturing company)

Viewpoint:

Uncertainty

Lack of predictability of legislative framework, long-term public policy and plans, lack of political stability of government worries foreign investors in Latvia most.

Concerns

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FOREIGN INVESTMENT
COUNCIL IN LATVIA

Concerns prioritized

**Legislation and
government
support**

**Unfair
competition**

Uncertainty

Court system

**Healthcare
system**

**Ability to co-
operate**

**Short-term
thinking**

**Slow economic
growth**

**Availability of
specific
infrastructure**

**Social
inequality**

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Quote:

**Legislation and
government
support**

“Tax legislation is a big problem as a system. For example, the employment tax is above the EU average... Changes take place so often that we cannot keep on changing our systems and programmes to follow.”

(Manufacturing company)

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FOREIGN INVESTMENT
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Concerns prioritized

**Legislation and
government
support**

**Education, science
and value added**

**Unfair
competition**

Uncertainty

Court system

**Healthcare
system**

**Ability to co-
operate**

**Short-term
thinking**

**Slow economic
growth**

**Availability of
specific
infrastructure**

**Social
inequality**

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FOREIGN INVESTMENT
COUNCIL IN LATVIA

Quote:

Education, science and value added

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

(Real estate company)

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

(Wholesale and retail company)

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Concerns prioritized

**Legislation and
government
support**

**Education, science
and value added**

**Demography and
access to labour**

**Unfair
competition**

Uncertainty

Court system

**Healthcare
system**

**Ability to co-
operate**

**Short-term
thinking**

**Slow economic
growth**

**Availability of
specific
infrastructure**

**Social
inequality**

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FOREIGN INVESTMENT
COUNCIL IN LATVIA

Viewpoint:

Demography and access to labour

Lack of quantity of all types of labour.

Controlled, regulated immigration should solve the increasing demographic challenge as well as clever re-emigration policy.

Companies might take steps to import labour 'at any cost' already in the nearest future.

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FOREIGN INVESTMENT
COUNCIL IN LATVIA

The top of successes

Quote:

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

Efficiency of labor

(Wholesale and retail company)

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FOREIGN INVESTMENT
COUNCIL IN LATVIA

The top of successes

Quote:

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

(Energy company)

**Shared service
centres**

Efficiency of labor

Introduction

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The top of successes

Quote:

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

(Finance and banking company)

**Financial
infrastructure and
markets regulation**

**Shared service
centres**

Efficiency of labor

Introduction

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FOREIGN INVESTMENT
COUNCIL IN LATVIA

The top of successes

Logistics and overall infrastructure

Financial infrastructure and markets regulation

Shared service centres

Efficiency of labor

Quote:

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

(Real estate company)

“Transport and logistics is well developed. Good that Latvia managed to develop an airport and position Riga as a place which is easy to access.”

(Professional assurance and advisory services company)

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FOREIGN INVESTMENT
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The top of successes

Environment -
political and business

Logistics and overall
infrastructure

Financial
infrastructure and
markets regulation

Shared service
centres

Efficiency of labor

Stability that is brought by integration
of Latvia within EU and NATO

Quote:

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

(Real estate company)

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The top of successes

Environment -
political and business

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infrastructure

Financial
infrastructure and
markets regulation

Shared service
centres

Efficiency of labor

How recent crisis was managed

Quote:

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

(Wholesale and retail company)

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The top of successes

**Environment -
political and business**

**Logistics and overall
infrastructure**

**Financial
infrastructure and
markets regulation**

**Shared service
centres**

Efficiency of labor

**Progress with the way Latvian State
Revenue Service works**

Quote:

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

(Finance and banking company)

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Demography

2.0



Availability
of labour

3.0



Quality of business
legislation

3.2



Quality of health
and social
security

2.6



Demand for
products and
services

3.1



Attitude towards
foreign investors

3.2



Quality of
education

2.8



Hard
infrastructure

3.2



Efficiency of labour

3.2

scale 1-5, where 1 represents attitude about low competitiveness, 5 represents attitude of very high competitiveness

Quality of health and social security (2.6)

health system: 2.5

social security: 2.8

Availability of labour (3.0)

availability of labour on management level: 3.4

availability of blue collar labour: 2.7

Demand for products and services (3.1)

domestic demand: 2.8

external demand (exports): 3.3

industry traditions: 3.4

Hard infrastructure (3.2)

defense: 3.4 (thanks to NATO)

low production costs: 3.3

infrastructure (roads electricity, etc): 3.1

energy resources: 2.8

Quality of business legislation (3.2)

monetary policy: 4.0

tax system: 3.1

legal system: 2.6

Attitude towards foreign investors (3.2)

policies towards foreign investors: 3.6

investment incentives: 2.8

Overall standard of living in Latvia: 3.4.

Quotes:

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

(Professional assurance and advisory services company)

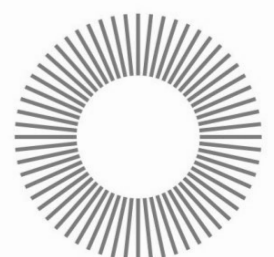
“In the 1990s investing in Latvia was a fantastic opportunity.”

(Real estate company)

Good opportunity
in emerging market

A policy to be
present

Why companies have invested in Latvia?



FOREIGN INVE
COUNCIL IN L

Quotes:

“It was strategic decision and Latvia presented itself very well. Access to talent- hardworking people with a good work ethic, multilingual, results oriented.”

(Finance and banking company)

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

(Technology and IT company)

Quality of workforce and
favourable business
environment

Good opportunity
in emerging market

A policy to be
present

Why companies have invested in Latvia?



FOREIGN INVE
COUNCIL IN L

Quote:

“... It was because company trusted in Latvia and the Baltics growing into prosperous and European- type countries, thinking that markets will develop democratically; there will be a market economy.”

(Finance and banking company)

Belief in continuous growth of Latvia

Quality of workforce and favourable business environment

Good opportunity in emerging market

A policy to be present

Why companies have invested in Latvia?



FOREIGN INVESTMENT
COUNCIL IN LATVIA

**Good strategic
location of Latvia**

**Belief in continuous
growth of Latvia**

**Quality of workforce
and favourable
business environment**

**Good opportunity
in emerging market**

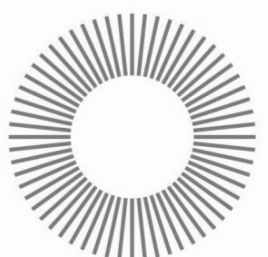
**A policy to be
present**

Quote:

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

(Manufacturing company)

Why companies have invested in Latvia?



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VERY IMPORTANT TO ADDRESS CONCERNS OF
EXISTING FOREIGN INVESTORS TO INCREASE
OVERALL COMPETITIVENESS OF THE INVESTMENT
CLIMATE IN LATVIA!

BACK TO REFORM AGENDA!

Why companies have invested in Latvia?



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Thank you!

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