

# **FICIL SENTIMENT INDEX 2016**

## **THE DEVELOPMENT OF THE INVESTMENT CLIMATE IN LATVIA OVER THE PAST 12 MONTHS: THE VIEWPOINTS OF FOREIGN INVESTORS**



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# Joint effort of FICIL and SSE Riga, involving number of partners

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# Methodology

**28 mini case studies with foreign investors in Latvia, mainly FICIL members in 2015.**

**Same 24 and additional 8 foreign investors interviewed in 2016**

- Guidelines designed by Arnis Sauka (Stockholm School of Economics and Riga) with support of FICIL- Guntars Krols (EY), Ģirts Greiškals and Marta Jaksona (FICIL)
- Case studies conducted during September- October, 2016 under supervision of FICIL

# Topics covered by the study

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

# Companies that took part in the study

- Amber Beverage
- Balta/PZU
- Baltic Container Terminal
- Cemex
- CIRCLE K
- DnB
- Ernst & Young
- Eversheds International Limited
- EVERY
- Food Union
- Fortum
- GlaxoSmithKline (Narvesen)
- Klasmann-Deilmann
- Knauf
- Linstow
- Neste
- Moller Auto
- MTG
- Nasdaq
- NCH Advisors
- Norvik banka
- PricewaterhouseCoopers
- Reitengruppen
- Rimi Baltic
- Robert Bosch
- SEB banka
- Solvay
- Swedbank
- TAV
- Uralchem
- Vastint
- Vitol

# FICIL Sentiment Index 2015- 2016

Foreign investors' in Latvia assessment of the potential drivers of economic competitiveness of Latvia.

- 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

# KEY RESULTS

# Whether the investment attractiveness of Latvia has improved over the past 12 months?

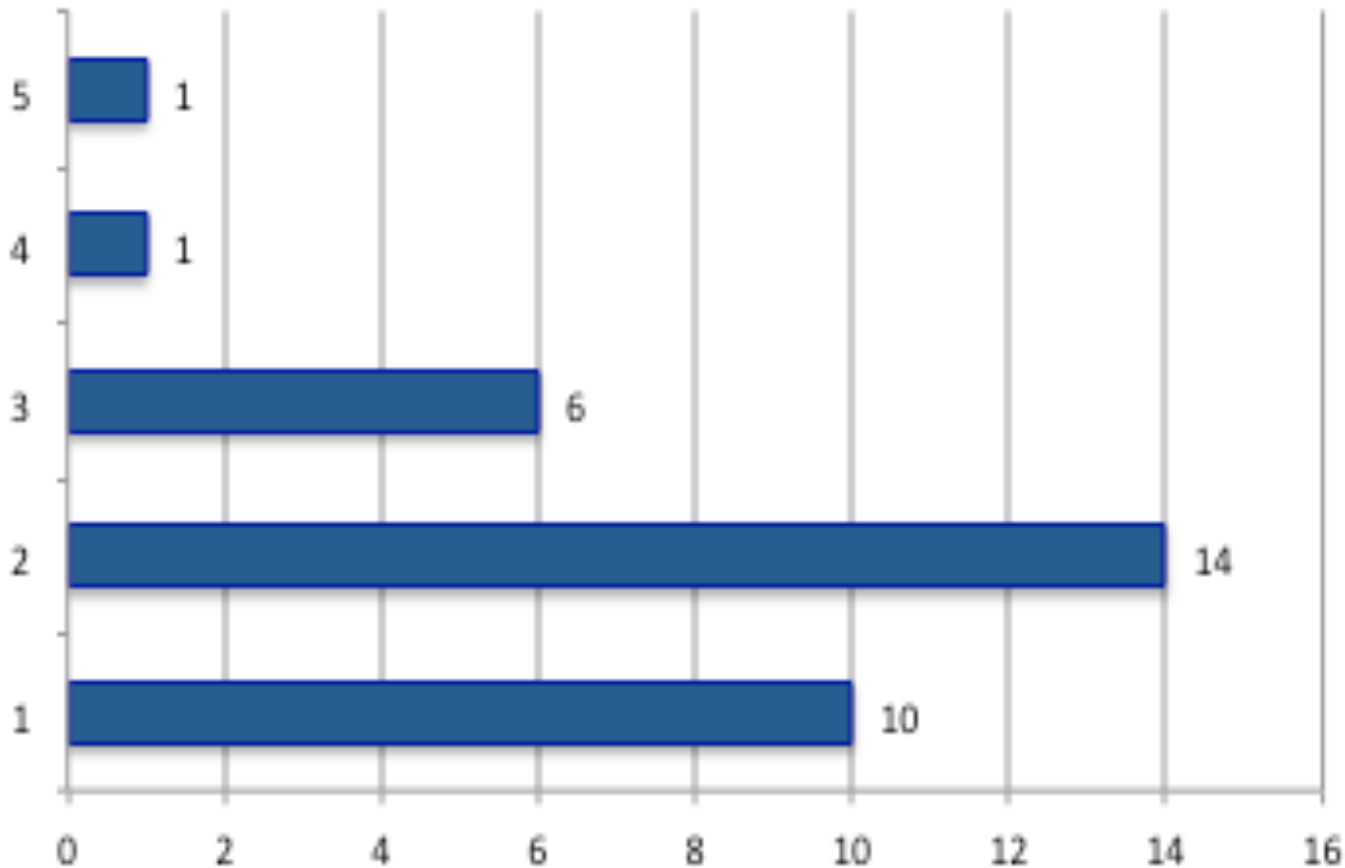
Scale 1-5 where:

- ‘1’- investment attractiveness has not improved at all,
- ‘2’ means there have been only minor improvements,
- ‘3’ means that there have been some positive improvements,
- ‘4’ means yes, investment attractiveness has improved and
- ‘5’ means yes, investment attractiveness has improved significantly.

All 32 answered this question



On average, the development of the investment climate in Latvia over the past year was evaluated with '2', which means that investors see only minor improvements.



Source: FICIL Sentiment Index 2016

“... I do not see many incentives and reasons for investing. Even more so if I compare the situation in Latvia with the situation in neighbouring countries – Estonia and Lithuania. In addition, FDI is decreasing.” (Service company)

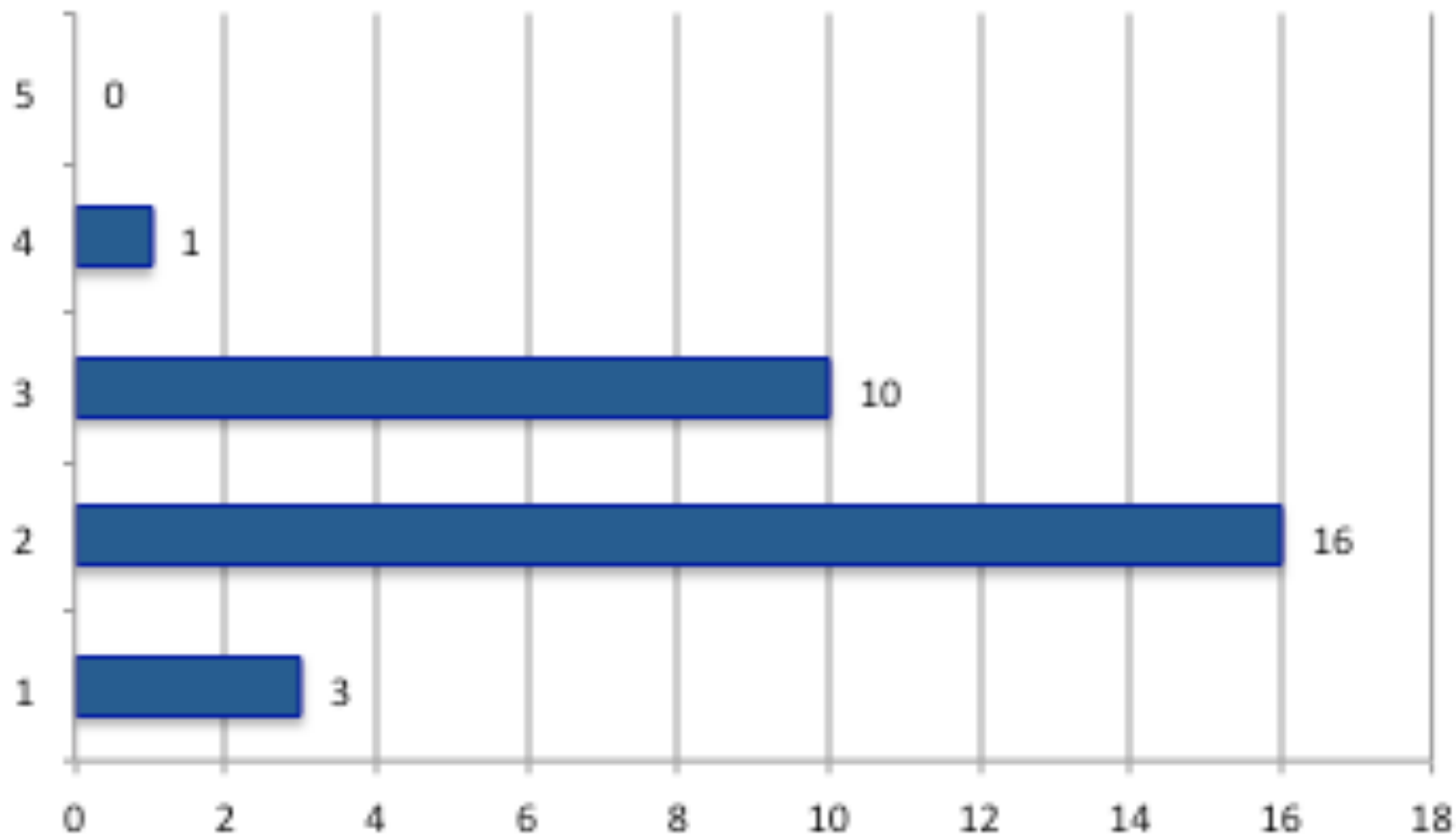
“No, not at all.” (Consultancy and IT company)

Some companies see a few positive trends, due to OECD, etc.

# To what extent the promise to improve investment climate in Latvia made in 2015 has been fulfilled?

- The challenges identified in the FICIL Sentiment Index 2015 were presented to the Latvian government during the FICIL High Council Meeting in September 2015.
- Government representatives promised to work towards removing these obstacles in order to improve the investment climate in Latvia.
- Assessment using a grading scale from '1' to '5', where '1' means that investors evaluate the efforts of the government as 'fail', '3' as average (pass level) and '5' as excellent.

## Grade: 2.3. Needless to say, this is not a positive evaluation- just above 'fail'.



Source: FICIL Sentiment Index 2016

# Evaluation of progress with regard to the major areas of concern identified by foreign investors in Latvia in 2015.

- ▣ 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

# DEMOGRAPHY

- ❑ Demography, along with access to labour, was among the major areas of concern in 2015
- ❑ In 2016 the vast majority of respondents stated that they feel like there have been no improvements or the situation is getting even worse
- ✓ “It is a challenge; there have been no major improvements. In any case, if we want some people, we should look at what is happening in ‘Mucenieki’ rather than demography as such, where changes cannot happen very fast.” (Finance and banking company)
- ✓ “Demography is the biggest and most important area. I haven’t seen evidence of any progress...” (Finance and banking company)
- ✓ “I do not see anything significant; I do not see any strategic actions.” (Wholesale and retail company)

# DEMOGRAPHY

- Some investors, however, admit: **demography is indeed a long-term challenge and it is simply not possible to change a lot over a one-year period**
- Still some somewhat positive responses:
  - ✓ High emigration, in fact, is more damaging than demography. I would say there has been slight improvement.” (Real estate company)
  - ✓ “If we speak about migration, I believe that the government has done something; at least that is what we can hear on the news. However, in reality, Europe is getting older and it is the same for Latvia. On top of that there is emigration, and employers need to think about possible solutions. One example is employment opportunities for seniors. ...” (Wholesale and retail company)

# ACCESS TO LABOUR

- ❑ Some investors highlight that also this issue can not be changed in one year, some see a few positive trends.
- ❑ The overwhelming majority of the interviewed investors, however, do not see that attempts have been made to tackle the issue and believe that no progress has really been made with regard to improving access to labour.
- ✓ ... overall this issue is directly linked to access to education and demography. There is no decline but the competition has increased.” (Finance and banking company)
- ✓ “I would say that the situation is worse. And we feel it at all levels – in the top management and in the workforce.” (Manufacturing company)
- ✓ “The primary goal should be not to lose the educated people we have here in Latvia, those who have spent 20 to 25 years here and have just graduated. ... Access to labour is a huge problem in the regions... I would say nothing has changed.” (Finance and banking company)



# LEVEL OF EDUCATION AND SCIENCE IN LATVIA

- ☐ The level of education and science in Latvia was highlighted as one of the top three main concerns for the development of the investment climate in Latvia in the 2015 survey.
- ☐ In the 2016 study opinions differ.
- ☐ Approximately half of the interviewed respondents see no progress made during one year:

“... we can evaluate the progress from a recruiting point of view mostly. Universities for sure are working to have more students but I am not sure if anything has been done related to quality. So no real improvement.” (Retail trade and service company)

“Technical education is a problem and also the capacity and qualification to work at an international business level. Our education system is outdated and so are the teachers working there. ... The situation is becoming worse. There are just a couple of high schools that can prepare young people for studies outside of Latvia and a couple of universities that are competitive internationally. The rest are going totally in the wrong direction.” (Wholesale and retail company)

“... I think that the state should take particular care in orienting young people, especially in the countryside, at the age of 15-16 years, towards vocational education. For example, you can't find mechanisation specialists in Latvia. No progress really.” (Manufacturing company)

# LEVEL OF EDUCATION AND SCIENCE IN LATVIA

□ Investors, however, often mentioned that either the situation with education and science is not bad at all or that “steps in the right direction” have been made.

- ✓ “All over Europe we have the problem of education quality and the capacity of graduates in business. Latvia overall has a good education system. Students have language and mathematical skills.” (Retail trade and service company)
- ✓ “There are no major changes that could be felt or noticed in the market; however, some things are going in the right direction.” (Professional assurance and advisory services company)
- ✓ “The good thing is that we do see more high quality IT people. We have recently hired quite a few and it is possible to hire at affordable rates...” (Finance and banking company)
- ✓ “...In general, I think, the level of education is above average. People care.” (Real estate compar

# QUALITY OF BUSINESS LEGISLATION

- Unfortunately, only a few (3 out of 32) positive or somewhat positive opinions when it comes to the development of the quality of business legislation in Latvia since 2015 as well as the quality of business legislation in general.
- Some of the positive aspects highlighted during the interviews relate to the insolvency process

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

- All the rest we received during the 2016 study, however, **clearly shows that, according to foreign investors, quality of business legislation is still a major issue that remains to be solved.**

- ❑ “I think no improvements. Laws are being interpreted in many different ways. ... Sometimes I tend to think it was written by a young student that does not understand the issue ...” (Retail trade and service company)
- ❑ “I would like to see an accurate revision of the business legislation because at the moment it looks like patchwork. ... We have seen many times where some ad hoc regulations are adopted, especially this year. Then new things are introduced without proper analysis, without any impact studies, etc. Accordingly, unpredictability is increasing. So no improvement.” (Wholesale and retail company)
- ❑ “This was not a good year. There were some new legislative initiatives that were made in order to protect small businesses, but in real life these initiatives are working against them. There are many rules and details that don’t work at all. Policymakers should think more about the quality of the laws.” (Wholesale and retail company)
- ❑ “It has become more unpredictable...” (Wholesale and retail company)
- ❑ “The legislation is OK; it is the implementation that doesn’t work. Insolvency for example ...” (Professional assurance and advisory services company)

# QUALITY OF THE TAX SYSTEM

- ☐ 2016 study suggests that there are major concerns with regard to the quality of the tax system- this issue is emphasised even more than it was in 2015.
- ☐ Only 5 of the 32 interviewed respondents evaluate the quality of the system as either good or experiencing some positive change compared to the previous year.
- ☐ All the rest- negative opinion! Namely, more than one third respondents (out of 27) believe that the situation is as bad as it was last year:

# QUALITY OF THE TAX SYSTEM

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

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

☐ **One fifth of the interviewed respondents that expressed negative opinion, however, are convinced that the quality of the tax system has become worse**

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

“There are no changes. It is just getting worse. As we know, suddenly this summer the existing regime governing the special economic zones was changed, which has some significant impacts on the tax rate applied.” (Retail trade and service company)

“During the last 12 months I have seen a purposeful attack on the State Revenue Service (SRS), which was starting to do a very good job. ... Today we are where we are. Unfortunately. And the ship is now drifting. Nothing has changed in the area of labour tax; the solidarity tax is a big stupidity where we can see now the negative impact is far bigger than the real gains.” (Professional assurance and advisory services company)

# QUALITY OF THE TAX SYSTEM

- The rest- approximately one third of all interviewed- **direct policymakers' attention to the lack of predictability of taxes and problems with tax collection and administration**

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

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

“Court proceedings take years and years and everyone acts like this is all right. And then you wonder why investments are dropping and why it is difficult to attract investors. Look at KNAB and all the things that are happening there... It is joke?...” (Service company)

# Support from the Government and Communication with Policymakers

☐ In 2016 we see more positive opinions- the majority of respondents highlighted that communication with the government has improved and some also see improvement with regard to government support for foreign investors.

“For us it has improved, I can say it is perfect. We are working shoulder to shoulder to make Latvia better and create a more competitive environment. (Service company)

“At least the government has started to communicate and that is good. Would be great to have some evidence that there is also a result and that this is not just chatting. ... I am very happy when I hear PM Kučinskis referring to what has been discussed between FICIL members and the government at the High Council Meeting. The question is whether actions follow, but I am an optimist!” (Consultancy and IT company)

“I think that the government listens to business. ... The government has its own interests, of course... .” (Real estate company)

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



# Support from the Government and Communication with Policymakers

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

“We have been dealing with the Ministry of the Economy – the current minister is very active, he is promoting different industries, trying to increase competitiveness, and electricity or heat is also part of the competitiveness...” (Retail trade and service company)

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

# Support from the Government and Communication with Policymakers

- ❑ As many as 10 out of the 32 interviewed investors, however, think that no positive change has happened over the year or that the situation with regard to government support and communication is, in general, negative.

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

“There have been no specific changes within the last 12 months. We try to maintain communication but there are no additional benefits for our industry.” (Wholesale and retail company)

“The government is trying to improve cooperation. Nevertheless, there are ridiculous situations where after spending hours in work groups some of the proposed amendments are not taken account simply because a member of the group has not formulated the proposals in a nice written form ...” (Professional assurance and advisory services company)

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

## □ Approximately half of the interviewed investors see no improvement or have in general a negative opinion:

“I think it is unfair that there are areas where the state is competing with business, with the private sector. And I can see that the state is getting more and more brutal in invading some business sectors. I have specific examples where the state is unfairly competing with us; they even steal our staff members and the feeling is they would be happy to push us out of business completely.” (Manufacturing company)

“There are no particular changes ... in fighting the shadow economy the effort is not efficient. I have noticed some activities going on and they are publicised. However, if you quantify the actions, then actually it's peanuts compared to what is hidden behind it. I do not think that's how we can reach a result.” (Wholesale and retail company)

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

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

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

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

- ... some companies, however, feel that the situation has become even worse
- Yet there are also some positive opinions, offered by about one fourth of the interviewed investors:

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

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

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

# UNCERTAINTY

- Only 3 of the 32 interviewed foreign investors in Latvia expressed either a positive or neutral opinion with regard to the decrease of uncertainty in the country. The same number of respondents, however, believe that the situation has become worse.
- The vast majority of the interviewed investors, however, believe that uncertainty has not decreased and that the situation overall has not improved compared to what they experienced 12 months ago:

- “There is still unpredictability – geopolitically the situation hasn’t improved. In 2018 there will be presidential elections in Russia, so up to that time there will be efforts to keep up the reputation of Putin. ... Brexit is not helping, nor is the Trump-Clinton duel adding any stability. It is actually the other way around. The environment has become more unpredictable...” (Wholesale and retail company)
- “You should ask that question in a month’s time when the next budget is here. The new electricity bills provide good evidence that there are no improvements. I’m talking about electricity distribution tariffs. There are also surprises regarding the mandatory purchase component (the OIK). We are constantly changing CO2 emission rates... .” (Retail trade and service company)
- “There is great uncertainty all the time. We are building our business plans on the basis of the situation today, but I have absolutely no assurances about what the future will be like. I will not be surprised if someone in the government comes up with an idea about how to get more money out of our business operations ... .” (Consultancy and IT company)

# THE COURT SYSTEM IN LATVIA

□ Slightly less than a half from interviewed investors feel that the situation has not improved and, similarly to the previous year, highlight that there is room – in fact, a need – for improvement in this area.

“... I have always been surprised by how long court hearings take in Latvia! ... Also, I must say, in some aspects Latvian law tends to be very old-fashioned, for example, the Labour Law... .” (Service company)

“... there seems to be a problem with the length of the proceedings. Also, there is too much focus on application following the letter rather than the purpose of the law. ...” (Wholesale and retail company)

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

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

# THE COURT SYSTEM IN LATVIA

- ☐ **Some (5 of 32) respondents simply feel lucky they never had experience with courts:**

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

“I cannot comment on this since fortunately I lack experience in this area... .” (Manufacturing company)

- ☐ **Approximately 1/3 of interviewed investors, however, do see positive tendencies:**

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

“We have had a positive experience in terms of timing – it was an issue related to labour law and was looked at very quickly by the court... .” (Consultancy and IT company)

“We are happy because there are positive trends – there are people from the judiciary who are starting to focus on real problems. Overall, the court system needs to have some conservatism; it can’t follow every gust of wind, especially if these are political winds... .” (Professional assurance and advisory services company)



# Other areas of investors' concern

We also asked investors **whether they could mention any other areas that are of major concern to foreign investors** in Latvia where considerable achievements have been made by Latvian policymakers.

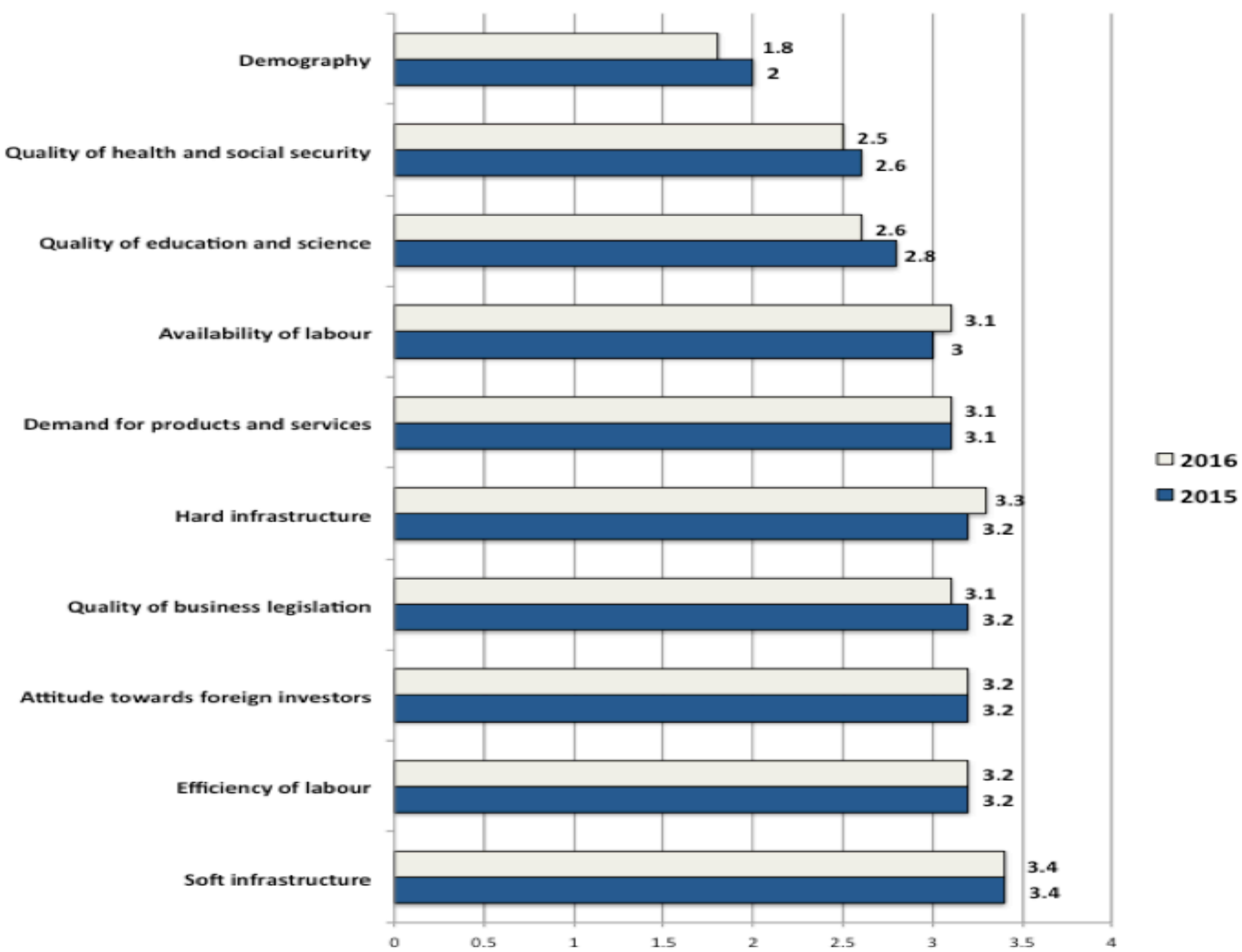
- ❑ joining the OECD is a great success
- ❑ necessity of continuing work on RailBaltica,
- ❑ unsatisfactory quality of civil service in Latvia
- ❑ necessity of offering better support to investment and exports as well as to small and medium-size companies in the country.
- ❑ necessity of municipal reform, which “has been left out and is not done at all” (Professional assurance and advisory services company).

# FICIL SENTIMENT INDEX

## 2015-2016

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

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



# Components of the FICIL Sentiment Index 2015- 2016.

<b>Soft infrastructure</b>	<b>3.4</b>	<b>3.4</b>
business culture in Latvia	3.4	3.4
<b>Efficiency of labour</b>	<b>3.2</b>	<b>3.2</b>
efficiency of labour	3.2	3.2
<b>Attitude towards foreign investors</b>	<b>3.2</b>	<b>3.2</b>
policies towards foreign investors	3.6	3.7
investment incentives	2.8	2.8
<b>Quality of business legislation</b>	<b>3.2</b>	<b>3.1</b>
monetary policy	4.0	4.1
tax system	3.1	2.8
legal system	2.6	2.6
<b>Hard infrastructure</b>	<b>3.2</b>	<b>3.3</b>
defence	3.4	3.6
low production costs	3.3	3.2
infrastructure (roads, electricity, etc.)	3.1	3.1
energy resources	2.8	3.3

# Components of the FICIL Sentiment Index 2015- 2016.

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

# FURTHER INVESTMENT PLANS

**Plans to invest more or less in Latvia in the coming years, investors' viewpoints differ:**

- ☐ 'yes, we plan to increase investment'- 16
- ☐ 'no, we do not plan to increase investment'- 10
- ☐ 'not decided or 'no particular need''- 6

# YES

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

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

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

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

# NO

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

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

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



# NOT DECIDED

“We are looking at this right now. It is sad to see how hard it is sometimes to work here. There are countries where you know it will be hard. In Latvia it seems that it isn't, but in reality it is... .” (Retail trade and service company)

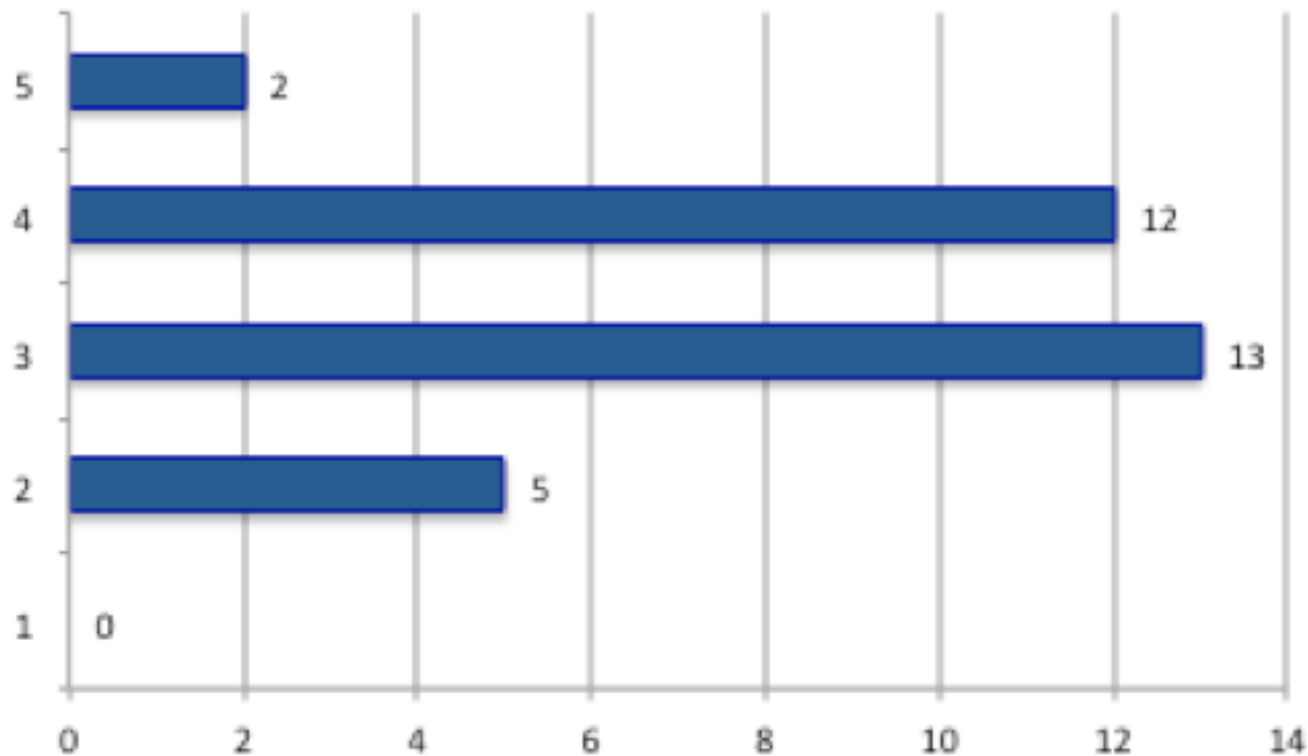
“I think we have reached our maximum as a company. We can't get more people. Every activity that involves more than 100 people is cumbersome. If you needed to find 25 accountants in three months, it would be impossible. You will find three or five but not 25. And we are talking about Riga!” (Professional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

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

# “To what extent would you recommend investing in Latvia to your friends and business partners?”

‘1’-‘5’, where ‘1’ is ‘would not recommend it at all’ and ‘5’ is ‘would highly recommend it’.

average assessment of ‘3.3’



Source: FICIL Sentiment Index 2016

# THE WAY FORWARD

## Foreign investors' advice for the Latvian government: issues that cannot wait!

“What would be 3-5 major tasks that have to be accomplished by Latvian policymakers over the next 12 months in order to improve the investment climate in Latvia?”

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

## **DEMOGRAPHY and AVAILABILITY OF LABOUR**

“Labour issues should be on the top of the list. Nothing is changing. If we do not have the labour here, then let’s bring it in from other countries – Ukraine, Belorussia, other neighbouring countries. We need to simplify the process for them to access the job market.” (Real estate company)

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

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

**‘IMPROVEMENT OF THE TAX SYSTEM and LEGAL SYSTEM’**

**and**

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

# ‘IMPROVEMENT OF THE TAX SYSTEM

“Taxation (is a challenge). You need to look at all the taxes combined. You need stable tax and a broad taxation base. In Latvia the practice so far has been to tax those who can pay... Sometimes I would like to suggest that Latvians cross the border and look at what Estonians are doing and then do the same here!... The Latvian system is too rigid.” (Real estate company)

“Establish a long-term tax system that is transparent and efficient from both the employer and employee side...” (Wholesale and retail company)

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

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

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

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

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

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

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

“Agree on a clear and predictable tax policy that is transparent and easy to understand, that does not include numerous “hidden” taxes and charges. The same applies to the labour tax... .” (Manufacturing company)

“Predictability (is a major problem) – in Latvia, unfortunately, a very casuistic approach dominates. Big investors unfortunately cannot be sure about the energy prices next year. Also, very often business is stuck in some bureaucratic process, like getting a license or something similar...” (Professional assurance and advisory services company)

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

- **there is a lack of strategic vision and long-term plans:**

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

- **issues related to EU funds:**

“EU funds will be over soon and we have no idea what we will do. Major companies are going away to Scandinavia and those that have left will not come back....” (Real estate company)

- **... and activating regional reform:**

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

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

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

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



**LAW ENFORCEMENT, THE COURT SYSTEM**

**THE SHADOW ECONOMY, CORRUPTION,  
TAX EVASION**

**EDUCATION AND DEVELOPMENT**

“Enforcement of existing legislation is key.” (Manufacturing company)

“Ensuring the rule of law – speed and efficiency of the court system, justice.” (Wholesale and retail company)

“The court system needs to be improved. It is a shame to hear at a Baltic-wide conference that Lithuanians are proud that they do not have a situation like in Latvia. Corruption is still a problem.” (Wholesale and retail company)

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“If Latvia wants to move forward and get somewhere, it needs to deal with corruption and stop establishing government policies in the interests of a person in one particular region. There is a lot of evidence that this is happening... .” (Retail trade and service company)

“Should work on the motivation to pay tax (by linking tax payment to some state-funded services).” (Finance and banking company)

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

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

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

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**To a lesser extent, investors pointed to the necessity to work (in the short term...) on issues related to:**

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

**A BETTER FUNCTIONING PUBLIC SECTOR,  
COMMUNICATION**

**RENEWABLE ENERGY**

# Mr. Prime Minister, You've Got Mail!

# Thank you!

The Centre for Sustainable Business at SSE Riga  
[www.sseriga.edu/en/centres/csb](http://www.sseriga.edu/en/centres/csb)



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