



FICIL Task Force

Recommendations for Latvia's Economic Development after COVID-19 Crisis

2020

Introduction

The Foreign Investors' Council in Latvia (hereinafter - FICIL) highly values the actions of the public sector in seeking flexible and even innovative solutions in the field of business activities during the Covid-19 crisis. However, regardless of the commendable speed at which decisions have been taken, it is also vital to assess the equilibrium and sustainability of each such decision taken within the context of the long-term development of the State, and the mid- and long-term impacts on the economy once the state of emergency has been revoked. The State must be the transformation leader, when carrying out comprehensive reforms the State will become more competitive, and the process of economic recovery after the Covid-19 crisis will be more successful. It has been repeatedly emphasised that a larger budget deficit is expected which allows the opportunity for these resources to be used practically to implement the reforms needed to move the continued development of the State forward. Due to the high level of uncertainty it is important to introduce sustainable measures, considered decisions and develop a permanent action plan in order to renew and promote economic development in the long-term. FICIL formed the Covid-19 Task Force bringing together experts from a number of sectors to provide specific recommendations for mid- and long-term economic recovery plan.



The report provides specific recommendations for identified problems which pose obstacles or which may promote the process of economic recovery in Latvia. Reasons are also provided for each recommendation, both based on the experience of FICIL members and conclusions from studying foreign practices.

Content

Human Resource 4



Infrastructure 7



Entrepreneurship 11



Human Resource

1. Changes to human resource management framework. The State Employment Agency serves as a unified platform for human resource management of Latvia.
2. Complex studies are needed to analyse data on the existing human resource capacity, as well as the skills required by representatives of different professions in the labour market to enable educational programmes and training to be adapted quickly.
3. Requalification and re-profiling of the workforce according to the labour market requirements based on cooperation between employers and employees, to promote more effective integration of people into the labour market.
4. Reform of higher and secondary education is a prerequisite for the successful development of human resources (conformity of the education programme with global trends and labour market requirements), and there is also a need to widen cooperation between educational establishments (not just at university, but also at vocational school and school level) and the private sector.
5. Employment legal framework must be flexible, adapting to different circumstances and labour market trends (for example, furlough regulations with compensation for employers for the costs related to the performance of employee duties, the short-term hire of employees to another employer if dismissal of an employee can thus be avoided).
6. Support for regional mobility in the workforce is one of the solutions in the context of challenges for workforce availability (building of accommodations and rental properties, as well as non-taxation of travel and living expenses for employees).

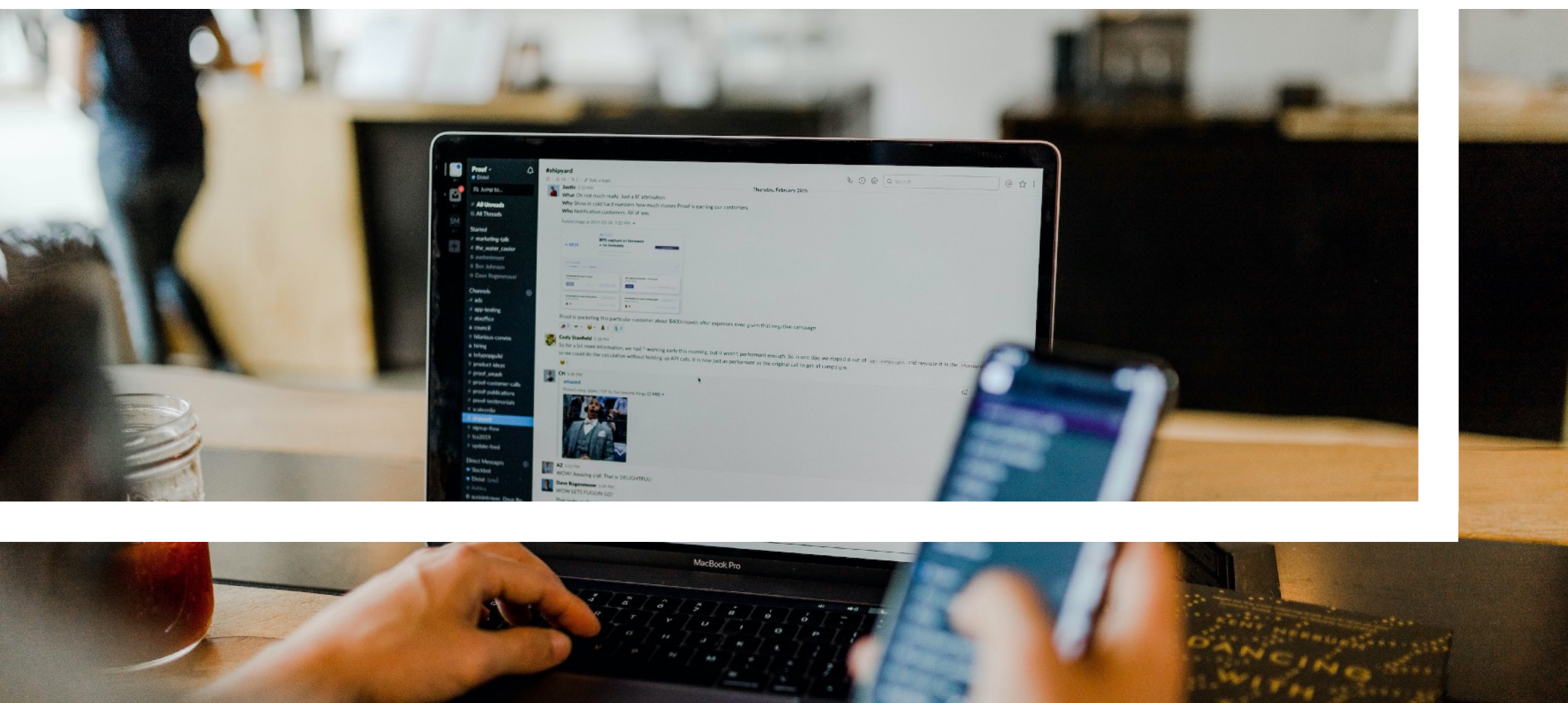


Rationale

Human Resource

Labour Market Platform

A unified platform is needed for available workforce and employers - a human resource management model, so that the State can help unemployed people re-enter the labour market more quickly, reducing the burden of benefits on the State budget. The existing SEA labour market platform is not effective as it does not fully comply with the requirements of modern day communication platforms; it is lacking communication options and recognition in the labour market. A strong strategy must be formulated, creating a single platform and involving the public and private sector. This should take place in a controlled way, providing comprehensive information about the existing work opportunities for unemployed people and furloughed employees.



Upskilling and Re-profiling

In the age of rapid digitalisation and robotisation, lifelong learning and continuous skill improvements are integral components of economic activity, benefiting both employees and employers in promoting the competitiveness of both groups. However, in FICIL's opinion, the current Labour Law regulation does not effectively protect the investments by businesses into upskilling employees where employees terminate their contracts shortly after completing training. Currently, we see uncertainty in the State migration policy. There is a high risk of emigration following the crisis which could cause long-term negative effects on the economic development of Latvia. It is therefore necessary to continue to address the problems regarding employment possibilities and to retain the workforce in Latvia. The new conditions globally will create new business models with a more intensive focus on technology applications, so re-profiling and upskilling the workforce is an essential requirement.

Employment

The employment of people plays a large role during periods of economic crisis, as well as economic recovery. Due to the COVID-19 pandemic, economic changes are taking place, to which businesses are adapting, meaning that vacant workplaces demand various skills which unemployed people might not have. The relevant State institutions should identify the vacancies most in demand and ensure education opportunities for learning new skills. It is also necessary to promote the retraining and up-skilling of workers by businesses themselves, through ensuring the protection of investments by employers in cases where employees terminate their employment relations at their own initiative. Re-qualification of employees will have a significant role in reducing the burden on the social budget as well as in economic recovery plan.

Rationale Human Resource

Regional Mobility

FICIL considers that one of the central means of tackling labour shortages is the more efficient use of regional labour resources by promoting mobility of labour in regional centres and in Riga, where there is the most pronounced labour shortage. Regional mobility of labour force is hindered significantly by the high tax burden placed on employers in relation to attracting a labour force from the regions, as well as the limited offer of good quality rental apartments and service hotels. FICIL recommends promoting the development of relevant infrastructure and supporting regional mobility in the following way:

- To support the demand by entrepreneurs for service hotels, providing that the following shall not be taxable income: a) employer's payments covering employee rental costs if the employee's habitual residence is in another city or region; b) transport costs for getting to work and home in the region or another city covered by the employer from his or her own resources.

- Promoting supply to labour force infrastructure developers through co-financing, tax incentives or public private partnerships.

By supporting regional employment potential emigration risks should be reduced because it is the regions where there is a comparatively higher level of unemployment. This human resource potential should be realised effectively to reduce the emigration risks and promote regional economic development.



Infrastructure

1. The public sector serves as an example of good practice: public infrastructure needs modernising, including restructuring and increasing efficiency of State enterprises. There is a need for improved management of State and local municipality enterprises as well as transparency in decision-making.
2. The creation of a CIO position would be responsible for managing single digital projects, for centralising servers and data, and for creating an overview of ICT.
3. Changes to the Public Procurement Law are needed to initiate the implementation of finished projects, as well as for the improvement of the business environment, since the current rules do not reflect the reality.
4. It is in the interests of a quicker recovery, to ensure that cases are dealt with quickly and effectively in court. Digital solutions are needed to promote judicial effectiveness, such as providing case materials in electronic form, as well as facilitating court hearings in remote formats.
5. Digitalisation of public administration by transitioning to “paperless” is a leader of digital transformation, as well as improving existing processes and procedures.

**it is necessary to
continue existing and
start new
infrastructure and
construction projects,
as they can provide a
major boost for the
economy**

Rationale Infrastructure

Process Efficiency

As well as the private sector, the public administration must evaluate the effectiveness and need of the process and procedure both during a state of emergency, and during periods of no crisis. Considering the expected drop in the national GDP, the State budget will be limited, which means that an independent assessment of processes and functions could promote effectiveness and a flexible reaction from the side of the public administration towards economic development in post-crisis conditions.

Tax Reform

It is already clear that the crisis will cause a deficit in the State budget, so efforts must be concentrated on stabilising the tax system and reducing future risks by looking at potentially affected sectors, for example, pension funds. The current situation has highlighted another significant problem relating to insufficient funding for Latvia's healthcare system, which means that the anticipated tax reform should be adjusted accordingly.

Construction Projects

A strategic economic recovery plan should include the continuation of suspended existing and new infrastructure and construction projects, as they could significantly stimulate the economy. Work on the implementation of the Rail Baltica project should be continued, as the project will play an important role in the recovery process due to its considerable size. The design works are ongoing; several sections of the railway have already been transferred to the consultants for the planning work. Procurements for construction work will be commenced in late 2020-early 2021, so thought should be given now about the workforce that will be able to participate, including the involvement of local labour.





Rationale Infrastructure

Public Procurement

Even in normal circumstances one of the most significant instruments for a functioning economy and stimulating development is public procurement. At the same time, public procurement is one of the instruments which ensure that fair and transparent competition is organised among suppliers. In FICIL's opinion, the field of public procurement in Latvia in recent years has become very formal. Neither public procurement implementers and participants nor the supervisors are able to understand what is happening in public procurement, duly acknowledging the place and role of public procurement within the common legal framework, while equally understanding and applying the principles and regulations of competition, State aid, public ownership and the prevention of waste of financial resources, as well as the principles and regulations of other adjacent legal sectors. The initiation of the implementation of finished projects also requires changes to the Public Procurement Law. Clearly defined proposals for changes to this law are needed on procedures for faster and more efficient public procurement. The Public Procurement Law needs amending in order to adapt to general changes and to waste no time in economic recovery. The focus should be shifting from overcoming the current crisis to timely preparedness for a potential recurrence of the situation in the future.

Rationale

Infrastructure



Effective Court Proceedings

It is in the interests of a faster economic recovery, to ensure that cases are dealt with quickly and effectively in court. It is important to eliminate the potential domino effect by debtors contributing to the deterioration of the financial situation of creditors, which leads to the inability of creditors to ensure financial stability, the opening of insolvency proceedings and further influence on the financial stability of creditors. A major problem currently is the capacity of the Riga courts. In order to speed up the progress of case examinations, cases are sent to courts in other regions and are often examined remotely. The state of emergency and its consequences are expected to affect the capacity of the courts further, particularly in Riga. For this reason, it is essential to promote the use of video conferencing and various other platforms by developing appropriate regulations for such a process and also addressing cost issues. In FICIL's opinion, such conference platforms as MS Teams should be ensured, which persons can use remotely from their devices without visiting the courtroom. In this way, the courtrooms providing video conferencing to other courts would be relieved. The existing videoconferencing mode from the courtrooms could be provided to those who need it.

Improving Judicial Infrastructure

The current framework of the Civil Procedure Law requires courts to accept documents signed with a secure electronic signature, but the applicant must bear the costs of printing, certifying and sending documents to other parties by post. In the opinion of foreign investors, the requirement for parties to provide hard copies of case-related documents is outdated. There is currently a positive shift in the electronic circulation of documents, as well as a generational shift among lawyers and other professionals. Digital solutions would therefore significantly facilitate and improve access to court proceedings and courts. In light of this, foreign investors propose that the claim and its appendices be made available electronically to the defendant, for example by:

- enabling access to the website *manas.tiesas.lv*;
- informing the defendant of the claims received in this way indicating where the case materials are available digitally.

In cases where a defendant cannot or does not wish to familiarise himself with the case materials using an e-service, there is an option of familiarising himself with the case materials in the courtroom or to receive a paid service - printed materials by post according to Cabinet Regulation No. 96 of 19th February 2013, "Regulations Regarding Paid Services Provided by the Courts". These regulations already provide for procedures and cases where a person is exempted from the services provided by the court. In light of this, the development of additional platforms would not be needed to address this issue, but changes to the procedural framework are needed, as well as a common approach for all courts to facilitate the circulation of electronic documents and the provision of digitally accessible case materials.

Entrepreneurship

1. It is important to understand what kind of business activities the State supports and wishes to develop, placing emphasis on fair competition, as well as sustainable solutions which serve as the basis of a transparent business environment. There are currently several conditions which are delaying the creation of new businesses and the development of new business models. Development of the business environment should be supported, by improving the regulatory framework as well as the State instruments for support in the current conditions.
2. Business activities are closely linked to innovations; the role of innovation in the chain of business values, which also serves as a link to the international market and trends, should be developed.
3. More effective combating of the shadow economy - restricting the circulation of cash in the payment of salaries and transaction limits, support for the SRS capacity, cooperation with the finance sector.
4. Stimulating the economy in crisis conditions will be one of the defining factors of the severity of the consequences, as well as the opportunities for overcoming the ensuing situation. Promotion of business activities through specific tools is needed, with the aim of promoting exports and economic movement during the period of recovery. Potential sources of stimulating the economy:
 - Rail Baltica as a significant driver in the development of the investment and construction sector in the coming years. The government must therefore actively follow and support the direction of the project.
 - PPP projects that could significantly increase investment activities in the development of various infrastructure facilities.
 - The possibilities for investment of Latvian pension funds in the Latvian economy should be extended. In particular, it is necessary to create new financial instruments or to modify existing ones to ensure that investments in Latvian pension funds or other venture capital funds are possible.
 - Increased emphasis has been placed on digitalisation both in business activities and in public administration.
 - Effective use of money available from EU funds.



Rationale Entrepreneurship

Promoting Economic Activity

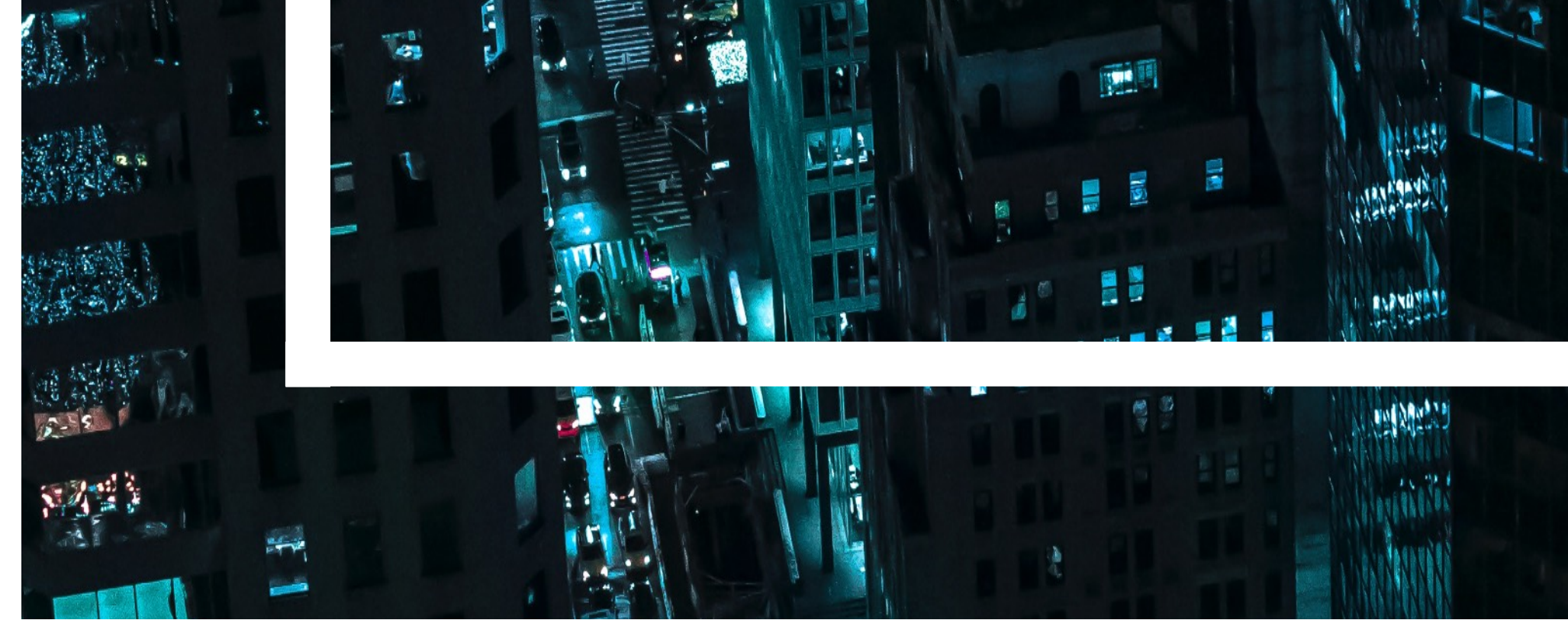
It is difficult to answer the question about what specifically will promote the economy most successfully post-crisis. However, the crisis has highlighted several things that have been put to one side so far, or have been discussed but never implemented. An economic approach to public administration, the economy and finances is one of the most fundamental bases on which development of the State should be supported moving forward. Whichever solution or resource should turn out to be the most suitable for promoting the economy post-crisis, frugality, when considered from the viewpoint of a circular economy and sustainability, a strongly instilled sense of responsibility and business activities founded on business ethics should be discussed more widely in society. The main focus should be on how the currently implemented policies and decisions will work in the long-term. It is important to ensure the continuity of business (looking at business in the wider sense) because, as previously mentioned, the COVID-19 pandemic will leave negative consequences in all sectors. Both large and small businesses will suffer as a result of the economic downturn. Stimulating the economy in conditions of crisis will be one of the defining factors of the severity of the consequences, as well as the opportunities for overcoming the ensuing situation. Promotion of business activities through specific tools is needed with the aim of promoting exports and economic movement during the period of recovery.

Fair Competition

The issue of the Competition Council should be seriously discussed and assessed. The functioning of the current economy, business and free market has presented a number of reasons that should not be limited to building up the capacity of the Competition Council and the strengthening of the role of the free market competition watchdog, but also the establishment of the status of an independent authority. The Competition Council has already demonstrated, in the last few years, its ability to carry out the functions and competences entrusted to it in very complicated and complex cases, with a high sense of responsibility. The status of an independent authority would provide an additional opportunity for the Competition Council to develop and strengthen, both among Latvian society and businesses, an increasingly in-depth and accountable understanding of the values and benefits of free and fair competition conditions for each of the parties.

State Aid Proportionality

A balanced approach should be taken to review the previous tax contributions of different market players in order to determine the level of State aid available. The implementation of solutions under the conditions of a state of emergency, as well as the formation of a plan for economic recovery, the rule of law and protection of investments are important principles which must not be forgotten. Payment of taxes cannot be put forward as the only grounds for refusing aid in circumstances where no broad, comprehensive and in-depth public debate on tax payment was held pre-crisis as one of the instruments for fulfilling the obligation of solidarity in non-crisis conditions.



Rationale Entrepreneurship



Shadow Economy

The crisis has highlighted these neglected and drawn-out problems. The shadow economy continues to be a widespread phenomenon in Latvia. However, following the ongoing discussions on solidarity in providing support during this crisis, it is necessary to reinforce this discussion by highlighting the lessons learned by the State in time to overcome this crisis and by making it clear that during the next crisis, there may not be as many opportunities of the Latvian State to help those affected as there are on this occasion. Tax obligations should become a broad subject of debate, work should take place on changing the public's overall insights and habits. This can be done, inter alia, by the State starting to speak publicly about its value, significance, the possibilities and costs of using the instruments available to it, as well as targeting and showing improvements to the public in the State's fight against corruption, money laundering, serious violations of the competition law, public procurement fraud and the fight against tax evasion.

PPP projects

Due to previous negative experiences and the high risk of corruption, this instrument has thus far rarely been used and without full consideration. In the first half of 2019, the guidelines for the development of financial and economic calculations were already substantially updated, including a range of issues which had not been addressed at all in the previous guidelines or which had been satisfactorily resolved. However, this alone is not enough to allow PPPs to be implemented more smoothly in future, in a more transparent way and equally balanced by target and content for public and private partners. Targeted and qualitatively implemented off-balance-sheet PPP projects, particularly in the area of larger-scale infrastructure facilities, are successfully suited to stimulate the economy in the long term.



FICIL Task Force

Recommendations for Latvia's Economic Development after COVID-19 Crisis

FICIL is a non-governmental organisation that unites 38 largest foreign capital companies from various industries, 10 foreign chambers of commerce in Latvia, French Foreign Trade Advisers and Stockholm School of Economics in Riga. The goal of FICIL is to improve Latvia's business environment and overall competitiveness in attracting foreign investment, using the experience and knowledge of its members to provide recommendations to Government and state institutions.

