

FOREIGN INVESTORS IN LATVIA ON THE IMPACT OF COVID-19: **Follow-up Survey**

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SSE RIGA

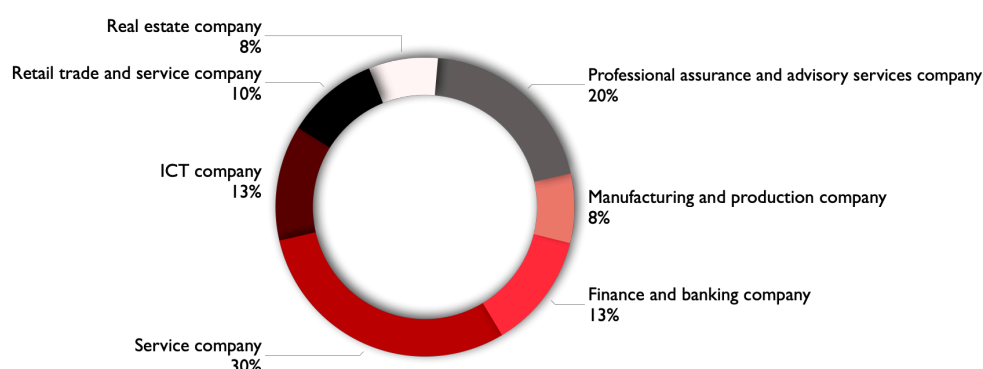


FOREIGN INVESTORS
COUNCIL IN LATVIA

On 3 April 2020 The Foreign Investors Council in Latvia (FICIL) published the report “Foreign investors in Latvia on the impact of COVID-19” with a focus on initial challenges this global pandemic created for the business community. FICIL set out to follow up on the original report with the goal to find out valuable insight into the challenges investors are currently facing, how they evaluate the Government’s efforts and what actions are still needed in terms of facilitating economic recovery. This report aims to provide an assessment of foreign investors in Latvia with regards to the impact of COVID-19 pandemic. With this study our intention is to support policy makers with up-to-date information, fostering evidence-based policy decisions to support business climate and stabilise the economy. Study is conducted by the Foreign Investors Council in Latvia in cooperation with the Stockholm School of Economics in Riga. We draw on the data from an online survey of 42 companies, foreign investors in Latvia, collected in May 2020. FICIL is continuing the cooperation with state institutions during this time; it is now even more important to share best practice and knowledge gained through experience locally as well as internationally to minimise the long-term negative impact of COVID-19.

In this study we draw on the survey of 42 foreign investors in Latvia, in order to gain investors viewpoints with regards to the effect of COVID-19. The distribution of respondents by sectors is presented in Figure 1.

Figure 1. Distribution of respondents by sector



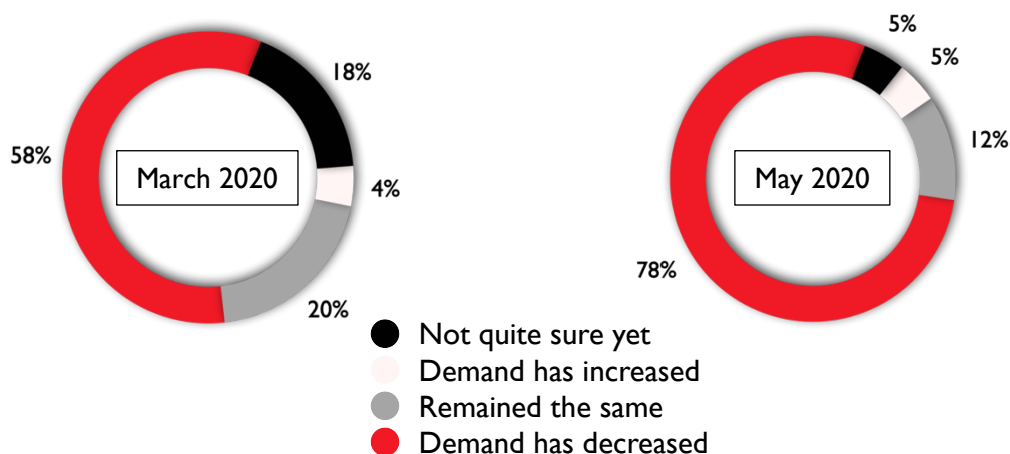
We asked investors the following questions:

- Has there been a change in demand for your products or services as a consequence of COVID-19 since the announcement of the emergency situation in the state on 12 March 2020 up until now?
- What are your expectations regarding your company's revenues for the next 6-12 months?
- Has there been a change in the number of employees in your company as a result of the COVID-19 crisis?
- Please assess the work of the Latvian policy-makers on a scale of 1 to 5 (where '1' is fail, '3' is average and '5' is excellent) that has been done in dealing with the COVID-19 crisis, point of reference being the announcement of the emergency situation in the state on 12 March 2020.
- Which of the COVID-19 state support measures is your company using?
- Please indicate most positive and negative decisions/policy initiatives that the Latvian Government has implemented over the past 2 months in relation to COVID-19 crisis.
- In your view, what more should be done by the policy makers to improve the current situation and facilitate economic recovery and why?
- Is your company planning on increasing or decreasing investments in Latvia in the upcoming year?

I. Change in demand

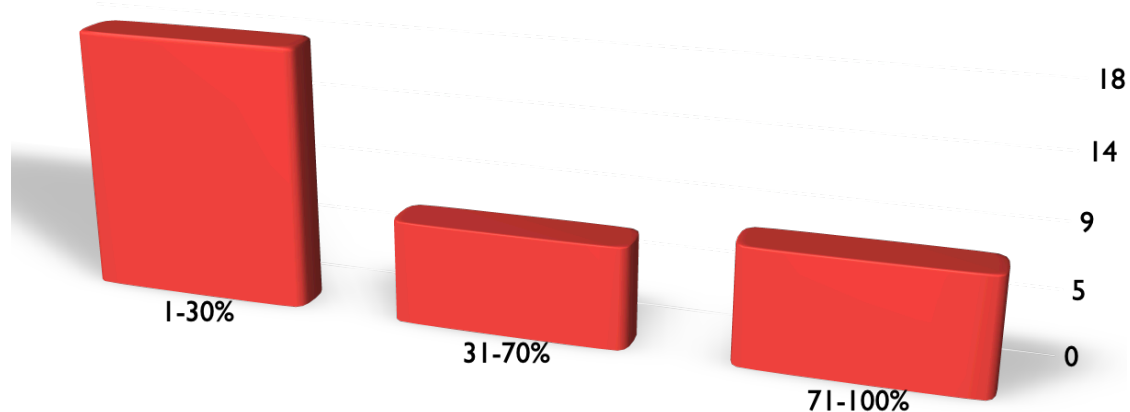
Most investors that took part in the study (78%) stated that they have experienced a decrease in demand as a result of COVID-19. However, several ICT companies indicate an increase in demand in the amount of 3-10%; 2 companies (ICT & professional assurance and advisory) are not quite sure yet; 5 companies say the demand has remained the same.

Figure 2. Change in demand for participant companies' products or services since the announcement of the emergency situation in the state on 12 March up until now



Findings show that since the previous survey in March 2020, 20% more companies have experienced a decrease in their products or services. If 18% of the companies in March said it is too early to determine the changes in the demand due to COVID-19 crisis, then now only 5% of the companies are unsure about the impact on demand. The decrease in demand since the previous survey in March ranges from -1% to a full -100%. Majority, i.e. 18 companies have had a 1-30% decrease in demand; 7 companies show a 31-70% of demand, while 8 companies experienced a major decrease of 71-100%.

Figure 3. The percentage of decrease in demand



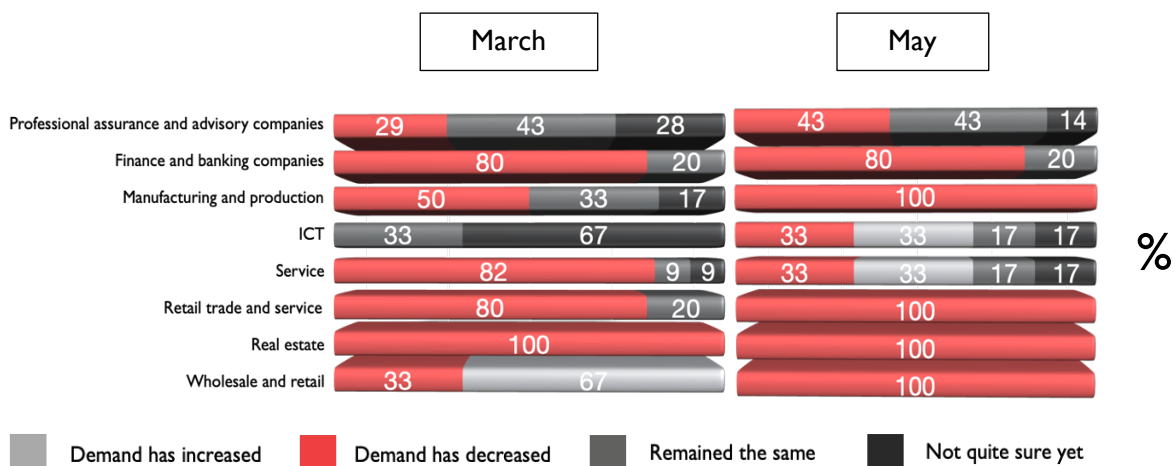
Findings of the study also show that investors representing certain sectors, such as real estate, retail trade and service, wholesale and retail, as well as manufacturing and

production have experienced a more severe decrease with regards to the demand for their products and services (Figures 4-5). However, unlike the results in March where only wholesale and retail sector showed a major increase in demand, the follow-up survey results in May indicate a slight recovery of two sectors: ICT and service, which show a proportion of a 33% of increase in demand. Throughout the period of March-May, the results seem to indicate that the situation has remained similar for finance and banking sector, and greatly improved for the service sector.

Figure 4. Change in the demand by sectors

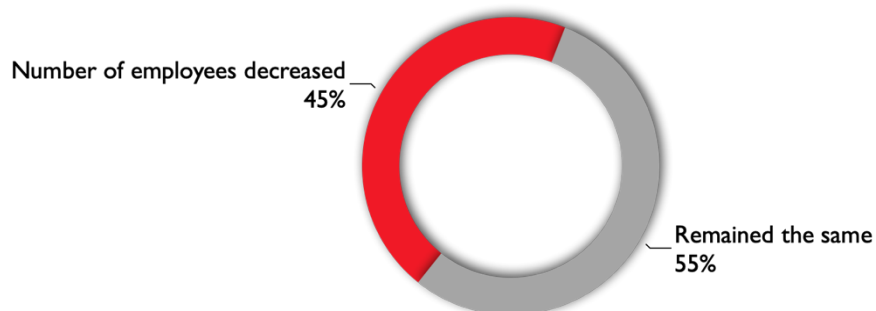


Figure 5. Comparison of change in the demand by sectors



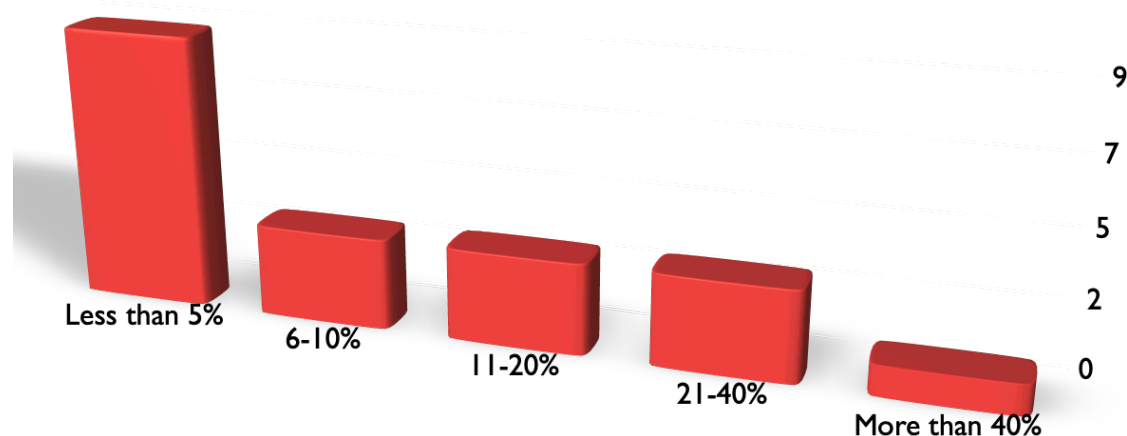
2. Change in the number of employees

Figure 6. Change in the number of employees



The survey shows that 9 companies have made redundancies resulting in less than 5% of the number of total employees; 3 companies – 6-10%; 3 companies – 11-20%; 3 companies – 21-40% and only 1 company has made redundant more than 40% of the company's total workforce due to the COVID-19 crisis.

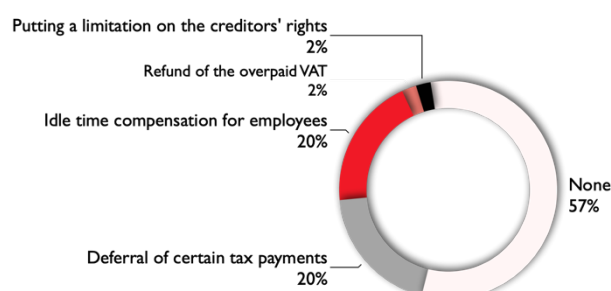
Figure 7. Redundancies made



3. State support measures used by the companies

Asked about the use of state aid intended for the support of the affected entrepreneurs and their employees, 26 companies indicate not using any state aid measures provided by the Government where majority of them represent the professional assurance and advisory service sector; 9 companies mention using the deferral of certain tax payments; 9 companies indicate idle time compensation for employees, 1 company mentions refund of the overpaid VAT; 1 company indicates putting a limitation on the creditors' rights.

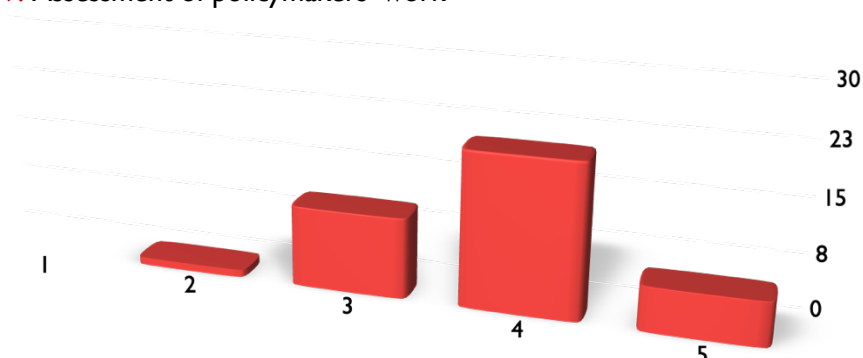
Figure 8. State aid used within the company



4. Assessment of policy-makers' work

Inquired to assess the work of the Latvian policy-makers on a scale of 1-5 where '1' represents fail, '3' – average and '5' - excellent, 21 companies assess the policy-makers' work in response to the COVID-19 crisis with a 4 out of 5; 11 companies have assessed policy-makers' initiatives and implemented measures with 3 out of 5; 6 companies with a 5 out of 5, one company with a 2 out of 5.

Figure 9. Assessment of policymakers' work



In the follow-up study, we asked foreign investors in Latvia to indicate the **most positive and negative decisions and policy initiatives** that the Government of Latvia has implemented over that past 2 months in relation to COVID-19 crisis. Thus, the aim was to provide perspective on the assessment of policy initiatives in Latvia that, according to the viewpoint of foreign investors, has positively or negatively influenced the investment climate in Latvia.

The findings are summarised in Table 1. Key insights with regard to the most positive and negative decisions or policy initiatives of the Latvian Government, in the viewpoint of foreign investors in Latvia, are shown below.

Table 1. Positive and negative decisions or policy initiatives of the Latvian Government

Positive decisions or policy initiatives	Negative decisions or policy initiatives
Idle time allowance/compensation for employees	Bureaucratic burden of implementation and application for idle time payments
The timely reaction and crisis response from the Government	Closing of certain institutions (schools)
Deferral of certain tax payments	Lack of control over self-isolation
Social distancing measures to control Covid-19 outbreak	The length of the lock-down was too long
ALTUM financing and guarantees	Insufficient initial support for various industries
Returning citizens from the overseas	Government support for certain State-owned enterprises
Remote education support platform	

IDLE TIME PAYMENT: BOTH POSITIVE AND NEGATIVE OPINIONS

On a positive note – idle time allowance for employees has been mentioned as the most positive initiative by the Government of Latvia in light of the COVID-19 crisis. This is reflected in the following quotes:

“There are many, one of them downtime payments to the employees.” - Real estate company

“Idle time support payments made directly to the businesses (instead of merely compensation-based approach as in other jurisdictions).” - Professional assurance and advisory services company

“Health and Safety wise - many. Starting from fast decisions on lock-down. Business-wise - Idle time compensation for employees.” – Manufacturing and production company

“The bureaucratic burden and too detailed qualification criteria for idle time payments have hindered possibilities for a number of legitimate taxpayers and employers to apply for the support instruments.” - Professional assurance and advisory services company

However, investors also expressed dissatisfaction with the bureaucratic burden that has been placed on investors in relation to this policy initiative. This was mentioned as one of the most negative decisions made.

“It is not about what, but rather how - the way the idle time payments are being administered- number of criteria and the process is of punitive nature, not really helping out.” – Professional assurance and advisory services company

“The criteria set for idle time allowance-exclude many businesses and industries (even those affected by Covid-19 crisis) to be able to apply for the idle time allowance.” - Wholesale and retail company

THE GOVERNMENTS TIMELY RESPONSE TO THE CRISIS IS VIEWED AS VERY POSITIVE

A substantial number of foreign investors commended the Government of Latvia's swift reaction to the COVID-19 crisis. Investors value the timely implementation of certain measures from a health and safety perspective.

“Fast reaction and good control over potential threats of virus expansion within Latvia; good communication practice on all levels.” - Retail trade and service company

“Early introduction of social distancing and process to find source of infected persons.” – Finance and banking company

“Fast implementation of state support programs.” – Finance and banking company

“Swift social distancing measures.” – Retail trade and service company

“Quick decision to implement restrictions on movement.” - Professional assurance and advisory services company

“Speed of implementation of the programs compared to other EU countries.” - Professional assurance and advisory services company

“The timely emergency announcement and restrictions aimed at containing the virus.” – Real estate company

STATE SUPPORT MECHANISMS – BOTH POSITIVE AND NEGATIVE

“Possibility for the taxpayers to reschedule or postpone the tax payments” – Wholesale and retail company

*“Extension of deadlines for tax payments” – Manufacturing and production company
“Available state financial support mechanisms - guarantees and loans.” – Wholesale and retail company*

“ALTUM support/guarantees” – Service company

“Refund of overpaid VAT, approach to support companies based on tax payment history.” - Manufacturing and production company

“Some of the qualification criteria for State support initially, no position on all affected industries.” - Professional assurance and advisory services company

“Support just for those companies which have a major turnover decrease. There is no support for individual protection equipment.” - Service company

“Share capital injection for state owned enterprise without being clear on transformative KPI.” - ICT company

“Exclusion of the functioning businesses (active taxpayers and employers) in restructuring processes (legal protection processes) from the possibility to qualify for debt relief and capital support instruments.” - Professional assurance and advisory services company

AN ARRAY OF MEASURES FOCUSED ON HEALTH AND SAFETY ARE OBVIOUSLY POSITIVE

“Epidemiology and other health sector expert recommendations-based action and communication was definitely correct course of action taken.” - Professional assurance and advisory services company

“2-meter distance.” – Service company

“Closing borders, social distancing.” – ICT company

“Communication, closing borders, early public gathering restriction, isolation rules.” – Retail trade and service company

“Returning persons from abroad.” – ICT company

“Return flights helped us a lot to maintain seafarers (key workers) replacement and continue support of the worldwide supply chain. Latvian seafarers are critically important, and it is the largest NBR within the EU.” - Service company

MOBILITY RESTRICTIONS IN THE LONG-RUN AND CERTAIN INSTITUTIONS SHUT DOWN DEEMED AS NEGATIVE

Even though foreign investors viewed swift restriction implementation as a positive step, the long-term duration of certain restrictions and closure of various establishments are viewed as negative decisions by some investors:

“Lack of control over self-isolation at the beginning of virus spread (schools). Decision to shut Riga airport is not clear (Tallinn airport continued operations without stopping).” - Service company

“Closing schools till 9th grade.” – Finance and banking company

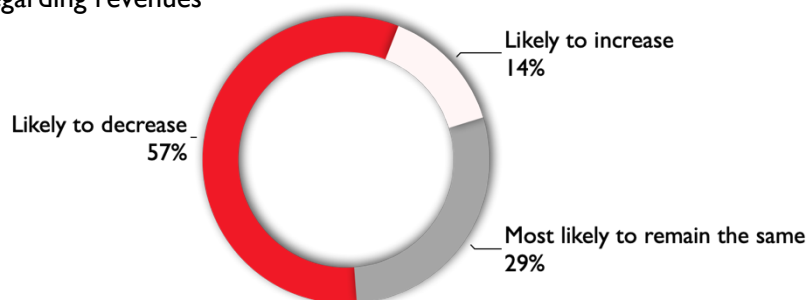
“Too long lock-down, especially in regard to movement and gathering within Latvia borders.” - Manufacturing and production company

“Closing of shopping centers on weekends.” – Real estate company

5. Expectations regarding company's revenues for the next 6-12 months

Asked to forecast the potential change in revenues in the nearest future, 24 companies predict a continued decrease in revenues, 6 companies predict an increase, while 12 companies contend that it will most likely remain the same.

Figure 10. Expectations regarding revenues



The responses demonstrate that the majority of the investors, i.e. 18 companies predict a 1-30% of decrease in short-term (6-12 months) revenues; 4 companies predict a 31-70% decrease; 2 companies forecast an unfortunate 71-100% decrease of the total revenues. Nevertheless, 4 companies forecast a 1-30% increase in revenues; 1 company predicts a 31-70% increase and 1 company – 71-100% increase in revenues.

Figure 11. Expectations of percentage of increase or decrease in short-term future revenues

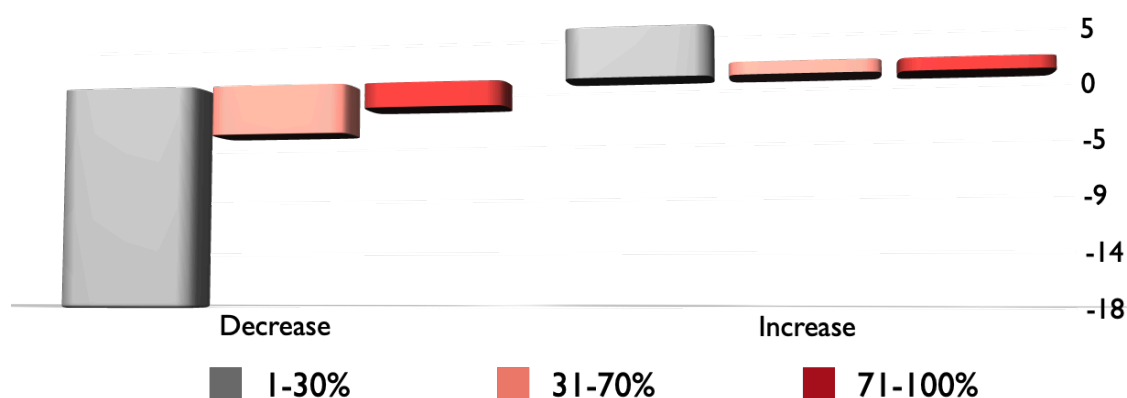
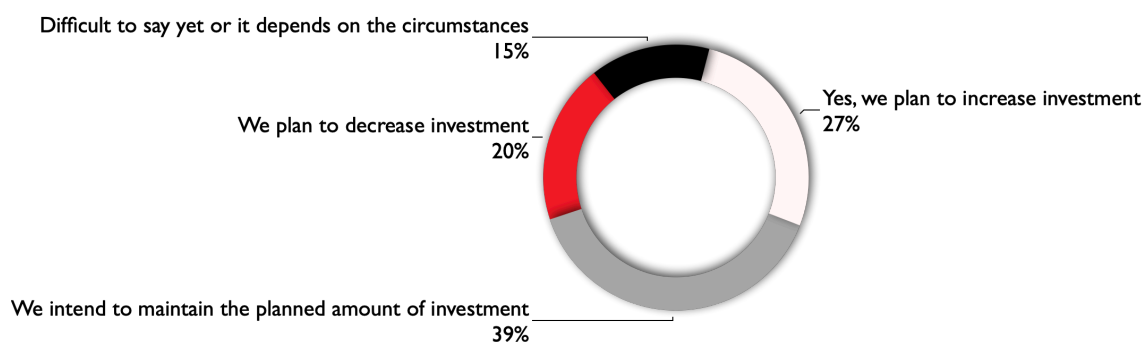


Figure 12. Further investment plans



Asked to share the plans of further investment in the upcoming year, 16 companies have intend to maintain the current amount of the investment; 11 companies plan on increasing the investment; 8 companies plan to decrease their investment; 6 companies have stated that it is currently difficult to say or it depends on the upcoming circumstances with the development of COVID-19 crisis. Amount of planned decrease of investment ranges from -30% up to a full -100%. Planned amount of increase ranging from +0.3 million EUR up to +50 million EUR.

6. Recommendations of foreign investors to the Government of Latvia

Asked to provide 2-3 recommendations for the Government of Latvia to facilitate the economic recovery process in the country after the crisis, foreign investors highlighted a number of issues that need further attention, including continuing the digitalisation process, focusing on a long-term action plan, investment protection, tax system, workforce upskilling and requalification, investing in soft and hard infrastructure, emphasising smart government spending, reducing administrative burden and more:

Smart government spending

“Smart spending - only those that will heat up the economy; smart lending & spending: not to spend all money received at finance capital market now, develop a strategy and following it up to exit economy crisis.” - Retail trade and service company

“Increase in government spending, higher unemployment compensation for at least 3-4 months, no tax increase in the future.” - Service company



Re-opening the economy

“Open up society and businesses fully with proper safety measures like 2+2, face mask compulsory in any public place.” - Service company

“Open up society again.” - Service company

Reduce administrative burden

“Reduce the legislative burden for business support mechanisms. Engage more with various industries for them to be able to help recover from economic slowdown through different mechanisms rather than for instance, through donation systems. Use the full potential of technological developments to guarantee faster economy recovery while at the same time not harming the public safety.” - Wholesale and retail company

“To have a consistent view on the support mechanisms / look at the value creation chains and ways to support those / not to be afraid to over-support job retention and give what industries/businesses are asking and to implement control mechanisms thereafter.” - Service company

“1) Reducing administrative burden on both government and taxpayers by allowing postponing tax payments up to certain period without special application. Focus on making the support easily accessible administratively to save both state's and company's resources. 2) Use this time to do reforms, to reconsider effectiveness of the state administration, filter off unnecessary activities and functions and strengthen critical and value adding activities.” - Professional assurance and advisory services company



Support HORECA sector

*“To focus more on those struggling the most – tourism, HORECA – because that would help to recover faster also to the businesses directly and indirectly connected to these spheres such as suppliers for restaurants, bars, hotels etc.”
– Manufacturing and production company*

“Stimulate consumption, local and regional tourism, reduce VAT for HORECA sector.” - Service company

“Help tourism and hospitality industry during revival period.” - Service company

“Restructuring support. To include operating entities pursuant to legal protection proceedings within the scope of entitled receivers of state support instruments for liquidity / capital support, export facilitation, business retention (especially, production, industry, export, etc. oriented businesses).

5% VAT. To temporary decrease VAT in the HORECA services sector to facilitate recovery of one of the most crisis affected areas of the economy.

Capital markets development. To prioritize and facilitate possibilities for businesses to raise funding through reviving of Latvian capital markets, facilitating of investment programs by ALTUM, additional allocation of risk capital funding, facilitation of SoEs entering capital markets.” - Professional assurance and advisory services company

Long term planning

“1) to start longer term planning, at least 2-3 years; 2) explore all synergies, including with private sector; 3) prioritisation of spending.” - Finance and banking company

“The fight with Covid-19 has two parts. Firstly, government has been very pro-active and decisive in regard to health/safety. Good work. Secondly - economy recovery in short and mid-term.

Recommendation for recovery:

- support people and businesses. make sure local consumption does not fall too much and purchasing power remains. People need to feel safe about future and continue to spend. Boost local consumption*
- approach directly large, export driven businesses in Latvia (ie. take top 30 LV companies) and ask them directly - how we (gov.) can help you to drive your business even more, beyond your pre-Covid-19 plans? Make sure these companies feel support and can continue with their investment plans, innovation plans, etc. Make sure their shareholders know that LV gov.is here to help and to go out of crises even stronger. But this requires not only listening but prompt actions as well.*
- double the amount of government investment in local economy that is currently agreed. Double the investment to heat the economy even further, look beyond next 6 months. Knowing that there are projects in 12-24-month pipeline will boost confidence from local business.*

To sum up - we need people and business to feel confident not only from health perspective but also from economic and personal financial perspective.” - Manufacturing and production company

“Start with the clear and transparent plan. There should be a X-sectoral task force under the PM office, which should create a Latvia Restart plan and follow its implementation.” – ICT company

Investing in soft and hard infrastructure

“Use the full potential of technological developments to guarantee faster economy recovery while at the same time not harming the public safety.” - Wholesale and retail company

“Investments into modernisation of Latvian state and economy.” - Finance and banking company

“1. Invest in public infrastructure and projects (so far intention has been announced, but no real actions taken, apart from road infrastructure) - injection in economic activity, prevention of huge unemployment from construction and related sectors, positive signal to private investments. 2. evaluate very thoroughly what kind of businesses are engaged in supported projects - there are already indications of increased grey economy in construction sector. 3. Government owned utility companies (Augstsprieguma Tīkls, Sadales Tīkls etc.) to follow the example of Rīgas ūdens and decrease the short-term requirements for ROI” - Manufacturing and production company

“Digitalize and make e-signing available for everything what is not digitalized and e-signable.” - Finance and banking company

“1. Ensure economic support is being provided to companies with sustainable business models and that were not in default due to non-Covid-19 related impacts. Economically sound and proven analysis for bailing out also state-owned companies. 2. Use the opportunity to minimize bureaucracy and implement digital solutions and e-services much faster that will increase competitiveness of the country in the long term. 3. Smartly invest in infrastructure thus warming up economy but do that at pricing of crisis levels not that of last year.” - Professional assurance and advisory services company

“State investments into strategic projects that can heat up the economy (big construction projects), infrastructure projects.” - Finance and banking company

Upskilling and requalification of the labour force

“Upskilling workers (especially digital skills); provide support for competitive companies, implement policies to retain workforce in Latvia post crisis (provide support to retain employees past state of emergency); need to focus economy revitalization beyond construction/physical infrastructure projects and also to other areas such as healthcare and technology, development of Riga (to attract and maintain existing workforce and workforce needed for growth.)” - Professional assurance and advisory services company

“Support workforce requalification, invest in infrastructure and digitalisation projects.” – ICT company

Investment protection (improving guarantees’ programmes, public procurement procedures, state aid tools): 5 instances

“Maximum credit guarantees for municipalities to continue planned investments, procurements. Execution of all planned procurements, reasonably possible. Cancellation or postponement slashes revenues for companies, forcing them to apply for idle-state funding. Offer credit for, for instance, 5-year term to

those private persons who are not eligible for any kind of state support (haven't paid taxes), instead of giving them money for nothing. Crediting them would ease their exit from shadow economy in future.” – ICT company

“Work with guarantees mechanism (improve, expand make smoother) for export COs to facilitate and support export growth. Expand state procurement, but first before make it more centralized and transparent.” - Finance and banking company

“Set clear priorities to support economy growth; appropriate investment in health sector; improving public procurement.” - Retail trade and service company

“More effective targeted support to affected industries incl. direct financial compensation to e.g. real estate companies like hotels and shopping centres. Mechanism to share the burden between state, tenants/operators and landlords.” - Real estate company

“All industries should be supported, not just certain companies.” - Service company

Tax field

“Cancellation of real estate taxes. Payment of part of salary till end of year for very impacted sector as hospitality. Cancellation of social taxes to be paid by companies in very impacted sector till end of year. Due to the low amount of flight and foreign tourist, instead of paying unemployment support for some employees, it is better to pay part of salary (or no social taxes) during a period when everyone knows there will be not high demand.” - Service company

“Make more attractive space for investors with tax discounts etc. Make laws equal for all players in the same industry.” - ICT company

“VAT decrease.” – ICT company

“A set of new measures required to revive economy - we recommend VAT reduction for

fresh (predominantly local) produce - milk, meat, bread, this will free up family income for spending elsewhere.” - Retail trade and service company

“1. To reduce VAT level in general - from 21% to 15% at least, it would help for people with decreased income level to continue to keep consumption and expenditure level, but for producers and retailers to remain in volumes still. Poland example during finance crisis in 2008. 2. To Invest in health care infrastructure and medical personal - to increase capacity of healthcare, because with high probability such virus scenarios will repeat in future. It would allow to keep business going without radical lockdowns in future.” - Retail trade and service company

“Keep up cleaning grey economy, invest in low salary employees (education, healthcare) to boost consumption, keep up what you already are doing.” - Professional assurance and advisory services company

Survey participant list:

AFI Europe Group
Aldaris
All Media Latvia
Atea Global Services
Balta
BEWE RIX
Bite Latvija
BTA Baltic Insurance Company
Circle K Latvia
Coca-Cola Company
DMC Baltic Latvia
Dodo Hotels
Ellex Kļaviņš
Ernst & Young Baltic
Eversheds Sutherland Bitāns
Evolution Latvia
Fortum Jelgava
G4S
HRX
Intrum
Karlsberg
KPMG
LAPA LTD
Leinonen
Linstow
Luminor
Maxima Latvija
Moller Auto
Moller Baltic Import SE
Narvesen Baltija
Orkla Latvija
Premier Restaurants Latvia
PwC
SEB banka
SCHWENK Latvija
Swedbank
Talentor Latvia
TAV Latvia
Telia Company
TMC
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