



FICIL Sentiment Index
2015 - 2020

VIEWPOINTS OF FOREIGN INVESTORS
ON THE DEVELOPMENT OF THE INVESTMENT CLIMATE IN
LATVIA: THE IMPACT OF THE COVID-19 PANDEMIC

Arnis Sauka



FOREIGN INVESTORS
COUNCIL IN LATVIA

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Norwegian Embassy

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Foreword

For a long time to come, 2020 for all of us will be the dividing line between before and after. We will not find out when, or if, we will be returning to the "old life" before the second half of 2021. But the reassuring news is that everything comes to an end eventually, including a pandemic. This year, foreign investors, just like the rest of the business world, adapted and reorganised their operations. However, although concerns about the future hampered the implementation of investment plans, they were not completely halted. But we entrepreneurs are already looking ahead and planning growth, hoping that the country will be a partner in overcoming the consequences of Covid-19.

FICIL thanks the government for investors feeling heard in 2020. We commend the determined and swift action in the spring, as well as the open negotiations and the implementation of the FICIL recommendations. We continue to look forward to a conversation in which we are heard, even during the escalated times of a crisis.

The million-euro question is: how skilfully and wisely will we invest the funds allocated to our country in the European Recovery and Sustainability Mechanism. Are we thinking only of short-term needs, or are we looking into the future? Yes, these funds can partially address the challenges posed by the pandemic, but they can also be used for long-term goals for the country's growth: digitalisation and the development of a green economy.

Our most valuable resource for the future will be our citizens. There is a paradox. The pandemic crisis has increased unemployment, while employers still lack a skilled, modern workforce. The state should work to close this gap, with a long-term perspective. How capable will our future employees be? The simplest functions will soon be taken over by robots, but the job market will need employees with programming skills, complex problem-solving skills, the ability to work in a team (also remotely), and language skills. The country's success will be based on a long-term plan for developing the skills of the workforce.

The pandemic has also had a "positive effect". We have quickly learned to work remotely, sell and provide services digitally, and now is the time to plan the next step in the country's digital transformation. We will make a huge leap, both by growing the digital skills of the population and by skilfully connecting large national IT systems. FICIL considers that the experience of other countries, where the national digital transformation is monitored and coordinated uniformly at national level, is significant.

The year 2020 will, of course, leave quite painful scars, but there is no reason to believe that everyone has experienced a decline. The FICIL Sentiment Index 2020 reveals that more than half of investors have managed to maintain, or even grow, turnover, and most investors plan to increase investment in 2021. Attracting investment will be one of the ways for Latvia to recover from the consequences of the crisis as soon as possible. It must be remembered that the crisis has impacted the whole world and all countries are fighting to attract investors. It would be wiser to maintain and increase the amount of investment among existing investors. We, the investors, will appreciate a well thought-out and timely tax policy, a credible judiciary, stability and predictability in legislation, as well as a generally constructive and open dialogue between investors and the state.

Gunta Jēkabsone
Foreign Investors' Council in Latvia
Chairperson of the Board

Executive Summary

The FICIL Sentiment Index was first launched in 2015 by the Foreign Investors' Council in Latvia (FICIL), in cooperation with the Stockholm School of Economics in Riga (SSE Riga), to foster evidence-based policy decisions and promote a favourable investment climate in Latvia. This is the sixth FICIL Sentiment Index report, following the five reports written in 2015, 2016, 2017, 2018, and 2019.

The key aim of this report is to provide an in-depth exploration of the main challenges and concerns for the foreign investors in Latvia, in particular considering the impact of the Covid-19 pandemic, both by identifying problems and offering solutions. As in previous studies, this report draws on a survey: mini case studies of foreign investors in Latvia. From September to early November 2020, we interviewed 44 senior executives representing companies that are key investors in Latvia. Altogether, these companies (including their subsidiaries) contribute to 16% of Latvia's total tax revenue, 13% of the total profit and employ 10% of the total workforce of companies with a turnover above 145 000 EUR and 50% foreign capital (data from Lursoft, 2019).

We started the FICIL 2020 Sentiment Index survey by asking the key foreign investors "What have been the three key challenges for your company in Latvia during 2020?" In particular, we were interested in the key challenges from March 2020, i.e. since the first wave of the Covid-19 pandemic hit the country. In addition, we also asked whether, and if so, how, have these challenges been resolved?

The results of the survey show that the three key challenges of the foreign investors during 2020 were: financial issues, e.g. decrease of business volumes; adapting to new ways of working (mostly to remote working), changing business models and adapting to the changing market environment; dealing with the uncertainty (including in the tax system) and planning the business ahead. Several other challenges were mentioned by the foreign investors, including issues related to logistics, global supply chains, travel restrictions; ensuring the safety of staff and customers; communication with the policy-makers and/or policy action; financial sector (banking); shortage of employees, especially highly educated and skilled experts; fair competition and the shadow economy. For each of the identified challenges, investors also offered potential solutions that are all summarised in the report.

During the 2020 FICIL Sentiment Index study we also asked for the opinion of the key foreign investors in Latvia as to what are the priorities for Latvia in best utilising Covid-19 support measures and funds available from the European Union? Investors provided a wide variety of answers, from highlighting that there is no support from the European Union funds in their area or that companies did not need to use any support mechanisms, to revealing that their company is using all the support mechanisms available. In some cases, investors also expressed doubts with regard to the transparency and clear strategy of the government of Latvia as to how such support should be provided. Suggestions from investors include supporting companies/areas that have suffered the most from the Covid-19 pandemic; focusing on supporting export-oriented, value-adding companies. However, in the majority of cases, foreign investors call for the need to invest in the infrastructure and/or human capital, as well as make investments considering the long-term perspective. We strongly believe that it is important to consider each and every suggestion of the interviewed foreign investors in this regard, and for this reason all the quotes we received during the interviews are brought to the attention of the policy-makers and included in the report.

In the 2020 FICIL Sentiment Index study we also asked foreign investors whether they have experienced an increase or decrease of the turnover, profits and number of employees (in Latvia) during 2020, as an effect of Covid-19, or if these indicators have remained the same. As many as 17 investors (out of 44 interviewed) answered that their turnover has decreased in 2020 (range 2-35%), whereas 9 answered that their turnover has increased, 15 that it has remained the same and 3 did not answer the question. The same number of foreign investors (9) answered that their profits have increased, 10 that profits have decreased, whereas for 14 investors the profits have remained the same and 11 did not answer this question. Finally, the number of employees has decreased for 10 foreign investors (range 3-20%) that took part in the 2020 FICIL Sentiment Index study, for 8 the number of employees increased, for 21 they remained the same and 5 investors did not answer this question.

The assessment of foreign investors with regard to the investment attractiveness of Latvia and the work of policy-makers to improve the investment climate in Latvia is still at the level of 'average'. In particular, findings show that on average, the investment attractiveness of Latvia over the past year was evaluated by foreign investors with '2.7', which is slightly better than the assessment in the previous years. In the 2020 study comparatively more foreign investors evaluated the development of investment attractiveness with '4', as compared to evaluations received in the 2019 FICIL Sentiment Index study.

On average, foreign investors evaluated policy-makers' efforts to improve the investment climate over the past year with 3.1 out of 5 (where 5 is excellent) in 2020, which is on the same level as in 2019, yet a slightly better result than compared to previous years: 2.9 in 2018 and 2017 and 2.3 in 2016.

Similarly to the previous years, foreign investors were asked to assess the investment climate in Latvia. The main factors that potentially influence the competitiveness of Latvia were derived through reviewing relevant academic literature and emerged from in-depth discussions within the FICIL Sustainable Economic Development Work Group in 2015. We provided respondents with an evaluation scale from 1-5 (where '1' means that the indicator is not competitive and '5' means that the indicator is very competitive) to assess each of the factors.

The results of the 2020 FICIL Sentiment Index study suggest that foreign investors in Latvia mostly evaluated the potential drivers of the economy as above average. More specifically, in 2020, we see that the evaluation of the indicator 'attitude towards foreign investors', which has been evaluated as high as 3.7 out of 5, has remained on the same level as in 2019 (as compared to 3.6 in 2018, 3.1 in 2017 and 3.2 in 2015 and 2016). Furthermore, similarly to previous years, in 2020 investors are also relatively satisfied with the 'soft infrastructure', measured as 'business culture in Latvia' (3.5 out of 5 in 2020 as compared to 3.4 in 2019). We also observe an increase in the evaluation of the 'demand for products and services': from 3.2 out of 5 in 2019 to 3.4 in 2020). Investors are still the least satisfied with 'demography', yet evaluation of this indicator has increased by 0.5 points as compared to 2019 (2.0 out of 5 in 2020).

The investors' assessment of the quality of the 'health and social system' in 2020 has slightly increased (3.0 in 2020 as compared to 2.9 in 2019). In 2020, we can also observe an increase in the evaluation of the 'quality of education and science' (3.0 in 2020 as compared to 2.7 in 2019). Furthermore, an increase in 2020 can also be observed with regard to the evaluation of the 'availability of labour' (from 2.8 in 2019 to 3.1 in 2020), 'hard infrastructure' (from 3.3 in 2019 to 3.4 in 2020), the 'quality of business legislation' (from 3.1 in 2019 to 3.3 in 2020), and 'digitalisation' (from 3.4 in 2019 to 3.5 in 2020). 'Efficiency of labour', however has decreased

from 3.4 in 2019 to 3.1 in 2020, whereas ‘investment incentives’ decreased from 3.1 to 2.8, accordingly. Finally, the standard of living in Latvia has been evaluated with 3.8 out of 5 in 2020, which is on the same level as in 2019.

Traditionally, we also ask foreign investors to assess whether there has been progress or regress during the previous 12 months with regard to various key challenges identified in the previous FICIL Sentiment Index studies. The results of the 2020 FICIL Sentiment Index study suggest that foreign investors see the least progress within the following three areas: demography (with 36 out of 44 investors reporting that there is no progress), uncertainty (35 reporting no progress) and the tax system (30 reporting no progress). Quality of business legislation and unethical or illegal behaviour are two other areas where a substantial number of foreign investors (23 and 25 accordingly) have seen no progress. Slightly less than half of the interviewed investors (21) also reported no progress in the areas such as the court system and the healthcare system, yet as many as 15 and 17 (accordingly) reported partial progress, but 7 and 6 investors believe that progress has been achieved in these areas.

19 investors see no progress in the level of higher education and science in Latvia, whereas 18 think that partial progress has been achieved and 7 investors that took part in the 2020 study believe that there is progress in the level of higher education and science. 17 out of 42 investors also see partial progress when it comes to the access of labour. Overall, investors seem to be somewhat more satisfied with the progress within the area of “white collar” as compared to “blue collar” labour. 19 foreign investors see progress when it comes to the support from the government and communication with the policy-makers. Finally, more than half of the interviewed foreign investors (23 out of 42 reported progress in the financial sector stability in Latvia, 10 - partial progress and 11 - no progress in this area.

Apart from assessing the investment climate in Latvia (scale 1-5) and evaluating the progress within the key areas of concern, investors also commented on each of the areas that are of major importance to the overall investment climate in Latvia. These comments are provided in the report in the form of quotes. We strongly recommend that policy-makers in Latvia consider these opinions and take them into consideration in their efforts to further improve Latvia’s investment climate.

Asked whether, and under what conditions, investors plan to increase their investments in Latvia, as many as 30 of 44 investors answered with ‘yes’ (in the 2019 survey, 30 from 47 interviewed, in 2018 - 22 of 40 interviewed answered with ‘yes’; in the 2017 study - 24 of the 42 said ‘yes’), 12 said ‘no’ (as opposed to 12, and 14 who said ‘no’ in the 2019 and 2018 studies) and 2 answered that ‘it depends on the circumstances’ (5 in the 2019 study and 5 in the 2018 study) or that they have not yet decided.

Finally, we invited foreign investors to send a message to the Prime Minister of Latvia: one paragraph on what should be done to improve the business climate in Latvia, from the viewpoint of a foreign investor. These messages summarise a number of key concerns that foreign investors are still facing in Latvia, as well as providing some solutions on how to address them. These messages, similarly to the findings of the 2020 FICIL Sentiment Index study, also highlight the need to continue policy-makers’ efforts to improve the investment climate in Latvia. We hope that, similarly to the five previous reports, this report will provide policy-makers with better grounds for making informed policy decisions in such a way that the overall competitiveness of the entrepreneurship climate in Latvia is improved. We also hope that it will continue to foster further constructive communication between foreign investors and the government of Latvia.

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1. Introduction and methodology

This is the sixth FICIL Sentiment Index report, following the five previous reports written in 2015, 2016, 2017, 2018 and 2019. The FICIL Sentiment Index was established in 2015 by the Foreign Investors' Council in Latvia (FICIL), in cooperation with the Stockholm School of Economics in Riga (SSE Riga). The key aim of the Index is to foster evidence-based policy decisions and promote a favourable investment climate in Latvia. We aim to achieve this by summarising the key concerns and suggestions of the main foreign investors in Latvia – representatives of companies that have made the decision to invest in the country and have been operating here for a considerable period of time.

Traditionally, the FICIL Sentiment Index report aims to explore whether, according to foreign investors in Latvia, there has been any progress in the development of the investment climate in Latvia. In particular:

- (1) Do investors see any progress with regard to the policy initiatives to meet the main challenges, as identified in the previous studies?
- (2) How do investors evaluate the government's efforts and current policy initiatives aimed towards improving the investment climate in Latvia?

As in 2015, 2016, 2017, 2018 and 2019, this report draws on a survey: mini case studies of foreign investors in Latvia. From September to November 2020, we interviewed 44 senior executives representing companies that are key investors in Latvia. Altogether, these companies (including their subsidiaries) contribute to 16% of Latvia's total tax revenue, 13% of the total profit and employ 10% of the total workforce of companies with an annual turnover above 145 000 EUR and 50% foreign capital (data from Lursoft, 2019). A short introduction to the companies that were involved in the study is presented in Appendix 2. All responses have been anonymised, and in the results sections of this report the companies' names have been replaced with the industry they represent.

The guidelines for the mini case studies were developed by Professor Arnis Sauka (SSE Riga) with input from the FICIL office. The interviews were conducted by the FICIL board members. The guidelines for the interviews are presented in Appendix 1 and consist of the following key parts:

We started the FICIL 2020 Sentiment Index survey by asking the key foreign investors:

What have been the three key challenges for your company (in Latvia) during 2020/since March 2020?, and:

How have these challenges been solved (if solved)/what would be needed to solve them (if still facing the aforementioned challenges)?

As in previous years, we subsequently continued with:

- *Evaluation of the key drivers of Latvia's economic competitiveness – the FICIL Sentiment Index 2020.*
- *Evaluation of progress in the major areas of concern identified by foreign investors in Latvia in 2019, including the following areas:*
 - demography
 - access to labour
 - level of education and science in Latvia
 - quality of business legislation
 - quality of the tax system
 - support from the government and communication with policy-makers
 - unethical or illegal behaviour on the part of entrepreneurs, unfair competition
 - uncertainty
 - the court system in Latvia
 - the healthcare system in Latvia
 - the financial sector stability in Latvia.
- *Assessment of the work of Latvian policy-makers in improving the investment climate in Latvia during 2020.*
- *Assessment of whether, according to foreign investors, the investment attractiveness of Latvia has improved during the past 12 months.*

As in previous years, we also asked foreign investors whether, and under what conditions, they plan to increase their investments in Latvia.

In the 2020 FICIL Sentiment Index study we also included a number of other questions that are related to assessment of the impact of the Covid-19 pandemic. These include:

Has the turnover, profits and number of employees for your company (in Latvia) increased/ decreased or remained the same during 2020 (effect of Covid-19)?, and

In your opinion, what are the priorities for Latvia in best utilising Covid-19 support measures and funds available from the EU?

Finally, similarly to previous years, in the 2020 study we also asked foreign investors in Latvia to write a short message to the Prime Minister of Latvia: one paragraph on what should be done to improve the business climate in Latvia from the viewpoint of a foreign investor. We promised to deliver this message along with the report.

The report has been structured accordingly and, whenever possible, investors were asked to provide more detailed opinions and examples. We hope that similarly to the previous reports, this report will also provide policy-makers with better grounds for making informed policy decisions

to improve the overall competitiveness of the investment climate in Latvia.

2. Key challenges and potential solutions for foreign investors in Latvia during 2020

We started the FICIL 2020 Sentiment Index survey by asking the key foreign investors “What have been the **three key challenges** for your company in Latvia during 2020?” In particular, we were interested in key challenges from March 2020, i.e. since the first wave of the Covid-19 pandemic hit the country. In addition, we also asked **whether, and if so, how have these challenges been solved?**

The survey results show that the three key challenges of the foreign investors during 2020 were:

- I. **Financial issues, e.g. decrease of business volumes;**
- II. **Adapting to new ways of working (mostly to remote working), changing the business model and adapting to the changing market environment;**
- III. **Dealing with the uncertainty (including in the tax system), planning the business ahead**

The following quotes reflect both the challenges and (potential) solutions as adapted by the foreign investors:

Financial issues, including a decrease of business volumes

<i>Challenges</i>	<i>(Potential) solutions</i>
<i>“Financial aspect (is one of the key challenges), it’s given us a much higher workload and much less money.” (ICT company)</i>	<i>“With regard to expenditure vs income, we rebalance, we made decisions to clarify stable finances, planning future business is still a problem. Taxation is still like a penalty, not a helpful tool.” (ICT company)</i>
<i>“Business planning was also a challenge. We can take bigger risks. Money flow also contributed to the problem. We are trying to increase the flow of money into the economy, but the money needs to come from somewhere, I cannot say the commercial banks are eager to lend from experience.” (ICT company)</i>	<i>“We solve issues as they come in, there is no magic pill. We are doing everything possible to mitigate the negative effects, but we cannot plan more than 3 to 6 months in advance either.” (ICT company)</i>
<i>“Energy prices also changed, this had an impact on our revenue.” (Manufacturing company)</i>	<i>“Pricing issue was solved through partnerships.” (Manufacturing company)</i>

“Our biggest challenge – big exposure in the hospitality sector, adjusting the business there in terms of reducing costs. Quite large exposure in that business.” (Real estate company)

“Our company felt the economic consequences, we felt this with a drop in purchasing power. Everything was related to Covid- 19, this aspect forced us to invest extra in security and there was a drop in sales, which led to a deterioration in financial results. We had to work very hard to balance the financial result.” (Retail trade and service company)

“Reduced client flows affected us negatively. We are completely reliant on client flows. Our profitability and money flow were also affected negatively, if we hadn’t had the option of asking our mother companies for extra financing – we would not have made it through Covid.” (Retail trade and service company)

“The reduction in demand was the biggest challenge; which businesses are deemed essential and which are not – it was worrying. Focusing on the single market principle was a source of concern. HORECA sector loss was a huge problem, the loss was about 90%.” (Retail trade and service company)

“Financial markets were difficult, people were holding on to their money. The drop in turnover put pressure on competition, businesses tried to recover from this by lowering prices, these prices became irrational. There is always a change in cycle regarding prices, Covid-19 made it happen quicker, this drop in prices will affect us in the long-term, it will be difficult to explain to customers why prices have to rise again.” (Finance and banking company)

“Reducing cost is the only thing you can really do. Rearrange financial assets with banks to discuss how they will move forward. Can we take advantage of this crisis? Are we in a position to invest?” (Real estate company)

“We have not yet solved all the challenges, the first wave was overcome successfully, the investment was reasonable, we were able to balance it with cost-cutting. It now looks like the situation is identical to March, with investment in security and customer behaviour an important aspect.” (Retail trade and service company)

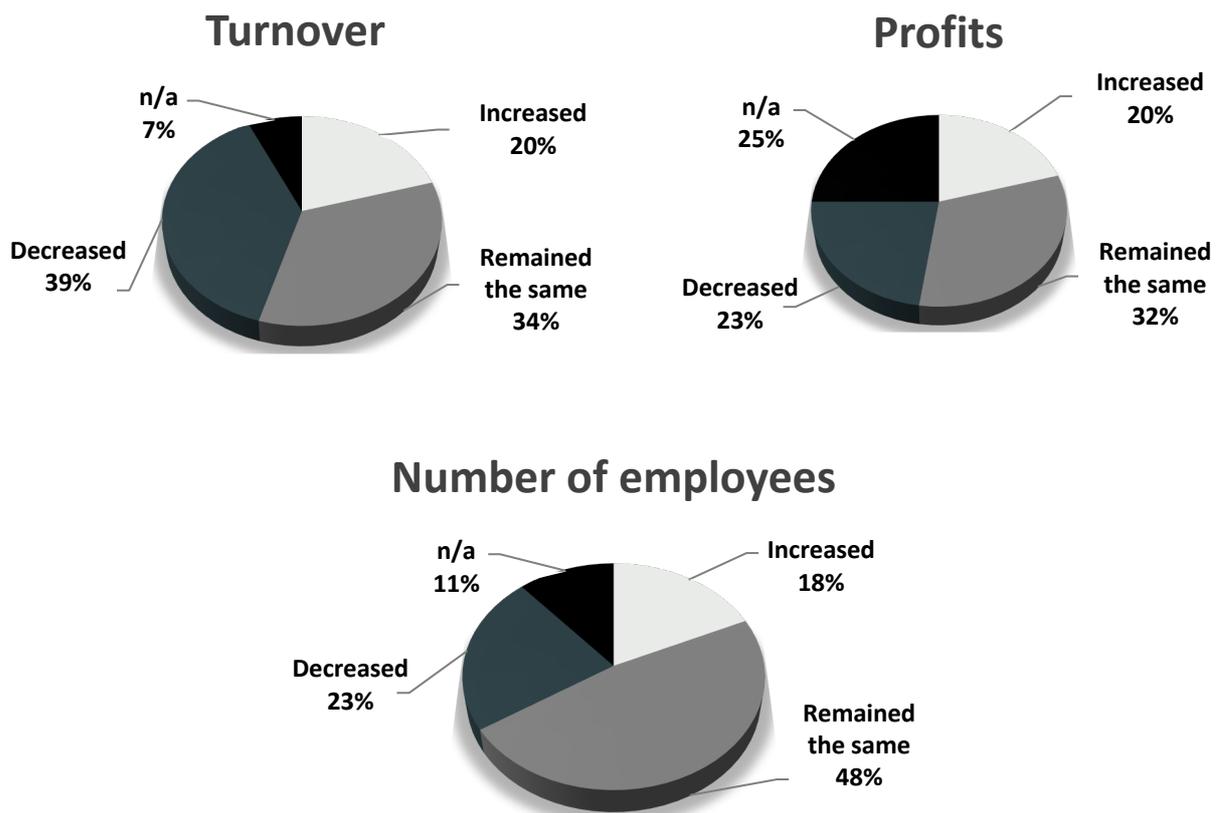
“Business had to adjust, no magic solution. Our mother organisation helped us with cash flow when needed.” (Retail trade and service company)

“The situation stabilised, but the HORECA sector will continue to suffer until there is a vaccine.” (Retail trade and service company)

“Financial market issue will be solved only over time, and the fair competition problem remains a question.” (Finance and banking company)

In this context, we also asked foreign investors whether they have experienced an increase or decrease in turnover, profits and number of employees (in Latvia) during 2020 as an effect of Covid-19 or if these indicators have remained the same. Even though investors did not often mention exact figures, the findings of the 2020 FICIL Sentiment Index survey show that most of the investors that took part in the study experienced a decrease in turnover and fewer investors a decrease in profits and number of employees. Namely, as summarised in Figure 1, as many as 17 investors answered that their turnover has decreased in 2020 (range 2- 35%), whereas 9 answered that turnover has increased, 15 that it has remained the same and 3 did not answer the question. The same number of foreign investors (9) answered that their profits have increased, 10 that profits have decreased, whereas for 14 profits have remained the same and 11 did not answer this question. Finally, the number of employees has decreased for 10 foreign investors (range 3-20%) that took part in the 2020 FICIL Sentiment Index study, for 8 the number of employees increased, for 21 it remained the same and 5 investors did not answer this question.

Figure 1: Answer to the question “Has turnover, profits and number of employees for your company (in Latvia) increased/decreased or remained the same during 2020 (effect of Covid-19)?”. n=44



Source: FICIL Sentiment Index 2020 study

Adapting to new ways of working (mostly to remote working), changing the business model and adapting to the changing market environment

<i>Challenges</i>	<i>(Potential) solutions</i>
<i>“New way of working (mostly remote) for employees to serve customers, work on development, performance management as well as mitigating Covid risk occurrence.” (Finance and banking company)</i>	<i>“New way of working is resolved at this stage but a long-term model has not yet been developed nor have we understood all the challenges with the new way of working.” (Finance and banking company)</i>
<i>“Remote working was also a challenge at first.” (Finance and banking company)</i>	<i>“Remote working was resolved quickly, because there was just no other option. We used digital tools even more, promoting a paperless office and using e-signature more often.” (Finance and banking company)</i>
<i>“Organising remote working for everyone, the remote working culture for newer employees was challenging.” (Professional assurance and advisory services company)</i>	<i>“We had already tried remote working before the Covid-19 crisis.” (Professional assurance and advisory services company)</i>
<i>“In separate markets we have had to deal with remote working which isn’t always ideal. If these are new customers, building a level of trust is hard over screens.” (Manufacturing company)</i>	<i>“This still hasn’t been resolved, we work with the tools we have, everyone has the same challenges so that’s that.” (Manufacturing company)</i>
<i>“Preparing managers for this was the biggest challenge. We all had to learn a new skill – not just to take care of your business but take care of yourself as well. Mental health was a challenge.” (ICT company)</i>	<i>“Remote working was resolved through quickly and diligently organising home offices, we created an app to allow employees to see who is at the office, so we can manage the flow of people.” (ICT company)</i>
<i>“Challenges to preserve team spirit and socialising. Technical and IT skills enabling employees to properly and productively work remotely.” (Service company)</i>	<i>“Various virtual events were organised (including virtual coffee breaks, extensive programs of various wellbeing events, addressing both physical and mental wellbeing), involving internal resources, as well as engaging external experts. Also before restrictions related to Covid-19 were imposed, our company was promoting remote working and had provided the employees with appropriate equipment and IT tools, however, extensive training and continuous support from IT was required to enable proper use of the tools.” (Service company)</i>

“Remote working completely, we already had people working remotely before, but the challenge was that people had to be at home and home-school their kids and work at the same time – that was a challenge for everyone. Clients also started moving to remote working which increased our workload, because everyone needed it all done quickly, so everyone could start working the next day.” (ICT company)

“Remote working simply had to take place quickly, other than that, we have not managed to solve the labour force issue.”(ICT company)

Dealing with the uncertainty (including in the tax system), planning the business ahead

Challenges

(Potential) solutions

“Planning and business decisions, uncertainty for 2021 and the future – Covid-19 duration, impact and medicine efficiency, digitalisation speed, claims development patterns, customers’ financial strength.” (Finance and banking company)

“Planning and business decisions, uncertainty for 2021 and the future has not been resolved as uncertainty has increased and the Covid impact on society is not yet understood.”(Finance and banking company)

“The changes in the excise tax were also a point of concern, as well as how the deposit system will be implemented.” (Retail trade and service company)

“When it comes to the deposit system, the work is almost done, but we have to say VARAM wasn’t always cooperative with the industry and the biggest players.” (Retail trade and service company)

“After the initial challenge – all the other companies we serve, that are our clients, the challenge was uncertainty, is this a small dip or something that will last for years? All our clients started holding on to their money, putting projects on hold, freezing procurement.” (ICT company)

“We are looking at moving possible sourcing in employees, moving from India back to Europe. We didn’t use any support measures. We had a discussion on the furlough scheme, we had more than enough to do here in Latvia, had to help our colleagues in other countries. They had much more restrictions on carrying out work.”(ICT company)

“Economic environment issues and uncertainty is still high, however not as tragic as was first predicted.” (Professional assurance and advisory services company)

“Economic problems have been pushed forward a little, state aid implementation is a help currently, but we will still have to deal with this.” (Professional assurance and advisory services company)

“Uncertainty – when planning for the financial year we had relied on forecasts and investment expectations, however this is no longer relevant. As a company we can now

“Most of the challenges cannot be solved straightaway and we are managing them. We have prioritised some of the investment needs over others, continuously monitoring the situation and following government

only plan short-term and overall good communication is key (as always).” (Retail trade and service company)

recommendations in order to provide accurate services to customers and meet requirements to protect employees. We have re-established some of the planning processes to be more proactive in order to react quicker.” (Retail trade and service company)

“How to plan a budget, how to plan for 2021 is an issue because our revenue is also linked to the success of other companies.” (Finance and banking company)

“We have identified in the past that one of the obstacles when companies come onto the market are high listing costs, not because exchange fees are high but because of all the extra costs. We launched an initiative where this can be covered from EU funds and companies are using this support, which shows the importance of capital market financing; the banking sector has been strong, attracting financing through banks has been the most attractive option. With current difficulties to get financing from banks, companies are also looking at capital markets.” (Finance and banking company)

Furthermore, a number of other top challenges faced by the foreign investors during 2020 as a consequence of the Covid-19 pandemic were highlighted during the interviews. Those include:

**Logistics, global supply chains, travel restrictions;
Ensuring the safety of staff and customers;
Communication with the policy-makers and/or policy action;
Financial sector (banking);
Shortage of employees, especially highly educated and skilled experts;
Fair competition and the shadow economy.**

Some of the quotes from the interviews form a more in-depth insight with regard to the aforementioned issues:

Logistics, global supply chains, travel restrictions

Challenges

(Potential) solutions

“Limited travel has been a challenge for operations and running a company abroad.” (Manufacturing company)

“We have a good team in Latvia, so it was not necessary to travel so much, the information was moving regardless of the virus.” (Manufacturing company)

“Some projects did stop due to the fact that we couldn’t get the right specialists here because of travel restrictions.” (Service company)

“... but this was resolved quickly with the help of LIAA.” (Service company)

***“Logistics was a huge challenge, because of commercial flight cancellations.”
(Manufacturing company)***

“We are limited to cargo flights, and there are huge queues for this – this is not ideal. Europe is used to quick movement of goods so this does cause discomfort.” (Manufacturing company)

“Travel restrictions hurt us, we need foreign experts for our projects regularly, we need knowledge transfer, so that the quality and high standard of our projects is kept the same across all countries. This cannot be done online, they need to be on site to be able to evaluate various projects.” (Real estate company)

“We have only had 2 professionals fly here since March to check the projects, haven’t tried LIAA for help yet, but we have several projects moving into phase 2, so we will need more experts.” (Real estate company)

“Import of goods (e.g. equipment, spare parts) and services (repair and maintenance of the specific equipment etc) from other countries, even within the EU. Unlike other EU countries, Latvia has not even properly defined the strategic industries, the services of which are critical to the society, which could therefore be subject to specific rules and exemptions during an exceptional situation or lockdown.” (Service company)

“We found ad hoc solutions in discussions with LIAA and other stakeholders, but a comprehensive, justified and carefully thought-through policy and approach should be established.” (Service company)

“A new thing we learned is in how many ways tourism is actually extremely important to us. Tourists also contributed massively to our business, which was not immediately apparent.” (Manufacturing company)

Ensuring the safety of staff and customers

Challenges

(Potential) solutions

“As a manufacturing company – the number one issue was the safety and health of our employees, we needed to maintain business continuity.” (Manufacturing company)

“Safety is the number 1 aspect, we implemented all necessary measure, sometimes the bigger issue is the attitude from society rather than the government’s work.” (Manufacturing company)

***“Covid-19 is the biggest challenge, our company has to deal with employee safety, production employee safety. Continuity of food supply is extremely difficult. How to keep production open – it is incredibly difficult.”
(Manufacturing company)***

“Masks, disinfectants – that’s now common sense. The big issue was the production buildings, where it was very hard to keep a 2m distance. We digitally trace people’s movements around the factory.” (Manufacturing company)

“The big challenge was to organise the team working environment, to ensure that everyone was safe, and to reduce stress.” (Real estate company)

“Our business received support from our group because the group is liquid, there was also financial support. We have a very strict approach to health and safety issues in the company and facilities. Our company tries to find a compromise between customers and partners to avoid closing the business.” (Real estate company)

Communication with the policy-makers, policy action

Challenges

(Potential) solutions

“Meetings and talking about certain issues with policy-makers became more difficult.” (Manufacturing company)

“Hasn’t been resolved really, big issue - renewable energy tariffs are still a challenge and abuse the system. The same debate in Estonia took place 5 years ago regarding renewable energy. It is important for the government to keep their word. We are facing a huge transition, EU green deal, we need a long-term policy, but if you cannot trust this policy – how can you trust the investment environment as such.” (Manufacturing company)

“The legal rules for force majeure and unforeseen circumstances or the private sector are not well-structured enough. No platform or state department for evaluation of the aviation sector insolvency situation and no furlough support at least until summer 2021.” (Service company)

“We are negotiating with the airport through our lawyers and by independent financial auditors for our contract and we tried to communicate with all state bodies related to our main problems but there has been no response except from Riga Airport.” (Service company)

“The business climate of certain municipalities is challenging, impact of sanctions, changes in law, businesses put in the middle – it was tough.” (Retail trade and service company)

“Competitiveness is getting more important, so we have continued our conversations with stakeholders.” (Retail trade and service company)

“A slow down in reforms in the public sector. A lack of a plan and experience in the public sector to manage the recovery process.” (Professional assurance and advisory services company)

“The Covid recovery plan should be the priority of everything the government is doing which is run and controlled centrally. The full government operation should be changed to adjust to the country’s needs during the crisis. Upskilling people should be the top priority when trying to solve these challenges, because these are all still very apparent.” (Professional assurance and advisory services company)

Financial sector, banking

Challenges

(Potential) solutions

“One specific problem in Latvia was the cooperation with the financial sector, we have to spend so much time trying to provide useless information. This became hard specifically due to Covid because we had more important things to do than answer numerous questions. We have been going through such a lot of nonsense.” (ICT company)

“We resolved that by burning a lot time answering their questions, while we should have been looking for new clients during this time. We learned how to adapt to new things. A business like ours is so privileged because we can work remotely from home.” (ICT company)

“The banking sector was a huge challenge as well, uncertainty about whether or not we will be part of the grey list. The planned tax reform is unpredictable and adds more towards the uncertainty of 2020.” (Professional assurance and advisory services company)

“Banking sector, we still see issues with accounts for businesses, there is no real risk-based approach which makes it very hard, unnecessary stress and restrictions for people and businesses. There is no solution to the continued tax changes, there simply is no stability. Even when they say they will not change taxes – they change these during the budget process.” (Professional assurance and advisory services company)

“The financial sector in Latvia is a big challenge, the attitude towards foreign investors from banks and public institutions – it’s crazy.” (Service company)

“To be honest none of these have been resolved yet, we take it day by day, but clearly we need assistance from the banks and state institutions to correct the problems with the financial sector.” (Service company)

Lack of employees, especially highly educated and skilled experts

Challenges

(Potential) solutions

“We have been missing staff lately, people are not applying for vacancies, but the requirements have not changed. We have noticed a tendency that people are not changing jobs as much as previously, as they may be waiting for the Covid-19 crisis to be over, so they are less likely to consider changing jobs for rational reasons. In the past, young people changed jobs more often. We are facing a big challenge to find labour.” (ICT company)

“We can't find employees; the Lithuanian office has the same problem. We realised that we cannot concentrate the budget flow in one geographical location, so our management decided to open an office in Lithuania as well, but there are also problems finding a workforce.” (ICT company)

“Availability of labour force, not just the number of employees but also the skill sets and quantity of candidates available.”
(Professional assurance and advisory services company)

“Shortage of candidates for vacancies – engaging more proactively with universities. Education system should change to be up to date with business needs.” ***(Professional assurance and advisory services company)***

“Employees for us, availability of labour force – these are always a challenge, we have accepted we cannot get the specialists we need in Latvia so we have to look abroad. We had to organise trainings for our own employees as well very quickly.” ***(ICT company)***

Fair competition and the shadow economy

Challenges

(Potential) solutions

“Fair competition in the public procurement process, everything that relates to IT, transparency of procurement, of all phases in procurement.” ***(Professional assurance and advisory services company)***

“We are sticking to our values, further attention of the Competition Council and the Procurement Monitoring Office could help matters.” ***(Professional assurance and advisory services company)***

“Increase of shadow economy by our competitors in RMX due to the Covid crisis and stopped reverse VAT for the construction materials sector. Imports from Belarus with huge competitive advantage (we can’t match it) as outside European ETS, no commitment of public investors to environment friendly cements (cement without EPD – Environmental Product Declaration).”
(Manufacturing company)

“Clear strategy, commitment and targeted actions of the government to stop the shadow economy. Clear governance of public projects. Clear guidance for public procurement in construction projects regarding environment and governance.” ***(Manufacturing company)***

3. The attractiveness of the investment climate in Latvia

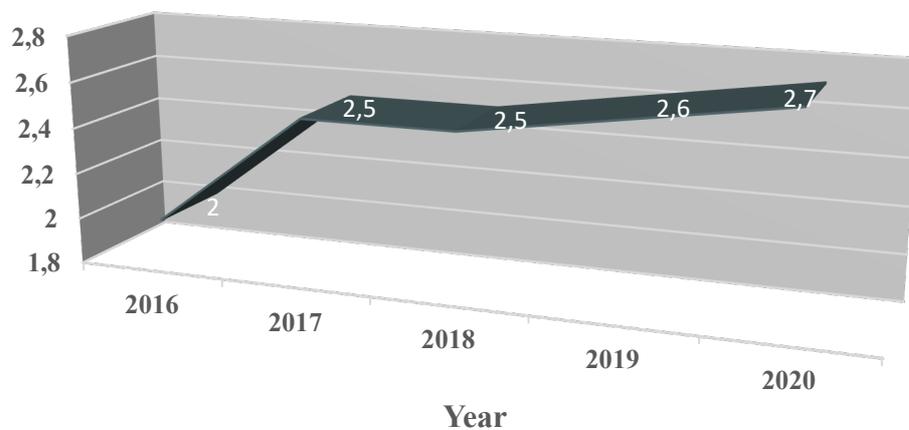
One of the key aims of the FICIL Sentiment Index is to measure the progress of the investment climate development in Latvia. To do so, similarly to previous years, investors in the 2020 survey were asked for their perspective on whether the investment attractiveness of Latvia has improved over the past 12 months. Investors could evaluate the improvement of the investment attractiveness of Latvia using a 5-point scale, where ‘1’ means that the investment attractiveness has not improved at all, ‘2’ means that there have only been 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.

Our findings suggest that on average, the investment attractiveness of Latvia over the past year was evaluated by foreign investors with ‘2.7’, which is slightly better than the assessment in the previous years (see Figure 2). As exemplified by Figure 3, more foreign investors in the 2020 study evaluated the development of investment attractiveness with ‘4’, as compared to evaluations received in the 2019 FICIL Sentiment Index study.

Figure 2: Investment attractiveness of Latvia: development over the past 12 months: 2016, 2017, 2018, 2019 and 2020 studies.

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

2016: n = 32; 2017: n = 42; 2018: n = 40; 2019: n = 47; 2020: n=44

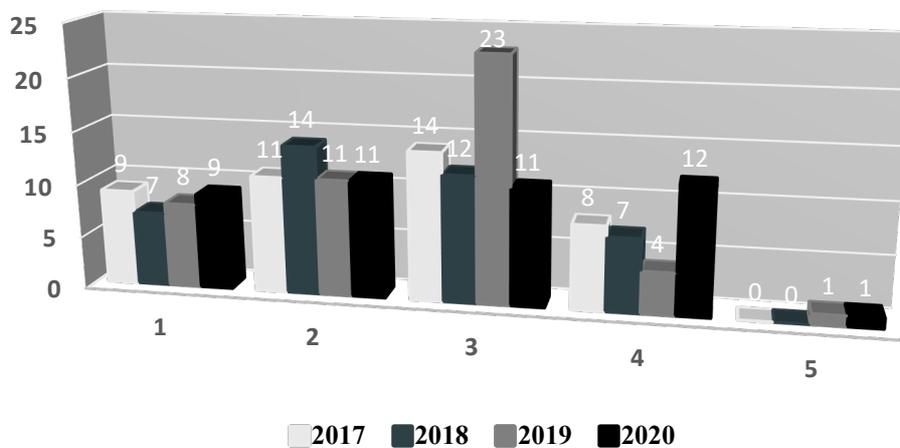


Source: FICIL Sentiment Index 2015- 2020

Figure 3: Has the investment attractiveness of Latvia improved during the past 12 months? Distribution of responses, 2017- 2020.

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

2017: n = 42; 2018: n = 40; 2019: n = 47; 2020: n=44



Source: FICIL Sentiment Index 2015- 2020

We also asked investors to justify their assessment and received the following opinions, some of which are quite negative:

*“We want long-term projects in Latvia, but we do not see an opportunity to implement them.”
(Real estate company)*

“Let’s start there – investors will have a hard time opening up a bank account. Then – where will an investor find a work force? I don’t want to be too negative, but investors face a lot of issues in Latvia.” (ICT company)

“Currently not at all, because the biggest challenge is people and the labour market. That will take years to resolve because Latvia seems to be a closed country.” (ICT company)

“Policy-makers were too focused on how to get out of the grey list.” (ICT company)

“For the transit sector, Latvia is not welcoming at all.” (Service company)

... however, we also received a number of very positive opinions:

“AML questions have been dealt with, the government’s response to Covid has been great.” (Real estate company)

“Because of changes in the financial market, the investment climate has improved significantly.” (Finance and banking company)

“Latvia has improved its image by results in the mitigation of Covid virus infections and deaths.” (Finance and banking company)

*“Positive quotes go to LIAA having a strong vision on improvement areas, this included its goal to reduce the grey economy significantly.”
(Retail trade and service company)*

4. Assessment of the work of the Latvian policy-makers: what has been done to improve the investment climate in Latvia during the previous year?

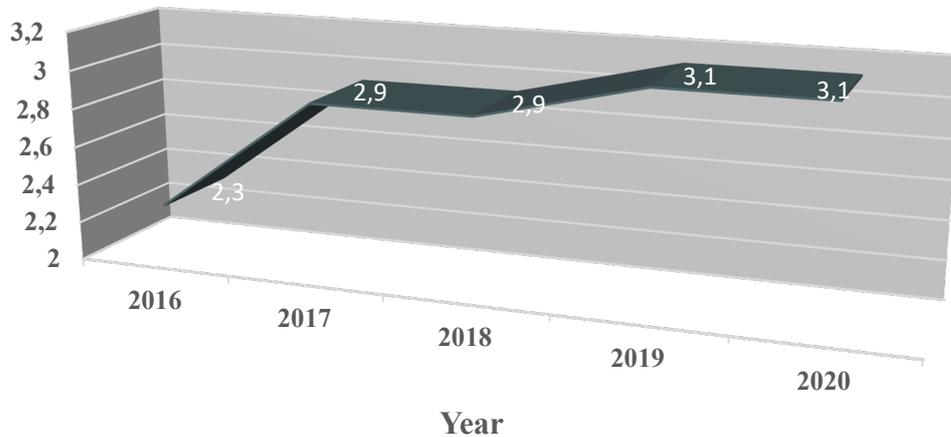
As in the 2017, 2018 and 2019 studies, we asked foreign investors in Latvia to assess the work of the Latvian policy-makers: what has been done to improve the investment climate in Latvia during the previous year? The policy-makers’ contribution was evaluated on a scale of 1 to 5 (where ‘1’ is fail, ‘3’ is average and ‘5’ is excellent). The results from the 2016, 2017, 2018, 2019 and 2020 studies are summarised in Figure 4.

On average, foreign investors evaluated policy-makers’ efforts to improve the investment climate over the past year with 3.1 out of 5 in 2020, which is on the same level as in 2019, yet a slightly better result compared to previous years: 2.9 in 2018 and 2017 and 2.3 in 2016 (Figure 4).

Distribution of the answers is provided in Figure 5, suggesting that, similarly to the previous years, the majority of respondents in the 2020 study also evaluated the government’s efforts to develop the investment climate in Latvia, as ‘3’ – average.

Figure 4: Foreign investors’ assessment of policy-makers’ efforts to improve the investment climate over the past year: 2016- 2020 studies

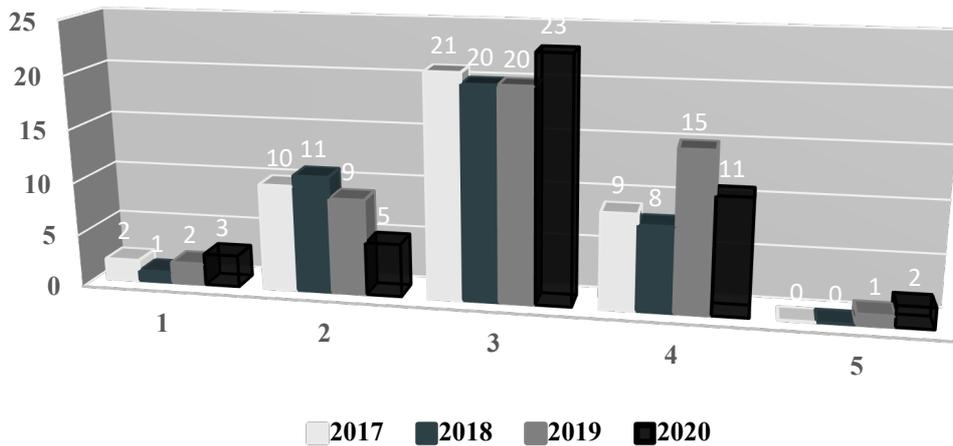
Scale 1 to 5, where ‘1’- fail, ‘3’- average’ and ‘5’- excellent
 2016: n = 30; 2017: n = 42; 2018: n = 40; 2019: n = 47; 2020: n=44



Source: FICIL Sentiment Index 2015- 2020

Figure 5: Foreign investors’ assessment of policy-makers’ efforts to improve the investment climate over the past year. Distribution of responses, 2017- 2020.

Scale 1 to 5, where ‘1’- fail, ‘3’- average’ and ‘5’- excellent
 2017: n = 42; 2018: n = 40; 2019: n = 47; 2020: n=44



Source: FICIL Sentiment Index 2015-2020

Evaluations of the foreign investors, that took part in the 2020 FICIL Sentiment Index study, are reflected in the following quotes, some of which are relatively positive:

“New political forces and major position changes in the Prosecution, Court and the police gives hope of improvements in the fight

“I very much appreciate the direction, I appreciate the way the government addresses various topics, obviously the effect will be seen

*against corruption and illegal practices.”
(Finance and banking company)*

*after some time, but the government seems
trustworthy.” (Finance and banking company)*

*“Open dialogue and willingness to improve the
business environment is highly appreciated.”
(Retail trade and service company)*

*“It seems better from the Latvian image side, we
have a great Prime Minister and a great
President, we seem like we are on top in terms
of the Baltics with this Prime Minister and
President tandem.” (Retail trade and service
company)*

*“The reaction to Covid was very good, it is
worse to make good decisions slowly during a
crisis rather than making average decisions
quickly. The same with the education reform –
we appreciate that someone is listening and
taking this on.” (ICT company)*

*“Trusting the government is huge for foreign
investors, having a President who represents
Latvia really well, and a Prime Minister who
investors see is a man with integrity. We also
see more young people getting involved and I
believe Latvia has improved.” (Real estate
company)*

*“There was uncertainty in Riga during the pre-
election period, new people are now in place,
the city needs to be put in order as soon as
possible so that companies know who to talk to
and where to direct their projects.” (Retail
trade and service company)*

*“We have the right foundation, also with Riga,
new blood in LIAA, but have to give people time
to work and create a positive effect.” (Finance
and banking company)*

However, a number of negative comments were also received:

*“As much as we don’t want to, we need to take a
look at what our neighbouring countries are
doing. The vision and image of our country, the
websites for future investors and other people
looking into Latvia – it is so unclear. Look at
Invest Lithuania – that is a good example of how
it should be.” (Wholesale and retail company)*

*“There are too many problems, several
initiatives of the public sector are very harmful
for the business environment.” (Manufacturing
company)*

*“The biggest fail is the tax system –
communication towards other countries is
good.” (Manufacturing company)*

*“I see that FICIL is doing a lot of work, but
sometimes the policy-makers ignore good
advice.” (Real estate company)*

*“No significant positive changes observed.
Uncertainty remains and some last minute
changes especially in Covid related areas do
not help.” (Retail trade and service company)*

*“Corporate governance issues are still relevant
even for this government.” (ICT company)*

*“There were many incidents that did send the
wrong signals, it looked like the business
environment is not predictable. For example,
the energy sector, the OIK saga, it really
dismisses investors’ trust in the government.”
(Professional assurance and advisory services
company)*

*“The Court of Economic Affairs is a good
example, however I believe LIAA and the
government should work even closer and they
have a long way to go.” (Professional*

*“Some separate occasions are embarrassing,
we have people who are a 5 and also people
who are a 1 among policy-makers. The Prime
Minister and President are excellent, but we*

assurance and advisory services company)

need to raise the rest of the standard.” (ICT company)

“Nothing better. Nothing worse. A lot of uncertainty.” (Service company)

“The focus of the top priorities needs to be specified. There is no certainty and no clear vision.” (Real estate company)

5. FICIL Sentiment Index 2015-2020

This section presents the FICIL Sentiment Index 2015-2020 – an assessment of the economic competitiveness of Latvia or, more specifically, an evaluation of the investment climate in Latvia by foreign investors operating in the country.

The main factors that potentially influence the competitiveness of Latvia were derived through reviewing relevant academic literature and emerged from in-depth discussions within the FICIL Sustainable Economic Development Work Group in 2015. As a result, the FICIL Sentiment Index – foreign investors’ assessments of the drivers of Latvia’s competitiveness – consists of the following indicators:

Availability 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
Investment incentives
Soft infrastructure
Demography

In 2019, a new category was added to the list: **digitalisation**. Additionally, foreign investors were also asked to evaluate **the standard of living in Latvia**.

During the 2015 study, 28 selected foreign investors in Latvia evaluated each of these indicators – the potential drivers of Latvia’s economic competitiveness. The same 28 respondents, as well as 4 new companies, participated in the evaluation of the same indicators in 2016, whereas in 2017, an additional 10 companies joined the sample. In 2018, we interviewed the same 38 (out of 42) companies that took part in the 2017 study. In addition, 2 new companies joined the sample in

2018. In 2019, some more foreign investors joined the study, resulting in 47 interviews, whereas 44 foreign investors were interviewed in 2020 study.

We provided respondents with an evaluation scale from 1-5, where '1' means that the indicator is not competitive and '5' means that the indicator is very competitive. Some indicators included one item, some included several items (please see Figure 6 and Table 1 below). The FICIL Sentiment Index was calculated as a simple average for each indicator. 26 of the 28 investors interviewed provided an evaluation for most of the indicators in 2015: all 32, 42, 40, 47 and 44 respondents took an active part in evaluating the indicators in the 2016, 2017, 2018, 2019 and 2020 study, respectively.

It is, however, important to highlight that the numbers in the FICIL Sentiment Index should be interpreted considering that (i) mostly relatively large investors took part in the study, so that the results might better represent the opinions of larger companies; (ii) the sample mainly consists of FICIL members, thus potentially creating a selection bias. We therefore recommend using these figures as complementary information to the information summarised in other sections of this report, i.e. as a brief approximation, aimed at shedding more light on the overall assessment of the drivers of Latvia's competitiveness from the viewpoint of foreign investors in Latvia.

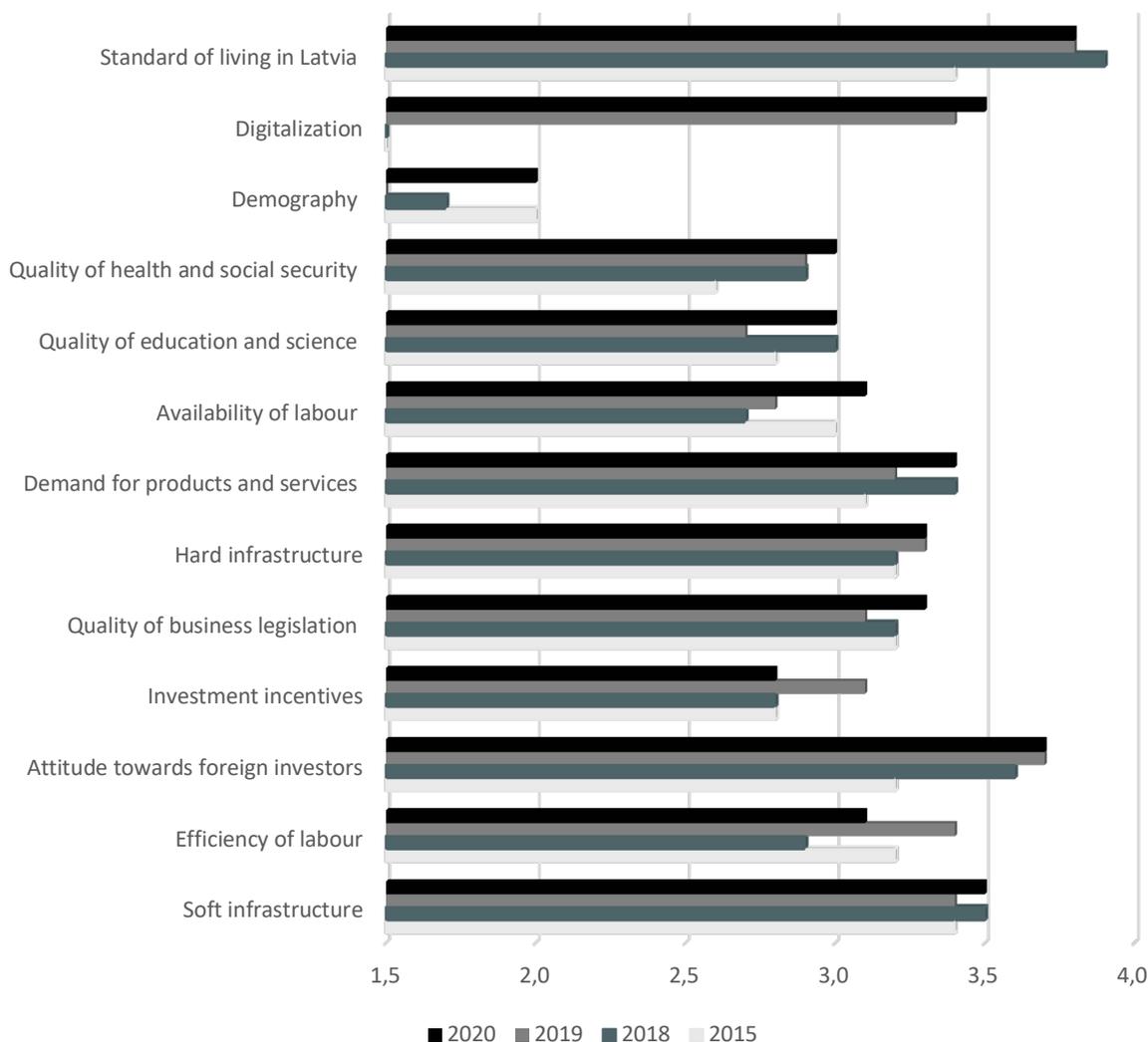
As illustrated by Table 1, for all six years (2015, 2016, 2017, 2018, 2019 and 2020 studies) foreign investors in Latvia mostly evaluated the potential drivers of the economy as above average. More specifically, in 2020, we see that the evaluation of the indicator 'attitude towards foreign investors', which has been evaluated as high as 3.7 out of 5, has remained on the same level as in 2019 (as compared to 3.6 in 2018, 3.1 in 2017 and 3.2 in 2015 and 2016).

Similarly to previous years, in 2020 investors are also relatively satisfied with the 'soft infrastructure', measured as 'business culture in Latvia' (3.5 out of 5 in 2020 as compared to 3.4 in 2019). We also observe an increase in the evaluation of the 'demand for products and services': from 3.2 out of 5 in 2019 to 3.4 in 2020). Investors are still the least satisfied with 'demography', yet evaluation of this indicator has increased by 0.5 points as compared to 2019 (2.0 out of 5 in 2020).

Figure 6: FICIL Sentiment Index 2015-2020

Evaluation scale from 1-5, where '1' means that the indicator is not competitive and '5' means that the indicator is very competitive.

2015: n = 28; 2016: n = 32; 2017: n = 42; 2018: n = 40; 2019: n = 47; 2020: n=44



Source: FICIL Sentiment Index 2015-2020

The investors' assessment of the quality of the 'health and social system' in 2020 has slightly increased (3.0 in 2020 as compared to 2.9 in 2019). In 2020, we can also observe an increase in the evaluation of the 'quality of education and science' (3.0 in 2020 as compared to 2.7 in 2019). Furthermore, an increase in 2020 can also be observed with regard to the evaluation of the 'availability of labour' (from 2.8 in 2019 to 3.1 in 2020), 'hard infrastructure' (from 3.3 in 2019 to 3.4 in 2020), the 'quality of business legislation' (from 3.1 in 2019 to 3.3 in 2020), and 'digitalisation' (from 3.4 in 2019 to 3.5 in 2020).

'Efficiency of labour', however has decreased from 3.4 in 2019 to 3.1 in 2020, whereas 'investment incentives': decreased from 3.1 to 2.8, accordingly. Finally, the standard of living in Latvia has been evaluated with 3.8 out of 5 in 2020, which is on the same level as in 2019 (See Figure 6 and Table 1).

Table 1: Components of the FICIL Sentiment Index 2015- 2020.

Evaluation scale from 1-5, where '1' means that the indicator is not competitive and '5' means that the indicator is very competitive.

2015: n = 28; 2016: n = 32; 2017: n = 42; 2018: n = 40; 2019: n = 47; 2020: n=44

	2015	2016	2017	2018	2019	2020
Soft infrastructure	3,4	3,4	3,4	3,5	3,4	3,5
business culture in Latvia	3,4	3,4	3,4	3,5	3,4	3,5
Efficiency of labour	3,2	3,2	3,1	2,9	3,4	3,1
efficiency of labour	3,2	3,2	3,1	2,9	3,4	3,1
Attitude towards foreign investors	3,2	3,2	3,1	3,6	3,7	3,7
Investment incentives	2,8	2,8	2,8	2,8	3,1	2,8
Quality of business legislation	3,2	3,1	3,2	3,2	3,1	3,3
monetary policy	4,0	4,1	3,9	3,7	3,5	3,8
tax system	3,1	2,8	2,8	3,1	3,0	3,0
legal system	2,6	2,6	2,8	2,9	2,8	3,0
Hard infrastructure	3,2	3,3	3,4	3,2	3,3	3,4
defence	3,4	3,6	3,6	3,6	3,8	3,9
low production costs	3,3	3,2	3,2	2,9	2,9	2,7
infrastructure (roads, electricity, etc.)	3,1	3,1	3,3	3,2	3,5	3,3
energy resources	2,8	3,3	3,4	3,0	3,0	3,5
Demand for products and services	3,1	3,1	3,4	3,4	3,2	3,4
domestic demand	2,8	2,6	2,9	2,8	2,8	2,9
external demand (exports)	3,3	3,3	3,7	3,8	3,5	3,5
industry traditions	3,4	3,5	3,5	3,6	3,4	3,7
Availability of labour	3,0	3,1	2,7	2,7	2,8	3,1
availability of labour at management level	3,4	3,5	2,9	3,0	3,1	3,5
availability of blue-collar labour	2,7	2,8	2,5	2,3	2,4	2,7
Quality of education and science	2,8	2,6	3,1	3,0	2,7	3,0
education and science / innovation	2,8	2,6	3,1	3,0	2,7	3,0
Quality of health and social security	2,6	2,5	2,5	2,9	2,9	3,0
health system	2,5	2,4	2,4	2,7	2,6	3,0
social security	2,8	2,5	2,6	3,0	3,2	3,0
Demography	2,0	1,8	1,6	1,7	1,5	2,0
demography (population growth)	2,0	1,8	1,6	1,7	1,5	2,0
Digitalisation	n/a	n/a	n/a	n/a	3,4	3,5
Standard of living in Latvia	3,4	3,9	3,7	3,9	3,8	3,8

Source: FICIL Sentiment Index 2015-2020

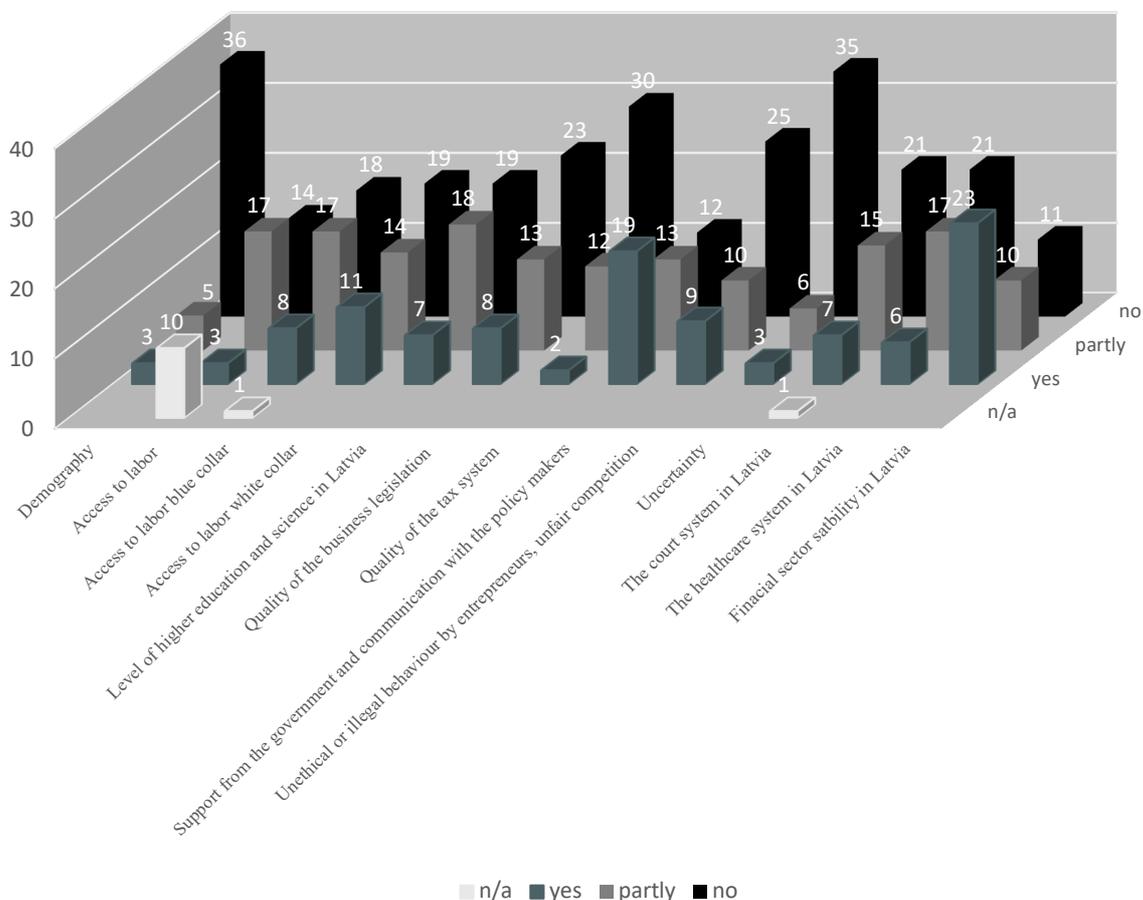
6. Key challenges faced by foreign investors in Latvia: progress or regress?

Apart from calculating the FICIL Sentiment Index, traditionally we also ask foreign investors to assess whether there has been progress or regress with regard to various key challenges identified in the previous FICIL Sentiment Index studies. In particular, during the 2015 and 2016 surveys, a number of key challenges that foreign investors in Latvia faced while developing their businesses were identified. These included: demography, access to labour, level of education and science, quality of the business legislation, quality of the tax system, support from the government and communication with the policy-makers, unethical or illegal behaviour by entrepreneurs, unfair competition, uncertainty, the court system, the healthcare system and financial sector stability in Latvia.

In the 2020 survey, we asked foreign investors whether, in their opinion, there has been any progress during the previous 12 months within these areas of concern. The findings from the 2020 study are summarised in Figure 7.

Figure 7: Foreign investors' assessment of the progress over the past 12 months with regard to the key areas of concern as identified in the 2015 and 2016 studies: findings from 2020

Respondents were offered to evaluate each unit assessing whether there has been an improvement by answering: 'yes', 'partly', or 'no'. n=44.



Source: FICIL Sentiment Index 2020

The results of the 2020 FICIL Sentiment Index study suggest (see Figure 7) that foreign investors see the least progress within the following three areas: *demography* (with 36 out of 44 investors reporting that there is no progress), *uncertainty* (35 reporting no progress) and *tax system* (30 reporting no progress). *Quality of business legislation* and *unethical or illegal behaviour* are two other areas where a substantial number of foreign investors (23 and 25, accordingly) see no progress. Just under half of the interviewed investors (21) also reported no progress in the areas such as *the court system* and *the healthcare system*, yet as many as 15 and 17 (accordingly) reported partial progress, but 7 and 6 investors believe that progress has been achieved in these areas.

19 investors see no progress in the *level of higher education and science* in Latvia, whereas 18 think that partial progress has been achieved and 7 investors that took part in the 2020 study believe that there is progress in the level of higher education and science. 17 out of 42 investors also see partial progress when it comes to the *access of labour*. Overall, investors seem to be somewhat more satisfied with the progress within the area of “white collar” as compared to “blue collar” labour.

19 foreign investors see progress made when it comes to the *support from the government and communication with the policy-makers*. Finally, more than half of the interviewed foreign investors (23 out of 42 reported progress in the *financial sector stability in Latvia*, 10 partial progress and 11 no progress in this area (see Figure 7). A more in-depth insight into the attitudes of foreign investors in Latvia - both positive and negative - with regard to the progress within the key areas of concern (during the past 12 months) is provided by selected quotes below:

Demography

“Very important – how to attract people back who left Latvia as well as to secure smart migration (to stop migration through Polish companies where staff come on the basis of business trips).” (Finance and banking company)

“Still don’t see any serious actions from the government not only for increasing birth rates but also on stopping emigration.” (Professional assurance and advisory services company)

“In the last 12 months, I have not seen any initiative to improve demography, no benefits and no import of labour.” (Retail trade and service company)

“Re-emigration has improved, Covid might have helped in that regard.” (Real estate company)

Access to labour

“There is visible progress both with regard to availability of “managers” and “workhands” (Real estate company)

“Unemployment has increased due to Covid-19, however this is short-term and does not resolve the overall situation.” (Retail trade and service company)

“We see more CVs from industries that have died out because of Covid.” (ICT company)

“Blue collar: More people look for stable work places from more vulnerable industries.

White collar: Increase of available people due to a decrease of staff in some industries, as well as cost savings and Baltic level management models becoming more popular.” (Finance and banking company)

“Blue collar: Technically, there are more people available in the labour market, but the skills don’t match the labour market needs.” (Retail trade and service company)

“White collar: Very difficult to get qualified people, and prices are too high. Before the Covid crisis there was extreme pressure on wages, but productivity does not follow.” (Finance and banking company)

“White collar: Currently less interested in changing jobs and improving overall employment turnover within company.” (Retail trade and service company)

“White collar: There is a problem with experts – we don’t have enough of them, plus other companies steal them from one another. Covid-19 also showed that we need to automate a lot of the processes.” (Professional assurance and advisory services company)

“White collar: It’s not easy to hire people in the IT sector, easier to hire junior level: manager levels are more difficult.” (ICT company)

Level of Higher Education and Science in Latvia

“No significant progress in the strategic direction over the recent period. Some progress is possible in implementation of earlier decisions.” (Finance and banking company)

“It needs to be more focused, with a small market and small funding should focus on specific areas not be spread so wide.” (ICT company)

“I do not see big changes, not yet at least, now we are still waiting for results from the reform.” (Finance and banking company)

“The reform has started, we now need the result.” (ICT company)

“Some positive movements, but no real improvement visible yet.” (Retail trade and service company)

“We are not yet ready to be modern it seems, Universities have to add value on a day to day basis to each economy.” (Professional assurance and advisory services company)

“We had arrived at the point where, without meaningful reforms in the higher education sector – we wouldn’t be able to carry on.” (Retail trade and service company)

“We need to increase the quality of our higher education institutions, what is this nonsense about the rector having to speak Latvian?” (Manufacturing company)

“We have very little focus on excellence, so we will always have issues in attracting the brightest minds.” (ICT company)

Quality of the Business Legislation

“No significant change. However I am not sure if there is great urgency.” (Finance and banking company)

“It cannot improve quickly because this should be solid, nothing should go wrong.” (Finance and banking company)

“We don’t even evaluate where the previous decision brought us, we just fire out new decisions, we lack continuity.” (Retail trade and service company)

“The legislative machinery is too big” (Professional assurance and advisory services company)

“The government is very receptive to FICIL recommendations, they continue to adopt business-friendly legislation.” (Real estate company)

Quality of the Tax System

“Timely discussed and announced changes for 2021 is the right way to execute it and avoid surprises. Harmonisation of tax rates among various employment types is a fair move. Some mistakes in details of proposals and communication.” (Finance and banking company)

“Will the current reform simplify things, how are reforms made and carried out, fight against shadow economy?” (Professional assurance and advisory services company)

“In theory it looks ok, but in practice how it is implemented is not acceptable. There should be fewer changes less often, because it’s not getting any better.” (Finance and banking company)

“It is even more unpredictable.”. (Professional assurance and advisory services company)

“Not predictable at all.” (Retail trade and service company)

“Completely unpredictable, the biggest risk for the country, every once in a while we evaluate the option of moving our office to another country because of the fluctuations in the tax system.” (Manufacturing company)

“Neutral, not many companies will move here due to taxes, but no one will leave because of taxes.” (ICT company)

“Quite competitive, lack of predictability, law – any change that happens needs to take place over time and gradually.” (Real estate company)

“Few things have become simpler than before.” (ICT company)

“We do not know what the taxes will be in the coming years, the cadastral value tax worries our industry and the natural resources tax. The

tax system does not support the business environment.” (Retail trade and service company)

Support from the Government and Communication with the Policy-makers

“Taking into account the speed of changes and actual results (higher unemployment was expected, no major bankruptcies) then support is good at this moment.” (Finance and banking company)

“They seem open to communication, however, managing 5 coalition parties must be hard in terms of the speed of reforms.” (Professional assurance and advisory services company)

“The current government is really communicating with us, we appreciate what they do very much, I see a lot of improvement.” (Finance and banking company)

“Cooperation with Riga City Council is extremely important – that is improving.” (Real estate company)

“Better than ever is the government’s willingness, aiming for improvement.” (Retail trade and service company)

“(Improvements are visible but...) This is due to the fact that the government is in an emergency situation and is forced to talk to business representatives, as well as to make quick decisions in consultation with companies.” (Retail trade and service company)

“We have had very good cooperation with the Ministry of Health – they are excellent, however VARAM has been a negative surprise, they just stick to common phrases but don’t actually do the work required. But we also agree that VARAM has an inadequately extensive list of topics subordinate to them.” (Retail trade and service company)

“They are showing willingness, I do miss transparency sometimes, but in general, moving in the right direction.” (Retail trade and service company)

“LIAA is more visible during Covid which is good.” (ICT company)

Unethical or Illegal Behaviour by Entrepreneurs, Unfair Competition

“Well, we still see unfair competition taking place.” (ICT company)

“No visible improvement.” (ICT company)

“There is hope that newly elected politicians in the Saeima and Riga municipality will ensure a more transparent and honest tenders’ process and changes in the major courts, prosecution and police positions will improve the quality of their work to call for justice.” (Finance and banking company)

“The Competition Council seems to be working a lot, however we haven’t seen public decisions on the most recent loud scandals.” (Professional assurance and advisory services company)

“Corruption bureau (KNAB) is making progress and more active work is being done, however the progress is slow.” (Retail trade and service company)

“It’s the same, Covid-19 is not helping this situation.” (Real estate company)

“The Prime Minister seems to be taking on this fight more, however on a ministry level – no unified understanding.” (Retail trade and service company)

“We are becoming less tolerant of corruption.” (Retail trade and service company)

“It’s not easy to make improvements, there is big resistance, but the country is trying.” (Retail trade and service company)

Uncertainty

“Covid-19 has ruined everything.” (ICT company)

“Covid-19 drives uncertainty all over the world.” (Finance and banking company)

“What the government is doing is predictable, this has definitely improved, this business appreciates it very much.” (Finance and banking company)

“Uncertainty has rather increased (if anything) due to Covid-19.” (Retail trade and service company)

“There is a such a fog that we can’t even see the next turn.” (Manufacturing company)

The Court System in Latvia

“The situation remains at the previous level. No significant increase of remote court cases driven by Covid.” (Finance and banking company)

“I appreciate steps taken to establish an Economic Court, but the court system needs to be practiced and needs to evolve, this will take time, but there is still a long way to go.” (Finance and banking company)

“I don’t believe it is a neutral system, in Latvia everyone knows everyone.” (Finance and banking company)

“Establishment of an Economic Court (is a positive direction).” (Retail trade and service company).

“I hope it will improve.” (ICT company)

“The remote courts were a good step.” (Professional assurance and advisory services company)

“When Lembergs is behind bars, that’s the day I will say there is progress.” (Real estate company)

“There are no improvements in the system, everything is very slow.” (Retail trade and service company)

The Healthcare System in Latvia

“More resources allocated towards medical staff salaries and industry capabilities.” (Finance and banking company)

“Covid-19 has highlighted the issues with medical equipment, lack of workforce and healthcare system. Any changes made have been driven by Covid-19 rather than long-term planning of healthcare in this country.” (Retail trade and service company)

“Haven’t seen any improvement, discussions are ongoing regarding salaries, most reforms are always planned.” (ICT company)

“Latvia benefits from EU investment.” (Real estate company)

“The situation is exacerbated by Covid-19, as the availability of other services is limited. The response to Covid-19 is adequate and good, but we need to focus on other diagnoses as well.” (Retail trade and service company)

“Sick leave certificate issuance – completely uncompetitive.” (Manufacturing company)

The Financial Sector Stability in Latvia

“No major losses due to Covid yet. Restriction of dividend payments improve the capital position.” (Finance and banking company)

“Plan to deal with MoneyVal reported issues has been worked towards and there are concrete actions for 2020 – 2022.” (Retail trade and service company)

“No grey list – good enough to say there are major improvements.” (Retail trade and service company)

“The State has now made the banks carry out State revenue functions, this sector is completely uncompetitive with other countries.” (ICT company)

“It has been stable and it still is.” (ICT company)

“The biggest banks are stable, and we want to show that we are fighting AML issues, but when even ambassadors can’t open accounts – that’s when we have gone too far.” (Professional assurance and advisory services company)

“It was very important that Latvia was not grey listed.” (Real estate company)

7. Further investment plans of foreign investors in Latvia

As in the previous FICIL Sentiment Index studies, in the 2020 survey, foreign investors in Latvia were also asked, “Does your company plan to increase investment in Latvia? If yes, under what circumstances and in what period / amount? If not, why?”

To summarise, as many as 30 of 44 investors answered with ‘yes’ (in the 2019 survey, 30 from the interviewed 47, in 2018 22 of 40 interviewed answered with ‘yes’; in the 2017 study 24 of the 42 said ‘yes’), 12 said ‘no’ (as opposed to 12 and 14 who said ‘no’ in the 2019 and 2018 studies) and 2 answered that ‘it depends on the circumstances’ (5 in the 2019 study and 5 in the 2018 study) or that they have not yet decided.

There are both very positive and very negative opinions with regard to further investment plans, yet there are considerably more positive cases than negative ones. Below are selected answers from the respondents. As in previous years, the quotes speak for themselves, providing some food for thought for the policy-makers in Latvia responsible for increasing the level of foreign investment in the country:

Yes, we plan to increase investment

“Yes, the appetite for investment was higher prior to Covid, but a little bit more cautious now. However, the attitude to move forward with investment is positive.” (ICT company)

“Yes, we are planning on investing 30 million EUR in the next year, obviously it all relates to us being able to pick up new projects.” (Real estate company)

“Yes, we are investing all the time. We believe in Latvia. Between 10 and 20 million EUR.” (Finance and banking company)

“Yes, for the next 12 to 18 months, we will invest a lot in people.” (Professional assurance and advisory services company)

“Yes. The investment is mainly people, and we do plan to grow and develop here. Plans to grow to at least twice the size (timeline depends on how Covid develops).” (ICT company)

“We are planning to increase investment by 35 million EUR this year, there will be less next year due to the uncertain economic situation and a large competitor entering our market.” (Retail trade and service company)

“Yes, we are planning to increase investments, we invest a lot in retraining our teams. We want to help people get new skills, we are growing as a company.” (ICT company)

“Yes, investments will go into millions.” (Manufacturing company)

“Yes, we are investing in IT, technology, efficiency of our business” (Professional assurance and advisory services company)

“Yes, we have major investments in the business, over 100 million EUR will be invested in the next 3 years.” (Manufacturing company)

“We plan to increase investments and do so regularly to increase and maintain production volumes, if necessary, we will export to Finland, Iceland, not only to Lithuania and Estonia. Activities are valued, the Rail Baltica project

“Yes, but we do not have a specific figure, it will involve attracting labour. We are currently missing 100 employees who cannot be recruited for over a month.” (ICT company)

*encourages investment thinking.”
(Manufacturing company)*

*“Yes, we will invest around 35-40 million EUR
in the next 2 years.”(Manufacturing company)*

No, we do not plan to increase investment

“No, we are keeping the same level, the tax system needs to change and the legal system needs to be predictable.” (Retail trade and service company)

“No, the train has left the station, the excellence centre was opened in Lithuania.” (Finance and banking company)

“No, because of the healthcare budget unpredictability.” (Wholesale and retail company)

“We do not plan to develop and expand investments, as nothing has changed significantly in the country. It is clear that new investors are coming, the environment and the approach are appreciable.” (ICT company)

“No, because of the geopolitical situation.”(Service company)

It depends on the circumstances

“We would like to invest, but this is not yet possible due to the legal and economic situation. We are looking at new projects and we have ideas. It is evident that in Latvia many things are arranged. Legislation changes are too fast and are diametrically opposed.” (Real estate company)

“The company would consider buying additional market shares in industry (subject to available companies and competition legislation restrictions) as well as expand its presence in connected industries if there are synergies and business cases.” (Finance and banking company)

8. Priorities for Latvia in best utilising Covid-19 support measures and funds available from the EU: viewpoints of the foreign investors

During the 2020 FICIL Sentiment Index study we also asked for the opinion of the key foreign investors in Latvia as to what the priorities are for Latvia in best utilising Covid-19 support measures and funds available from the European Union.

Investors provided a wide variety of answers starting from highlighting that there is no support from the European Union funds in their area or that companies did not need to use any support mechanisms:

“There is no support from EU funds in our area. We are actively fighting against the increase in cadastral value. Many laws are still not regulated in our industry, so we have a hard time with projects. For example, the consumer warranty is 2 years, but it cannot be adapted to buildings. This issue needs to be addressed.” (Real estate company)

“We didn’t use any support measures, we are proud that we could manage without external support. We are convinced Latvia is spending this money available from EU wisely. In my opinion, if money goes to consumers, it would not flow further because of the uncertainty, but investing into the infrastructure is one of the best solutions.” (Finance and banking company)

... or, on the contrary, emphasising that their company is using all the support mechanisms available:

“Our company uses all possible support tools in global business. Production in our business has been hit hard by the automotive, motorcycle, gas and carbon industries. Revenue levels have fallen and there has been furlough payment. We study demand and see what we can offer, if there are insufficient resources, we adjust it. We have a diverse workforce, there are trainees, short-term contracts. We try to keep a balance by looking at the incoming invoices.” (ICT company)

When it comes to suggestions on how best to utilise Covid-19 support measures and funds available from the EU funds, a number of investors suggest focusing on **supporting companies/ areas that have suffered most from the Covid-19 pandemic:**

“Support measures should be used to help industries that have suffered a lot, like the tourism and transit sector. However, we do need to spend the money in sectors that will create more jobs, create more tax payers. Also investment in unified digitalisation in Latvia would be smart.” (Service company)

“Support the businesses that are actually in trouble, look at the substance of issues not just a tick box” (Service company)

“Support for companies that do not qualify for good bank loans, acting as an investor. To reopen schools and universities as quickly as possible, otherwise we risk a generation growing up with no communication skills at all.” (Finance and banking company)

“Talking about the government, this was a success story in the first part of the year. Currently we don’t really understand how the numbers have risen to 10 times more than in spring – but the government’s actions are completely different. Maybe we did overreact during the first wave and we are underreacting in the second wave.

For the future – state aid and adjacent conditions were too extreme, not all businesses that needed support actually got it. I hope the government has enough will to listen to sectors that are suffering as well, looking at what we need in the future, not what they are capable of doing now. Entertainment industry, tourism, restaurants – we need these in Latvia but they are suffering the most.” (Manufacturing company)

A number of investors also suggest focusing on **supporting export-oriented, value adding companies:**

“To support companies which possess good future prospects, oriented towards export or import mitigation, possess important social value; to decrease unemployment by re-training and support for creation of new workplaces; infrastructure projects but while managing funds without overheating some industries; to improve medical service capabilities to deal with current and future challenges.” (Finance and banking company)

“We need to support those who we believe can survive the crisis and who will grow/develop afterwards. Targeted support to those who add value and have exporting potential. Employees also need to feel safe – we need to have programs in place that quickly re-qualify people for the professions that are needed in the labour market.” (Wholesale and retail company)

“We need to focus on corporate restructuring, companies that are in stressful situations and where changes in management and raising capital are needed. It is possible that furlough benefits were not used properly, ALTUM issued loans on good terms. It is important to assess which companies need support, not to support those that already had problems before Covid-19. It is necessary to assess which are the country's priority sectors. The problem of putting money into failed businesses over time will be even worse. There is a need to support industries that focus on exports and have not been able to replace their turnover with domestic consumption.” (Real estate company)

“No helicopter principle, support should be given to new companies engaged in production that give added value to the Latvian image and increase the number of workplaces.” (Wholesale and retail company)

Our findings also suggest that, in some cases investors express doubts with regard to the transparency of spending the support money and/or are not sure whether the Latvian government has a clear strategy on how this should be done:

“My one advice would be to stop focusing on the formal promises and formal necessities to deliver Covid aid, but start looking at the real facts and situations. The reality in realising any support measures can go very wrong because of the extremely formal approach and not based on the reality of the situation. I hope the use of recovery funds will be well thought through and transparent.” (Professional assurance and advisory services company)

“Well done to the Ministry of Finance and ALTUM for quickly reacting at the start of the crisis, creating support mechanisms for businesses. There is always the question, is the money always spent where it is most needed? It seems like the state is asking the right questions during this crisis – where should the money be spent, short-term and long-term changes to better improve the competitiveness. A recovery fund cannot overheat the economy, it is necessary to evaluate if we need to build roads and bridges at the same time that Rail Baltica construction is taking place, because if

“We did use furlough compensation during the spring wave. It helped us retain a certain number of employees.

Looking at the recovery fund – society is not informed enough about where the money is going, we are not sure where this will be spent. Sick leave certificate issuance – the state should pay for sick leave certificate issuance, people would be more likely to stay home when ill.” (Manufacturing company)

“The amount of money is available, it's our future generation's money, tax payer's revenue of the future is injected at the moment. The good news is that this government is the least corrupt over the last 25 years, I believe this is a good government, so I hope this money won't be lost. The money is marked - the only worry is that the money may be allocated for use in fraudulent, corrupt ways by specific parties. If it is spent frugally, then I am ok with the goals on a green deal, digitalisation.” (Finance and banking company)

construction prices climb too high during a crisis, it can end negatively.” (Professional assurance and advisory services company)

However, in the majority of cases, foreign investors call for **the need to invest in the infrastructure and/or human capital, as well as making investments considering the long-term perspective.** We strongly believe that it is important to consider each and every suggestion of the interviewed foreign investors in this regard, and for this reason all the quotes we received during the interviews are brought to the attention of the policy-makers and summarised below:

“Focusing on long-term development – let’s not invest in concrete, this will have a depreciation value over time. Let’s focus on improving the overall investment climate, investing money into digitalisation, court systems, fair competition – this will attract more tax payers in the future.”
(Retail trade and service company)

*“We have a good data transmission infrastructure, further investment in this is essential, we need to keep developing this infrastructure and maintaining it. Latvia has a strong base for a public transport infrastructure, for a digital environment, so investment is needed in schools and education – we have demonstrated that we have completely missed the goal – investing in both infrastructure and content. Let parents and teachers be more productive.
A very smart investment would be into re-profiling employees, investing into digital skills, the ability to analyse data, I don’t mean just working with MS Excel. We will most definitely have a hybrid environment after the crisis. Let’s not kid ourselves that it will be easy, modern digital skills are vitally important.”* (ICT company)

“It is mandatory that we move funds towards requalification of people, there are many sectors that will not survive Covid, however there are other sectors looking for employees. We need to invest into reprofiling employees, this will improve the unemployment levels in the long term. This has to be the top priority” (ICT company)

“Business services – a good opportunity for Latvia to use insourcing, sourcing back from

“Nobody is asking us to reinvent the wheel – let’s invest in the infrastructure. We don’t have a good level of infrastructure development – other than the internet.” (Manufacturing company)

“We should invest in the infrastructure, the way the Latvian government dealt with the pandemic was a great commercial for Latvia, so there are actual companies that want to move offices to Latvia, but to do that the infrastructure has to be top notch.” (Service company)

“1. It is necessary to heat the economy through investments, to invest in infrastructure related to roads, construction, digitalisation, which would promote the development of the state system. 2. Low-income people should be supported. 3. The state needs to support more medium-sized businesses because it is the core of the economy, support is more visible to large companies.”
(Retail trade and service company)

“Human resource or infrastructure – that is always the question. Make full use of the opportunity to use funds, infrastructure projects – programs available that can start to quickly stimulate the economy, will create economic growth, sustainable programs, long-term sustainable infrastructure programs – this is not an economic recession in the traditional way – we will be able to bring people back very quickly, when we get control of the virus, if we

offshore locations, Latvia should take advantage of that. An untapped area for Latvia is delivering services for the Nordic region.”
(ICT company)

“Strengthening of the healthcare system. Increasing quality of police work. Sustainable, transparent and well thought-out support to the affected businesses. Institutional reforms in civil service.” (Service company)

“Priority would be to implement measures across areas where support will work in the long-term:

Health system support – facilities and workers are key in order to be able to deal with such pandemics in future.

Guarantee and loan schemes to support organisations by helping with liquidity (looking at the wider perspective of companies rather than so-called “directly” Covid affected organisations)

Co-financing future investments in order to allow the economy to recover more quickly (for example, if there are foreign investment inflows, it would be beneficial for the government to find ways to support such investments).” (Retail trade and service company)

“Don’t just spend – make it count. Invest areas that are aligned with Latvia’s long-term outlooks, digitalisation, sustainability. Latvia is in the right position to make the best of these, so use the preconditions you already have, develop new businesses and new jobs. Don’t focus on the old, move towards the new. The conservative industries need to change.” (Retail trade and service company)

“It is important the we do not swallow this money up, but invest in processes that strengthen society as such and make us better prepared for similar challenges in the future – for example, investing in the health sector, investing in human capital, investing in infrastructure, such as roads, would be beneficial, let’s also invest in the education system – we need to develop new tools.” (ICT company)

can grow the economy very quickly, more people will have jobs.”(Real estate company)

“We represent the IT industry and have not analysed government support in our field in detail. These resources should be used to develop digital solutions related to the health system and sick leave certificates, to make it easier for doctors to work and for employers to receive all relevant information. The priority is to develop unified digital solutions, a better e-Latvia portal and promote digital skills as well.” (ICT company)

“Firstly, the government was able to react relatively quickly in the springtime to what support was needed.

We now need to focus on industries that will create more jobs and bring more money into the economy, we can’t completely go from one ditch to another, meaning there can’t be a huge wave of bankruptcy but we also can’t keep feeding the dead. How long will the government support Air Baltic for example? 5 years? What’s the plan if Air Baltic can’t recover?

There are certain spheres that are completely weakened, because these are not seen as an investment. For example – the interior structures, the police force – investment should also go here.”(ICT company)

“I would like to praise the authorities for the fact that as a company that has paid taxes regularly, we did feel the support from the government during this crisis, knowing that if we needed support or state aid, it would be available for us. I will say it is important to adopt a problem-solving mentality – ok, currently the situation is bad – what can we do about it? The government should focus on helping those industries that aren’t able to help themselves. In the long-term – Covid will change the way we work, we believe people will think twice about whether or not they should always stay in one place physically, people will pay more attention to how technology helps them to work smarter. Latvia wants to move up the value chain, as an economy we should focus on how we can avoid wasting our time on things

“Social security should be prioritised, and businesses should not be forgotten, because businesses will allow the economy to grow and develop after this is over. We need to digitalise, the public sector even more, it would help internal processes become more efficient.”(ICT company)

“We need a healthy society and an educated society – an unhealthy population will not pay taxes. We need to invest in the healthcare sector. If we can show in a small period of time that the defence industry is important to us, then we should also invest in the healthcare system. Reforms need to take place and can be financed through this – hospital network reforms ensuring high quality across all hospitals. The question of accurate data in the healthcare sector is important. Our biggest problem is short-term thinking, we don’t focus on the bigger goals that can be achieved and will put us in a better situation for development, but just focus on quick fixes. Businesses have world experience and know-how – just ask us what to do, we will help” (Wholesale and retail company)

“Sustainable investments in green deal projects. Not supporting companies who clearly work in the shadow economy. Keep alive companies the most hit by the crisis but with a good recovery perspective.” (Manufacturing company)

“Reorganise the health system, education system, ‘upgrade’ export guarantees mechanism. Latvia needs to evaluate why the offered Covid related support was utilised so little. Investments into green energy (wind energy?), digital infrastructure, investments into universities after education reform - done!”(Finance and banking company)

“All aspects of sustainability need to be put into the core of the Covid recovery plan. Education reform, as well as healthcare sector reform need to speed up. Digitalisation can act as an enabler of change in all planned reforms.”. (Professional assurance and advisory services company)

that artificial intelligence can do and how we can avoid things we shouldn’t do.” (ICT company)

“Recovery funds and support measures should be aimed at industries and sectors that can keep and create jobs for people, we need more tax payers. Some professions are not easy to re-qualify to do other jobs, so where should these people go? We also cannot let this time go to waste, the airport is relatively empty at the moment, we should utilise this time for the Rail Baltica project, the airport must have expansion plans in place – this is the best time to make these changes. Our airport brings a lot to the Latvian economy based on connectivity, we should build on this now so that the fruits of these decisions come later. We also need to focus on the healthcare system, this is the right time to strengthen the system itself.” (Real estate company)

“In my opinion, it is important to invest the money into developing infrastructure, roads, buildings, not just the EU money. People are discussing financial possibilities for attracting investments and how to create a better system to optimise business in Latvia, also how to make the starting point easier. This is a good period because of many global changes, we need to use this as a benefit to attract new investors who were previously looking from the Eastern market and Asia. The Baltic States is a good location for investment.” (Retail trade and service company)

“We need to clean up the public sector and infrastructure. We are already working on regional reform, but we have to go further. Public sector machinery has to become more effective – we are at the end of the rope here. Centralised governance of digitalisation is needed so this becomes embedded in all processes across the public sector. Healthcare

“When we had the last economic crisis 10 years ago, the one thing we (Estonia and Latvia) did really badly – the policies we put forward resulted in a huge loss of motivated and educated human capital. Small states should try to avoid that, try to avoid the loss of employment and loss of people in the medium- and long-term perspective. Transition of the economy towards climate neutrality is currently happening, it is a very heavy problem, once it starts moving it will be impossible to stop it, so we need to focus on and invest in this. How can we take advantage and move ahead in the green deal saga?” (Manufacturing company)

“Long-term gains from projects, the state needs to assess what is feasible, what can be implemented in the short-term and medium-term. Competitiveness should be the focus.” (Professional assurance and advisory services company)

“There is always the question of human capital versus infrastructure, Latvia has no clear plan or understanding of how to develop human capital. So I say let’s invest in an infrastructure that will serve for a long time, for example – bicycle lanes.” (Service company)

system also affects the availability of labour force in the country. We should invest in the healthcare system during this time. Support for new and innovative business ideas is needed, support for businesses that export and manufacture goods. We need to work on the digitalisation level of Latvian investors as well.” (Retail trade and service company)

“It should not go into the construction business, because historically it has not been transparent and Latvia’s government tends to invest in buildings and roads. We still don’t know the full impact of Covid. We need to use this money to support businesses, healthcare system, education. We have plenty of buildings that are half empty that the government owns. We see there is no competition, we see there is no transparency in building infrastructure. I don’t think that is the best choice for use of Covid recovery money.” (Finance and banking company)

“I think that all measures relating to medicine are adequate. We expect more predictability from the Ministry of Economics because there are too many tensions. There are rumours that there will be no money in construction, a lot of people are looking for work, there is no stability in matters of specificity. We want a more positive attitude towards plans, not to be afraid of overheating the economy. You have to worry about what has not been done and realised.” (Manufacturing company)

9. Mr Prime Minister, you’ve got mail!

Finally, we asked foreign investors that took part in the FICIL Sentiment Index 2020 to post a message to the Prime Minister of Latvia: one to two paragraphs on what should be done to improve the business climate in Latvia, from the viewpoint of a foreign investor:

“The government needs to hear us and look at the country as a whole from the side-lines. When talking to institutions, people are far from reality and do not understand the real situation. When accepting restrictions, it is necessary to look at the business sector. These restrictions deeply affected Air Baltic and affected us. The benefits paid out need to be used more effectively than given to those who are sitting at home and resting.” (Real estate company)

“Forecast ability and predictability, we need to forecast the current business and you want us to invest, we need more certainty in our decision-makers. Equal rights need to be ensured for public and private entities to compete, fair competition is a very important aspect. Public vs private entities need to be outlined.”(ICT company)

*“I think that justice and education are still areas which lag behind other fields..
The justice system still does not ensure that crime is punished and time spent on court cases is too long. Improvements are required in the court system but also in the State prosecution and police force.
Improvements in the police are the least discussed or clear.
Education system (universities level) is still not targeted towards excellence and increasing students’ capabilities, but rather to “warm places” for lecturers. A system should be developed for how to challenge lecturers, import new competitive knowledge, including foreign lecturers, to set future professions and demand oriented programs. If independence of universities works for the benefit of stagnating lecturers then the system requires change for the interests of society and State competitiveness.” (Finance and banking company)*

“Consistency”(ICT company)

“I highly appreciate what the Latvian government has done to clean up the financial sector. By addressing topics such as the tax system and legal system, Latvia is on the right track, I really do appreciate this. Thank you, Mr Kariņš. I would advise that Latvia works on its competitiveness, not just soft measures (legal, tax) but more in terms of trade, what are the benefits of Latvia. Because Latvia seems to be behind, for example Latvia is producing a lot of wood and timber for IKEA, but furniture is produced in Poland. Why is it not produced in Latvia? It is good that the government is working on the investment climate, but the financial aspect of trade is key. That will be the competitive edge.”(Finance and banking company)

“Latvia is making progress in terms of a better investment environment. In order to improve this, the focus should be on an easier way of doing business and availability of resources. As companies become more technologically advanced and digitalised, one of the key aspects that should be developed is digitalised communication and reporting processes with government institutions, by improving decision-making time, eliminating unnecessary costs. In order to improve productivity and export, a high class workforce is needed with the focus on higher education with relevant subjects, quality resources and wide availability.” (Retail trade and service company)

“The Prime Minister is in the right place and is doing an excellent job as far as we can see and sometimes even reaching superhuman levels. The government ship needs to be steered not just a few months into the future, but years into the future, looking at strategic goals, despite certain ministers’ peculiar behaviour. The biggest issue is a lack of stability and predictability, if investors can’t even plan in terms of a year, then what are we even talking about. Don’t just focus on the fire, focus on the long-term.” (Retail trade and service company)

“One word – focus. When planning strategic development after Covid, when looking at skill sets, we cannot be competitive in every area, we should start being selective about what to compete in, and what not to tackle. If we don’t focus – we will always be average in everything. So we should decide now. LIAA stated they are now looking at 12 industries – a country as small as Latvia – we cannot be excellent in 12 industries, looking at the demography and people factor – we cannot be excellent. The job of the Prime Minister is to make some people unhappy sometimes and that is okay.” (ICT company)

“I think over the years we’ve seen very little progress in the area of law enforcement and legal system. Criminal cases are investigated very slowly, if at all, and it takes years for courts to provide a ruling. This is not just a matter of funding, but the way in which the respective institutions are organised and managed. I strongly believe that these areas are critical for sustaining a positive business climate in the future.”(ICT company)

“There are 3 bullet points: education, banks, courts. We need more technologies for people who graduate from universities, we cannot see that the quality of studies has improved. We need to invest in education here to avoid importing people from Ukraine or Kazakhstan. Nothing against these people, but we do not do anything to improve the local talent. I believe the bank situation will be more stable eventually, currently, it is a massive pain. Luckily courts are not the problem, but because of the system, processes take forever.” (ICT company)

“The positive news makes the headlines, but the focus needs to be on execution of these positive plans, because if the ideas are great only on paper – that doesn’t bring much hope. For investors to feel comfortable – the good words need to become good deeds, the country needs to pay more attention to how investors feel, we pay the biggest part of the taxes. At the same time, we need to focus more on digitalisation and using technological advances in the court system would help a lot, let’s use Austria’s example of how to achieve great results in court cases – the involved parties exchange documents and information and focus only on the aspect of the case where there is a difference of opinion.” (Professional assurance and advisory services company)

“Before opening up the market to migrant workers, consider all options for reducing existing benefit recipients and attracting them to the labour market. In our opinion, this applies to recipients of social benefits (long-term unemployed). Something in this system is completely wrong.” (ICT company)

“State aid programs – these need to be well-founded and reasonable, these would have to serve both to clean up the business environment, to improve Latvia’s competitiveness, and investment could become more high quality. By that I mean investment that brings the most positive effect to the economy. What investments will give most added value – in terms of number of employees, in terms of competitiveness, in terms of the amount of taxes paid – that’s where our focus should be.

The shadow economy has been an issue as long as we can remember, this cannot increase during the pandemic, or it will reduce trust in the country. Looking at all the discussions over the last few months on certain regimes, the issue is not with writers when looking at royalty payments, it’s people representing other professions that take advantage of this regime. If the government is more focused on taxing writers and singers then they are not fighting the real problem. The same goes for VAT issues, we are not focused on fighting the real enemy.” (Professional assurance and advisory services company)

“Your chair is a lot hotter than our chairs. What you have managed to achieve already – I can only say well done. To do even more than you have already done – we need to improve the political culture and emotional intelligence of the ruling elite. Sometimes we don’t physically have access to these bright minds and ambitious people we would want to work with to improve Latvia. We have a lot of loud people who create a lot of noise, and it’s hard to pick something out of that noise. Mr Prime Minister, good luck to you in making high quality strategic decisions and bettering the political culture, as well as the quality of the government and just carry on as you were.” (Manufacturing company)

“Stability, predictability, transparency and dialogue are the cornerstones of an attractive investment climate. Especially now, when the economy is facing the global impact of Covid-19, these values become more important than ever, to ensure sustainability and stable recovery.” (Service company)

“If you are a foreign investor that comes to Latvia, the stability of the economic and legal environment is crucial. Any country that wants to prosper in foreign investment, when you lose that trust – it is extremely hard to get the trust back. It takes a lot of time and it will be expensive to prove that investors can trust any country. There is great competition to attract foreign investment, the Baltic States are more conservative in budgets, so you cannot afford many mistakes.” (Manufacturing company)

“We urge the government and the President to make more changes where the issue of economic overheating arises. It is necessary to raise the bar higher and more boldly. More action, a more transparent future, so that the situation can improve dramatically.” (Manufacturing company)

“I think one relates to the education system, we need to increase competitiveness of our universities. Upskilling the labour force, that is a crucial area that we need to focus on. Digitalisation of the public sector should be an important factor, we need a state CIO, responsible for all digital processes, if we want to be competitive in this aspect.” (Professional assurance and advisory services company)

“It is very important in the long-term how we manage the short-term. You already are, but continue to manage the crisis in a responsible way, keeping the long-term view in mind hoping the economy will recover quickly when we overcome the virus. Balancing short-term and long-term aims is crucial. Good luck.” (Real estate company)

“Keep going, you’re doing great. Any changes planned really need to be discussed with the industry, businesses are very open to cooperation. Discussions need to take place – this is very important. And to be clear, a discussion doesn’t mean one meeting where businesses are presented with the information of how it’s going to change, but actually listen to our opinions and experiences. The discussion and conversation need to be real and in depth. This cooperation needs to be based on substance not just formalities.” (Service company)

“Good work was done to stop the spread of Covid-19, the response to the situation was prompt and the measures were proportional. It is important to remain proportional and remember about businesses and investors when government measures are taken. It is important to consider the impact of changes in the tax system on business and the economy overall; We need to be modern and think about digitalisation, changes in the world. VID still believes that checks must be made in paper format, but we can import it digitally. Cash register certification takes 7 months, our industry is ready for digitalisation.” (Retail trade and service company)

“The Prime Minister has managed to create and also keep on track this very mixed government, you have done a superb job – this is due to your professionalism and diplomatic abilities – this is very positive. The challenges you are facing are immense, we see you can handle this type of pressure, your decisions have been very mature, your actions have been very mature, your reaction to problems is fast. This has allowed the Covid situation to be handled well, the low number during spring gave us time to prepare for something worse, which is happening currently. I believe the reaction should be similar to that in spring. I understand the economic implications – but health comes first. In any case, I do trust you, you have been very positive for Latvia. The business culture and environment has improved under your leadership. Banks are still a pain, but that’s just one negative, we went from no control to excessive control – now we should land somewhere in the middle.” (Manufacturing company)

“You have already done a lot to improve the investors’ trust in Latvia, we need to keep working towards a transparent business environment and we need to work towards excellence. As FICIL has said many times this year – raise the bar! Otherwise we will not find our place in the world because we are too small, we can’t rely on numbers but we can rely on excellence. Let’s not wait for someone to give us anything, let’s work for it ourselves – that’s when it will all be better.” (ICT company)

“You have to invest in a labour force, you can produce a high quality workforce through investing in the healthcare system and education system. This sick leave certificate issuance problem is very widespread. Please also focus on improving the rule of law in this country and internal legal system operations, currently it is too unpredictable.” (Retail trade and service company)

“The listing of state-owned enterprises (SOE), capital infraction on the market, development of capital markets is very important. There is a Lithuanian company up for an IPO, their plan is to attract half a billion in funding through IPO, this will increase Lithuania’s GDP by 1%. SOEs have a big impact on the economy, in general they are not well-managed, the government tends to be a weak owner. We are not thinking about the development, we have strategic assets for the sake of having it. We are not privatising companies because society wouldn’t approve. If we want to develop and attract new capital, we need to list these companies, that’s how we can sustain the company. The Latvian railroad is nosediving because of management, what’s the point of having those companies?” (Finance and banking company)

“The state needs to create a support program that goes in the same direction together with the state vision. There is a need to support industries that can highlight added value, not to support failed businesses.” (Real estate company)

“We need to use an opportunity to attract new investors and make our market more attractive, for example, to improve legislation and the infrastructure for investments. Latvia is an interesting market to invest in new areas and work with the finance sector. We need to improve the infrastructure regarding roads to be more competitive. We have good recourses of seaports, which could be more developed in future. We can attract more logistics’ capacity here in Latvia.” (Retail trade and service company)

“I would like to express my gratitude for the work the government is doing to improve the competitiveness of Latvia’s investment environment. It is truly visible that positive changes have taken place, including changes in tax policy, and the dialogue with the policy-makers has improved through various organisations such as the Foreign Investors Council in Latvia and this has contributed to the development of the business environment.

We are aware that positive changes and developments are a process, where both the private sector and public sector need to be actively involved and that not everything can be done immediately. We do appreciate the real progress achieved through the government’s work, building up Latvia’s reputation, but despite this, we must jointly continue this growth.

It is necessary to continue furthering the competitiveness of companies operating in Latvia by demonstrating the stability of the investment environment with a clear and predictable tax policy, this will promote the growth of both investment and Latvia as a country. At the moment, our neighbouring countries are a few steps ahead of us, but we have every opportunity to improve our tax system, particular emphasis is placed on labour force taxation policy, which currently can limit business development. Our proposal would be to assess the practice of other Baltic States to improve on this issue. In the food industry, insufficient labour force remains a huge challenge, particularly the lack of access to a highly skilled workforce. In a few years, we will open a new production facility that will create an additional 250 jobs. This challenge poses a serious threat not only to us in the long-term, but to the whole food industry as a whole, as well as to Latvia’s competitiveness, production expansion and economic development. The issue relating to access of labour has been on our agenda for a long time now, and in light of our investment plans, demand for a work force will only increase. As a solution, we envisage the introduction of seasonal workers in the country, focusing on conditions such as wages by industry and simplification of the immigration process.

In addition, to promote the competitiveness of Latvia for investment internationally, as well as to grow export opportunities, it is vital to continue working on solving issues relating to the mandatory procurement component - OIK.

Last, but definitely not least, we would like to mention the prudent and honest dialogue-oriented green policy development in Latvia. It is necessary to actively involve the food industry in the implementation of this process, including developments regarding the natural resources tax. We have been actively pursuing a sustainability strategy for many years now, gradually becoming more and more environmentally friendly. Countless development projects are in the implementation and research stages, so our company and also other market players can bring significant added value to green economy policy-making and advancement.” (Manufacturing company)

“A crisis requires new ways and innovative solution: if the old infrastructure is not fit for purpose it needs to be changed. The leaders are not those who find a compromise, but are those who can take unpopular and bold decisions based on facts and information rather than on emotions.

Ministers should be accountable for the transformation, and the PM is responsible for ensuring that reforms take place and that they are happening at the right speed.” (Professional assurance and advisory services company)

“Our country’s public sector, with only a few exceptions, believes that it is the centre and reason for anything happening. This attitude needs to change, we need to be more client-oriented, we need to see the

society and businesses as our clients. The public sector has to be service focused.” (Wholesale and retail company)

“I would ask for the healthcare sector to be finally put as a priority, not just on paper – but actually realise this in real life. Do cooperate with industries and other stakeholders, we are here to help, especially when discussing complex issues. Data questions in the healthcare sector, and the rest of the public sector as well, should be fixed. Available data would not just help doctors make better decisions but also let patients themselves be better informed about issues and seek help at earlier stages. We don’t need to collect data just for the sake of it as it is now – we need to analyse it and use it to better the system and people’s health.” (Wholesale and retail company)

“Clear measures to reduce the shadow economy and achieve the Prime Minister’s commitment (during the High Council 2020) to reduce it from 23% to 18% of GDP.” (Manufacturing company)

*“(1) Ambitious goals, (2) Human capital, (3) Transparency
(1) LV shall push for higher more ambitious goals (it’s not OK to be 3rd in the Baltics), (2) REAL Reforms in Education & Health sectors, (3) Transparency principle everywhere (zero tolerance for the shadow economy and corruption)” (Finance and banking company)*

“The company calls on the government to combat corruption issues. The company highlights the importance of not increasing the responsibilities and obligations of fair players, but rather tackle the wrongdoers directly. Take stability into consideration.

We should create favourable conditions for business development in Latvia, think more about maintaining the stability factor in Latvia and focus more on marketing to foreign investors.

Compliment to FICIL: In the company’s view, foreign investors are one of the fairest market players and most honest tax payers in Latvia, therefore close attention should be paid to their observations and recommendations, and their opinions considered on all respective matters seriously.” (ICT company)

“Bring “the island of Riga” into sync with Latvia and the rewards will be multiple.

There is one missing element towards the long-awaited lawful country: to eliminate the concept of impunity. This will have tremendous power towards improving business climate.” (Finance and banking company)

“As a regional leading industry, the aviation sector is going to lose all the private investors, power and leader position., We need extra focus and a support package especially extending furlough support at least till June 2021, tax advantages and a loan fund.” (Service company)

“I would like to say a few complimentary words to the Prime Minister. The situation and circumstances you have had to navigate – seriously hats off to you, it looks like you have been able to keep a cool head through all of this. You really are doing a very good job, we can see straightaway that the leader of the country is a businessman, because you think differently – you lead the country differently, I say that in a positive way. I wish you strength and good health.” (ICT company)

“We see everything that is happening in ports at the moment, this is the right time to dig deep into who is behind what actions at the ports; please utilise best practices from other countries. Many companies operating in ports are opening bank accounts in other countries, companies are leaving because of these difficulties, we are losing a lot of investment because we tend not to find solutions, just cut off more complex cases all together. While people are working from home, it is important not to shut the schools, because it’s hard to home-school children while also working.” (Service company)

“Dear Mr. Karins,

I call on you to draw attention, to take a closer look at what is happening in the tourism sector. Hotel operators and owners are well aware of the need for the restrictions introduced, which essentially puts

our business on hold, and we expect the same understanding from the government. The industry bailout tools put in place so far aren't working. The latest EM proposals, judging from today's (27 October) mass media publications, are also weak and vague. Unfortunately, theory and practice often don't match. If, in our country, the public sector work is to decide on the rule of law and not to deal with matters of substance, please mobilise government ministers, ask them to improve the relevant rules, or to explain the rules already adopted by the people applying them in practice. Let your government's promises, at first at least, be simply fulfilled. Only then will it be possible to analyse whether existing solutions will be sufficient to save the industry.” (Real estate company)

“There is no bigger problem for foreign investors than uncertainty and a lack of predictability, this goes hand in hand with our legislation changes and sudden third reading surprises. It is vital to have a stable environment, there must be a way to enforce this predictability, if I can tell my board of directors that the tax system will not change for 5 years, and legislation will be thoroughly discussed with involved parties – that would go a long way to feeling like investment is protected in Latvia. We realise this is a huge job, but it is a doable job for a Prime Minister like you.” (ICT company)

“The port governance model needs to be dealt with – please listen to what the businesses are saying, businesses have to operate in this investment climate so it is important that you listen. There are initiatives for changing the port governance model, however it shouldn't be changed just for the sake of change, include businesses that will have to work in these ports. The governance needs to be professional, not political.” (Service company)

“Dream big, look on the bright side of life. A lot of the time, when talking to people in Latvia, they mention all the reasons for not doing something, sometimes you need to look at the positives of taking some risks. Latvia has all the necessary preconditions. Be honest, don't worry about people who are against something, be flexible and be transparent – work towards results. Reinventing the wheel is not needed, a lot of problems have been solved in western Europe already, make use of other countries' experiences. Change brings opportunity.” (Retail trade and service company)

Appendix 1. Guidelines for interviews: 2020 study

FICIL Sentiment Index 2015-2020

Interview Guidelines

1. What have been the **three key challenges** for your company (in Latvia) during 2020/since March 2020?
2. **How have these challenges been solved** (if solved)/what would be needed to solve them (if still facing the aforementioned challenges)?
3. In your opinion, what are the **priorities for Latvia in best utilising Covid-19 support** measures and funds available from the EU?
4. **Please evaluate from 1-5 the following drivers of Latvia's economic competitiveness from the current perspective (1 being uncompetitive or requiring improvement and 5 being very competitive).**

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

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

	<i>Y</i>	<i>P</i>	<i>N</i>	<i>Brief comment: how crucial are these issues, are there any good initiatives that have been implemented by policy-makers, is there a 'light at the end of the tunnel'?</i>
Demography				
Access to Labour				
-Blue collar				
-White collar				
Level of higher education and science in Latvia				
Quality of the Business Legislation				
Quality of the Tax System				
Support from the Government and Communication with the Policy-makers				
Unethical or illegal behaviour by entrepreneurs, unfair competition				
Uncertainty				
The Court System in Latvia				
The Healthcare System in Latvia				
Financial sector stability in Latvia				

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

1	2	3	4	5
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Comment:

7. Overall, from your investor’s perspective has the investment attractiveness of Latvia improved during the previous 12 months?

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

Comment:

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

Comment:

9. Has turnover, profits and number of employees for your company (in Latvia) increased/decreased or remained the same during 2020 (effect of Covid-19)?

10. Your message to the Prime Minister that we deliver in a sealed envelope: one to two paragraphs on what should be done to improve the business climate in Latvia from the viewpoint of a foreign investor.

Appendix 2. Foreign investors that took part in the 2020 study.

AFI Europe

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

All Media Baltics

Driven by innovation and opportunities in the media sector, Providence Equity Partners, a global premium asset management company acquired Modern Times Group's media business (Free-TV), subscription and content distribution businesses (Pay-TV), digital and radio businesses in the Baltic region in October 2017. Now the company operates as All Media Baltics. The All Media Baltics' brands are – TV channels: TV3, LNT, TV6, Kanāls 2, 3+, TV8, TVPlay Sports, TV1000 Premium; radio channels: Star FM, Radio Volna and Power Hit Radio; the largest AVOD video portal TVPlay; digital advertising platform SmartAD; news and entertainment portals: Skaties.lv, Uudised.ee, Buduaar.ee and TV3.lt, as well as the largest SVOD platform in the Baltics, TVPlay Premium and one of the leading TV service providers in the Baltics, TVPlay Home.

Balta (part of PZU Group)

PZU is one of the largest financial institutions in Poland, as well as Central and Eastern Europe. Continuing a 200-year tradition PZU provides comprehensive insurance coverage in all key sectors of private, public and economic activity. PZU Group also manages an open pension fund, investment funds and savings programmes. PZU acquired BALTA in 2014. With nearly 28 years of experience, BALTA is the leading non-life insurance company in Latvia, with almost 600 employees, including a distribution network of 300 agents and 42 branches across Latvia. BALTA is also the most loved insurance brand in Latvia, as well as recognised as the most honest insurer in the SKDS consumer survey for the last 16 years, among other recognitions and awards.

BITE

BITE is the fastest-growing mobile communication operator in Latvia, for already more than fourteen years providing modern, innovative mobile communication services matching the customers' desires and needs. Currently, more than 20 000 companies have chosen BITE as their information technology and telecommunication services provider. BITE annually invests approximately 10% of its turnover in development of its network infrastructure and services. Currently, the powerful BITE 4G Internet is already available for 99.99% of the country's residents, this is also a reason for introduction of the 5G network. BITE's first 5G station was built in June 2019.

Baltic Insurance Company

BTA is the insurance market leader in the Baltic States, offering a broad range of non-life insurance services. Vienna Insurance Group AG, a leading insurer in Europe, became the largest shareholder of the company in 2016 by obtaining 90% shares in the company. 10% of the company's shares are owned by Balcia Insurance SE. Since October 2020, "Vienna Insurance Group AG" has become a 100% owner of BTA voting shares. BTA dates back to 1993, since then, the company has accumulated huge experience, and has just as strong ambition for growth. We are characterised by innovation, efficiency and a professional team of nearly 1000 employees in the entire Baltic region. BTA dispose of rich resources to evolve together – as an enterprise, as well as a member

of society. The brand of BTA during these 25 years has become recognised not just in the Baltic States, but also in Europe. BTA is a name associated with reliability and stability that can guide you through a sea of uncertainty in the same way a mighty ship steers you through a storm to keep on its course. This reliable partner lets us grow and explore the world without the added anxiety of doubting our insurance choices.

Circle K

Couche-Tard is a leader in the Canadian convenience store industry. In the United States, it is the largest independent convenience store operator in terms of the number of company-operated stores. In Europe, Couche-Tard is a leader in convenience store and road transportation fuel retail in the Scandinavian countries (Norway, Sweden and Denmark), in the Baltic countries (Estonia, Latvia and Lithuania), as well as in Ireland and also has an important presence in Poland. In addition, under licensing agreements, approximately 2,250 stores are operated under the Circle K banner in 16 other countries and territories (Cambodia, China, Costa Rica, Egypt, Guam, Honduras, Hong Kong, Indonesia, Jamaica, Macau, Mexico, Mongolia, New Zealand, Saudi Arabia, the United Arab Emirates and Vietnam), which brings the worldwide total network to more than 16,000 stores.

Coca-Cola

The Coca-Cola Company is a total beverage company, offering over 500 brands in more than 200 countries and territories. In addition to the company's Coca-Cola brands, our portfolio includes some of the world's most valuable beverage brands, such as Fanta, innocent smoothies and juices, Powerade sports drinks, Sprite, vitamin water and ZICO coconut water. We're constantly transforming our portfolio, from reducing sugar in our drinks to bringing innovative new products 58 to the market. We're also working to reduce our environmental impact by replenishing water and promoting recycling. With our bottling partners, we employ more than 700,000 people, helping bring economic opportunities to local communities worldwide.

Cognizant

Cognizant is one of the world's leading professional services companies, transforming clients' business, operating and technology models for the digital era. Our industry-based, consultative approach helps many of the best-known organisations in every industry and geography envisage, build and run more innovative, efficient businesses. We help clients get digital done at scale and speed—the scale needed to transform their complex organisations to capitalise on the tremendous opportunities made possible by the latest technologies and at the speed expected by their customers, partners and owners. When we do digital at scale for clients, we systematically rethink how they create value everywhere in their organisations. Cognizant Latvia is one of the latest editions of the Cognizant delivery network in Europe, where the focus area is to deliver a full cycle of IT services from nearshore locations in Europe. Cognizant Latvia engages major European companies to deliver on the customer's partner strategy for vendor consolidation and Business Support Services (BSS) stack application transformation to enable digital vision.

ELKO

The ELKO Group is one of the region's largest distributors of IT and consumer electronics products and solutions. The ELKO Group represents 400 IT manufacturers and provides a wide range of products and services to more than 10 000 retailers, local computer manufacturers, system integrators and enterprises within various sectors in 31 countries in Europe and Central Asia. The Group's turnover in 2019 amounted to 1 883 million US dollars. At the moment, more than 1 500 people are employed with ELKO. ELKO Group belongs to several legal entities. ELKO Group is headquartered in Riga, Latvia.

Emergn

From the start, Emergn has sought to create lasting, positive change by supporting the people who drive innovation forward. Over the years, we've added new talent, capabilities and services so that we can continue to deliver exceptional work to global corporations. Emergn consultants understand the strategies, tools, and processes that enterprises often want to adopt, and rather than recommend generic bolt-on solutions, we take an inside-out approach to implement long-lasting change from the ground up.

Emergn bring that change to life in innovative products and services that we co-create with our clients. Our engineering team has more than two decades of experience delivering tailor-made solutions across a variety of technology platforms and languages. Today, the Emergn team is based in the U.S. (Boston and Bentonville), Ireland (Dublin), the UK (London), Latvia (Riga, Jelgava, Liepaja and Ventspils), Ukraine (Dnipro) and Russia (St Petersburg and Nizhny Novgorod).

Ernst & Young Baltic

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

Eversheds Sutherland

Eversheds Sutherland is one of the world's largest corporate law firms. Committed locally with Latvian office – Eversheds Sutherland Bitāns, but connected globally, with offices based in the world's major economic centres in 68 offices and 32 countries. The law office provides full service legal assistance in all areas of business law. Eversheds Sutherland is delighted to announce that the firm has won the prestigious Law Firm of the Year award at this year's Legal Business Awards.

Evolution Gaming Group

Evolution Gaming Group AB develops, produces, markets and licenses fully integrated B2B Live Casino solutions to gaming operators. Since the company was established in 2006, Evolution has become a leading B2B provider in the European market with 100+ operators among its customers. The group today employs approximately 7,500 people with a majority being based in Latvia, Georgia and Malta. The parent company is domiciled in Sweden.

Food Union

Global food industry player. Food Union – artisans of delightful products loved by people from Northern Europe to China. Our global group of food companies relies on deep market insight, ongoing innovation and a genuine will to develop strong local brands and advance the wellbeing of our consumers. Two factories in Latvia export products to more than 25 countries, more than 1150 employees in Latvia, more than 400 different products in Latvia. Food Union develop strong local brands of ice cream, dairy, pastry, convenience and frozen foods through heritage food companies in every market we operate in. At every step of product development, Food Union add value through innovation. Over time Food Union have nurtured a strong passion for business intelligence: in order to be the food industry avant-garde, we gather market data, keep track of our product portfolio performance and closely observe consumer preferences when developing new and exciting products for our consumers to enjoy.

Fortum

Fortum is a leading clean-energy company that provides its customers with electricity, heating and cooling as well as smart solutions to improve resource efficiency. Fortum wants to engage its customers and society to join the change for a cleaner world. Fortum has operated in Latvia since 2007, and since 2008 is the district heating operator in Jelgava city. Electricity produced in Jelgava power plant is sold in the Nord Pool Spot, as well as to large industrial customers. The activities of SIA "Fortum Latvia" are related to the production of electricity and heat in cogeneration plants, as well as to the development of new projects. The activities of SIA "Fortum Daugavpils" are related to the production of heat energy. Fortum works in 40 countries with more than 19 000 employees.

Graanul Invest

Graanul Invest group operates in the field of bioenergy and renewable energy production, forestry and biomaterials development. We are one of the biggest pellet producers in Europe, one of the biggest independent renewable energy producers in the Baltic Sea region and one of the largest private forestland owners in Estonia. Graanul Invest group includes 12 large and modern pellet factories, two sales organisations, six combined heat and power plants (CHP plants), three companies engaged in forest management and one company focused on biotechnology. Graanul Invest Group employs over 660 people. The goal of the company is to produce and supply nature-friendly and high-quality products to its customers and contribute to the preservation of the environment by providing renewable fuel to the market and reduction of waste from conventional fossil fuel based energy.

Knauf

Knauf is one of the world's leading manufacturers of modern insulation materials, drylining systems, thermal insulation composite systems, paints, floor screed, systems, and construction equipment and tools. Knauf has 250 production facilities and sales organisations in over 86 countries and 35 000 employees worldwide. The Latvian branch of the company was established in 1994.

KPMG

KPMG operates as a global network of independent member firms offering audit, tax and advisory services; working closely with clients, helping them to mitigate risks and grasp opportunities. KPMG member firms can be found in 153 countries. Collectively, they employ more than 207 000 people across a range of disciplines. In Latvia, KPMG was established in 1994 and it operates within KPMG in Central and Eastern Europe.

Linstow

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

Luminor

Luminor is the third-largest provider of financial services in the Baltics, with approximately 1 million clients, 2500 employees, and a market share of 16.8% in deposits and 19.5% in lending as at the end of the third quarter of 2019. The total shareholders' equity amounts to 1.6 billion euros and Luminor is capitalised with a CET1 ratio of 18.7%.

Mariner

Malta-based Mariner is an investor, developer, and independent operator of sea terminals and other logistic services. Being Hili Company's terminals and logistics arm, Mariner's overriding goal is to meet the constantly changing needs of the container shipping industry on both shore-side and land-side operations so as to build greater efficiencies for its customers. Mariner has made major investments in two terminals – the Baltic Container Terminal in Riga, Latvia and the Terminal Intermodale Venezia in Venice, Italy. Both terminals act as vital gatekeepers to logistics networks on which international, regional and local economies depend.

Maxima

Maxima Latvija is one of the leading retail chains in Latvia, the largest private employer in the country and one of the largest tax payers in Latvia. The company is part of the "Maxima Grupe" holding company that is the largest retail store chain and employer in the Baltics, employing more than 8500 employees in Latvia.

MGI Latvia

MGI is committed to building core tools and technology to lead life science through intelligent innovation. MGI focuses on R&D, production and sales of DNA sequencing instruments, reagents, and related products to support life science research, agriculture, precision medicine and healthcare. MGI is a leading producer of clinical high-throughput gene sequencers, and its multi-omics platforms include genetic sequencing, mass spectrometry, medical imaging, and laboratory automation. Founded in 2016, MGI has more than 1000 employees, nearly half of whom are R&D personnel. MGI operates in 39 countries and regions and has established multiple research and production bases around the world. Providing real-time, comprehensive, life-long solutions, its vision is to enable effective and affordable healthcare solutions for all.

Microsoft

Microsoft enables digital transformation for the era of an intelligent cloud and an intelligent edge. Its mission is to empower every person and every organisation on the planet to achieve more. Microsoft refers to Microsoft Corp. and its affiliates, including Microsoft Mobile Oy, a subsidiary of Microsoft. Microsoft Mobile Oy develops, manufactures and distributes Nokia X mobile phones and other devices.

Møller Auto

Møller Auto is the leading car retailer in the Baltic countries. The core business is connected to new and used Volkswagen and Audi car sales, original spare parts, car service and maintenance. Møller Auto employs around 250 employees in Latvia. Møller Auto is part of the Norwegian "MøllerGruppen" and has operated in the Baltic countries since 1997.

Narvesen Baltija

Narvesen is the leading retail franchise network, which provides a convenient opportunity to purchase everyday goods and services to quickly restore energy. Since 1997, Narvesen has been a successful convenience store chain with 249 stores in 36 cities. Narvesen offers a diverse range of fresh and tasty dishes, refreshing drinks and a wide selection of the latest press editions. 75% of people living in Latvia visit Narvesen daily. In Latvia, the franchise network offers a workplace for more than 650 people, including franchisees. Today, after 21 years of experience, Narvesen is perceived as a high value brand in Latvia.

Nasdaq Baltic

Nasdaq Baltic operates three stock exchanges – in Estonia, Latvia and Lithuania – and the Nasdaq CSD under one Baltic roof, providing the capital market infrastructure across the whole value chain – from listing, trading, and market data to clearing and settlement and safe-keeping of securities. Nasdaq Baltic exchanges are a part of the world’s largest exchange group Nasdaq, Inc., thus ensuring great confidence in the Baltic securities market for international investors, offering a market infrastructure in accordance with the international industry standards, the world’s fastest trading platform and high listing standards.

NCH Advisors

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

Neste Latvija

Neste is the world's largest producer of renewable diesel refined from waste and residues, also introducing renewable solutions to the aviation and plastics industries. It is listed in the Dow Jones Sustainability World Index and the Global 100 list of the world's most sustainable companies. SIA Neste Latvija is engaged in direct sales of cleaner traffic fuels, as well as retail sales via its Neste fuel station network. The company has its own oil terminal in Riga harbour and 75 fuel stations in Latvia.

Orkla Latvija

Orkla Latvija – is one of the leading fast-moving consumer goods organisations in the Baltic States. Orkla Latvija combines two companies – “Orkla Confectionery & Snacks Latvija” Ltd and “Orkla Foods Latvija” Ltd, with a total turnover of EUR 83.4 million in 2019. The company represents the following brands: Laima, Selga, Staburadze, Ādažu Čipsi, Spilva, Gutta, Everest, Latplanta, Pedro as well as managing the Laima Chocolate Museum. Orkla Latvija employs more than 800 employees. Orkla Group provides access to new technologies, knowledge and innovations that allow them to modernise their manufacturing processes and improve working conditions within the Orkla Latvija administration and manufacturing facilities.

PricewaterhouseCoopers

At PwC, the purpose is to build trust in society and solve important problems. With offices in 155 countries and more than 284,000 people, we are among the leading professional services networks in the world. We help organisations and individuals create the value they are looking for, by delivering quality in Assurance, Tax and Advisory services.

Robert Bosch

The Bosch Group is a leading global supplier of technology and services. In 1993, Robert Bosch SIA, a subsidiary of the Bosch Group, was founded in Latvia, which coordinates operations in the Baltic region. The number of employees in the Baltic countries is 80 associates. Robert Bosch are represented in Latvia: automotive accessories and diagnostics equipment for workshops, power tools, security systems and thermotechnology equipment and solutions. In addition to the core business sectors, Bosch Power tools service centre is located in Latvia providing both warranty and non-warranty repairs for the needs of all Baltic countries.

Roche

The company was founded in 1896 in Basel, Switzerland. Today, Roche creates innovative medicines and diagnostic tests that help millions of patients globally. Roche was one of the first companies to bring targeted treatments to patients. Roche is the world's No. 1 in biotech with 17 biopharmaceuticals on the market. Roche invests around 9 billion Swiss francs in research and development every year because innovation is our lifeblood. SIA Roche Latvija's main tasks are to promote the sale of the company's medicines and diagnostic equipment in Latvia, to inform doctors, pharmacists and public officials about the latest achievements in the field of pharmacy, to follow the development of the pharmaceutical market and defend the company's interests in Latvia.

SCHWENK Latvija

SCHWENK Latvija is a leading building materials producer and the only cement producer in Latvia, since 2019 – part of the SCHWENK Building materials group. SCHWENK Group was founded in 1847 in Ulm, Germany, by Eduard Schwenk and is still a family owned business. Apart from being among the oldest in the industry, it is also one of the most innovative ones.

SEB

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

Solvay Group

Solvay Group is an advanced materials and specialty chemicals company, committed to developing chemistry that addresses key societal challenges. Solvay is headquartered in Brussels with about 24,100 employees spread across 64 countries. Solvay in Riga operates as the Global Business Services Centre and provides a variety of services to Solvay Group, such as Accounting, IS helpdesk, Data management, Customer Services, etc.

Swedbank

Swedbank's roots are firmly entrenched in Sweden's savings bank history, the cooperative agricultural bank tradition and Hansabank's major role in the Baltic countries. We serve everyone, from customers with basic needs to those who require advanced banking services. We work to develop close relationships with our seven million private customers and 544 000 corporate customers. To support their businesses, Swedbank also has operations in Norway, Finland, Denmark, the US, China, Luxembourg and South Africa.

TAV Airports Holding

TAV Airports Holding is one of the leaders in airport operations and airport construction companies in the world. TAV Airports Holding provides airport services in 30 countries, 100 airports, and serves around 1 million flights with more than 218 million passengers. In Riga International Airport TAV Airports Holding is represented by six TAV group companies - TAV Latvia is operating in commercial areas, ATU - Duty Free, BTA - Food & Beverage, TAV Operation Services - Business Lounge, HAVAŞ - Ground Handling and TAV IT - Solutions, with approximately 650 employees in total. TAV Latvia is in charge of all commercial areas of RIX that are operated by group companies and other international and local investors since the beginning of 2011, when TAV Airports Holding won a tender and signed a concession agreement with Riga International Airport, becoming one of the most valuable cooperation partners of RIX.

Tieto Latvia (TietoEVERY)

TietoEVERY in Latvia is one of the leading information technology companies in the Baltics with a large team of more than 1,000 specialists who specialise in the development of various information systems, providing a full range of services to customers in Latvia and around the world. The global Financial Services Centre and the IT Shared Services Centre of TietoEVERY Corporation are located in Riga. In 2020, Tieto Latvia and EVERYLatvia began the process of a legal merger in connection with the global merger of the IT corporations Tieto and EVERY to form TietoEVERY. Headquartered in Finland, TietoEVERY employs around 24 000 experts globally. The company serves thousands of enterprise and public sector customers in more than 90 countries. TietoEVERY's annual turnover is approximately EUR 3 billion.

URALCHEM

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

Vastint Group

Vastint Group is an international real estate organisation with over 30 years of experience. The cornerstone of their operation is the management of portfolio properties and the development of commercial real estate, including residential development and sales. Vastint has been present in Latvia since 2003.

Ventspils nafta terminals

VNT is the largest and most technologically advanced crude oil and petroleum product transshipment company in the Baltic States operating for more than 55 years in the ice-free port of Ventspils. 49% of the company's shares belong to Eurotank Holding Sarl, part of the international terminal operating company VTTI, while 51% belong to Martank. Currently VNT employs 200 specialists from different fields.

Visma

Visma delivers software that simplifies and digitises core business processes in the private and public sector. With presence across the entire Nordic region along with Benelux, Central and Eastern Europe, and Latin America, we are one of Europe's leading software companies. The Visma group consists of over 200 companies across 20 countries worldwide, employing more than 11 000 people and serving over a million customers. The company's headquarters are located in Oslo, Norway. Visma has been in Latvia since 2014 and employs more than 350 people - programmers, project managers, analysts, consultants and others.

Vitol Baltics

Vitol Baltics is a part of the Vitol Group, which is an energy and commodities company. Vitol is a private company founded in Rotterdam and for over 50 years it has served the world's energy markets; \$225 billion in revenues in 2019, 387 million tonnes of crude oil and products shipped annually, trading over 8 million barrels of crude oil and products every day, 7,000 ship voyages each year and 250 ships transporting cargoes at sea at any one time.. In Latvia, the Vitol Group invests mainly in these companies: Ventspils nafta terminals, LatRosTrans, LSC.