



FOREIGN INVESTORS'  
COUNCIL IN LATVIA  
**POSITION PAPER  
ON ECONOMIC  
DEVELOPMENT  
OF LATVIA FOR ALL**

02.11.2023

# TABLE OF CONTENTS

Introduction	<b>03</b>
People	<b>05</b>
Future public administration	<b>07</b>
Level playing field	<b>09</b>
Rule of law	<b>11</b>
Sustainable for the future	<b>13</b>

# INTRODUCTION

Latvia, despite its vast potential, currently grapples with considerable challenges in its competitive stance on the European stage. With a GDP per capita substantially below the EU average, a declining demographic, and a rank at 39 on the “Global Startup Ecosystem Index”—tragically behind our Baltic neighbours Lithuania and Estonia in the top 20—there is a pressing need for introspection and action<sup>1</sup>. These disparities not only hinder our ability to attract foreign investments but also constrict our state’s consolidated budget revenue, leaving us trailing behind our Baltic counterparts<sup>2</sup>.

From an economic standpoint, instead of converging with the Northern European standard of well-being, we seem to be drifting even further away. However, Latvia’s potential remains untapped, offering an opportunity for a flourishing economic landscape for both existing and potential businesses. FICIL calls for an urgent economic transformation policy—one that prioritises an enabling environment for value-added business growth. This transformative vision should not remain a paper exercise but must translate into a strategic action plan, underpinned by clear priorities and a unified public sector push, to propel Latvia forward and align us closer to our neighbours.

<sup>1</sup> Eurostat data (2022) on the GDP per capita data (link). Global Startup Ecosystem Index from 2023 (link). Eurostat data (2023) on the demography trends (link).

<sup>2</sup> As of end of 2022, accumulated FDI in Latvia amounted to €22.6 billion, €32.8 billion in Estonia and €29.7 billion in Lithuania (link). In 2022 Latvia’s consolidated budget income was €10,7 billion, in Estonia €13,1 billion while in Lithuania it reached highest of €15,1 billion (link).





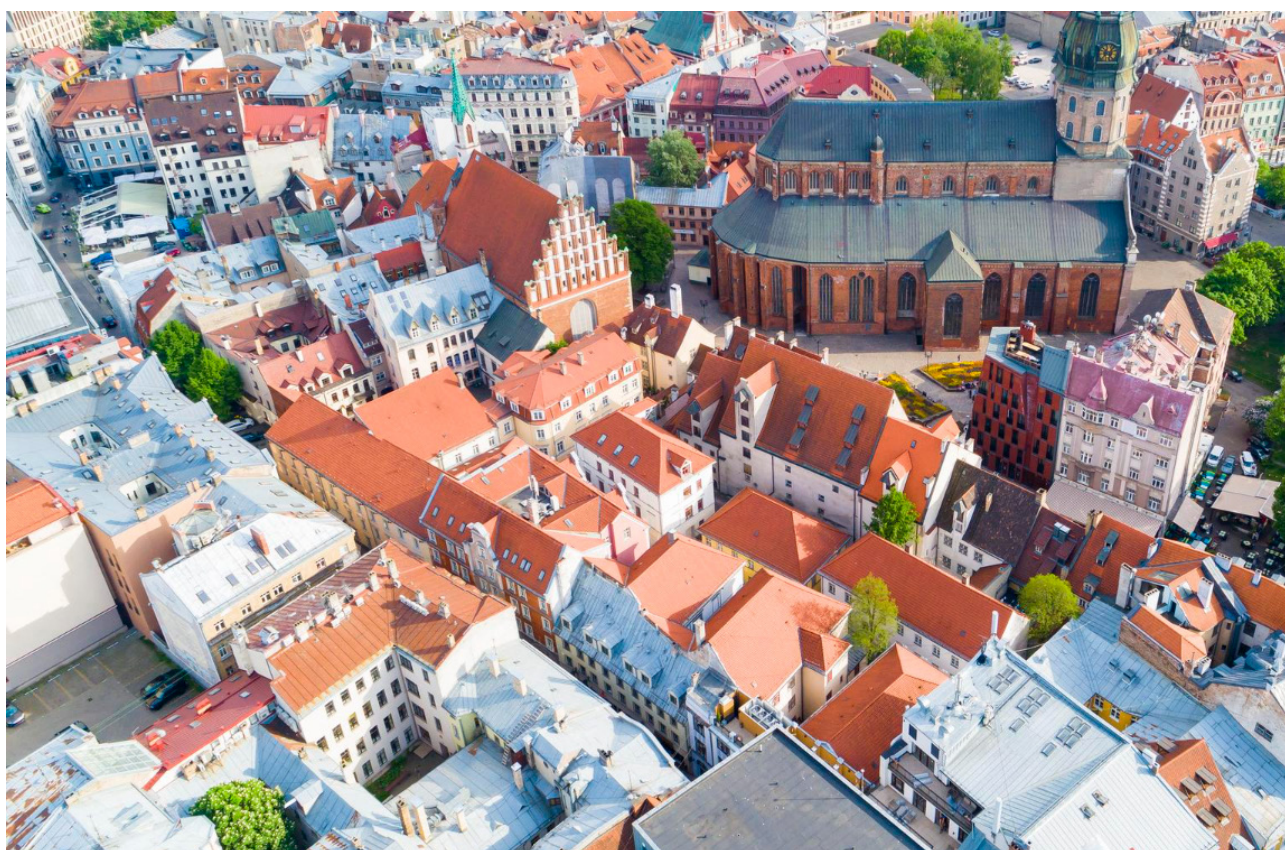
As we delve deeper into this year's position papers, a common theme emerges. It underscores the imperatives of transparency, an unwavering pledge to the rule of law, commitment to sustainable growth, and the establishment of a level playing field for all stakeholders.

In our "Future Public Administration" segment, FICIL emphasises the urgency of a data-based, modern, agile, and transparent public administration, which forms the foundation of a thriving business environment. A "Level Playing Field" goes beyond mere fairness; it outlines a much-needed culture change so entities, irrespective of their origin or size, can operate confidently and impartially. Our emphasis on "People" signifies a conviction that the heart of economic growth lies in the welfare and empowerment of human capital. Through the "Rule of Law", FICIL advocates for robust, quality legislations that foster an environment of certainty

and protection for all businesses. Lastly, being "Sustainable for the Future" is not just a dream; it is a necessity. In a world grappling with environmental and societal challenges, Latvia has the opportunity to set a benchmark in sustainable growth.

By embracing and implementing these recommendations, Latvia can not only address the imminent challenges but also chart a course towards economic development. Each position paper tells a part of the story, a narrative of what Latvia needs to do to ensure the well-being of its people and businesses. The path forward is clear: it is one of collaboration, commitment, and collective growth.

FICIL has created detailed recommendations regarding the above-mentioned topics, below you will read a few proposals in each of the mentioned areas, complete position papers are available [here](#).



# PEOPLE

One important factor for improving competitiveness is the labour force. In relation to both Estonia and Lithuania, according to the IMD World Competitiveness Booklet 2023<sup>3</sup> Latvia ranks 52<sup>nd</sup> whilst both our Baltic neighbours rank much higher, closer to the low 30s<sup>4</sup>. Moreover, investors<sup>5</sup> see little to no progress over the last years in addressing the labour or poor demographic situation in Latvia. Finally, also the Ministry of Economics in its Medium and Long-term Labour Market Forecasts<sup>6</sup> has recognised that the labour force shortage has reached its critical point.

**/// An ineffective labour policy requires strengthening the Human Capital Development Council and ensuring that one responsible authority has sufficient mandate regarding human capital matters (including retraining, skills, labour availability, and legislative policy).**

Previous government in the document "On the Government's action plan for the implementation of the Declaration on the planned activities of the Cabinet of Ministers headed by Arturs Krišjānis Kariņš"<sup>7</sup> set out the Ministry of Economics as the responsible institution for developing the labour force policy in Latvia. This was the first necessary step to ensure accountability and improve the level of coordination over labour force policy. The Declaration also tasked the Ministry of Economics together with other institutions to create a Human Capital Development Strategy that is yet to be published. The strategy will very much dictate the future labour force policy, including upskilling and requalification. Therefore, it must be effective, sufficient and goal oriented, and in line with other plans, such as the National Development Plan until 2027, by focusing on those priority sectors that would bring the most added value to the economy.

In addition, a Human Capital Development Council was created as a new institution for policy setting and information exchange for the labour force policy. The Council has been created with the aim to increase the effectiveness of inter-departmental cooperation, and make decisions in the planning, development, implementation and monitoring of the necessary

labour market reorganisations, promoting the development and availability of human resources in accordance with future labour market demand and structural changes in the economy for the creation of higher added value that would benefit society as a whole<sup>8</sup>. **FICIL strongly encourages avoiding the duplication of functions between the different institutions such as the Ministry of Economics, the Human Capital Development Council, State Education Development Agency, State Employment Agency, and others that are involved in the labour force policy.**

To improve all aspects of human capital development, FICIL highlights the following recommendations:

**/// Address the short-term availability of labour by attracting a foreign workforce.**

1. Introducing a unified "Work in Latvia" platform to attract a foreign workforce and re-emigrants and create a one-stop-shop centre.
2. Adopting a "smart immigration strategy" that concentrates on attracting a workforce from specific country groups.
3. Reducing financial and bureaucratic barriers for a foreign workforce to work in Latvia.

**/// Address the labour availability issues by improving the flexibility of the legal framework and granting greater benefits to employers who are ready to invest in the wellbeing of their workforce.**

1. Introducing part-time aggregated working time;
2. Adopting zero-hour contracts in the existing regulation;
3. Creating a regulatory framework for fixed-term employment contracts so they are more flexible.
4. Raising the exemption to tax for increasing employee wellbeing and their mobility.

<sup>3</sup> <https://imd.cld.bz/IMD-World-Competitiveness-Booklet-2023/90/>

<sup>4</sup> LT 33; LV 52; EE 34

<sup>5</sup> FICIL Sentiment Index 2022: Governance Edition.

<sup>6</sup> The Ministry of Economics. Informative report on medium and long-term labour market forecasts 2022. Labour market | Ekonomikas ministrija (em.gov.lv)

<sup>7</sup> <https://likumi.lv/ta/en/en/id/341317>

<sup>8</sup> <https://likumi.lv/ta/id/342561-cilvekkapitala-attistibas-padomes-nolikums>



**Implement best practice and processes from businesses to train employees in the public sector whilst also adopting policies to encourage greater knowledge transfer from the public to private sector and vice versa.**

FICIL continues to advocate for policies that boost productivity and reverse the current falling demographics, and also facilitates the return of re-emigrants. However, policies that address these issues usually see benefits in the long-term, but the current situation requires immediate solutions. Therefore, it is imperative for policy-makers to actively assess and modernise current legislation to tackle the contemporary challenges and trends facing the labour market. Otherwise, there is a high risk that Latvia will be faced with the inability

to sustain the current rates of economic activity and their consequent proliferation. The proposed actions would enhance flexibility for both employers and employees and empower those who are willing, but currently unable to work to contribute to increasing economic activity. Flexibility in the employment relationship framework would allow employers to respond more quickly to workforce needs and also to attract those who are not ready to work full-time or on a permanent basis, thus also increasing the involvement of workforce reserves in the labour market.

THE COMPLETE VERSION OF "PEOPLE" POSITION PAPER IS AVAILABLE [HERE](#).



# FUTURE PUBLIC ADMINISTRATION

FICIL has highlighted the role that an effective public sector plays in the development of the economy for several years now, and last year proposed a concrete set of recommendations. Cooperation with the State Chancellery over the last year has been constructive and FICIL greatly appreciates the cooperation that has taken place. It is understandable that implementing meaningful changes takes time, but there are still several aspects that would hinder even the most well thought out reforms. In general, this includes a lack of accountability and measurable, not just process-oriented, key performance indicators (KPIs). The same can be said about the overlapping functions of various public sector institutions which mean an ineffective use of resources and no clear responsibility. Another concern covers the way public funds are allocated to specific functions and activities, and how efficiency is measured in this regard.

- /// **Implementation of a performance-based budgeting approach, linking the funding of programmes and activities to their results and performance. This requires outlining concrete and measurable objectives and indicators for each activity, and then allocating and adjusting resources based on their achievement.**
- /// **Establish an Office of the Chief Information Officer (CIO) with an explicit and concrete horizontal mandate, supported by a centralised Centre of Excellence (CoE) which provides support to multiple public sector institutions in data standardisation and analysis, among other areas.**
- /// **Create a clear framework for data standardisation for public sector institutions and establish a single one-stop-shop for companies to submit data.**
- /// **Comprehensive review and analysis of functions and set-up of public sector institutions, including municipality institutions. This is needed to determine the best legal and institutional framework, competency overlap, knowledge gaps to align the public sector operating model with the future economic, social, and geopolitical challenges.**

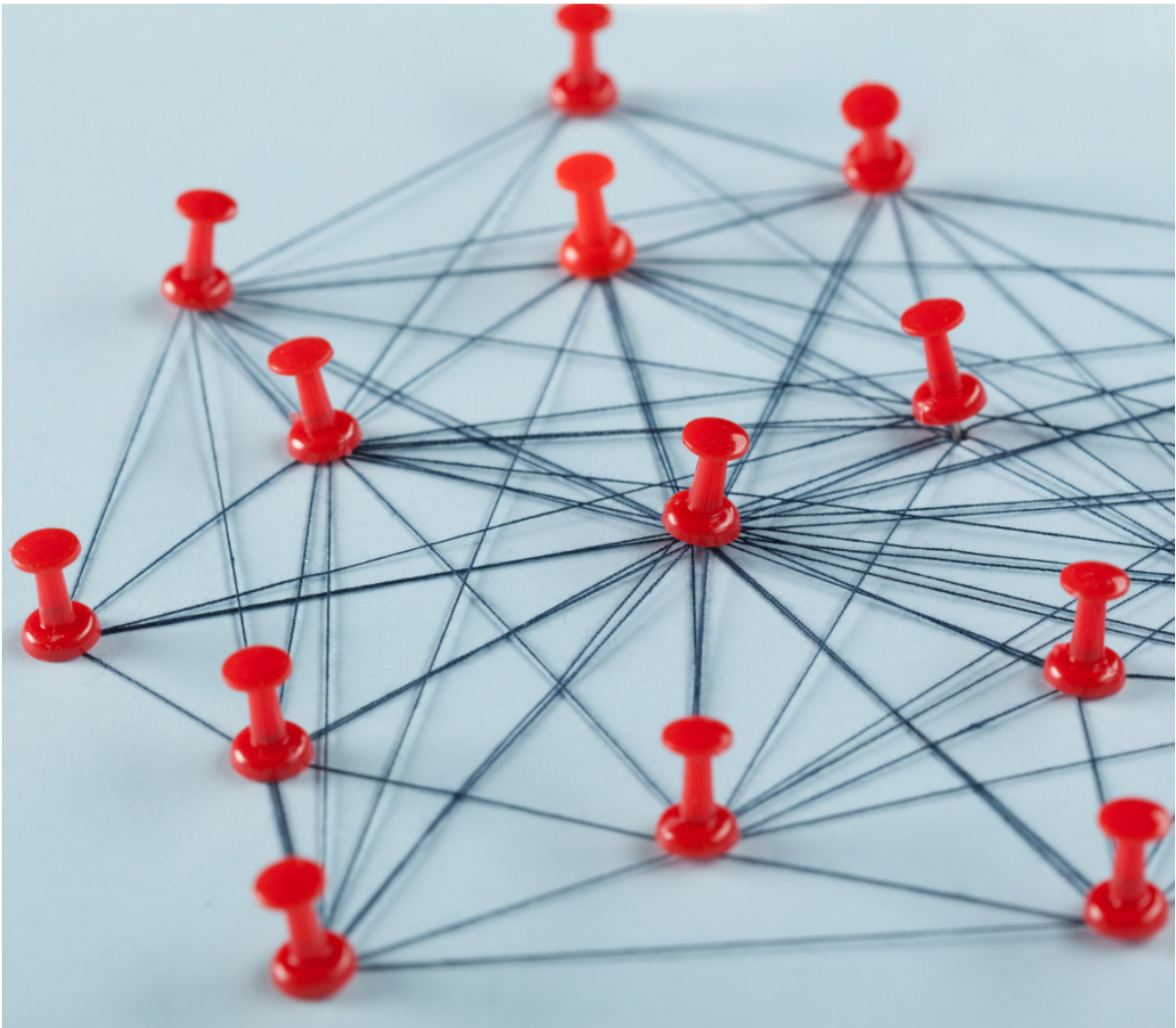
At the core of any improvement is a need for clear ownership. As such, FICIL continues to advocate for the government to introduce a high-level, mandated **CIO that is responsible for implementing centralised digital transformation** and assuming strategic leadership for the digital transformation of the entire state. While the Ministry of Environmental Protection and Regional Development has taken on the role, it is evident to FICIL that, considering the vast amount of other competencies that the ministry has, there is a lack of a mandate to ensure an effective centralised digital transformation.

FICIL continues to maintain that there is a need to implement a **centralised data governance framework and administration of all public data within the public sector**. However, before this can even be achieved, there is a need to effectively standardise data via a centralised operating model, to ensure that all public sector institutions have the same standard capabilities and use the same tools. In conjunction with sufficient legislation, this should also greatly improve the data sharing capabilities between public sector institutions.

FICIL sees that in the public sector a lack of high-quality usable data is the primary issue that stems from a lack of standardised data collection, a non-effective data exchange policy and practice. This is a consequence of a lack of the same or at least similar standard capabilities and available tools. However, to truly centralise operations around data, it's vital for the government to make data available, practical, and actionable across all levels. This involves integrating data from various sources into a single platform, with appropriate measures taken to ensure its security and protection<sup>9</sup>.

**Performance-based budgeting reforms have been linked to larger reforms within the public sector regarding expenditure and efficiency.** Moving towards a performance-based budget requires clear strategic planning and a reduced number of process-oriented development documents that overlap and minimise accountability for achieving a specific result.

9 UN "E-Government Survey 2022: The Future of Digital Government", p. 176..



Estonia fully adopted performance-based budgeting in 2020, with the focus on achieving “more effective and efficient implementation of public functions, higher quality of public services, reduction of general government expenditure and staff costs, and more flexible and less bureaucratic management of the government sector.”<sup>10</sup>

To guarantee the quality and accessibility of public services, serious consideration must be given to development goals and financial decisions. Since it is doubtful that the government will be able to provide more funding for the delivery of public services in the foreseeable future, it must focus

on increasing efficiency. Increasing the efficiency of service delivery requires measuring its costs, which calls for better monitoring and assessment of the outputs and results of activities, as well as the connection of resources with their associated activities. The emphasis in strengthening strategic and financial management is on enhancing cooperation between government departments, boosting budget planning transparency, and what it is spent on.

THE COMPLETE VERSION OF “FUTURE PUBLIC ADMINISTRATION” POSITION PAPER IS AVAILABLE **HERE.**

<sup>10</sup> <https://www.fin.ee/en/public-finances-and-taxes/state-budget-and-economy/performance-based-budgeting>



# LEVEL PLAYING FIELD

In order to attract foreign investment and ensure economic growth, it is essential to achieve fair competition for all market participants. Investors are still concerned about issues such as high levels of the shadow economy, non-transparent decision-making processes of regulators, unfair competition from state-owned companies and public procurement processes. The high shadow economy that has been on the rise since 2016<sup>11</sup>, the continuously slow adaptation to innovative procurement procedures and issues with governance over state-owned and municipality-owned companies<sup>12</sup> damage the much-needed credibility for the business community and has a negative impact on fair competition, thus hindering progress in attracting new investments.

In an already uncertain environment for investors, it is essential to work hard towards establishing fair, balanced, open, and clear rules for all businesses operating in Latvia or those wanting to enter. In this sense, FICIL recommends addressing three main areas. Firstly, implementing real measures to effectively reduce the shadow economy, which clearly show that such practices are non-tolerable, while also motivating good taxpayers. Secondly, working on modernising and improving the competency of the public sector officials responsible for public procurement processes. Lastly, to increase the efficiency of state and municipality-owned companies by addressing the lack of operation synergies, reducing political influence, and complying with good governance standards.

**FICIL continues to emphasise the need for unified governance over combatting shadow economy, specifically, for the Ministry of Finance to take on a central role in coordinating and driving the fight against the shadow economy while also assuming accountability over the results.**

This year, steps have been taken in the right direction with the Ministry of Finance assuming the role of coordinator while developing and presenting the "Shadow Economy Reduction Plan

2024 - 2027"<sup>13</sup>. During the development of the plan, specific priority sectors and ministries were assigned responsibilities for creating actions and implementing them<sup>14</sup>. Nevertheless, there seems to be a lack of clearly defined accountability over the achieved results, and FICIL sees that the Government has not yet assigned effective administrative tools and measures for the Ministry of Finance to drive and oversee implementation of actions to reduce the shadow economy that are taken by other public sector institutions.

**Ensuring transparency in cash circulation by introducing salary payments via bank transactions. Increasing transparency and monitoring triggering factors for the cash circulation "market".**

FICIL continues to recommend that Article 70 of the Labour Law is amended, which provides that salaries should be paid to employees in cash and that bank transfers are possible only by special written agreement. This is an outdated concept that fails both to reflect the business reality and encourages the shadow economy. FICIL proposes reversing the respective provision by stating that salaries should be paid via bank transfer by default, and cash payments are possible only by special written agreement between employer and employee, and when complying with a set of objective criteria. In FICIL's view, although such amendments would be an integral signal about what the state considers to be desirable behaviour, it only partially solves the task of reducing the shadow economy. In order to strengthen the function of combatting the shadow economy, FICIL proposes the creation of a list of objective criteria on the basis of which the employer and the employee could agree on payment in cash, for example, where the location of work is far from the nearest city, ATMs are not available near the workplace<sup>15</sup>, no bank account<sup>16</sup> or other. A similar policy has been adopted by other countries, such as Finland<sup>17</sup>.

11 <https://www.sseriga.edu/shadow-economy-index-baltic-countries>

12 State Audit Office found that objectives for municipality-owned companies to be achieved with the participation of the municipality have not been defined, so in many cases, there is uncertainty about whether municipalities should continue to engage in commercial activities.

13 Ēnu ekonomikas ierobežošanas plāns 2024.-2027. gadam

14 Par Ēnu ekonomikas ierobežošanas plāna 2023.-2025. gadam izstrādi

15 The unavailability of ATMs may be an argument for ensuring cash costs in very rare cases. The ATM network is extensive throughout Latvia and data on their availability have been published. Data on citizens' habits are also available, for example, on average 42% of bank customers do not withdraw cash at all, while on average 30% of bank customers withdraw cash up to EUR 200 per month.

16 There are very few such persons in Latvia, according to the data of the ECB's 2022 study, 93% of adults in Latvia have a bank account.

17 <https://www.lexology.com/commentary/employment-immigration/finland/dittmar-indrenius/salary-must-be-paid-into-employees-bank-account>

**/// Create a policy that favours and fosters more honest business practices by creating benefits to the good taxpaying businesses, thus increasing business motivation to leave the grey economy.**

The Ministry of Finance and State Revenue Service should rethink the range of services they could offer to businesses that are rated “good” and “high” – either as “A” or “B”. FICIL would recommend considering additional benefits for such companies:

- A) Reductions in fees for services provided by the SRS in the fields of customs, excise, and other taxes, such as exemption from fees for entering into an APA<sup>18</sup> agreement.
- B) No requirement by SRS for documents issued by foreign tax authorities, but instead SRS themselves ensure communication with foreign tax authorities to obtain the necessary information. SRS could prepare such necessary confirmations in half the time.
- C) Continue swift tax refunds for the good taxpayers.
- D) Additional “points” or easier procedures when applying to and being evaluated for public procurement process tenders<sup>19</sup>.
- E) Urge a reduction in late fees for category A companies that voluntarily correct errors on their own initiative.
- F) Ensure that such companies are treated equally by all SRS supervisory units.
- G) Provide such companies with easy access to SRS seminars and hold special seminars for category A companies (free of charge).

**/// Implement necessary changes and adopt practices to foster a wider framework for evaluating public tenders, to create a system that does not predominantly consider price as the only qualifying factor.**

Price affects quality. Quality can be qualifying criteria in public procurements, in many instances quality or process of deliveries can have multiple aspects achieving different goals for public authorities. Whether it is risk mitigation (e.g., supply chain) or achievement of green policies, non-price criteria potentially allow for better value in procurements.

Selection of the most economically advantageous bid of a tender is an important tool for achieving the aforementioned objective. However, it can only be efficient and lead to the desired solution on condition that the contracting authority is aware of the actual public needs, real market situation and the need to accurately balance the potential price with quality. In Latvia, price alone, as an awarding criterion, still remains predominant in public tenders. The cheapest bid should not be the only determining factor, especially, when it is achieved at the expense

<sup>18</sup> Advance Pricing Agreement.

<sup>19</sup> Additional consideration should also be given to recognising the status of start-ups if they have not yet had the opportunity to move to category A.

of the employee salaries, social guarantees, or tax payments of the bidder.

**/// Implement transparent procedures for the selection of supervisory board members, ensuring they have the necessary skills and resources to independently supervise company management and related affairs while minimising political influence in guiding company management.**

State ownership at its essence must be represented in a consistent manner. Where there is no single representative of the state, any alignment of positions, opinions or views must be resolved prior to making decisions on the appointment of company management and voting in shareholders’ meetings. Where companies have supervisory boards, their members must be selected in transparent procedures and ensure they have the necessary skills and resources to independently supervise the actions of management and company affairs. **While acting in the interests of the shareholders, supervisory boards must also provide guidance free from any signs of political impact to the management of the company.**

**/// To improve corporate governance, transparency, and accountability, enable state and municipality-owned companies to access public capital markets.**

Contrary to a somewhat populist myth, state and municipality-owned companies can leverage public capital markets to their advantage without privatisation. Usually in capital markets only a limited portion of company shares (up to 20%) is in free float, thus the state would retain majority ownership and control over the company’s decision-making. Tapping capital markets bring several benefits, including improved corporate governance, greater transparency, and enhanced accountability to investors and stakeholders. In addition, allowing citizens to purchase shares in state-owned enterprises creates a sense of ownership and participation in the nation’s economic progress. It fosters a stronger connection between the public and these companies, encouraging broader societal involvement and also support. **Additionally, it allows the introduction of employee share option programs, thus aligning the interests of the workforce with the company’s success, boosting motivation and productivity.** Through engagement into public capital markets, state-owned companies can strengthen their financial position, attract institutional investors like pension funds, and diversify their shareholder base.

THE COMPLETE VERSION OF “LEVEL PLAYING FIELD” POSITION PAPER IS AVAILABLE [HERE](#).

# RULE OF LAW

Foreign investors make their decisions to invest in a particular country by evaluating its overall economic situation and the business development opportunities of the specific field, as well as the legal environment, which also includes the stability of the legal framework and options to protect their rights and investments. The more stable and predictable the legal environment, the more opportunities investors have to plan their investments in the long-term, which significantly motivates them to decide on large-scale, long-term investments in a particular country. Businesspeople also assess by comparing circumstances and situations in the region's neighbouring countries and, in similar conditions, choose to make investments in favour of one or the other country.

Although there are noticeable improvements towards strengthening the legal environment, entrepreneurs in Latvia are still significantly less confident<sup>20</sup> than the entrepreneurs on average in Lithuania, Estonia, and the European Union (EU) that their investments would be protected if necessary (legislatively and judicially). Entrepreneurs indicate frequent changes in legislation, concerns about the quality of the legislative process, unpredictable and non-transparent administrative actions, and difficulties in challenging administrative decisions before the court as the most significant reasons for such mistrust. The "FICIL Sentiment Index 2022" results also indicate a similar point of view - only 9% of the surveyed foreign investors see positive changes in the quality of legislation<sup>21</sup>.

**Establish prerequisites to include the "ex post" assessment requirement in draft laws for significant law amendments and reforms. To develop uniform criteria for putting ex post evaluations into practice.**

In a constantly changing environment, the ability to effectively adapt and improve policies can become a determining factor for attracting new investments. Therefore, justified, high-quality, and effective reforms are an important aspect shaping the country's overall growth, development, and prosperity. The purpose of introducing amendments to the legislation and reforms is not only to settle the

existing practical issues, but also effectively manage state resources. There is currently no unified approach to evaluating the impact, achievements, or shortcomings of the reform after its completion or introduction of regulation, in other words, "ex post" assessment. The lack of a unified approach increases the possibility of inefficient use of funds and creates uncertainty regarding the integration of principles of transparency.

According to the Organisation for Economic Co-operation and Development (OECD), clarifications regarding regulatory policy and good governance, "ex post" assessment should at least include the following criteria that would define:

- whether the objectives of the regulation are clear,
- what data will be used to measure performance, and
- information on the allocation of institutional resources<sup>22</sup>.

There are no benchmarks for the public to assess larger or smaller reforms and processes. **By setting clear quantitative and qualitative indicators for "ex post" assessment, both the State Audit Office and other state institutions, as well as any individual, would have the opportunity to evaluate the indicators and quality of introduced reforms.**

**It is necessary to include preambles in new laws. Following the principle of good legislation, develop uniform criteria and terms for the content of preambles.**

Although there is a legal instrument in the Latvian legal system for defining the goals of the legislator, namely, draft law annotations, which help individuals and legal practitioners understand the new regulation, draft law annotations are often prepared before the draft law is discussed in the first reading in the Parliament. As a result of discussions in the Parliament, the draft law text can be supplemented with new legal norms, and as a result its purpose can significantly differ from what was initially indicated in the "original" annotation.

20 Only 39 % of the surveyed Latvian entrepreneurs are confident, while the average of EU member states shows that 54 % of entrepreneurs are confident. (Source)

21 <https://www.ficil.lv/wp-content/uploads/2023/04/LV-2022-FICIL-Sentiment-Index-buklets.pdf>

22 Council of the OECD "Recommendation of the Council on Regulatory Policy and Governance." Section 5, p. 26., available at: <https://www.oecd.org/gov/regulatory-policy/2012-recommendation.htm>



The “OECD Regulatory Policy Review 2015” specified criteria for evaluating the quality of regulation<sup>23</sup>. Including preambles in international and EU legislation is a recognised practice. The jurisprudence of the Court of Justice of the EU acknowledges that considerations contained in the preambles of legal acts can help determine the purpose or scope of a legal act and clarify how to interpret a legal provision. However, the considerations contained in the preamble are not legally binding and cannot have priority over the legal norms contained in the legal act<sup>24</sup>.

Therefore, the most important criteria for the quality of regulation are clearly and directly identified objectives of the laws, effective achievement of

them, and simple application of legal norms. This can be promoted by including a preamble in new laws. **The preamble’s purpose is to enable the legislator to clearly state the legislative intent for the legislation as a whole and to state the reasons and comments on each provision of the legislation.** Moreover, unlike the annotations of draft laws, preambles would be refined in each case of law amendments, formulating the legislator’s intent for the legal act as a whole, rather than just for the respective law amendments in their initial (original) development stage.

THE COMPLETE VERSION OF “RULE OF LAW” POSITION PAPER IS AVAILABLE **HERE**.

<sup>23</sup> OECD Regulatory Policy Outlook 2015, OECD Publishing, Paris. Available at: <https://www.oecd.org/publications/oecd-regulatory-policy-outlook-2015-9789264238770-en.htm>

<sup>24</sup> EST 20.11.1997. judgment in case C-244/95 *P. Moskof AE v Ethnikos Organismos Kapnou*. EST 26.06.2001. judgment in case C-173/99 *The Queen v Secretary of State for Trade and Industry*.



# SUSTAINABLE FOR THE FUTURE

The ongoing invasion of Ukraine by Russia, and the ensuing energy crisis in Europe, as well as the climate catastrophes occurring worldwide, continue to highlight the need for climate and energy to be on the agenda of every government and parliament. Any human catastrophe or potential conflicts in the future will only contribute to these concerns. It is therefore our common obligation and duty, both to ourselves and the future generations, to seriously change our habits, modes of operations and businesses so that in the short and long-term we all have a sustainable place to live in.

Last year, the formation of a new ministry in Latvia, specifically designed to tackle the climate and energy issues, promised real, well-considered and powerful actions to tackle climate change issues in Latvia. However, its political invisibility together with the lack of a wider mandate and insufficient resources prevented the new ministry from actually meeting its initial expectations. Since climate issues have been considerably neglected, with priority being given to the solving of the energy crisis, FICIL has prepared this position paper to emphasise the following three main subject areas:

1. The overall role of a climate and energy policy in Latvia.
2. The crucial role of the private sector in boosting sustainable growth.
3. The need for greater transparency and predictability of the energy market to truly achieve well-balanced energy security and, ultimately, energy independence.

**/// Increase the resource capacity and mandate of the Ministry of Climate and Energy, by adding the environment to the scope of its mandate. This will ensure far more effective administration of climate, energy and environment matters, involve other ministries, and ensure that these topics are consistently addressed on both the Cabinet of Ministers and Parliament's agendas.**

**Increase investigations of environment-related crimes to ensure compliance with green economy principles and requirements not only in the EU, but also nationally funded projects. This would also help reduce the shadow economy.**

**/// Adopt concrete instruments, procedures, and designate accountable entities for the implementation and monitoring of policies aligned with principles like the circular economy, Green Deal, and Sustainable Development Goals.**

**/// Create a strategy for a forward-looking energy policy that is aligned with the EU's objectives. Energy strategy should be intertwined with broader national priorities, reinforcing the idea that energy policy is a feature of collective national development.**

**/// Foster the conditions for greater investment in research and development, involving individuals and cooperation among state-owned companies, academic institutions, and private businesses. R&D efforts must be in line with market needs, technological advancements, and societal demands and foster innovation that is practical and beneficial to the country.**

Last year, when supporting the creation of the Climate and Energy Ministry (MCE), FICIL expected to see a wide mandate and sufficient resources allocated to the new Ministry in order for it to become the flagship for the rapid development of short-, mid- and long-term policies needed to implement and continuously improve compliance with the core principles of the circular economy, Green Deal, Taxonomy, ESG, Sustainable Development Goals of the UN and other similar policies that are binding on Latvia. For several years, climate change has no longer been a matter of choice but a reality that is on our doorstep.

Already back in 2022, the State Audit Office of the Republic of Latvia<sup>25</sup> drew dramatic conclusions with respect to the ability of Latvia to reach compliance with the Sustainable Development Goals of the UN. A substantial lack of supervision and control over the processes, responsible public bodies, the plan and tasks was identified. If no changes were introduced, by 2030 Latvia would achieve only 18% of the Sustainable Development Goals. Moreover, the report found that it is impossible to track the state budget allegedly spent on ensuring compliance with the Sustainability Development Goals.

However, in practice there is still no initial draft of the revised National Climate and Energy plan 2030, which had to be filed with the European Commission by end of June 2023<sup>26</sup>. Several major policies and initiatives have apparently been put on hold despite the urgent need for them to reduce the uncertainty for businesses and cope with the climate change. Moreover, MCE has already publicly stated that certain SEG emission and CO<sub>2</sub> reduction plan goals for the year 2030 cannot be attained. Therefore, revision of these measures is promised sometime in the future, in the updated National Climate and Energy Plan<sup>27</sup>. However, in the meantime, Latvia is running out of time for any further delays.

It is of the utmost importance that both a comprehensive understanding of the climate change issues, as well as deliberate actions to introduce and implement the core principles associated with green transition are boosted into all areas of economy, finance, tax, transport, labour, education, health etc. To this end, **FICIL recommends that climate and environment considerations are identified, described, and included into the document package for all stages of the draft legislation**, which would add transparency and ensure that the climate and environment is considered at all stages of the legislative process.

The current inconclusive statements, together with the see-saw energy policy and lack of a clear-cut energy strategy often fail to convince companies

operating in the energy or cleantech sectors to enter the market. FICIL does not disregard the ambitious plans of state-owned companies to increase the capacity and even become electricity exporters. However, **it is important that such a goal is not reached at the cost of distorted or even eliminated competition and the avoidance of fair market principles in the relevant sector.** Foremost, to avoid further frustration on the side of investors and the private sector, **FICIL calls for clear, open, and reliable communication about the short-, mid- and long-term perceptions of the market by the Government, so that the private sector can make informed and sensible decisions on investment and business operations.** Moreover, FICIL insists that this communication fully respects the rule of law, as well as the fundamental principles of fair competition and the single market.

Furthermore, considering the potential growth for electricity consumption in Latvia, it is obvious that transmission and distribution grids will need to be sufficient to receive electricity and deliver it to the consumers. Plans for the grid development and improvement should be made not only clear and comprehensive, but also non-fluctuating and realistic, and explained publicly. Businesses and households should be able to make informed decisions on the energy efficiency measures, as well as measures for the electricity production, consumption, storage, accumulation, cooling, ventilation, and heating to be introduced at their facilities, operations, or homes. Any further increase in tariffs or revision of the tariff structure and methodologies should be clearly explained and objectively justified prior to their entry into force. Their intentions to make their businesses and homes more sustainable and reliable should not be limited by the lack of reasonable and justified technical possibilities of the grid.

THE COMPLETE VERSION OF "SUSTAINABLE FOR THE FUTURE" POSITION PAPER IS AVAILABLE **HERE**.

25 English - [https://www.lrvk.gov.lv/en/getrevisionfile/29654-pMxs84mPi1\\_xo1cJ5ogygIKpzgBjalZ.pdf](https://www.lrvk.gov.lv/en/getrevisionfile/29654-pMxs84mPi1_xo1cJ5ogygIKpzgBjalZ.pdf)

Latvian - <https://www.lrvk.gov.lv/lv/getrevisionfile/29654-IT9ehAcFVSYieuFepp805nlcXyW5jGp.pdf>

26 By 30 June 2023, EU countries were expected to submit their draft updated NECPs to the Commission, in line with Article 14 of the Governance Regulation.

27 <https://www.kem.gov.lv/lv/jaunums/cudars-ar-ieprieks-planotiem-pasakumiem-klimata-merkus-2030-gada-nesasniegsim-jaiev-ies-jaunas-politikas-un-pasakumi>





# FOREIGN INVESTORS' COUNCIL IN LATVIA POSITION PAPER ON ECONOMIC DEVELOPMENT OF LATVIA FOR ALL

02.11.2023