

# LATVIA – TRUSTED DESTINATION FOR AMERICAN AND INTERNATIONAL BUSINESS

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RECOMMENDATIONS  
OF THE AMERICAN CHAMBER OF COMMERCE IN LATVIA  
TO THE NEW SAEIMA AND GOVERNMENT



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At a time of unprecedented geopolitical change and disruption, it is of utmost importance to focus on securing existing and attracting new investments in order to overcome the expected economic downturn, increase national competitiveness and external security. As the voice of international business, we look forward to working with the new government and other stakeholders to reach our common objectives for a more competitive and prosperous Latvia.

## Executive Summary



The current geopolitical crisis has many challenges, but also opportunities to attract foreign direct investment (FDI), enhance national competitiveness and strengthen external security through a strategic and systemic approach.

The expected recession is likely to decrease Latvia's ability to attract foreign investments and retain existing investments, therefore the country should take an immediate action to improve national competitiveness.

Following the Saeima's election on October 1, 2022 and the formation of a new government, the American Chamber of Commerce in Latvia (AmCham Latvia) offers actionable recommendations in two priority areas aiming at improving the nation's competitiveness.

- Strengthening Latvia's reputation as an attractive investment destination
- Revision of state employment policy
- Talent attraction and acquisition of skills and requalification based on the needs of the labor market
- Increase of state investments in science and research and continuation of education reforms
- Strategic and sustainable investments in healthcare
- More effective healthcare organizational model through a value-based healthcare approach



### **1 Increasing the nation's competitiveness and proactive investment attraction**



### **2 Targeted and sustainable investments in Latvian human capital**

The priority areas include the following recommendations:

- Transition to an innovative, high-value-added economy and increasing productivity
- Targeted attraction of FDI
- Fair tax policy for foreign and domestic investors
- Capital market development and implementation of good corporate governance in all SOEs
- Ensuring equal access to financial sector services for foreign investors
- Data-driven decision-making and better coordination

- Healthcare digitalization for improving patient outcomes and governance of the sector

The recommendations have been developed based on the input of industry experts from our member companies with a goal to mitigate the negative impacts of the current crisis on the economy. The implementation of these priorities will help Latvia weather the upcoming recession, recover more rapidly after the crisis, and become stronger and more attractive place for international investments.

By prioritizing investment attraction, Latvia would improve its competitiveness and seize new opportunities.

## Introduction



The current geopolitical crisis has many challenges, but also opportunities to attract foreign direct investment (FDI), enhance national competitiveness and strengthen external security through a strategic and systemic approach.

The American Chamber of Commerce in Latvia (AmCham Latvia) recognizes the efforts of the current Government to tackle the current geopolitical crisis and mitigate its effects on the economy and the well-being of society. Nonetheless, the Latvian business community is increasingly worried about the expected economic downturn and its effect on Latvia's ability to attract and retain investments. More could and should be done to improve the country's competitiveness. With the help of a long- and short-term action plan the state would prioritize investment attraction, reduce the negative impact of the upcoming downturn, and overall improve the nation's competitiveness.

AmCham Latvia believes that international companies should be part of the solution. International companies make a significant contribution to the Latvian economy and prosperity. For instance, AmCham member companies alone employed more than 15 200 people, reached almost €1.3 billion turnover and paid €236 million in taxes in 2021. While businesses recognize the current investment environment in Latvia as quite attractive, prioritizing investment attraction would help overcome the upcoming downturn and set us on a path of stronger growth.

**The ultimate objective is to ensure that companies which operate here keep and expand their operations in Latvia and that together we can convince prospective investors to select Latvia to grow their business.**

AmCham Latvia believes that by addressing the specific shortcomings outlined below, Latvia will become a more competitive and attractive place for investment.

Due to the current geopolitical crisis, Latvia's priorities are undoubtedly to increase investments in security and defense, as well as to ensure energy independence. However, increasing investment in human capital is equally important for Latvia's future.

AmCham is committed to working closely with the Latvian policymakers and other stakeholders to reach the common goals of a more competitive and prosperous Latvia.

# Recommendations

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## Increasing the nation's competitiveness and proactive investment attraction

### 1.1. Transition to an innovative, high value-added economy and increasing productivity

Latvia's planning documents<sup>1</sup> indicate a move towards a high value-added economy and, as competitive advantages of the country are changing, a knowledge and innovation-based business models are introduced more widely. Insufficient level of digital transformation and technological development is one of the main causes of low productivity in Latvia.<sup>2</sup> Latvia's future growth is closely related to the ability to increase productivity, which lags far behind the EU average.<sup>3</sup> To increase productivity, it is necessary to increase human capital, invest in the development of the innovation ecosystem, new technologies and digital solutions, as well as increase the share of high-tech products in exports.

### 1.2. Targeted attraction of foreign direct investment in identified sectors

In the past year, Latvia has shown remarkable results in attracting foreign investments by implementing forty-three new investment projects. Most new investments have been made in manufacturing. Future growth in investment attraction depends on the digital economy, including the IT, telecommunications, and media, as well as the automotive and mobility sectors. Despite the recent success, Latvia should implement a targeted and active investment attraction policy by introducing new investment support instruments, such as the Green Corridor principle, which aims at reducing administrative barriers and significantly accelerating the implementation time of the investment projects,<sup>4</sup> and by devoting more resources to the Investment and Development

Agency of Latvia for the attraction of FDI in certain, identified sectors.

### 1.3. Capital market development and implementation of good corporate governance in all state and municipal enterprises

Good corporate governance is a prerequisite for successful economic development, including for attracting financing and ensuring stable growth. In the private sector an increasing number of companies are introducing and evaluating the benefits of good governance, however, considering the share of state and local companies in Latvia's economy, it is important that the companies owned by the state and municipalities are also governed in accordance with good corporate governance standards and principles, which would enable state and municipality-owned enterprises to attract financing in the capital markets, while the state and local governments would retain strategic control over its enterprises. In addition, it would further develop the local capital market, opening the opportunities to invest not only for foreign or professional investors (such as pension funds), but also for residents, so they can actively participate in the development of the economy and boost the investment culture in Latvia. Introduction of a centralized governance model for state-owned companies should be set up in accordance with OECD guidelines<sup>5</sup> on Corporate Governance of State-Owned Enterprises that would ensure efficient and transparent management of public funds.

### 1.4. Fair tax policy for foreign and domestic investors

Under the current tax system, foreign investors, receiving dividends from a Latvian company, cannot apply double tax treaty benefits. It creates

<sup>1</sup> Latvijas Republikas Ekonomikas ministrija: <https://www.em.gov.lv/lv/industria-la-politika>

<sup>2</sup> Nacionālās Industriālās politikas pamatnostādnes 2021-2027: <https://www.em.gov.lv/lv/media/4157/download>

<sup>3</sup> Eurostat, Productivity trends using key national accounts indicators: [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Productivity\\_trends\\_using\\_key\\_national\\_accounts\\_indicators#Labour\\_productivity\\_trends\\_at\\_country\\_level](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Productivity_trends_using_key_national_accounts_indicators#Labour_productivity_trends_at_country_level)

<sup>4</sup> EY Attractiveness Survey Latvia, When at crossroads, how does "digital" drive Latvia's attractiveness? June 1, 2022: [https://www.ey.com/en\\_lv/attractiveness/ey-attractiveness-survey-latvia](https://www.ey.com/en_lv/attractiveness/ey-attractiveness-survey-latvia)

<sup>5</sup> OECD Guidelines on Corporate Governance of State-Owned Enterprises 2015 Edition: <https://www.oecd-ilibrary.org/docserver/9789264244160-en.pdf?expires=1636639389&id=id&accname=guest&checksum=9E839F764E51CD75FFD653A5C917D802>

## Recommendations

unfavorable conditions for attracting foreign investment compared to Latvia's neighboring countries. To balance the existing tax system for both domestic and foreign investors, we propose<sup>6</sup> amending the Law of Corporate Income Tax and the Law on Personal Income Tax to ease the tax burden on dividends paid to non-resident individuals. The proposed changes are technical in nature and will not reduce the amount of tax paid into the Latvian budget but will allow non-residents reduce their tax burden from investments made in Latvia and will thus promote Latvia's competitiveness in attracting foreign investors.

### 1.5. Ensuring equal financial sector services for foreign investors

Banking services must be available in equal quality to both Latvian and foreign investors. During the past years, Latvia has implemented significant reforms to prevent money laundering and terrorism and proliferation financing by strengthening the supervision of the financial sector. In the provision of financial services, a risk assessment-based approach should be consistently provided to both financial service providers and their supervisors. Overregulation should be avoided as fear of potentially violating regulations may prevent customers, especially, in the non-resident segment from receiving banking services and therefore selecting other jurisdictions.

### 1.6 Data-driven decision-making and better coordination

Effective data management allows to collect and analyze data and understand the impact of decisions on society and the economy. It also helps increasing productivity. The digitization of the public and private sectors must be continued at a fast pace, maintaining a constant dialogue between various public sector institutions and the private sector. Our recommen-

dation is based on the proposal of FICIL, including the establishment of the Office of the State Chief Information Officer to oversee the implementation of a centralized digital policy.<sup>7</sup>

### 1.7. Strengthening Latvia's reputation as an attractive investment destination

Alongside investments in the innovation ecosystem and human capital, Latvia needs to strengthen its national image, create a nation branding strategy and an action plan to promote its competitive advantages in attracting investments. Although the work on developing a single national image<sup>8</sup> was initiated in 2020, based on a study and expert interviews, the current focus of the Latvian Investment and Development Agency on Mission "Sea 2030" mission lacks clear connection with the objectives set out in the national Single Image Strategy, referring to the objectives including export promotion, tourism development and attraction of foreign investments.

<sup>6</sup> AmCham vēstule Latvijas Republikas Finanšu ministram, 2022: <https://www.amcham.lv/data/Advocacy/ieteikumi-nodoklu-sloga-mazinasanai-03032022.pdf>

<sup>7</sup> Ārvalstu Investoru Padomes Latvijā nostāja par datiem, 2022: [https://www.ficil.lv/wp-content/uploads/2022/09/FICIL\\_PP\\_Data\\_LV\\_2022.pdf](https://www.ficil.lv/wp-content/uploads/2022/09/FICIL_PP_Data_LV_2022.pdf)

<sup>8</sup> Informatīvais ziņojums "Par vienota valsts tēla izstrādi": <https://tap.mk.gov.lv/mk/tap/?pid=40491531>

### 2.1. Revision of the employment policy

The governance of employment matters in Latvia is fragmented, therefore it would be necessary to review the current employment policy, improve coordination and communication between various institutions to ensure a long-term vision for the employment in Latvia, aligning it to the national development planning documents (The National Development Plan, The National Industrial Plan) and implementing a comprehensive strategy with specific, measurable goals (KPI).

### 2.2. Talent attraction and retention

For a long time, human capital has been an undervalued resource in the economy of Latvia, which, with targeted education and upskilling activities, can attract investments, create well-paid jobs and thus reduce inequality and increase well-being of the general population. Finding and attracting necessary talents in the Latvian labor market is becoming more difficult each year, considering both negative demographic trends and the unavailability of highly qualified specialists. By setting the goal of becoming an international career destination, Latvia would address the acute labor shortage and ensure further growth of the national economy.

### 2.3. Acquisition of skills and requalification based on the needs of the labor market

Training of skills and, especially, digital skills should be made available at various levels of competence for all population groups, including through various education, lifelong learning and reskilling programs. The improvement

of digital literacy should be promoted at different competency levels as it encompasses most in-demand skills for today's work environment: data management and analysis, media literacy, online safety, problem solving, cooperation and communication etc. using digital technologies.<sup>9</sup> Quality content should become a top priority for upskilling and reskilling. Training programs should be designed to enable the learning process to become more effective and, in addition to improving the content, focus on teaching methods, accessibility and the most current global trends through internationally recognized and certified training programs.

### 2.4. Increase state investments in science and research and continue education reforms

In 2022, science funding in Latvia has increased significantly with the goal of reaching 1% of GDP in 2024, however, historically it has among the lowest in the EU.<sup>10</sup> Latvia's "Open Science Strategy 2021-2027" offers freely available scientific information, promoting in-depth public involvement in research processes.<sup>11</sup> In order to increase investments, a balanced supply of research and knowledge between scientific institutions and industry demand should be accelerated and technology transfer infrastructure built up. Through investments in innovation and education, as well as more accurate forecasts of future skills, a greater balance of the labor market demand and supply can be achieved. Concurrently it is necessary to continue the ongoing reforms in both general and higher education to improve the quality, accessibility, and competitiveness at various stages of education.

<sup>9</sup> 2022. gada Eiropas Komisijas Digitālās ekonomikas un sabiedrības indeksā (DESI) Latvija no 27 dalībvalstīm ierindojas 17.vietā, Igaunija – 9. vietā, Lietuva – 14.vietā, visvairāk atpaliekot iedzīvotāju digitālo prasmju vērtējumā. The Digital Economy and Society Index: <https://digital-strategy.ec.europa.eu/en/policies/desi>

<sup>10</sup> Eurostat, Gross Domestic expenditure on R&D: [https://ec.europa.eu/eurostat/databrowser/view/sdg\\_09\\_10/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/sdg_09_10/default/table?lang=en)

<sup>11</sup> Latvian Open Science Strategy 2021-2027: <https://www.izm.gov.lv/lv/media/17072/download>

## Recommendations

### 2.5. Strategic and sustainable investments in healthcare

One of the major factors of the economic growth is the availability of human capital, hence a strategic and sustainable approach to state investments in human resources is required. In Latvia, the growth rate of health care expenses exceeds the growth rate of gross domestic product, however the total health care expenses per capita are still among the lowest in the European Union. Sustainable healthcare financing ensures economic sustainability and directly correlates with public health outcomes,<sup>12</sup> therefore, it is necessary to continue the strategic direction to increase the healthcare budget to 8% of GDP in order to reach the current EU average for public investment in health by 2027.<sup>13</sup> In addition, the healthcare budget should be balanced, ensuring not only wage increase for medical workers, but also ensuring increases in the outpatient technology and medication budget in proportion to the overall budget increase, thus promoting the availability of healthcare services to the population.<sup>14</sup>

### 2.6. Gradual transition to value-based healthcare (VBA) model with implementation of VBA pilot projects

Due to the aging of the population and increase in the number of chronic diseases and comorbidities, the demand for healthcare services is constantly increasing and is putting pressure on the healthcare systems. Existing healthcare organization models require restructuring to include new treatment technologies and personalized medicine that will deliver real value to patients while optimizing costs. Value-based healthcare (VBHC) is a conceptual approach to healthcare transformation aimed at improving patient healthcare outcomes and healthcare system performance, while controlling the costs. VBHC is based on well-known approaches of the health management systems

evidence-based healthcare, application of health economics principles, comprehensive quality, and patient safety system – supplementing them by linking the healthcare payment system to the achieved result. Compiling best international practices and terminology, the VBCH Latvia concept<sup>15</sup> and action plan for the implementation of such projects in selected areas of healthcare were developed under the guidance of AmCham experts. It is necessary to start the implementation of VBHC pilot projects in the nearest future through the cooperation of service providers, payers and policy makers.

### 2.7. Healthcare digitalization for improving patient outcomes and governance of the sector

The digital health ecosystem of the next generation must be accessible, easy, understandable, and cost-effective, as well as user-friendly for both patients and doctors. Prioritizing connectivity and interoperability will help citizens receive value-based healthcare in the foreseeable future and allow healthcare professionals practice precision medicine in areas where the mortality rate is one of the most critical in the world.<sup>16</sup> It is important to continue the work to establish the Digital health ecosystem based on the Digital Health Memorandum signed by various leaders of the sector.<sup>17</sup> We invite you to accelerate the digital transformation of healthcare by developing the Digital Health Competence Center and fulfilling the commitments included in the Memorandum of the Digital Health.

<sup>12</sup> Amerikas Tirdzniecības palātas Latvijā viedokļa ziņojums, 2021: <https://www.amcham.lv/data/Events/viedokla-zinojums-2021-lv.pdf>

<sup>13</sup> OECD Health at glance, 2021: [www.oecd.org/health/health-at-a-glance/](http://www.oecd.org/health/health-at-a-glance/)

<sup>14</sup> Amerikas Tirdzniecības palātas Latvijā viedokļa ziņojums, 2022: <https://www.amcham.lv/data/Advocacy/amcham-zinojums-2022-lv.pdf>

<sup>15</sup> Vērtībās balstīta veselības aprūpes koncepcija, 2022: <https://www.amcham.lv/data/Advocacy/vbva-koncepcija-2022.pdf>

<sup>16</sup> Institute for Health Metrics and Evaluation, 2022: <https://www.healthdata.org/latvia>

<sup>17</sup> Sadarbības memorands par digitālo transformāciju, Digitālās Veselības ekosistēmu un inovāciju veicināšanu veselības nozarē, 2022: <https://www.vmnvd.gov.lv/lv/jaunums/vienojas-par-jaunu-pieeju-veselibas-nozares-digitalizacija>



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## Conclusion



Due to the current geopolitical crisis, Latvia's priorities are undoubtedly to increase investments in security and defense, as well as to ensure energy independence. However, the recovery of Latvia's economy will depend on to what extent the country will have invested in its human capital and proactive attraction of investors. We invite the policy-makers to prioritize the FDI attraction policy, as our neighboring countries have successfully done in the past, as a result ensuring much faster growth of their economies and almost twice higher income levels for their populations.<sup>18,19</sup> We would also recommend simplifying the tax system by digitalizing it, as well as avoiding "de facto" double taxation of non-residents in the distribution of dividends.<sup>20</sup>

AmCham Latvia is ready to engage in dialogue with the new Parliament and Government and support the efforts of policymakers to overcome the current crisis by focusing on increasing Latvia's competitiveness. We stand ready to discuss the proposals and to facilitate the progress in the aforementioned areas.

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<sup>18</sup> Krasnopjorovs Oļegs, Makroekonomika: <https://www.makroekonomika.lv/ka-panakt-igauniju-un-lietuvu>

<sup>19</sup> The World Bank. IKP per capita USD: Lietuva 42,665, Igaunija 42,191, Latvija 34,468: <https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?locations=LV-EE-LT>

<sup>20</sup> AmCham position on balancing tax burden for foreign investors: <https://www.amcham.lv/en/programs/advocacy/dividends-tax-proposal>

# AmCham Latvia

Thought leadership hub

AmCham speaks on behalf of more than 150 leading U.S. and international companies in Latvia. It is committed to fostering trade, investment, partnership and friendship between the U.S. and Latvia and serves as a business, knowledge, networking and policy forum. Among AmCham's priorities is the development of human capital in areas including preparing for the future of work and improving health outcomes of Latvia's society with the aim to increase and secure investments.