



6 June 2008

Industrial investment challenges in Latvia

1. Executive Summary

The Foreign Investors Council in Latvia (FICIL) position is that the Government should improve the territorial planning and construction approval processes to increase predictability and clarity for investors about the procedures and timelines to be followed when developing green-field industrial investment projects.

The Government should introduce a more transparent decision making process at all levels and provide investors with a clear vision of what are the priority areas for the country's economic and industrial development.

2. Recommendation/Suggestions

1. To increase transparency of information and predictability about the decision making process regarding the territorial plans and construction processes; to recognise importance of the public consultations and neighbourhood involvement in the decision making process.
2. To provide government support for investment projects of significant size and importance to the national economy of Latvia.
3. To develop a practical possibility to correct/amend the existing territorial plans and possibility to introduce a faster procedure for the change of territory zoning.
4. To reconsider the taxation structure of the budget formation of the local municipality.
5. To introduce a government support program or a municipal borrowing system for the development of local industrial infrastructure.

3. Rationale

On a number of occasions it has been experienced that shortage of territories with appropriate zoning and infrastructure is an obstacle to industrial project implementation in Latvia. The development of regional territorial planning seems to be done rather formally and in a number of cases municipalities have not envisaged new industrial areas, marking the industrial zones only where the industrial plants have been in the soviet times and which are in most cases already exploited. If there are some areas with industrial zoning, however, it is very typical that these areas do not have appropriate infrastructure and there are no municipal funds available for construction of necessary infrastructure.

FICIL suggests to reconsider the taxation structure in such a way that an enterprise situated in the particular municipality would pay part of its corporate income tax to the budget of the local municipality. Thus the budget of a municipality would be constituted of personal income tax, real estate tax and enterprise income tax. Alternatively, a split between the payable Personal Income Tax between the municipality the person is residing and the municipality where a person is working could be introduced thus motivating the municipality to define and develop appropriate territories for industrial use in order to attract industrial investors and create more workplaces for the local residents.

The investor will avoid choosing a territory without proper zoning/infrastructure which eventually means the time-consuming procedure of changing the zoning of the land, acquisition and coordination of technical specifications from 13+ institutions as well as technical and financial risks of infrastructure construction. By developing industrial zones it is essential to assess availability of all necessary infrastructure connections at the site and in particular a cost of a new electricity connection, waste water and water supply connections to increase the currently available capacities.

Transparency of information about the decision making process regarding the territorial plans both for local communities and investors can reduce the potentially negative effects of economic activity, especially on local communities. It is also an important tool for helping local communities and for enabling those communities to benefit from potential opportunities arising from new investment activity.

Within a construction process formal standards, laws, and rules which regulate the receipt of building permits seems to be un-clear, contradictory, and at some times even impossible to fulfil. Not only investors, but also municipal officials sometimes lack clear understanding about the exact procedure for implementing complex industrial projects. It creates an environment in which consistency can only be secured by maintaining good relations with the officials in charge, therefore making good ground for corrupt practices to resolve or avoid possible disputes and delays.

Lack of clear guidelines and rules of public involvement is another aspect adding to the unpredictability of the investment environment in Latvia. Public involvement in defining territorial plans has been only a formality in many municipalities, therefore the approved territorial plans often lack genuine public consent. This leads to situations when industrial investment projects can be delayed at any project stage which involves public hearing procedure only because the very idea of developing an industrial area is not genuinely endorsed by the community.

Transparency can facilitate replication of good environmental, social, and corporate governance practices and contribute to more efficient decision-making by local community, investors, regulators, and policy makers. Greater transparency encourages the engagement of the local community

Thus would avoid possibility later to question the whole process of adoption the territorial plans or construction process whether public consultations has been conducted appropriately, consultations with other institutions have been performed or legal norms and procedures have been fully followed. Importance of the neighbourhood and it involvement in the consultations process before adopting territorial plan and/or construction process should be stressed separately. No doubt the process should be carried out appropriately alternatively the risk of being involved in the dispute could clearly delay the whole process of project delivery. These are just few risks investors have no control over and few bad examples could form a wrong impression and image of the whole country.

We would invite local municipalities and the government to develop a practical possibility to correct/amend the existing territorial plans and to plan areas appropriate for investors' needs with industrial zoning, considering the willingness of a municipality and local communities to develop industrial entrepreneurship, availability of infrastructure and impact on environment.

Possibility to introduce a faster procedure for the change of territory zoning and transformation for industrial investment projects which fulfils certain criteria might be a solution to the current need for industrial investment projects.

We would also like to advocate that the investment projects of significant size and importance to the national economy of Latvia receive the government support (e.g. large linear objects, energy generating units and others). Such a support would clearly show the investor recognition of the project and would ensure smooth implementation of the project and coordination processes with other state institutions.

Economic activity conducted by the investor would bring and create the benefits accruing to the local community. Such performance could lead to support and welcome the business's operations by local municipality therefore helping the investor to develop the necessary infrastructure. Knowing that only few municipalities in Latvia have available resources to be swiftly located in response to the needs of potential investor we would like to suggest introduction of a government support programme or municipality borrowing system administrated by the Ministry of Regional Development and Local Government for the development of industrial areas. Funds could become available to municipalities for improvement/development of infrastructure (roads, energy, water supply and sewerage systems) allocated to industrial territories following investor's decision in favour of a particular town and piece of land to implement an industrial project.