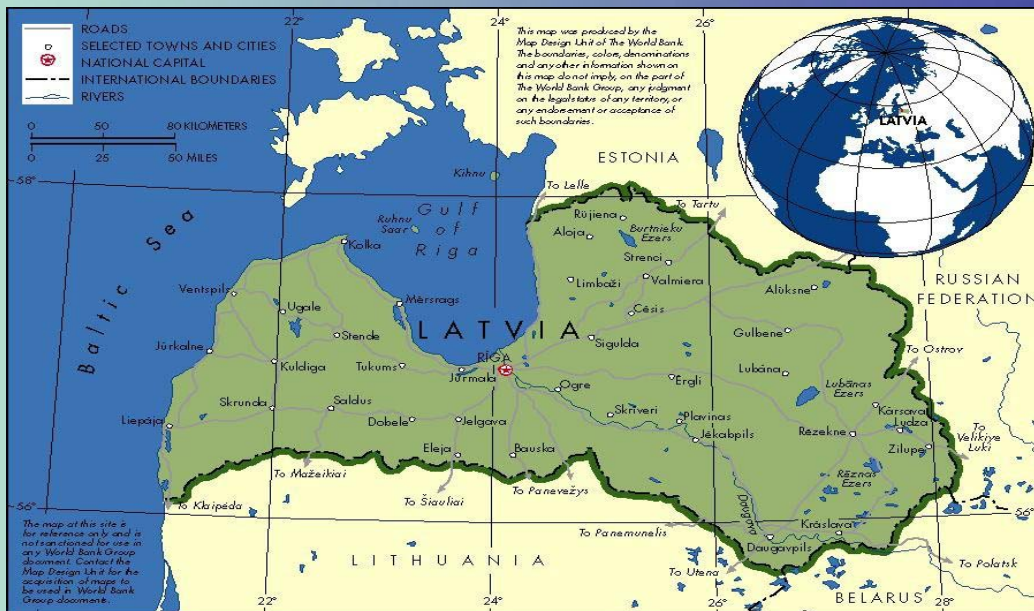




Latvia Country Profile 2009



Region: Eastern Europe & Central Asia

Income Group: Upper middle income

Population: 2,276,100

GNI per capita: US\$9,930.00

Enterprise Surveys

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Introduction

Enterprise Surveys

The Enterprise Surveys focus on the many factors that shape the decisions of firms to invest. These factors can be accommodating or constraining and play an important role in whether a country will prosper or not. An accommodating business environment is one that encourages firms to operate efficiently. Such conditions strengthen incentives for firms to innovate and to increase productivity—key factors for sustainable development. A more productive private sector, in turn, expands employment and contributes taxes necessary for public investment in health, education, and other services. In contrast, a poor business environment increases the obstacles to conducting business activities and decreases a country's prospects for reaching its potential in terms of employment, production, and welfare.

Enterprise Surveys are conducted by the World Bank and its partners across all geographic regions and cover small, medium, and large companies. The surveys are applied to a representative sample of firms in the non-agricultural economy. The sample is consistently defined in all countries and includes the entire manufacturing sector, the services sector, and the transportation and construction sectors. Public utilities, government services, health care, and financial services sectors are not included in the sample. Enterprise Surveys collect a wide array of qualitative and quantitative information through face-to-face interviews with firm managers and owners regarding the business environment in their countries and the productivity of their firms. The topics covered in Enterprise Surveys include the obstacles to doing business, infrastructure, finance, labor, corruption and regulation, law and order, innovation and technology, trade, and firm productivity.

The qualitative and quantitative data collected through the surveys connect a country's business environment characteristics with firm productivity and performance. The Enterprise Survey database is intended to be useful for both policymakers and researchers. The surveys are to be repeated over time to track changes and benchmark the effects of reforms on firm performance.

Country Profiles

The Country Profiles produced by the Enterprise Analysis Unit (GIAEA) of the World Bank Group provide an overview of key business environment indicators in each country, benchmarking against their respective geographic region and group of countries with similar incomes. Breakdowns by firm size are presented in the Appendix of the document along with all statistics used to make the graphs. The same topics are covered for all countries with slight variations in indicators (subject to data availability). This format allows cross country comparisons. All indicators are based on the responses of firms.

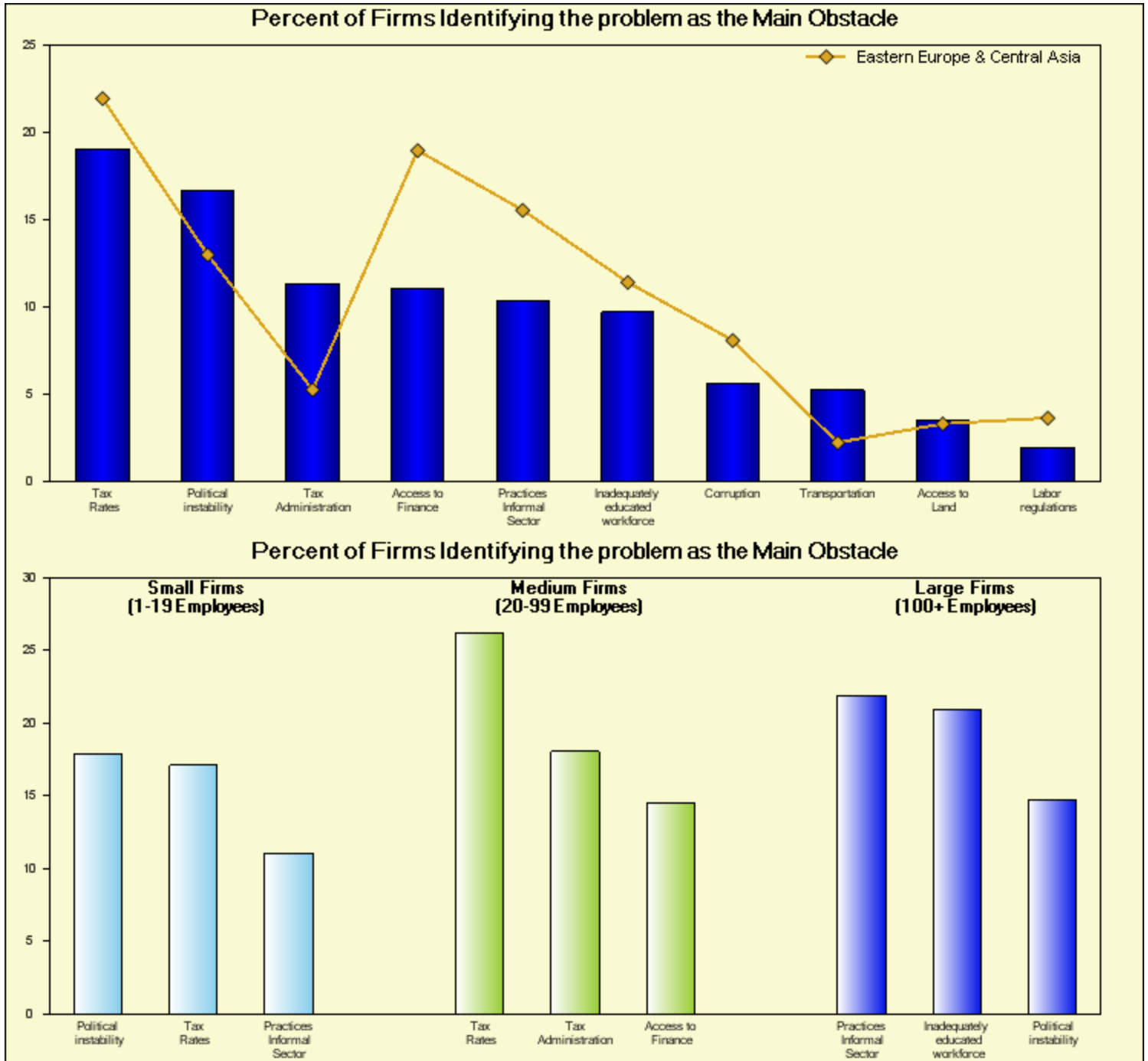
To learn more about the firms sampled for this country profile (tabulations for these and other indicators by industry, exports, and type of ownership) or to obtain profiles of other countries, please visit the web page <http://www.enterprisesurveys.org>. Currently available at the Enterprise Survey website are survey results on the business environment in over 112 countries, based on data from more than 94,000 firms.

Main Obstacles as perceived by enterprises

The country profile for Latvia is based on data from the Enterprise Surveys conducted by the World Bank in 2009. The benchmarks include the averages for the group of countries in Eastern Europe & Central Asia and the Latvia income group.

Below is a snapshot of the constraints to investment and doing business as perceived by firms. The first graph presents the top 10 constraints as identified by firms in Latvia benchmarked against the regional average. The second graph shows the top 3 constraints broken down by large, medium, and small firms in Latvia.

Snapshot of the Business Environment in Latvia



Average Firm

Different legal forms allow for different protections for investors and therefore can affect the incentives to invest.

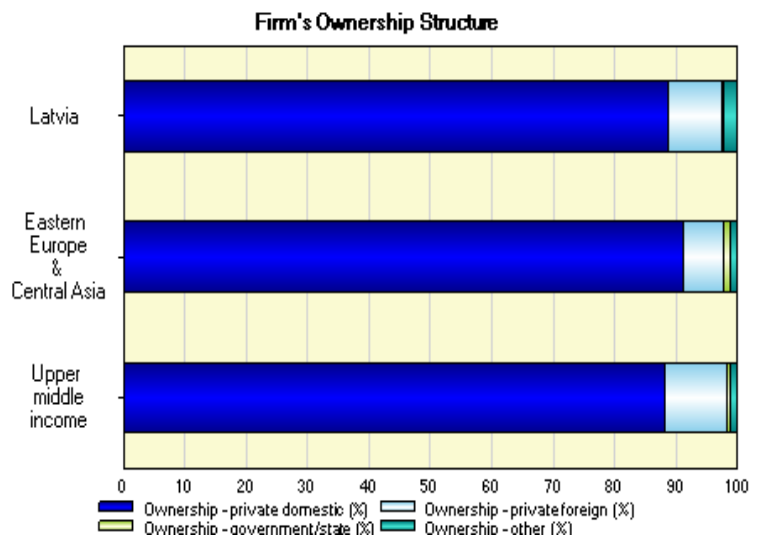
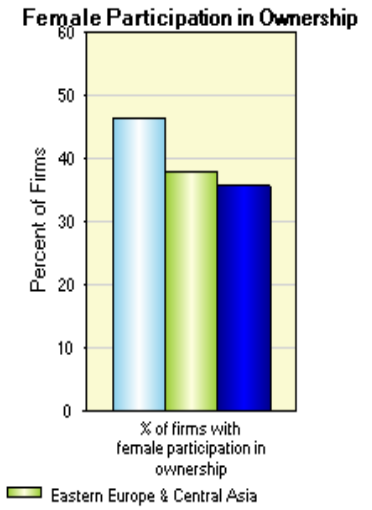
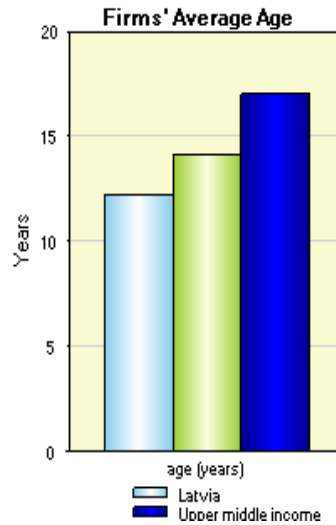
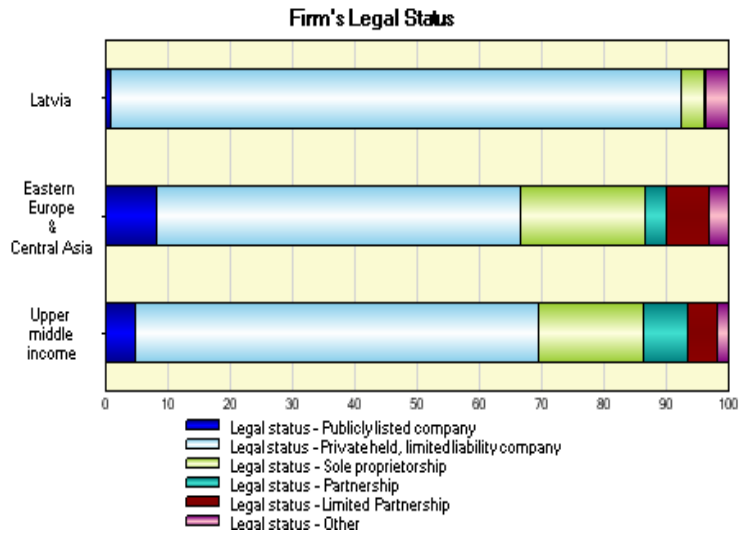
- In Latvia 92.457 % of the firms are limited liability companies.
- The most common legal form is the Legal status - Private held, limited liability company .
- The typical top manager has 14 years of work experience.

In Latvia, the average firm ownership structure is as follows:

- 89 % of the firm is owned by private domestic individuals, companies or organizations;
- 9 % of the firm is owned by private foreign individuals, companies or organizations;
- The remaining 2 % of the firm is owned by other legal forms

How much has the average firm invested in the past year?

- 78 % of firms invested in fixed assets; 98 % invested in equipment and 18 % invested in land and buildings



Corruption

Corruption by public officials may present a major administrative and financial burden on firms. Corruption creates an unfavorable business environment by undermining the operational efficiency of firms and raising the costs and risks associated with doing business.

Inefficient regulations constrain firm efficiency as they present opportunities for soliciting bribes where firms are required to make “unofficial” payments to public officials to get things done. In many countries bribes are common and quite high and additionally the bureaucratic costs to obtain required permits and licenses may be a serious impediment for firm growth and development.

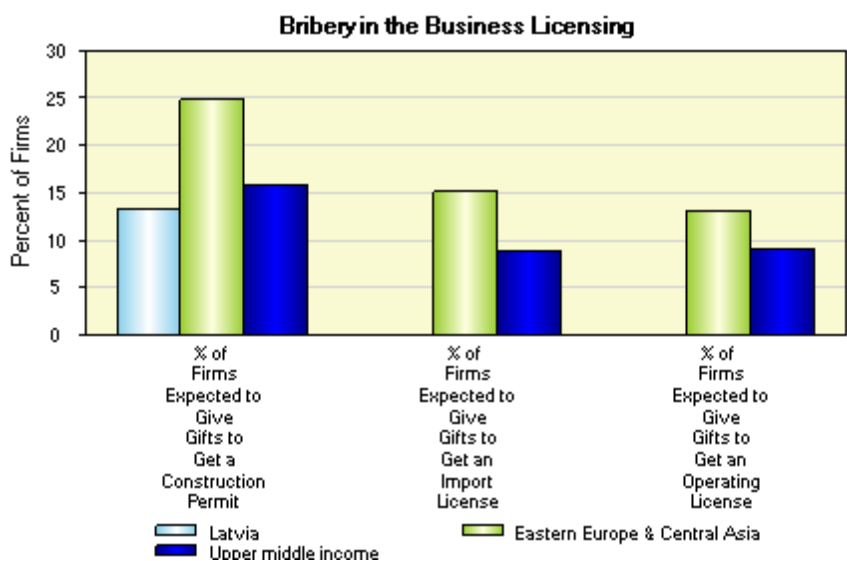
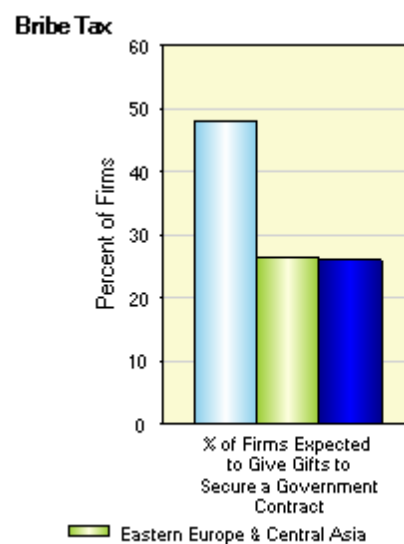
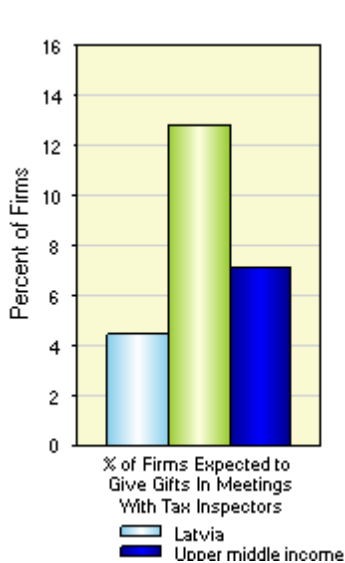
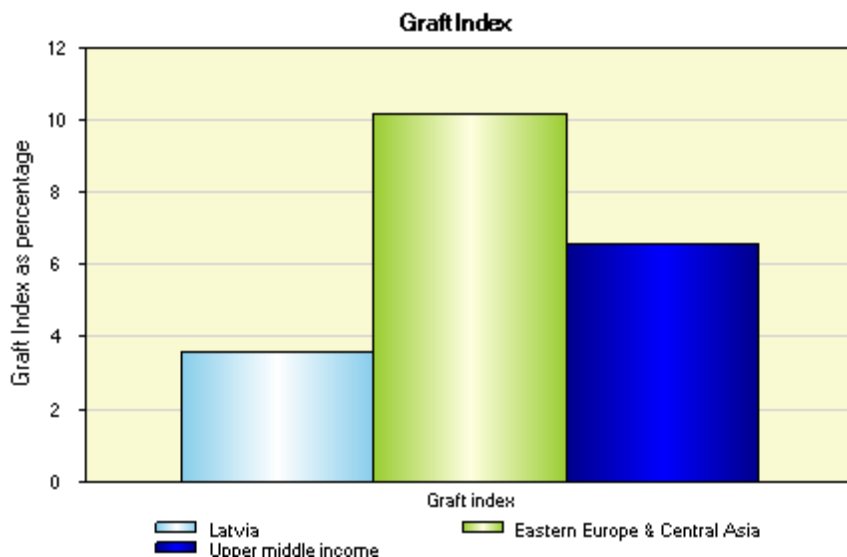
The Enterprise Surveys provide qualitative and quantitative measures of corruption and the regulatory burden.

The first set of indicators measures a composite index of corruption, the Graft index* that reflects the probability that a firm will be asked for a bribe in order to complete a specified set of business transactions.

The second set of indicators identifies the extent to which specific regulatory and administrative officials require bribe payments during meetings with tax inspectors or in order to secure a government contract.

The third set of indicators focuses on bribes to obtain permits and licenses, and shows the share of firms that are expected to make informal payments to secure construction, import and operating licenses.

* see Note 1



Tax, Regulations, and Business Licensing

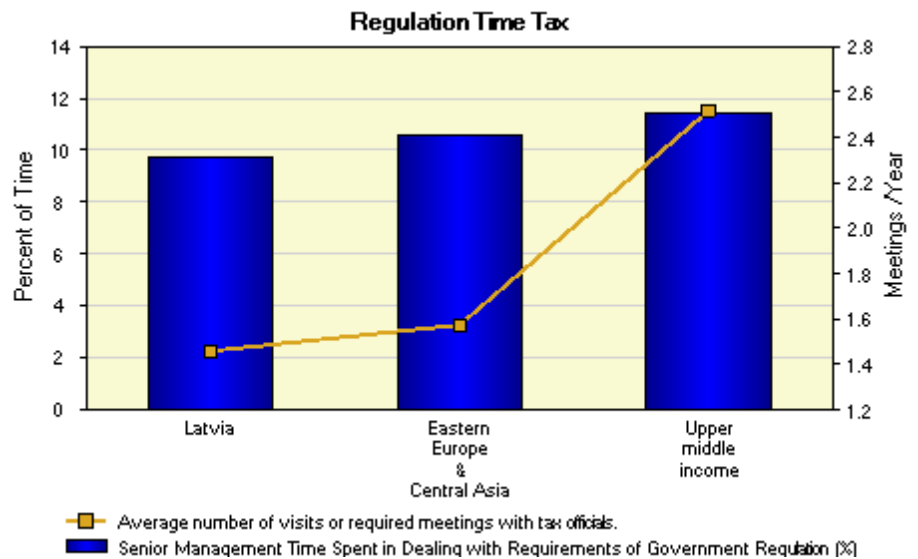
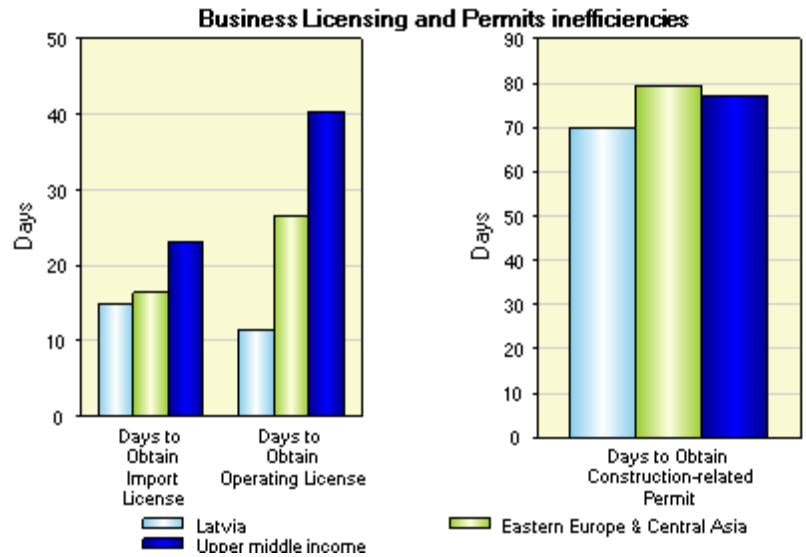
Good economic governance in areas such as taxation, regulations, and business licensing is a fundamental pillar for the creation of a favorable business environment.

Effective regulations address market failures that inhibit productive investment and reconcile private and public interests. The number of permits and approvals that businesses need to obtain, and the time it takes to obtain them, are expensive and time consuming. In addition, a negative perception of the tax environment may reflect the pernicious effect of overbearing tax structures which limit the operation and growth of the private sector.

The Enterprise Surveys provide qualitative and quantitative measures of taxation, regulations, and business licensing.

The first set of indicators focuses on the quality and efficiency of business licensing services, and evaluates the delays faced when obtaining licenses and permits.

The second set of indicators approximates the "time tax" imposed by regulation, and measures the time spent by senior management in meetings with public officials and the average number of tax inspections or meetings with tax inspectors in a given year.



Finance

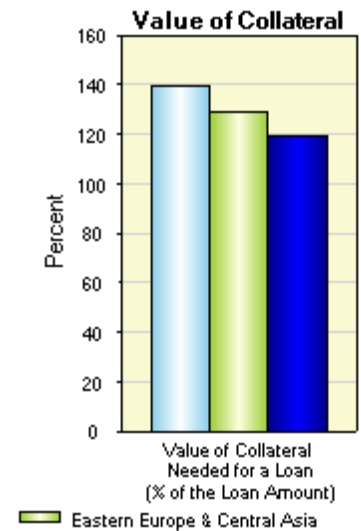
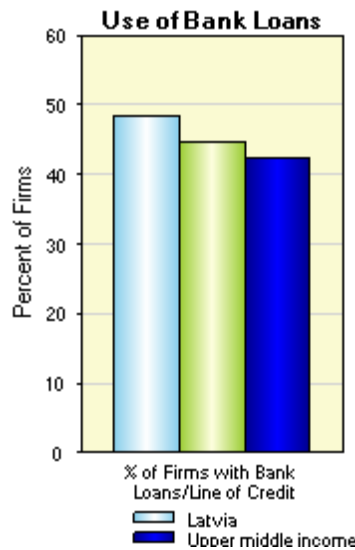
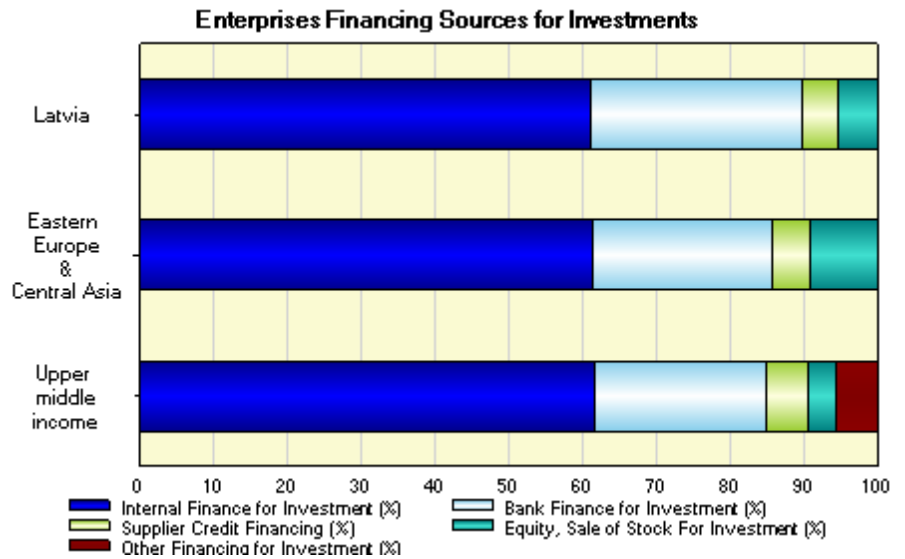
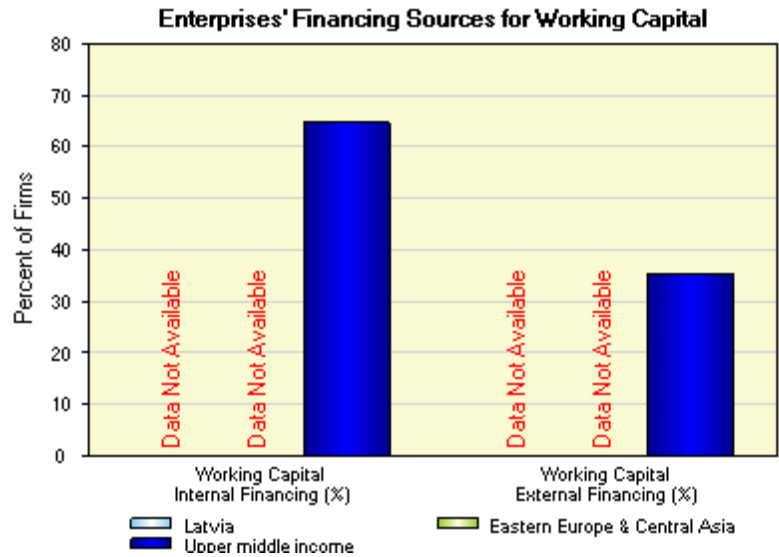
Developed financial markets provide payment services, mobilize deposits, and ease investment financing. Efficient financial markets reduce the reliance on internal funds and on money from informal sources such as family and friends by connecting firms to a broad range of lenders and investors.

The Enterprise Surveys provide indicators of how firms perceive their financial environment and finance their operations.

The first set of indicators provides a measure of access to finance by asking about the use of banks to finance investments or working capital and compares the use of internal sources for financing working capital. Inadequate financing opportunities create difficulties in meeting short term payments for labor and supplies as well as longer term investments.

The second set of indicators compares the relative use of various sources for financing investment. Excessive reliance on internal funds is a sign of potentially inefficient financial intermediation.

The third set of indicators focuses on the use of bank loans and it quantifies the burden imposed by loan requirements, measured by collateral levels relative to the value of the loans. Excessive loan collateral requirements are likely to constrain investment opportunities.



Infrastructure

A strong infrastructure enhances the competitiveness of an economy and generates a business environment conducive to firm growth and development. Good infrastructure efficiently connects firms to their customers and suppliers, and enables the use of modern production technologies. Conversely, deficiencies in infrastructure create barriers to productive opportunities and increase costs for all firms, from micro enterprises to large multinational corporations.

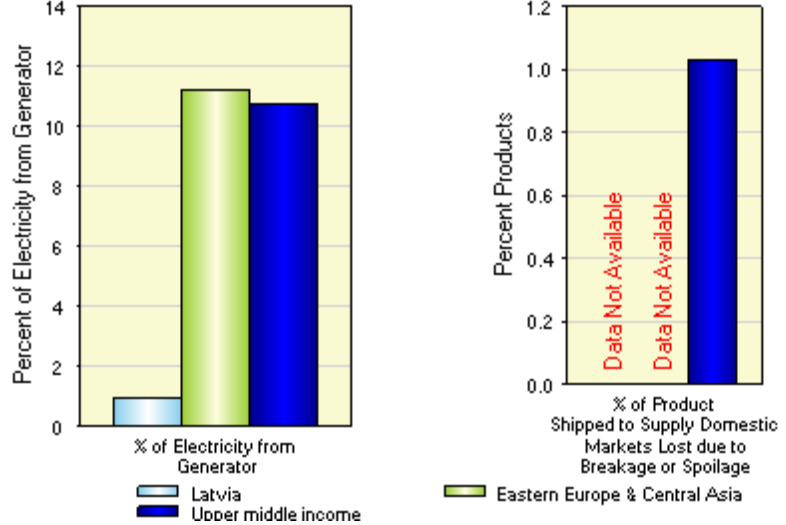
The Enterprise Surveys capture the dual challenge of providing a strong infrastructure: the physical construction of roads, power lines, water systems, etc., and the development of institutions that effectively provide and maintain public services.

The first set of indicators shows the extent to which firms use generators to produce electricity and losses in transportation due to breakage and spoilage. Inadequate transportation and electricity outages increase operating costs, disrupt production, and reduce profitability.

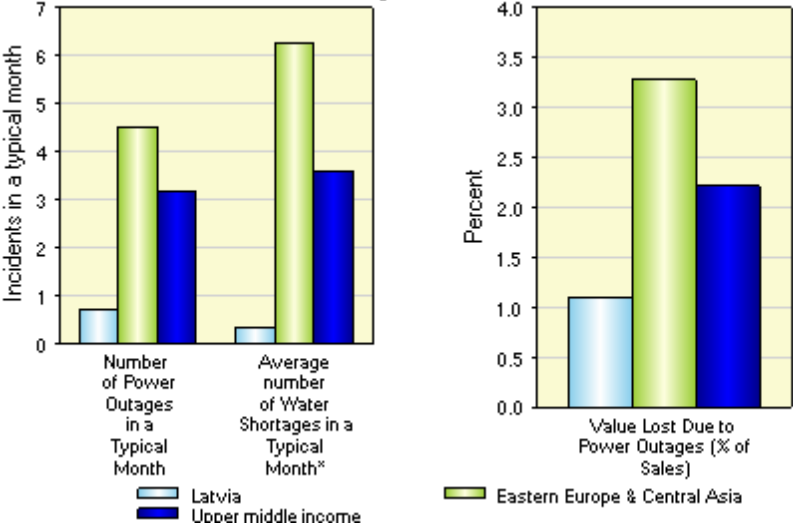
The second set of indicators measures the quality of infrastructure: the number of monthly power outages, the losses associated with power outages, and insufficiencies in water supply per month.

The third set of indicators evaluates the efficiency of infrastructure services by quantifying the delays in obtaining electricity, water, and telephone connections. Service delays impose additional costs on firms and may act as barriers to entry and investment.

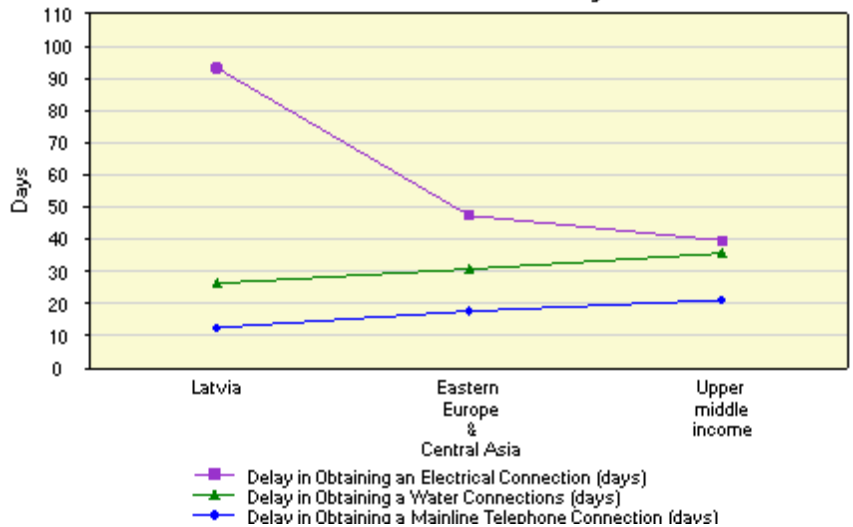
Infrastructure Constraints on Enterprises



Quality of Infrastructure



Infrastructure Services Delays



Workforce

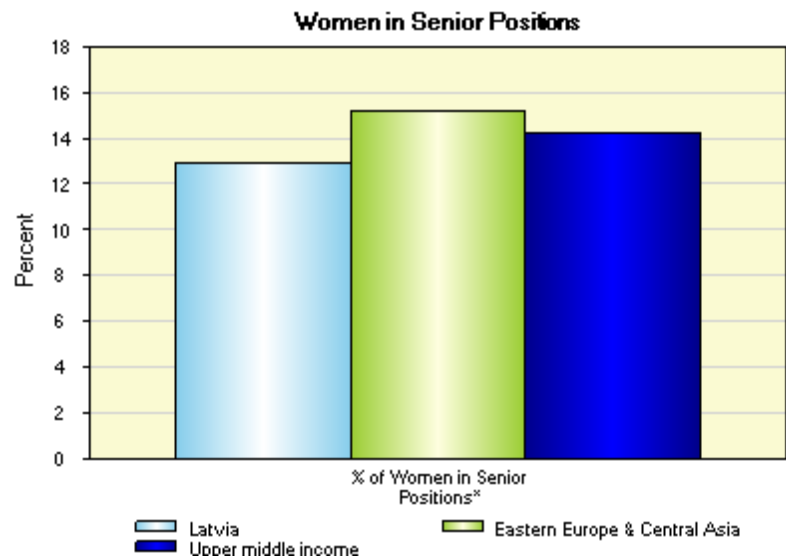
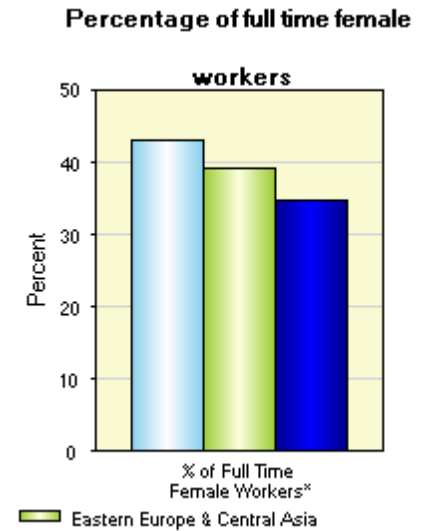
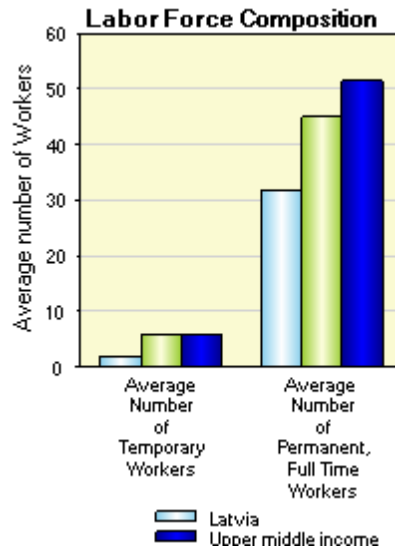
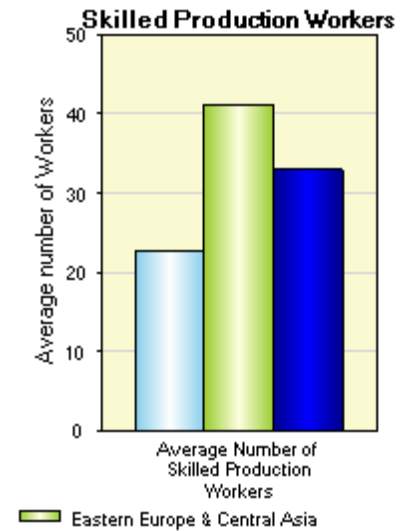
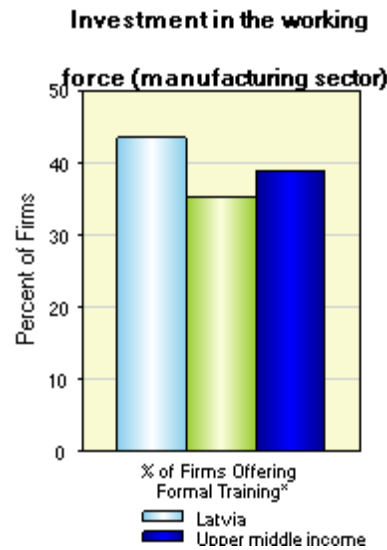
A sound business environment contributes to the creation of employment opportunities, investment in the workforce, increases in wages, and, ultimately, a more productive and prosperous society. Ultimately, jobs are the main source of income for most of the population.

The Enterprise Surveys collect information on labor market constraints faced by firms and also on the characteristics of the workforce employed in the non agricultural private economy.

The first set of indicators highlights firm level investments in the skills and capabilities of their workforce. The incidence and intensity of training is measured by the percent of manufacturing firms that offer formal training. The workforce quality is measured by the average number of skilled workers in the manufacturing industry.

The second set of indicators presents the composition of the firms' workforce by type of contract and gender. Labor regulations have a direct effect on the type of employment and may have a differential impact by gender. The first two indicators present the composition of the workforce classified into temporary and permanent workers.

The third set of indicators reflects the participation of women in regular full-time employment and in senior positions.



Crime and Informality

A large informal sector has serious consequences for the formal private sector. The informal sector may pose unfair competition for formal firms.

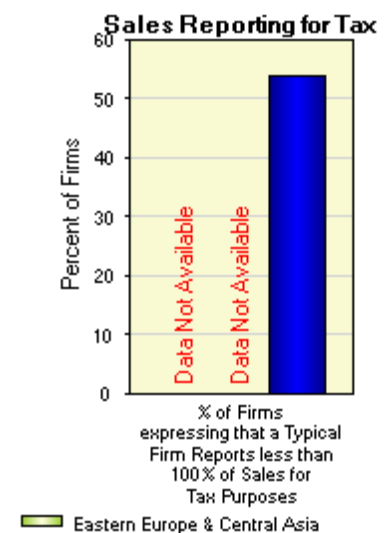
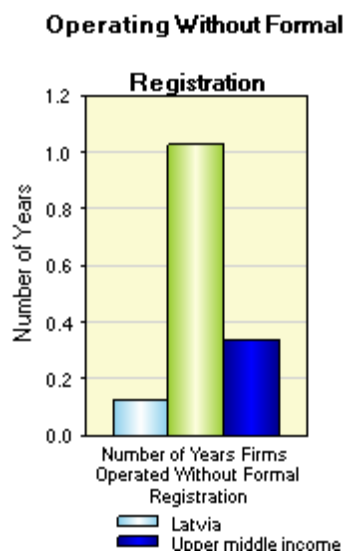
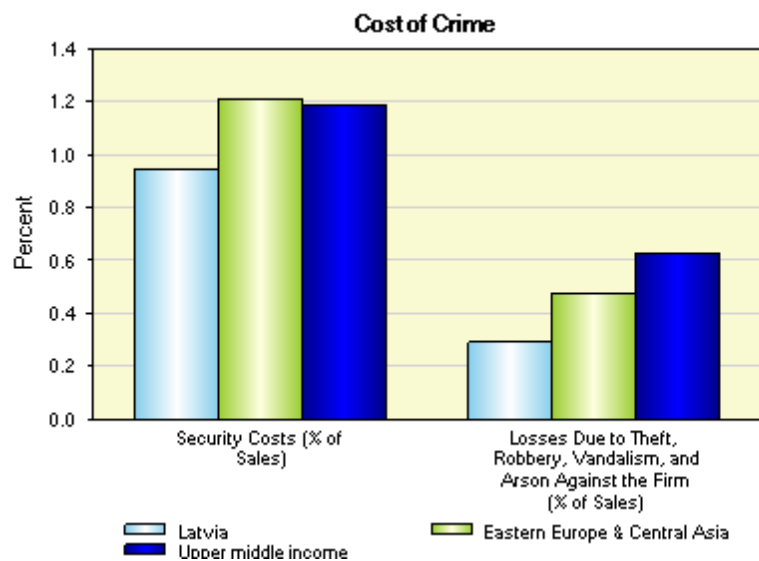
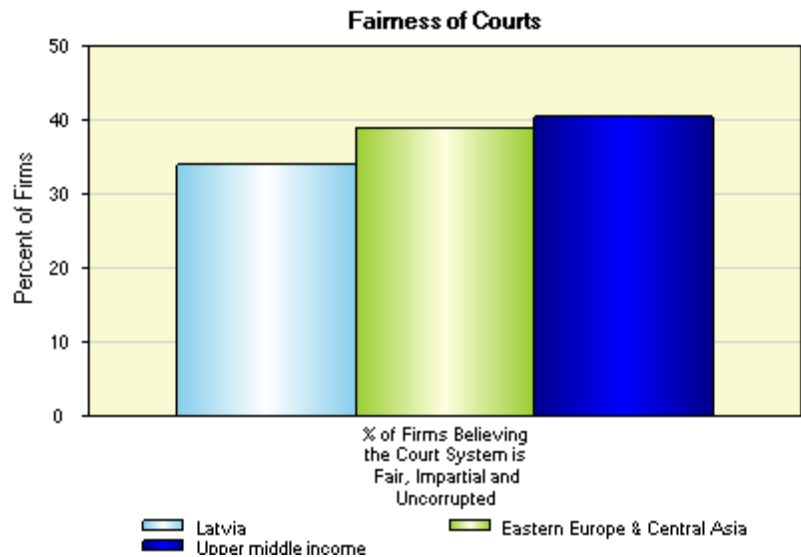
Similarly, crime imposes costs on firms when they are forced to divert resources from productive uses to cover security costs. Both foreign and domestic investors perceive crime as an indication of social instability, and crime drives up the cost of doing business. Also, commercial disputes between firms and their clients occur regularly in the course of doing business. Resolving these disputes can be challenging when legal institutions are weak or non-existent.

The Enterprise Surveys capture key dimensions of the effect of crime on firm sales and the extent to which entrepreneurs identify courts, crime and informality as important constraints.

The first indicator shows the share of firms that recognize the functioning of the courts as being fair, impartial and uncorrupted.

The second set of indicators measures the direct costs of security incurred by firms as well as their direct losses due to crime. These resources represent an opportunity cost since they could have been invested in productive activities.

The third set of indicators first captures an estimate of income tax compliance for a typical firm. The second indicator shows the average length of time firms operated without being registered.



Innovation

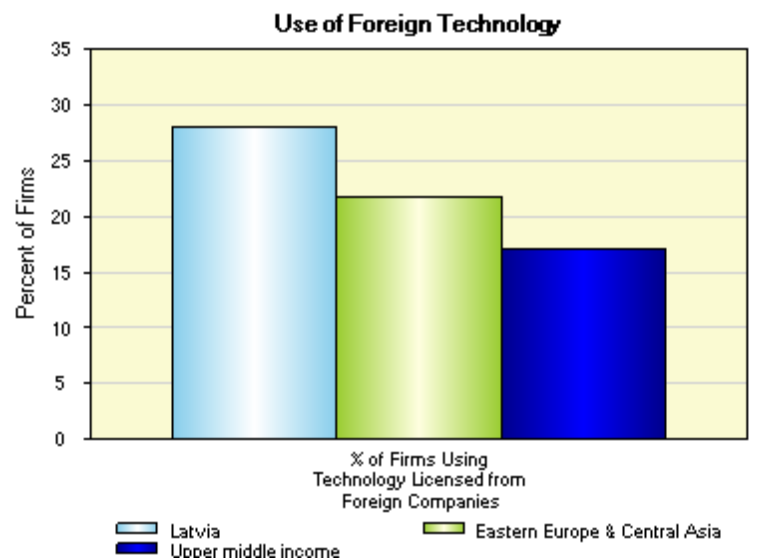
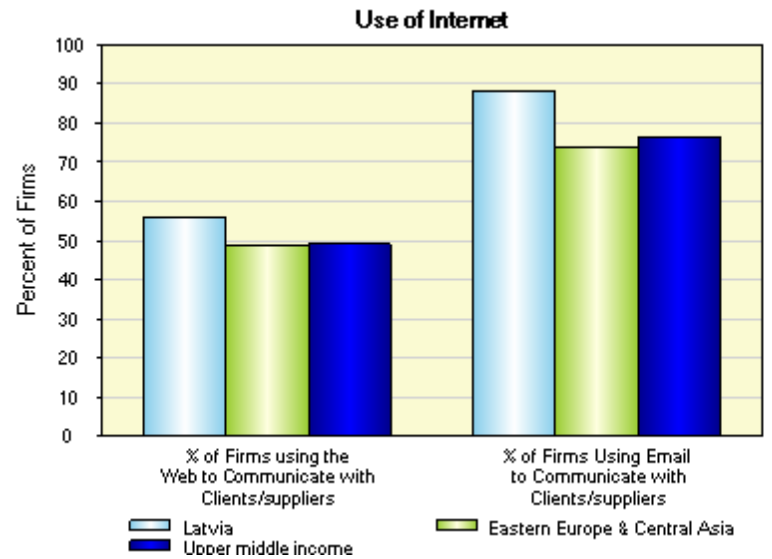
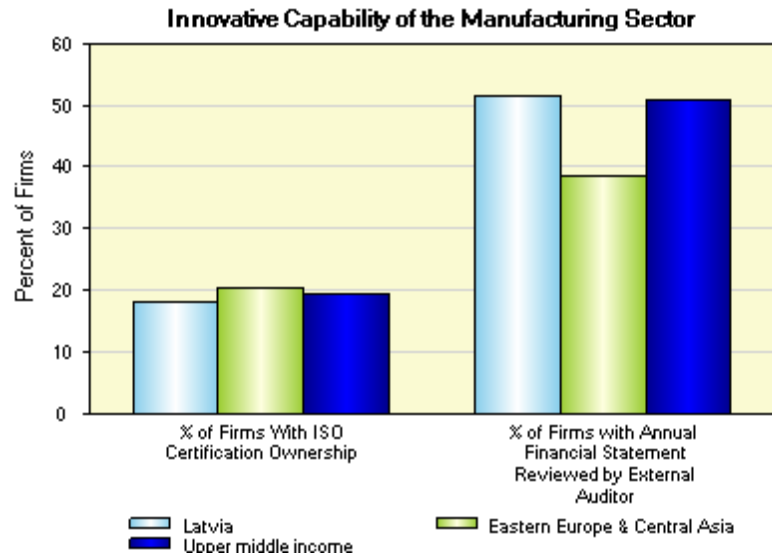
In order to survive and prosper in a competitive market firms must innovate and increase their productivity. A sound business environment encourages firms to experiment and learn; it rewards success and punishes failure.

Enterprise Surveys provide indicators that describe several dimensions of technological efficiency and innovation.

The first set of indicators measures the extent to which manufacturing firms invest in attaining industry-recognized levels of production and accounting quality. In this context, innovation encompasses the development or upgrade of product lines and the introduction of new production technologies to meet international standards as well as compliance with recognized accounting practices.

The second set of indicators demonstrates the use of information and communications technologies (ICT) in business transactions. ICT, such as the Internet, are important tools for all firms because they provide even the smallest of enterprises with the ability to reach national and international markets at low cost.

The third set of indicators captures the access to foreign technology in the country presenting the share of firms that adopt foreign technology in the production.



Trade

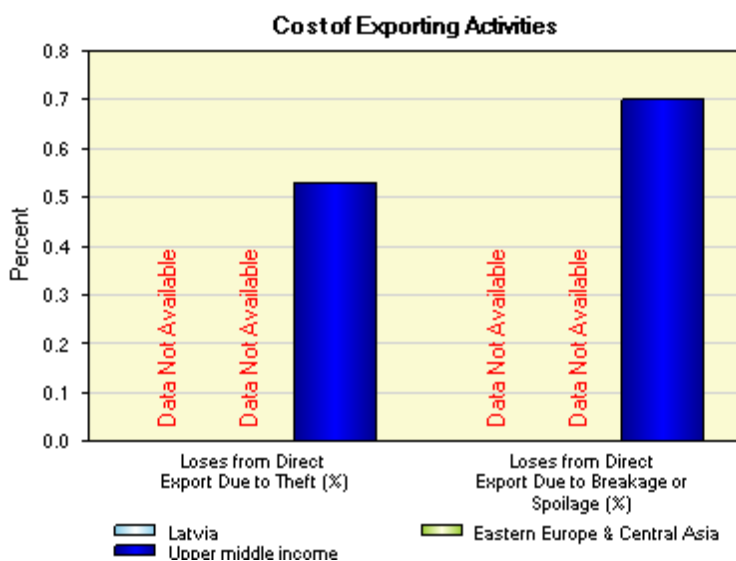
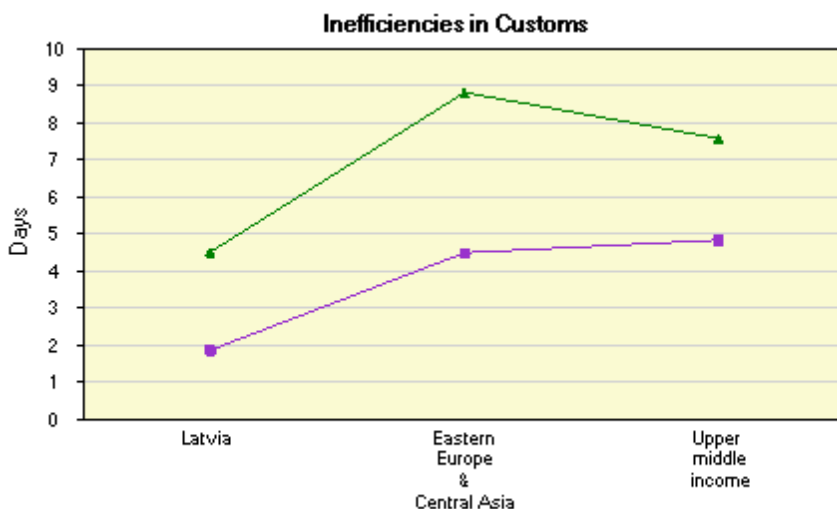
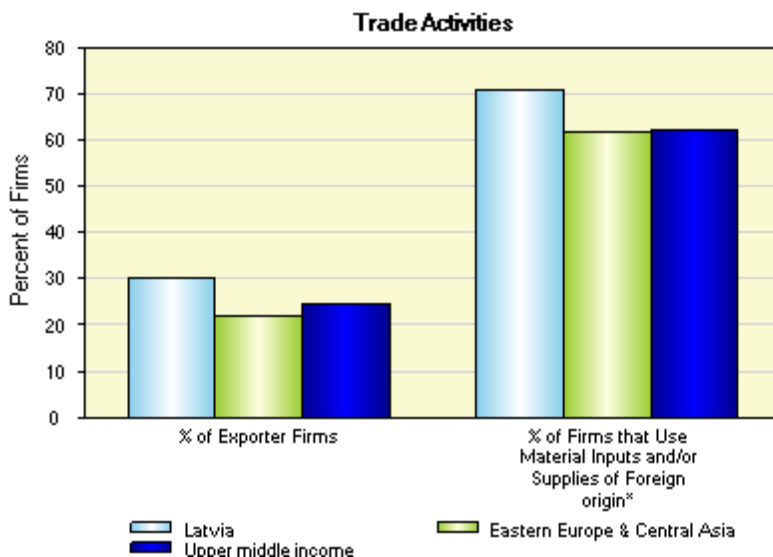
Open markets allow firms to expand, compel greater standards for efficiency on exporters, and enable firms to import low cost supplies. However, trading also forces firms to deal with customs services and trade regulations, obtain export and import licenses, and in some cases, firms also face additional costs due to losses during transport.

The Enterprise Surveys collect information on the operational constraints faced by exporters and importers and also quantifies the trade activity of firms.

The first set of indicators shows the extent to which firms trade directly (i.e. those that export or import without going through a distributor) - export their products and/or import the necessary inputs.

The second set of indicators measures the average number of days to clear customs for imports and exports. The delay in clearing customs for imports or exports creates additional costs to the firm and can interrupt production, interfere with sales, and result in damaged supplies or merchandise.

The third set of indicators shows the percent value of exports lost during transport due to merchandise theft, and breakage or spoilage, reflecting the transport risks firms face during the export process.



* For survey data collected after in 2006 this indicator is computed for the Manufacturing module only.

Summary of Enterprise Survey Indicators

	Latvia	Small (1-19 employees)	Medium (20-99 employees)	Large (100+ employees)	Eastern Europe & Central Asia	Upper middle income
Average Firms Indicators						
Legal status - Publicly listed company	0.7	0.0	2.3	1.5	8.0	4.6
Legal status - Private held, limited liability company	91.8	90.6	94.6	92.7	58.6	64.7
Legal status - Sole proprietorship	3.6	4.7	0.6	2.8	20.1	17.0
Legal status - Partnership	0.3	0.0	1.0	1.4	3.3	7.0
Legal status - Limited Partnership	0.0	0.0	0.0	0.0	6.9	5.0
Legal status - Other	3.7	4.6	1.6	1.6	3.1	1.7
age (years)	12.2	11.5	13.2	17.3	14.1	17.0
% of firms with female participation in ownership	46.3	47.8	41.9	47.3	37.6	35.6
Ownership - private domestic (%)	88.6	89.7	90.3	67.3	91.1	88.1
Ownership - private foreign (%)	8.9	7.3	8.5	31.0	6.5	10.2
Ownership - government/state (%)	0.3	0.0	1.0	0.8	1.2	0.5
Ownership - other (%)	2.2	3.1	0.2	1.0	1.2	1.2
Corruption Indicators						
Graft index	3.6	3.6	3.6	3.6	10.2	6.6
% of Firms Expected to Pay Informal Payment (to Get Things Done)	11.3	12.9	7.9	4.9	17.3	17.5
% of Firms Expected to Give Gifts In Meetings With Tax Inspectors	4.4	4.0	6.5	0.0	12.8	7.2
% of Firms Expected to Give Gifts to Secure a Government Contract	48.1	62.3	20.4	16.2	26.4	26.1
% of Firms Expected to Give Gifts to Get a Construction Permit	13.2	19.1	6.3	8.5	24.9	15.9
% of Firms Expected to Give Gifts to Get an Import License	0.0	N/A	0.0	0.0	15.2	8.9
% of Firms Expected to Give Gifts to Get an Operating License	0.0	0.0	0.0	0.0	13.1	9.1
Tax, Regulations, and Business Licensing Indicators						
Days to Obtain Import License	14.8	N/A	10.1	27.6	16.4	23.1
Days to Obtain Operating License	11.5	12.9	7.9	10.2	26.5	40.3
Days to Obtain Construction-related Permit	70.0	62.1	82.3	49.7	79.4	77.2
Senior Management Time Spent in Dealing with Requirements of Government Regulation (%)	9.7	9.7	10.2	8.1	10.6	11.5
Average number of visits or required meetings with tax officials.	1.5	1.1	1.9	3.4	1.6	2.5
Finance Indicators						
Working Capital Internal Financing (%)	N/A	N/A	N/A	N/A	N/A	64.6
Working Capital External Financing (%)	N/A	N/A	N/A	N/A	N/A	35.4
Internal Finance for Investment (%)	61.1	64.3	55.1	55.5	61.4	61.5
Bank Finance for Investment (%)	28.8	23.3	39.5	36.6	24.3	23.5
Supplier Credit Financing (%)	4.8	5.9	2.8	2.4	5.2	5.4
Equity, Sale of Stock For Investment (%)	5.3	6.5	2.6	5.5	9.1	4.0
Other Financing for Investment (%)	0.0	0.0	0.0	0.0	0.0	5.5
Value of Collateral Needed for a Loan (% of the Loan Amount)	139.8	150.5	129.9	129.8	129.0	119.6
% of Firms with Bank Loans/Line of Credit	48.5	40.2	64.6	75.4	44.8	42.4

Summary of Enterprise Survey Indicators

	Latvia	Small (1-19 employees)	Medium (20-99 employees)	Large (100+ employees)	Eastern Europe & Central Asia	Upper middle income
Infrastructure Indicators						
% of Electricity from Generator	1.0	0.7	0.4	3.0	11.3	10.8
% of Product Shipped to Supply Domestic Markets Lost due to Breakage or Spoilage	N/A	N/A	N/A	N/A	N/A	1.0
Number of Power Outages in a Typical Month	0.7	0.6	0.9	0.9	4.5	3.2
Average number of Water Shortages in a Typical Month*	0.3	0.5	0.1	0.9	6.3	3.6
Value Lost Due to Power Outages (% of Sales)	1.1	0.6	2.4	0.3	3.3	2.2
Delay in Obtaining an Electrical Connection (days)	93.2	106.6	88.0	44.6	47.4	39.6
Delay in Obtaining a Water Connections (days)	26.3	15.0	49.3	15.4	30.7	35.6
Delay in Obtaining a Mainline Telephone Connection (days)	12.5	6.3	22.9	14.2	17.6	21.2
Trade Indicators						
% of Exporter Firms	30.1	25.3	38.8	48.4	22.1	24.6
% of Firms that Use Material Inputs and/or Supplies of Foreign origin*	71.0	74.1	64.8	82.5	61.9	62.1
Average Time to Clear Direct Exports Through Customs (days)	1.9	1.6	2.1	2.0	4.5	4.8
Average Time to Clear Imports from Customs (days) *	4.5	8.4	2.4	3.5	8.8	7.6
Losses from Direct Export Due to Theft (%)	N/A	N/A	N/A	N/A	N/A	0.5
Losses from Direct Export Due to Breakage or Spoilage (%)	N/A	N/A	N/A	N/A	N/A	0.7
Workforce Indicators						
% of Firms Offering Formal Training*	43.4	35.9	44.4	77.0	35.3	39.0
Average Number of Skilled Production Workers	22.7	5.4	23.5	104.8	41.1	32.9
Average Number of Temporary Workers	2.0	1.1	2.1	12.7	5.8	5.8
Average Number of Permanent, Full Time Workers	31.7	7.9	40.1	286.9	44.9	51.5
% of Full Time Female Workers*	43.1	44.5	39.0	53.6	39.1	34.7
% of Women in Senior Positions*	13.0	13.5	12.5	11.9	15.2	14.2
Crime and Informality Indicators						
% of Firms Believing the Court System is Fair, Impartial and Uncorrupted	33.9	32.7	31.9	58.6	38.9	40.3
Security Costs (% of Sales)	0.9	0.9	1.0	0.6	1.2	1.2
Losses Due to Theft, Robbery, Vandalism, and Arson Against the Firm (% of Sales)	0.3	0.3	0.3	0.2	0.5	0.6
% of Firms expressing that a Typical Firm Reports less than 100% of Sales for Tax Purposes	N/A	N/A	N/A	N/A	N/A	53.8
Number of Years Firms Operated Without Formal Registration	0.1	0.1	0.1	0.8	1.0	0.3
Innovation Indicators						
% of Firms With ISO Certification Ownership	18.2	12.2	26.4	57.0	20.3	19.2
% of Firms with Annual Financial Statement Reviewed by External Auditor	51.5	38.3	76.2	97.5	38.4	50.7
% of Firms using the Web to Communicate with Clients/suppliers	56.1	51.2	61.5	90.7	48.9	49.0
% of Firms Using Email to Communicate with Clients/suppliers	88.2	84.0	96.7	100.0	73.9	76.3
% of Firms Using Technology Licensed from Foreign Companies	28.0	25.1	29.9	34.8	21.7	17.1

Notes:

1. The Graft index is the proportion of instances in which firms were either expected or requested to pay a gift or informal payment over the number of total solicitations for public services, licenses or permits for that country. The index is defined as the sample probability that a firm in country will be asked to provide a bribe, conditional on the firm undertaking one of the six aforementioned transactions. The series of six different transactions are: requests for an electrical connection, a water connection, telephone service, an import license, a construction-related permit, or an operating license (Gonzalez, Alvaro S., Ernesto Lopez-Cordova, J. and E. Valladares, Elio, The Incidence of Graft on Developing-Country Firms (November 1, 2007). World Bank Policy Research Working Paper Series, Vol. , pp. -, 2007. Available at SSRN: <http://ssrn.com/abstract=1029854>)

2. Country-level indicators denoting percent of firms use as denominators the number of firms for which data for the respective question is available. Country-level indicators denoting quantities (i.e., number of days, percent of sales, percent of loan value, etc.) represent the average of responding firms that are not considered to be outliers. Outliers are defined as firms with values greater than the mean plus 3 times the standard deviation or lower than the mean minus 3 times the standard deviation for that particular indicator. Regional and income group indicators are calculated as the averages of country-level indicators in the respective region and income groups.

3. Indicators for region and income group were calculated using country data available at the time of publication.

a. **Eastern Europe & Central Asia:** Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Macedonia, FYR, Moldova, Montenegro, Poland, Romania, Russian Federation, Serbia, Slovakia, Slovenia, Tajikistan, Turkey, Ukraine, Uzbekistan

b. **Upper middle income group:** Argentina, Botswana, Brazil, Bulgaria, Chile, Costa Rica, Croatia, Gabon, Hungary, Kazakhstan, Latvia, Lebanon, Lithuania, Malaysia, Mauritius, Mexico, Montenegro, Oman, Panama, Poland, Romania, Russian Federation, Serbia, Slovakia, South Africa, Turkey, Uruguay, Venezuela

4. The sample for each country is stratified by industry, firm size, and geographic region. For stratification by industry the main manufacturing sectors in each country in terms of value added, number of firms, and contribution to employment are selected. The retail trade sector is also included in all countries as a representative of the services sector, and depending on the size of the economy, the information technology (IT) sector is included. The rest of the universe is included in a residual stratum. Stratification by size follows the three levels presented in the text: small, medium, and large. Regional stratification includes the main economic regions in each country. Through this methodology estimates for the different stratification levels can be calculated on a separate basis while at the same time inferences can be made for the economy as a whole, weighting individual observations by corresponding sample weights. Sample sizes for each stratification level are defined ensuring a minimum precision level of 7.5% with 95% confidence intervals for estimates with population proportions (for more technical details on the sampling strategy, please review the Sampling Note available at www.enterprisesurveys.org).

5. In Latvia included cities/regions were: Riga, Pieriga, Vidzeme, Kurzeme, Zemgale, Latgale

6. Protected: indicators were not estimated for variables with less than five observations.

Sample Distribution

Size

Sector	Small (1-19 employees)	Medium (20-99 employees)	Large (100+ employees)	Total
Food	1	6	14	21
Garments	2	1	4	7
Hotels and restaurants	4	2	3	9
Metals and machinery	6	2	2	10
Non-metallic and plastic materials	3	3	0	6
Other manufacturing	13	18	12	43
Other services	13	6	10	29
Retail and wholesale trade	45	40	31	116
Textiles	1	0	1	2
Other	4	11	13	28
Total	92	89	90	271

Enterprise Surveys

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