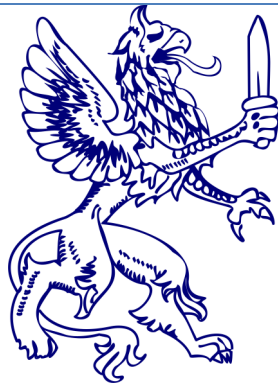




bringing neighbours closer

Strategy for Investment Attraction to Urban Areas in LV-LT Cross-Border Region



LATGALES PLĀNOŠANAS
REĢIONS



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Abbreviations

FDI	Foreign Direct Investment
GDP	Gross Domestic Product
Ignalina NPP, INPP	Ignalina Nuclear Power Plant
IPA	Investment Promotion Agency
LIDA	Latvian Investment and Development Agency
LPR	Latgale Planning Region
RCA	Revealed Comparative Advantage
SEZ	Special Economic Zone

Introduction

This strategy for investment attraction to urban areas in Latvia-Lithuania cross-border region has been prepared in October 2014-January 2015 as part of project “WILLINVEST” (LLV-390) in Latvia-Lithuania cross-border cooperation programme 2007-2013. The lead partner of the project is Latgale Planning Region. Collaboration partner of the project is Ignalina Nuclear Power Plant Region Business Incubator.

The objectives of this document are the following:

- to analyse the current investment environment in Latgale-Ignalina NPP (Visaginas) region;
- to prepare a strategy for investment attraction to urban areas in Latgale-Ignalina NPP (Visaginas) region and increase its competitiveness (urban areas – largest cities in cross-border region and their surrounding areas);
- to create a map of concepts presenting specialisation of urban areas and necessary investments for regional and cross-border complementarity;
- to suggest an approach for funding the strategy implementation;
- to develop recommendations and action plan for effective investment attraction to Latgale-Ignalina NPP (Visaginas) region for the upcoming 7 years and indicators to assess success of strategy implementation (the overall durability of the Strategy is calculated at least 10 years).

In Ignalina Nuclear Power Plant region, the emphasis is put on attracting investments to Visaginas municipality. The reason for such focus is based on general plan of Lithuania. It states that Visaginas municipality has the role of an administrative, nuclear power, industry, logistics, inhabitant and business service centre and operates as a competence centre of energy. Therefore it should develop as main attractor of foreign direct investments in INPP region.

To ensure that the strategy is effective and based on experience of stakeholders that work directly with investment attraction and investors, all sections of the document were created with involvement of relevant stakeholders. Findings and recommendations included in the document arise from data and statistics analysis and interviews with several stakeholder groups: municipalities, national and regional investment attraction institutions, LPR and INPP region business incubator administration, existing investors and organisations representing investors (chambers of commerce, investor councils). In addition, 2 creative workshops *idejuTalka* were organised to gather ideas from municipalities and regional governance institutions. First draft of the strategy was distributed to Latgale Planning Region and Ignalina Nuclear Power Plant administrations and municipalities

of cross-border region. These institutions provided comments and suggestions that have been integrated into final draft of strategy.

The strategy is organised into three sections. Section 'Investment Environment' assesses the current investment environment of Latgale-Ignalina NPP (Visaginas) region and identifies its main challenges for investment attraction. A great attention was paid to proper evaluation of regional and local resources and real capacity and skills of municipalities for practical work with potential investors. These include different stages and types of negotiations, practical search of potential investors, presentation skills of investment projects, preparation and realisation of investment transaction, and finally control of fulfilment of investment terms and investor's exit strategies.

Section 'Medium-Term Strategy' sets goals and targets for investment attraction and defines priority areas of improvement. Section 'Investment Marketing Plan' is a clear action plan for Latgale Planning Region administration and Ignalina Nuclear Power Plant Region Business Incubator and other local stakeholders for investment marketing implementation, investor attraction and nurturing. The plan will be implemented by LPR and INPP Region Business Incubator administrations with involvement of other local stakeholders, e.g. Latgale Entrepreneurship Centre and municipality administrations. It is also expected to create positive effects for other organisations that provide information for investors and are responsible for investor attraction.

The strategy will include: investment situation analysis in LV-LT cross-border region, analysis of investment alternatives, financing strategy options, analysis of future operational models of urban areas, arguments in support of necessity and profitability of investments, as well as specialization and concept map showing potential relationships among cross-border urban areas. The strategy will be later used for communication with potential investors, as well as sent to the new database and network of institutions facilitating investment attraction to LV and LT (investor attracting companies, foreign embassies etc.).

This document will serve as a joint cross-border plan and an improved sectoral urban planning tool. It is aimed to tackle the challenges of peripheral location and increase competitiveness of the communities in Latgale and Utena cross-border region. The strategy is intended to facilitate clear and targeted information flow among the owners of the urban areas and the potential investors thus improving internal and external accessibility to these sites and joint socio-economic development of Latvia and Lithuania cross-border region. The strategy is supplemented by a visualisation of priority development areas as well as 7 investment project packages (3 in INPP region/Visaginas and 4 in Latgale region).

Summary

Investment Environment and Medium-Term Strategy

Specialisation

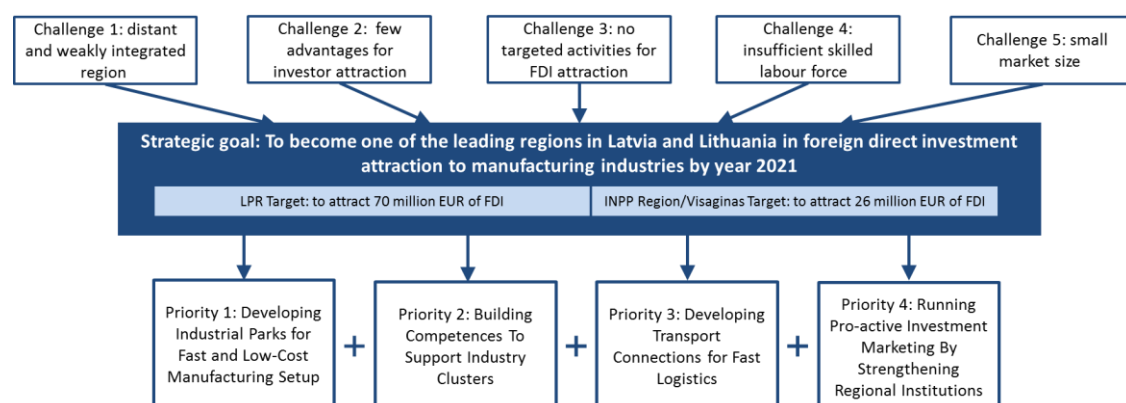
Just-in-time production for manufacturing industries exporting to neighbouring regions of Latgale-Ignalina NPP (Visaginas) cross-border region

Latgale-Ignalina NPP (Visaginas) region should specialise in just-in-time production in manufacturing industries. For Latgale, the focus industries include: manufacture of machinery, transport and electrical equipment, textile and wearing apparel, food production, manufacture of wood products; for Ignalina NPP region (Visaginas), manufacture of basic metals and fabricated metal products, construction and energetics services and products. Potential investors should be approached in companies that export to countries neighbouring Latgale-Ignalina NPP (Visaginas) cross border region, emphasising the opportunity of fast production delivery from this region.

Challenges, Goal, Targets and Priorities

On basis of assessment of Latgale-Ignalina NPP (Visaginas) region investment environment, five challenges that hinder investment attraction were identified. The challenges concern such areas as lack of investment attraction activities, insufficiency of skilled labour force, macroeconomic barriers and location of region.

Figure 1. Strategic framework for investment attraction



Investment attraction goal for Latgale and Ignalina NPP region (Visaginas) is to become one of the leading regions in foreign direct investment attraction in manufacturing industries by year 2021. For Latgale Planning region, the target is to

attract 70 million EUR of investments; for Ignalina NPP region (Visaginas), the target is to attract 26 million EUR of investments. To achieve the goal, four priorities have been set. All priorities have been drafted in order to overcome the challenges of region. The priorities are complimentary and consist of infrastructural improvements together with soft services and facilitation of skills.

Investment Marketing Plan

Table 1. Summary of investment marketing plan

	LPR	INPP Region
Target Groups	Direct: transnational manufacturing companies exporting to neighbouring regions of Latgale Intermediary: Latvian Investment and Development Agency and its foreign offices, embassies, honorary ambassadors of region and international real estate consultants	Direct: transnational manufacturing companies exporting to neighbouring regions of INPP region Intermediary: 'Invest Lithuania' and its foreign offices, embassies, honorary ambassadors of region and international real estate consultants
Target	To attract 70 million EUR of FDI and 14 investors in manufacturing industries to Latgale Planning Region by year 2021	To attract 26 million EUR of FDI and 5 investors in manufacturing industries to Ignalina Nuclear Power Plant Region (Visaginas) by year 2021
Action Lines	Action Line 1: Investment Marketing Setup Action Line 2: Investment Marketing Action Line 3: Pre- and post-investment services	
Budget	EUR 300 000 per year	EUR 100 000 per year

In Latgale Planning Region and Ignalina NPP region (Visaginas), an investment promotion department under Latgale Entrepreneurship Centre and INPP region business incubator respectively and under supervision of local municipalities should be established. These departments would focus on attracting medium- and large-scale investors in focus industries of region. They would run activities related to investment marketing and services to investors.

Direct target groups both for LPR and Ignalina NPP region (Visaginas) are local and transnational manufacturers in focus industries. Indirect target groups include intermediaries such as national investment promotion agencies and their foreign offices, embassies, honorary ambassadors of region and international real estate consultants.

By 2021, 70 million EUR of FDI and 14 investors should be attracted to LPR; while to INPP region (Visaginas) - 26 million EUR of FDI and 5 investors. In order to achieve the goal, three action lines have been set, containing separate actions and budget plans for LPR and INPP region (Visaginas). Action line 'Investment Marketing Setup'

includes actions to set up investment promotion departments and actions to collaborate with other stakeholders. Action line 'Investment Marketing' includes actions of web and media marketing, participation in industry events, organising investor visits and running intermediary marketing actions. Action line 'Pre- and post-investment services' includes actions aimed at consulting investors on various issues and providing practical assistance in process of investment.

SECTION 1:

INVESTMENT ENVIRONMENT

1.1. Investment Flows: Who and Where Invests

Latgale Planning Region

Most attractive places for investors: Daugavpils, Rēzekne, Krāslava

In Latgale Planning Region, urban areas are the most attractive places for investors. City of Daugavpils is an absolute leader in foreign direct investment (FDI) attraction (see Table 2). Even though in years after 2004 the amount of FDI in Daugavpils city has decreased, it still remains the area that has the largest volume of foreign investments. Second largest investment attractors following Daugavpils city are Rēzekne city and Krāslava county. As of 2014, balance of FDI in Daugavpils is more than 33 million EUR. Second largest volume of FDI is in Rēzekne city (5.2 million EUR) and Krāslava county (4.1 million EUR).

9 out of 11 most attractive places for investors are national or regional development centres (Daugavpils, Rēzekne, Krāslava, Līvāni, Balvi, Ludza, Preiļi). Rural areas, on the other hand, have very low investment flows. Leaders of rural counties in FDI attraction are areas located in surroundings of largest cities: Rēzekne county has attracted FDI of 2.4 million EUR and Daugavpils county has attracted FDI of 0.8 million EUR. This trend emphasizes the weight of urban areas in investment attraction. In addition, 8 out of 10 major investors of LPR have invested in projects Rēzekne and Daugavpils – two largest cities in LPR, which underlines that urban areas are the most attractive places for investors.

Table 2. Foreign direct investment balance in municipalities of Latgale Planning Region. Data: Lursoft

County/City	FDI balance 1994-2004, EUR	FDI balance 2004-2014, EUR	FDI balance, total, EUR
Daugavpils City	46506964.53	-13138358.97	33368605.56
<i>Ilūkste *</i>	<i>52011656.17</i>	<i>-20170446.98</i>	<i>31841209.19</i>
Rēzekne City	1546024.21	3624120.13	5170144.34
Krāslava	360141.75	3762005.14	4122146.89
Līvāni	2457322.38	278245.36	2735567.74
Rēzekne County	299874.50	2149258.95	2449133.45
Balvi	29773.59	1520671.48	1550445.07
Ludza	11286.22	1126236.32	1137522.54
Daugavpils County	310548.89	519307.07	829855.96
Dagda	3414.89	404091.84	407506.73
Preiļi	275012.66	-6858.24	268154.42
Viļāni	159589.30	31977.81	191567.11
Baltinava	0.00	32726.05	32726.05
Rugāji	0.00	19877.56	19877.56
Viļaka	0.00	10045.47	10045.47

County/City	FDI balance 1994-2004, EUR	FDI balance 2004-2014, EUR	FDI balance, total, EUR
Kārsava	428995.85	-419747.18	9248.67
Cibla	4560.30	1131.19	5691.49
Vārkava	5051.19	640.30	5691.49
Riebiņi	0.00	4516.32	4516.32
Zilupe	7825.80	-3365.93	4459.87
Aglona	0.00	1421.45	1421.45

** **Note.** In Ilūkste county major part of FDI is composed of single investment project in company «LatRosTrans» for total of EUR 31 788 815,00, placing it in a top position. However, de facto Ilūkste county is not amongst leaders in FDI attraction.*

Box 1. TOP 10 largest investment projects in Latgale Planning Region (as of 2014). Data: Lursoft

No	County/City	Investor	Enterprise	Industry	FDI, EUR
1	Ilūkste	AAS "AK "TRANSNEFTE- PRODUKT"(Russia)	LatRosTrans	Pipeline transport	31 788 815.00
2	Daugavpils city	Skinest Rail AS (Estonia)	Daugavpils Lokomotīvu Remonta Rūpnīca, A/S SIA "DLRR Wood"*	Manufacture of other transport equipment Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	5 664 242.09
3	Daugavpils city	Accu Holding AG (Switzerland)	Nexis Fibers, SIA	Manufacture of chemicals and chemical products	5 230 644.00
4	Rēzekne city	CLEAR ENERGY HOLDINGS S.A. (Luxembourg)	NewFuels, Rēzeknes specialās ekonomiskās zonas SIA	Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	3 557 179.53
5	Daugavpils city	Panevežio Keliai, Akcine bendrove (Lithuania)	Latgales Ceļdaris, Sabiedrība ar ierobežotu atbildību	Civil engineering	3 086 920.39
6	Daugavpils city	Spacecom AS (Estonia)	Daugavpils Lokomotīvu Remonta Rūpnīca, A/S	Manufacture of other transport equipment	2 982 339.32
7	Daugavpils city	OU Lokomotiiv Investeeringuud (Estonia)	Daugavpils Lokomotīvu Remonta Rūpnīca, A/S	Manufacture of other transport equipment	1 813 906.86
8	Krāslava	DAN LET NATIONAL 21 ApS (Denmark)	DEN LAT International 21, SIA	Real estate activities	1 501 129.76
9	Daugavpils city	C.I.G Capital Invest Gaz Ltd (Cyprus)	INTERGAZ, Sabiedrība ar ierobežotu atbildību	Wholesale trade, except of motor vehicles and motorcycles, Civil engineering	1 406 764.90
10	Daugavpils city	Martin Ziegler GmbH and Co. KG (Germany)	ZIEGLERA MAŠINBŪVE, Sabiedrība ar ierobežotu atbildību	Manufacture of machinery and equipment n.e.c.	1 196 902.00

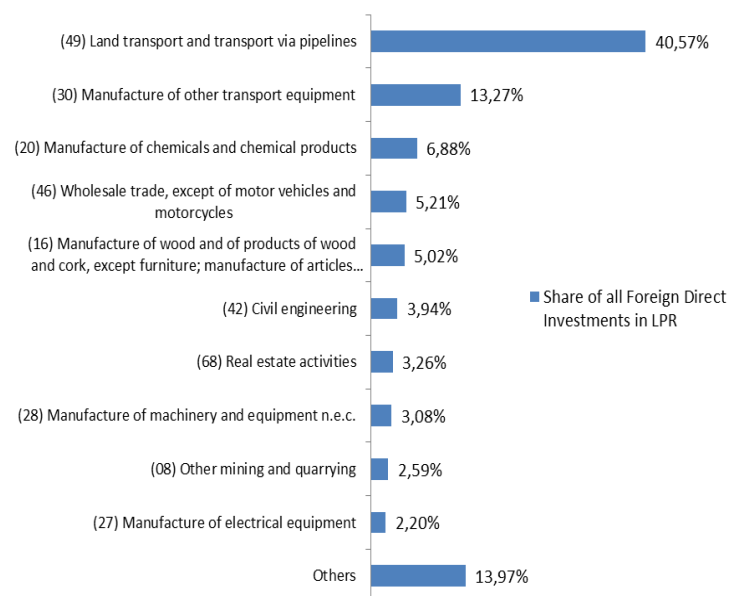
** **Note:** Company "DLRR Wood" has been formally established, however, de facto it has not operated.*

Most attractive industries: manufacture and wholesale trade

Industries that have attracted the most of FDI in Latgale Planning Region are manufacturing industries and wholesale trade (see Figure 2). Manufacture of other transport equipment has attracted 13.27% of all foreign investments

(EUR 10 457 642.53), wholesale trade – 5.2% (EUR 4 108 499.71) and manufacture of wood products – 5.0% (EUR 3 955 435.60). The vast majority of FDI amount in land transport and transport via pipelines and manufacture of chemicals industries is composed of investments in single projects. Therefore *de facto* these industries do not form industry clusters attracting foreign direct investments.

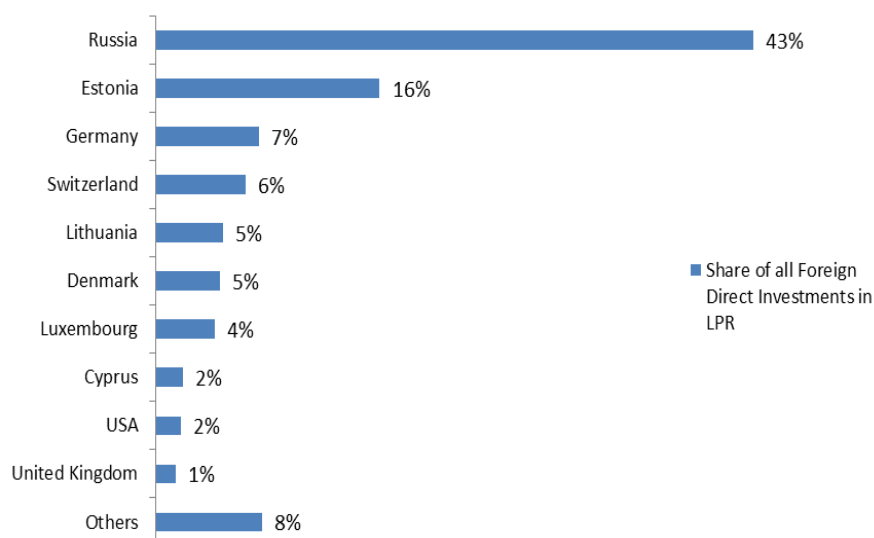
Figure 2. Share of all foreign direct investments to industries, 1994-2004. Data: Lursoft



Home countries of investors: European states and neighbouring regions of Latgale

Largest numbers of investors to Latgale Planning Region come from countries neighbouring Latvia – Russia and Estonia (see Figure 3). Investors from Russia constitute 43% of all foreign investors, investors from Estonia – 16%. Investors from Germany, Switzerland, Lithuania and Denmark are the next largest investor groups. They make up more than 23% of all foreign investors in Latgale Planning Region.

Figure 3. Home countries of investors, 1994-2014. Data: Lursoft



However, the most generous investors (largest amounts of FDI per investor) come from European countries as well as from Singapore. Investors from Luxembourg, Switzerland, Estonia, Cyprus, Denmark and Singapore have the highest amount of FDI par investor (see Box 2). It shows that investors from these countries invest in fewer, but larger projects, while investors from e.g. CIS countries and Lithuania on average invest in many small-scale projects.

Box 2. Most generous investors, 1991-2014. Data: Lursoft

Country	No of investors	Amount of FDI per investor
Luxembourg	3	1 189 827,84
Switzerland	5	1 092 345,82
Singapore	1	320 430,73
Estonia	49	278 070,50
Cyprus	7	235 920,89
Denmark	19	206 286,33
Belize	6	189 889,81
British Virgin Islands	4	179 644,68
Germany	47	133 981,01
USA	14	108 459,42
Russia	341	106 582,31
Norway	10	76 540,83
Sweden	16	68 790,07
United Kingdom	20	60 859,14
Lithuania	143	28 711,66
Italy	10	24 904,77
France	9	18 624,13

Ignalina Nuclear Power Plant Region (Visaginas)

Investment trends in Ignalina NPP Region (Visaginas): low, but increasing flows of FDI

Ignalina Nuclear Power Plant Region and city of Visaginas have very low flows of investment. Their share in total amount of foreign direct investments in Lithuania is very small. Even though in 1997-2012 the amount of FDI in INPP region has increased for 12.76 million litas (3.7 million euro) and in Visaginas – for 8.08 million litas (2.3 million euro), it still has remained one of the regions with the least investments attracted (see Table 3). Throughout 1997-2012, share of investments in INPP region has remained less than 0.1% of total amount of FDI in Lithuania.

Table 3. Investment flows in Lithuania, Ignalina NPP region and Visaginas, mln. LTL, 1997-2012.
Data: Department of Statistics of Lithuania

Year	Amount of FDI in Lithuania, total	Amount of FDI in INPP region, total	Amount of FDI in Visaginas, total
1997	1206	0.11	0
1998	1883	0.19	0
1999	2390	0.32	0
2000	2704	1.82	1.48
2001	3088	2.58	2.14
2002	3818	2.52	2.06
2003	3968	1.04	0.7
2004	4690	0.52	0.14
2005	6921	2.75	0.43
2006	8377	3.24	0.87
2007	10283	5.33	2.58
2008	9191	6.17	2.43
2009	9206	6.63	3.57
2010	10031	8.68	4.67
2011	11029	12.26	7.67
2012	12101	12.87	8.08

Most attractive industries: manufacture and real estate activities

The most attractive industries for investors in Utena county currently are manufacturing and real estate (see Figure 4). Combined, these industries have attracted more than 90% of all FDI in Utena county. Manufacturing industry has attracted 87.1% of all foreign direct investments in region. Real estate industry has attracted 5.3% of all foreign direct investments in region. Industry of education has attracted 2.7% of all FDI, and all remaining industries combined have attracted only 4.9% of al FDI in Utena county.

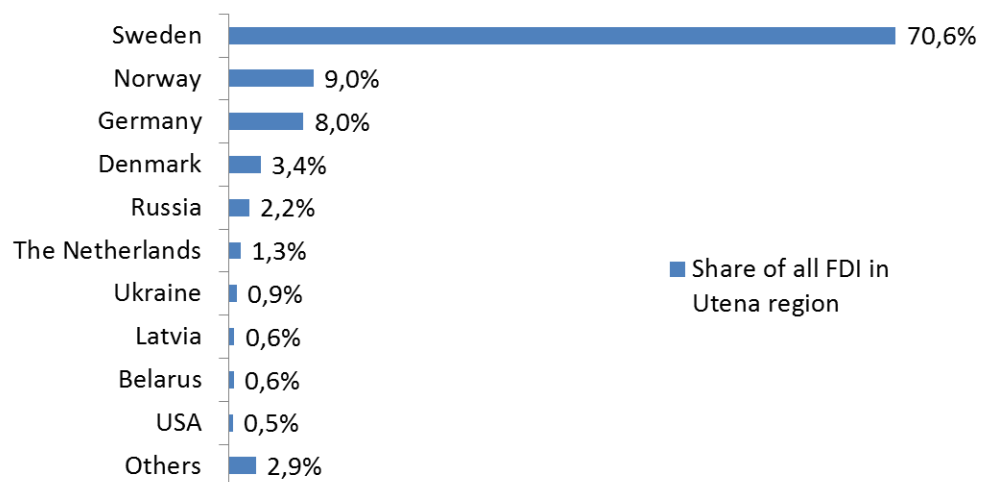
Figure 4 Share of foreign direct investments in industries in Utena region (2012). Data: Department of Statistics of Lithuania



Home countries of investors: Scandinavia and Germany

Biggest investment flows to Utena county come from Scandinavian and European countries, and Russia (see Table 5). Investors from Sweden have brought to region more than 70% of all foreign direct investments. Sweden is followed by Norway (9.0%) and Germany (7.97%). Denmark is the home country to fourth biggest investment flows to Utena county (3.40%), while Russian investors have brought to region fifth biggest investments (2.21%).

Table 4. Home countries of investors, (2012). Data: Department of Statistics of Lithuania



1.2. Attraction Factors: What Brings Investors to Regions

National Factors

Advantages of Latvia and Lithuania: corporate income tax rates and language proficiency

Box 3. National and regional investment attraction factors for Eastern European countries

Term of impact	Variable	Definition (adjusted definition)
Short-term	Corporate tax	National standard rate of corporate income tax
Medium term	Unemployment rate	National unemployment rate
	Regional industry clustering	Share of industry in the region compared to the national share
	Share of foreign direct investment	Share of FDI by region and industry
	Infrastructure	Traffic in commercial airports (Density of main motorroads)
Long-term	National market size	National GDP
	Proficiency of English**	Percentage of population that speak English (Percentage of population that speak at least 1 foreign language)
	Level of development	National GDP per capita
	Regional level of development	Regional GDP per capita
	Tertiary education	Share of labour force with a tertiary education level
	Secondary education	Share of labour force with secondary education level
N/A	Countries with related languages	Language of investor host and home country
	Capital city region	If capital city is placed in region
	Border regions	Region bordering another EU28 country

National level variable

Regional level variable

**Source: report "Study on FDI and regional development" by Copenhagen Economics in cooperation with Professor Magnus Blomström for European Commission (2006).*

***Due to lack of data, for purposes of Latvia-Lithuania cross-border region analysis, variable „Proficiency of English” was replaced by variable „Proficiency of at least 1 foreign language”*

Table 5. National attraction factor analysis for Eastern EU Member States. Data: Eurostat, European Commission's Taxes in Europe Database

	Variable	Corporate tax*		Tax burdens*		Unemployment rate		National market size		Language proficiency		Level of development	
	Definition	National standard rate of corporate income tax, %, 2013		Total receipts from taxes and social contributions, % of GDP, 2012		National employment rate (20-64y, %), 2013		National GDP (mln. EUR), 2013		Percentage of population that speak at least 1 foreign language, 2011		National GDP per capita (EUR), 2013	
Performance (Rank/Indicator)	LV	2	15.0	3	28.1	4	69.7	9	23 372.1	2	94.90%	7	17 300
	EE	8	21.0	7	32.7	1	73.3	1	18 613.4	1	97.30%	5	18 800
	LT	2	15.0	1	27.5	3	69.9	8	34 631.2	4	85.50%	4	19 100
	PL	5	19.0	6	32.5	7	64.9	1	389695.1	7	61.90%	6	17500
	CZ	6	19.0	8	35.0	2	72.5	2	149491.1	6	69.10%	2	20600
	SK	9	22.0	5	28.5	6	65	5	72134.1	5	85.30%	3	19600
	SI	4	17.0	9	37.9	5	67.2	7	35274.9	3	92.50%	1	21300
	HU	7	19.0	10	39.3	10	63.2	4	97948	9	36.80%	8	17200
	RO	3	16.0	4	28.5	8	63.9	3	142245.1	-	No data	9	13900
	BG	1	10.0	2	27.7	9	63.5	6	39940.3	8	38.90%	10	12000

***Note.** For more accurate tax assessment, variable 'Tax burdens' was added to analysis.

Comparing to other countries in Eastern European Union, Latvia and Lithuania have the advantage of second lowest corporate tax rate (15%). It is surpassed only by Hungary (10%). In Latvia and Lithuania, people have good foreign language proficiency: more than 90% of Latvians and 85% of Lithuanians speak another foreign language. Multilingual and multicultural environment is one of attraction factors that was mentioned by investors in interviews conducted for the study. The benefit it provides is easier adaptation process for investors.

Other significant factor mentioned by stakeholders working directly with investment attraction and investors themselves, is lower labour costs than the EU average. Investors state that in certain industries qualification of labour is of same quality as in other EU countries, but the lower labour costs are the crucial aspect that allows saving expenses. Often that is a deciding factor for many investors.

EU membership has a significant role as well. The latter is important both to investors from within the Union and for external investors. However, for non-EU countries this is often a particularly crucial factor when investors are choosing between e.g. Latvia or Lithuania or a non-EU country. EU-membership offers access to its single market, possibilities to apply for investment funds and other advantages which foreign investors, especially from outside the EU, consider an asset.

National factors are equally important to regional factors when it comes to investment attraction. However, it should be noted that national factors cannot be affected by regional policies. Therefore the role of regional investment promoters is to lobby interests of region at a national level to facilitate positive changes.

Regional Factors

Latgale Planning Region: manufacture specialisation, but no other significant advantages

Advantages of Latgale Planning Region (see Table 6) within Latvia are its location of region next to borders of Russia, Belarus and Lithuania, as well as second highest density of black surface motorroads – 50.2% (however, no comparative data were available about quality of road infrastructure). Good connections to Russia and Belarus, as well as good knowledge of Russian language are potential investment attraction factors that were mentioned in interviews by investment attraction stakeholders and existing investors.

Table 6. Analysis of regional investment attraction factors for planning regions of Latvia. Data: Central Statistical Bureau, Regional Development Indicators Module

Term of impact	Variable	Definition	Latgale Planning Region	Riga Planning Region	Kurzeme Planning Region	Vidzeme Planning Regions	Zemgale Planning Region
Medium term	Regional industry clustering	Share of industry in the region compared to the national share (No of employees)	Manufacture of machinery, electric equipment and other transport equipment	Services	Fishery, logistics	Forestry, manufacture of furniture, manufacture of beverages	Agriculture, manufacture of motorcars, manufacture of rubber and plastic products
	Share of FDI	Clusters of foreign investors in region	(5) 1.17%	(1) 86.95%	(3) 4.40%	(4) 2.77%	(2) 4.71%
	Infrastructure	Share of black surface motorroads in road network*	(2) 50.2%	(1) 74.4%	(3) 50.1%	(4) 39.9%	(5) 36.9%
Long-term	Tertiary education	Share of labour force with tertiary education level	(4) 18.2%	(1) 30.2%	(5) 17.4%	(4) 19.0%	(3) 19.2%
	Secondary education	Share of labour force with secondary education level	(2) 57.9%	(4) 53.8%	(1) 58.1%	(5) 53.3%	(3) 57.6%
	Regional level of development	Regional GDP per capita (2011)	(5) 5 602.00	(1) 12 857.93	(2) 8 762.00	(4) 6 555.00	(3) 6 606.00
Unaffected	Capital city region	If capital city is placed in region	-	X	-	-	-
	Border regions	Region bordering another EU28 country	Lithuania	Estonia	Lithuania	Estonia	Lithuania

*Note. No comparative data were available about quality of road infrastructure

Another advantage of Latgale Planning Region amongst other regions of Latvia is the existing high concentration of companies in manufacture of machinery, electric equipment and other transport equipment (see 'Industry Competitiveness'). In addition, investors admit that access to natural resources (peat, sapropel, wood) is a significant factor attracting investors working in mining industries.

Disadvantages of Latgale Planning Region in investment attraction are low investment flows and low level of regional development. Distance to capital city and especially ports, as well as lack of skilled labour force, specifically in engineering, are other disadvantages mentioned by investment attraction stakeholders and investors.

However, in recent years, significant investments in such important factors as road infrastructure (160 km of renovated roads in 2012-2013) and education infrastructure (newly built faculty buildings in Rēzekne and Daugavpils, investments in vocational education institutions) have been made. These investments might offer additional advantages to Latgale Planning Region in medium and long term and improve its attractiveness for investors.

INPP Region and Visaginas: strong specialisation in manufacturing, but no other advantages

Advantages of Visaginas over other regions of Lithuania (see Table 7) are strong specialisation in manufacturing industry and its location next to external border of Lithuania to Latvia. Disadvantages of region are currently low flows of foreign direct investments and the fact that it is not located in capital city region, making it a distant region. The level of education in Visaginas is close to leader regions of Lithuania – 23% of people have higher education and 73% - secondary or vocational education. In addition, Visaginas is the home for the biggest energy competence professional education centre in Lithuania.

Table 7. Analysis of regional investment attraction factors for planning regions of Lithuania. Data: Department of Statistics of Lithuania

Affectable in	Variable	Definition	INPP	ALP	KAA	KLA	MAA	PAA	ŠIA	TAA	TEA	UTA	VIA
Medium term	Regional industry clustering	Share of industry in the region compared to the national share (No of employees)	Industry 26 % (Visaginas -37 % 1st in LT)	Industry 18%	Trading 20 %	Industry 18 % and transport 11 %	Industry 20 %	Industry 21 %	Industry 18 %	Industry 18 % and trading 18 % and agriculture 14 %	Industry 24 %	Industry 24 %	Trading 18 %
	Share of FDI	Clusters of foreign investors in region	0.11 % (Visaginas - 0,07 %)	0,91%	12,28%	8,51%	1,10%	1,96%	1,44%	0,11%	8,56%	0,70%	64,43%
	Infrastructure	Share of black surface motorroads in road network	66 % (Visaginas - 92 %)	87%	81%	87%	86%	92%	86%	71%	71%	73%	80%
Long-term	Tertiary education	(ISCED 5, 6) 25-64 age	27% (Visaginas -34 %)	23%	40%	35%	18%	26%	26%	19%	22%	26%	46%
	Secondary education	ISCED 3, 4) 25-64 age	35% (Visaginas -40 %)	73%	56%	62%	74%	69%	69%	75%	67%	64%	51%
	Regional level of development	Regional GDP per capita (2009), thous. Lt	N/A	17,523	25,97	29,613	16,916	19,303	19,306	13,451	21,38	22,807	41,934
Unaffected	Capital city region	If capital city is placed in region	-	-	-	-	-	-	-	-	-	-	x
	Border regions	Region bordering another EU28 country	Latvia	Poland	x	x	Poland	Latvia	Latvia	Poland		Latvia	x

Industry Competitiveness

Box 4. Industry competitiveness calculation – index of Revealed Comparative Advantage

Revealed comparative advantages (RCA) index shows whether a region has comparative advantages in a chosen category over other regions. For analysis of Latgale and Ignalina NPP (Visaginas) regions, RCA was calculated in category of occupied posts.

Comparative advantage is revealed, if the index is >1. Industries that have the largest index of RCA, have the largest share of employed people in Latgale or INPP region (Visaginas), compared to other regions of Latvia or Lithuania, and therefore the industry has the best competences.

$$\text{RCA (occupied posts)} = \frac{\text{number of occupied posts in a NACE 2.0 industry/number of occupied posts in LPR overall}}{\text{number of occupied posts in a NACE 2.0 industry in other region/number of occupied posts in other region overall}}$$

Most competitive industries in LPR: manufacturing industries

Overall, in Latgale Planning Region manufacturing industries have the largest shares of employed people compared to all regions of Latvia and therefore the most industry competences (see Table 8). The region has most advantages in manufacturing industries: manufacture of other transport equipment, electrical equipment and machinery and equipment. In its most competitive industry - manufacture of other transport equipment – LPR has 1095 employed people. It constitutes a share of labour which is 8.24 times larger than in Riga Planning Region, 35.88 times larger than in Kurzeme Planning Region, 20.87 times larger than in Zemgale Planning Region and 277.39 times larger than in Vidzeme Planning Region.

In the second and third most competitive industries (manufacture of electrical equipment and manufacture of machinery and equipment respectively) LPR has slighter but still significant advantages regarding share of industry employed people. Share of people employed in manufacture of electrical equipment is 2.86 times larger than in Riga Planning Region, 4.09 times larger than in Kurzeme Planning Region, 28.14 times larger than in Zemgale Planning Region and 34.15 times larger than in Vidzeme Planning Region. In manufacture of machinery and equipment, share of people employed in LPR is 4.63 times larger than in Riga Planning Region, 2.04 times larger than in Kurzeme Planning Region, 2.08 times larger than in Zemgale Planning Region and 1.62 times larger than in Vidzeme Planning Region.

Table 8. Revealed comparative advantages of industries in LPR. Data for calculations: Central Statistical Bureau

Rank	Industry*(NACE 2.0)	No of employees, 2013	RCA to Latvia	RCA to Riga PR	RCA to Vidzeme PR	RCA to Kurzeme PR	RCA to Zemgale PR
	LPR total	73247					
	RCA to 4 regions						
1	(30) Manufacture of other transport equipment	1095	5.75	8.24	277.39	35.88	20.87
2	(27) Manufacture of electrical equipment	674	2.85	2.86	34.15	4.09	28.14
3	(28) Manufacture of machinery and equipment n.e.c.	812	2.83	4.63	1.62	2.04	2.08
4	(43) Specialised construction activities	2767	1.33	1.38	1.59	1.03	1.87
5	(49) Land transport and transport via pipelines	4494	1.31	1.30	1.38	1.49	1.74
6	(47) Retail trade, except of motor vehicles and motorcycles	7900	1.08	1.05	1.10	1.38	1.18
	RCA to 3 regions						
7	(10) Manufacture of food products	3364	1.73	2.26	1.48	0.94	1.47
8	(90) Creative, arts and entertainment activities	1396	1.71	2.40	0.99	1.03	1.24
9	(13) Manufacture of textiles	352	1.64	2.15	6.86	0.58	1.78
10	(35) Electricity, gas, steam and air conditioning supply	1634	1.43	1.55	0.93	1.78	1.40
11	(68) Real estate activities	1866	0.84	0.76	1.07	1.13	1.32
12	(80) Security and investigation activities	578	0.64	0.50	2.01	1.47	5.22
	RCA to 2 regions						
13	(16) Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	3246	1.68	3.04	0.51	1.52	0.77
14	(14) Manufacture of wearing apparel	1175	1.37	1.95	4.44	0.51	0.74
15	(25) Manufacture of fabricated metal products, except machinery and equipment	1045	1.20	1.49	3.69	0.55	0.71
16	(96) Other personal service activities	520	0.71	0.62	1.05	1.18	0.92
17	(46) Wholesale trade, except of motor vehicles and motorcycles	1838	0.51	0.41	1.28	1.05	0.95
18	(52) Warehousing and support activities for transportation	732	0.32	0.27	5.79	0.20	3.84
	RCA to 1 region						
19	(01) Crop and animal production, hunting and related service activities	1315	1.49	3.76	0.75	0.70	0.40
20	(02) Forestry and logging	1081	1.32	2.15	0.48	0.70	0.79
21	(41) Construction of buildings	1952	1.07	1.19	0.75	0.91	0.83
22	(45) Wholesale and retail trade and repair of motor vehicles and motorcycles	1304	0.94	0.93	0.92	1.31	0.72
	No RCA						
23	(55) Accommodation	319	0.65	0.62	0.88	0.47	0.95
24	(42) Civil engineering	765	0.62	0.65	0.51	0.54	0.43
25	(81) Services to buildings and landscape activities	382	0.47	0.41	0.68	0.57	0.90
26	(56) Food and beverage service activities	813	0.42	0.37	0.56	0.41	0.58
27	(69) Legal and accounting activities	325	0.38	0.31	0.64	0.65	0.57

*Note. RCA was calculated only for significant industries - industries that employed at least 300 people in LPR as of 2013

Most competitive industries in Visaginas – manufacture and construction

Most competitive industry in Visaginas is manufacturing (see Table 9). Manufacturing employs the most share of people compared to other regions – it is from 1.52 to 2.05 times larger than in other regions of Lithuania. Therefore it can be concluded that manufacturing industry also has the best industry competences in Visaginas. Second most competitive industry is construction. In construction Visaginas also has advantages to all regions of Lithuania. Construction industry in Visaginas employs a share of all labour that is 1.02-2.05 times larger than in other regions of Lithuania.

Table 9. Revealed comparative advantages of industries in Visaginas

Industry/region	RCA LT	RCA ALR	RCA KAR	RCA KLR	RCA MAR	RCA PAR	RCA SAR	RCA TAR	RCA TER	RCA UTR	RCA VIR
Agriculture, forestry and fishing	0.13	0.13	0.16	0.17	0.07	0.08	0.08	0.05	0.09	0.11	0.27
Manufacturing, mining and quarrying and other industry	2.06	2.00	1.92	2.05	1.84	1.74	1.99	2.00	1.56	1.52	2.71
Construction	1.70	1.41	1.81	1.59	2.05	1.73	1.85	1.91	1.02	1.26	1.88
Wholesale and retail trade	0.54	0.61	0.49	0.59	0.56	0.54	0.55	0.54	0.61	0.68	0.54
Transportation and storage	0.71	0.83	0.87	0.48	0.68	0.89	0.64	0.84	0.85	0.84	0.68
Accommodation and food service activities	0.60	0.54	0.65	0.49	0.88	0.79	0.80	0.82	0.87	0.86	0.49
Information and communication	0.83	1.48	0.89	1.68	2.01	1.77	1.54	2.10	2.33	1.55	0.44
Financial and insurance activities	0.40	0.59	0.52	0.50	0.62	0.52	0.53	0.64	0.71	0.70	0.25
Real estate activities	0.40	0.47	0.43	0.25	0.84	0.53	0.54	0.62	0.47	0.73	0.33

Investment Attraction Activities in LPR and INPP Region (Visaginas)

Table 10. Overview of activities of investment attraction stakeholders

Stakeholder	Overview of activities
Municipalities	Conferences for local and international entrepreneurs (e.g. East Baltic Business Forum in Daugavpils, Investment Forum in Ludza, Investment forum of Aukštaitija in Lithuania), participation in trade missions and contact events, preparation and distribution of informative materials, cooperation with LIDA and 'Invest Lithuania' and embassies in European and Scandinavian countries, support services (document preparation), individual meetings and on-site visits
National Investment Promotion Agencies	Organisation of events, collaboration with municipalities and investment project preparation and offering to interested investors
Rēzekne Special Economic Zone	In accordance with Rēzekne Special Economic Zone Law – tax reductions and other financial incentives, participation in local and international events, in international SEZ surveys, collaboration with organisations directly in touch with foreign investors (embassies, LIDA), organising visits, support services to investors (document preparation, communication with relevant institutions)
Regional institutions (LPR and INPP region business incubator)	Organisation of events in collaboration with municipalities, participation in trade missions and trade shows, marketing of region In collaboration with Ministry of Environmental Protection and Regional Development of Latvia, Latgale Planning Region is participating in project part-financed by Norwegian Financial Mechanism 'Implementation of regional policy actions in Latvia and elaboration of regional development measures', under which the following activities have been implemented and/or are ongoing: seminars about promotion of entrepreneurship and innovation, visits of local governments and non-governmental organizations to neighbouring countries to promote local goods and products, participation in 4 investment forums (representing municipalities of LPR), elaboration of investment catalogue, development of investment promotion website (invest.latgale.lv), established representation of Latgale region in Riga
Ministry of Environmental Protection and Regional Development of Latvia	In collaboration with planning regions of Latvia and municipalities, the Ministry is implementing a project part-financed by Norwegian Financial Mechanism 'Implementation of regional policy actions in Latvia and elaboration of regional development measures'. Activities implemented in collaboration with LPR see above. Activity 2 'Increasing the role of local governments in promoting entrepreneurship' of this project includes the following actions: "Knowledge Angels" programme for local governments, development of marketing materials for local governments in English (in LPR: Daugavpils, Balvi, Preiļi, Ludza, Krāslava, Līvāni, Rēzekne), investment proposal of local governments for prospective investors (in LPR: Daugavpils, Balvi, Preiļi, Ludza, Krāslava, Līvāni, Rēzekne), participation of national development centre local governments in international exhibitions (in LPR: Daugavpils, Rēzekne).

Investment Attraction and Marketing Problems

Location and infrastructural drawbacks

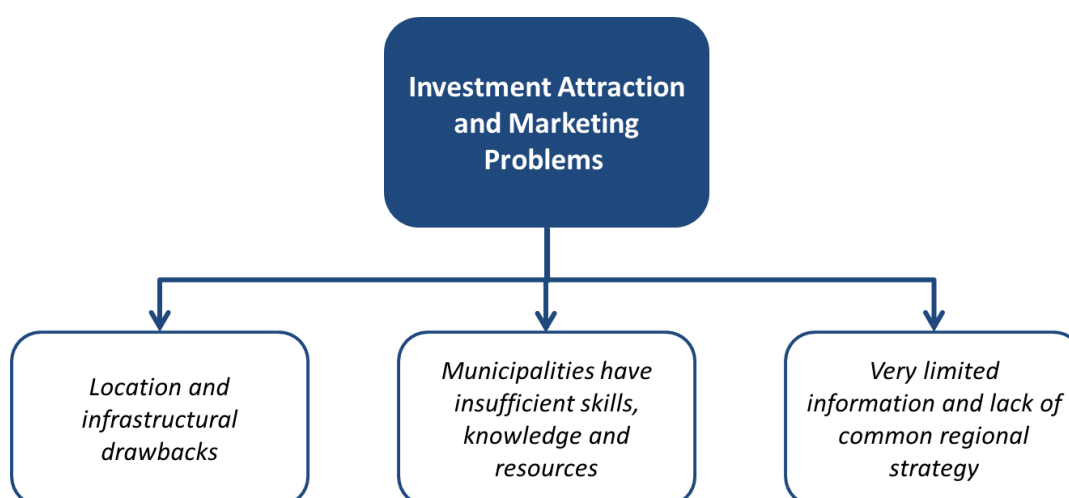
Distance of region from state capitals and ports is a major drawback in investor attraction. Investors are not interested to invest in regions that are more than approximately 100 km away from the capital or big seaports. Currently the road infrastructure makes Latgale and Ignalina NPP (Visaginas) regions unattractive. For example, Latgale region is not reachable within a 2 hour drive from the capital; there is a lack of high-speed motorroads. In addition, the existing infrastructure is being upgraded too slowly; there still are problems with adjusting investment territories with necessary utilities or access roads. The standing investment territories are too fragmented and small and most often the land around them is owned by private owners. This is a frequent obstacle for investors that are willing to expand production.

Municipalities have insufficient skills, knowledge and resources

Currently only few municipalities in LPR and INPP Region are individually engaging in investor attraction (Daugavpils, Rēzekne, Ludza etc.). Representatives of municipalities name insufficiency or even lack of skills and knowledge about investment attraction process and lack of leads of potential investors as current obstacles to be more active at investor attraction. In addition, municipalities often do not have enough financial as well as administrative resources for investor attraction activities. In Latgale Planning Region municipalities there mostly are no employees working directly with investor attraction. Often this responsibility is divided amongst several employees of various departments who show some interest in the issue; that is the case in e.g. Ludza municipality. This complicates the communication of municipalities with LIDA as well, as the agency or its foreign offices do not have a single contact person. In INPP region municipalities, on the other hand, there are specialists responsible for some fields of investor attraction. For example, in Visaginas municipality division of strategic planning and investment management, the head of division is responsible for working with potential investors.

With regards to work of public sector, even though there is a stereotype that investors often are exposed to bureaucratic obstacles, interviews with stakeholders, existing investors and investor organisations did not confirm it. In practice, local municipalities seem to be very forthcoming to investors. Investors affirm that help and assistance concerning company registration issues, searching for investment sites and other related issues is provided when needed.

Figure 5. Investment Attraction and Marketing Problems



Very limited information and lack of common regional strategy

Another problem mentioned by municipalities, national investment promotion agencies and investors is that Latgale Planning Region lacks a common investment marketing strategy. It does not have an image that promotes its opportunities and advantages, while Visaginas, for instance, has established itself as a competence centre of energetics and energy services on which it bases all suggestions for potential investors. There is, however, very little information about investment possibilities, both in form of printed or electronic materials that could be distributed amongst interested investors, and also as general information for intermediaries that could connect municipalities with investors. For example, LIDA lacks information about investment sites in Latgale municipalities.

Focus Areas for Improving FDI Attraction

Short-term: financial incentives, FDI marketing and capacity of municipalities

Actions that can be implemented in short term include financial incentives and targeted FDI marketing. To increase amount of investments, investors should be offered such financial incentives as lower labour tax wedge, reduced rate of corporate income tax for investments exceeding 3 million euros, special industrial zones which offer financial and other benefits etc. As of 2013, Latvia and Lithuania have higher tax wedges for workers with average earnings (43.1% and 39.5% respectively) than EU-28 average.¹ Measures to decrease these rates to 30% should be implemented. In

¹ Eurostat (2014). „Taxation trends in the European Union”. Retrieved from http://ec.europa.eu/taxation_customs/taxation/gen_info/economic_analysis/tax_structures/index_en.htm

addition, corporate income tax rebate for large-scale investment projects should be provided for investments larger than 3 million EUR instead of current 10 million EUR threshold and it should be increased to 30% instead of current rate of 25%. In addition, companies operating in industrial zones should be provided with access to such financial benefits as e.g. grants for labour training.

As investments flow to regions that already have significant clusters and concentration of companies with foreign direct investments, it is crucial to create the critical mass of investors. It can be facilitated by more pro-active FDI marketing aimed at inviting and attracting foreign investors to region. Several activities concerning FDI marketing have already been implemented in Latgale Planning Region in collaboration with Ministry of Environmental Protection and Regional Development of Republic of Latvia and local municipalities. Most of them have been carried out in framework of project part-financed by Norwegian Financial Mechanism: 'Implementation of regional policy actions in Latvia and elaboration of regional development measures'. The activities include: publishing promotional materials, participating in trade shows and business forums, establishing Latgale representation in Riga etc. Nevertheless, this area needs additional focus, as interviews revealed that several drawbacks still exist, e.g. lack of promotional materials in Russian language, lack of promotional materials about investment sites in municipalities etc.

The real capacity of municipalities for practical work with potential investors should be considerably improved. That includes skills such as different stages and types of negotiations, practical search of potential investors, presentation skills of investment projects, preparation and realisation of investment transaction, and finally the control of the fulfilment of investment terms. Investors should be provided assistance in contacting municipalities, preparing necessary documents and in communication with authorities. Even though several activities for improving capacity of municipalities in investor attraction have been implemented in the aforementioned project part-financed by Norwegian Financial Mechanism, municipalities mention that there still is lack of knowledge about the topic. Therefore it still is important to pay sufficient attention to improving capacity of local municipalities in investor attraction.

Medium-term: infrastructure and support to well-performing industries

Key focus areas of medium-term impact are infrastructure and support to well-performing industries. Investments in infrastructure – roads, railroads, industrial zones (incl. industrial buildings) – are vital to improve connectivity of region to seaports and airport. It is also crucial to decrease the time of travel and cargo delivery to capital city region in order to minimize delivery and export expenses. Municipalities will have access to financial means of EU investment funds for planning period of 2014-2020 for improving infrastructure; including funds for improvements in business support

infrastructure (see Strategic objectives 3.3.1. and 5.6.2. of European Commission-Latvia Partnership Agreement²).

Already well-performing industries that have high concentration of companies in regions should be supported to increase their competences and capacity. Strong concentration of companies in an industry has proved to attract new investors which further strengthen performance of already existing companies.

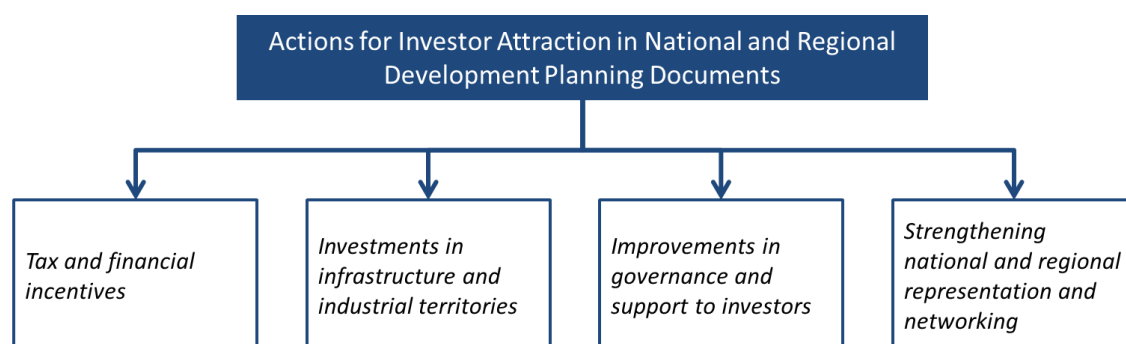
Long-term: education

Investments in vocational and higher education should be targeted towards linking education with labour market demands in strongest industries of cross-border region. Co-operation with business sector should be improved, inviting companies in need of employees to collaborate in development of education and training programmes. For example, in Visaginas a practical training centre for energy industry was created in 2014, specialising in welding, electrics and mechatronics. Such a centre could serve as a good start for meeting demands of labour market. In addition, transfer of university faculties and laboratories to regions focusing on certain industries should be encouraged.

1.3. Future Directions: What Governments Plan to Do

National and regional long-term and medium-term planning documents create a framework for hierarchically lower planning documents and actions. The currently effective documents include several objectives and actions aimed at facilitating investment climate on a national or regional level (see Table 12).

Figure 6. Actions for investor attraction in national and regional planning documents



² http://www.esfondi.lv/upload/Planosana/FMPlans_230714_Partn_lig_ar_grozijumiem_17.12.2014.pdf

Tax and financial incentives

Improvements in tax system and provision of financial incentives to support raising of local and foreign private investments and competitiveness of businesses, as well as motivating municipalities to use incentives at their disposal, is included in National Development Plan 2014-2020 of Latvia and Latgale Programme 2010-2017. National Development Plan also set to establish a single national development finance institution comprising all the financial assistance instruments offered by the state to entrepreneurs and investors (currently - ALTUM).

Investments in infrastructure and industrial territories

State and regional planning documents – National Development Plan of Latvia, Latgale Programme, Investment Promotion and Industrial Development Programme of Lithuania and Utena Regional Development Plan - emphasize the necessity to invest in national, regional and cross-border road, railroad and seaport infrastructure and industrial territories. Investments in both small- and large-scale infrastructure are aimed to create favourable conditions for investors. National Development Plan of Latvia and Latgale Programme include actions towards assembling and preparing complex offers to potential investors (financial incentives, infrastructure and human resource solutions) as well as actions towards improving potential of existing industrial territories.

Improvements in governance and support to investors

Closer cooperation of state and local institutions to decrease bureaucratic burdens for investors is an issue that is included in all national and regional level development planning documents of Latvia and Lithuania. Support to provision of consulting and support services to potential and existing investors in areas such as assistance in documentation, real estate and human resources is included in Latgale Programme and Investment Promotion and Industrial Development Programme of Lithuania.

Strengthening national and regional representation and networking

In order to strengthen national and regional representation, National Development Plan of Latvia includes actions such as creation of a single system for promotion of country's image and opening of new embassies to strengthen representation of state's economic interests abroad. National Development Plan of Latvia and National Progress Programme of Lithuania also set objectives to promote cross-border cooperation and integration into international networks to increase competitiveness in FDI attraction. Latgale Strategy 2030 additionally underlines that Latgale region should focus on promoting its image of a low-cost business territory. Latgale Programme includes actions such as participation and organising of business networking events locally and abroad, organising investor visits to potential investment sites etc.

Table 11. Overview of objectives and actions in development planning documents towards improving FDI climate

Country/Region	Document	Objectives / actions towards improving FDI climate
National Level		
Latvia	National Development Plan 2020 (NDP 2020)	Priority "Growth of the National Economy" and its objective "Highly Productive Manufacturing and Internationally Competitive Services with Export Potential" state goals to increase share of FDI in processing and "marketable" industries by such activities as tax incentives, improving infrastructure, opening of new embassies to represent Latvia's economic interests; objective "Outstanding Business Environment" includes activities aimed at improving legal procedures to ease investment process; priority "Growth for Regions" and its objective "Promotion of Economic Activity in the Regions: Unleashing the Potential of Territories" includes activity of assembling complex proposals for investors, motivating municipalities to use financial and tax incentives to attract investors.
	Partnership Agreement for the EU Funds 2014-2020 (EU PA)	Objective "Improve competitiveness of SMEs, agriculture, fishery and aquaculture industries" states additional goals to invest in small-scale infrastructure in municipalities in order to attract more private investors
Lithuania	The State Progress Strategy "Lithuania 2030"	To make every effort to attract global investment in Lithuania
	Investment promotion and industrial development programme 2014-2020	It is necessary to develop state and local institutions, state and local government-owned enterprises, institutions and organizations of mutual cooperation in matters relating to investment promotion and attraction of investments initiation, planning and implementation of the care required by a rapid dissemination of information, to make the authorities, institutions and organizations when dealing with issues related to attracting foreign direct investment in the manufacturing and services sector, investment project initiation, planning and implementation of the most appropriate presentation of the proposal to the investor consult with the public institution Invest Lithuania.
	2014-2020 National Progress program	To create favourable conditions for foreign direct investment (FDI). FDI promotion of creative and cultural industries sector, new investment and the promotion of value creation of networks, development and integration into international networks
Regional Level		
Latgale Region	Latgale Strategy 2030 (Latgale 2030)	Strategy mentions Latgale's opportunity to attract investors as comparatively low-cost territory and become leader of cross-border cooperation in Baltics
	Latgale Programme 2010-2017 (LP)	Action programme "Latgale ID" contains sub-programme "Investment Attraction" which aims to support such actions: creating and improving territories with industrial potential (via cooperation of municipalities and private owners), creating financial incentives and support mechanisms for investors, minimizing bureaucratic burdens for investors, carrying out supplementary investment attraction actions to LIDA actions, offering consulting and organising cooperation events, missions and visits
Utena county	Utena Regional Development Plan for 2014-2020	Create a favourable environment for domestic and foreign investors

1.4. Best Practices: What Makes Industrial Zones and Regional Investment Promotion Agencies Successful

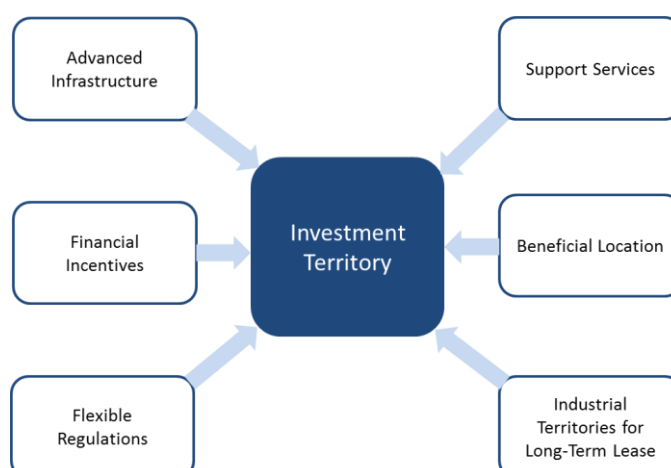
Operation Models for Investment Territories

Table 12. Models of investment territories

Zone/ territory type	Offered services					Governance
	Land	Infrastructure (transport, communications, technical)	Premises	Financial and tax incentives	Other support services (soft support)	
Technology parks		x	x		Access to research personnel, consultations	Separate entity, often owned by consortium of universities and research centres
Industrial parks (focus on producing industries)	x	x	x (may offer tailored construction services)		«Soft» support – consulting, administrative support, accounting, project management etc.	Separate entity - usually land is rented from municipality or bought and developed by private investors
Business parks (focus on service industries)		x	x		«Soft» support – consulting, administrative support, accounting, project management etc.	Separate entity - usually land is rented from municipality or bought and developed by private investors
Logistic centres	x	x	x		Order preparation, consultancy, property and facility management etc.	Separate entity - usually land is rented from municipality or bought and developed by private investors
Special Economic Zones	X	x	x	x	x	Owned by state/ , governed by separate entity (SEZ administration)

Successful territories designed for investment attraction combine advanced infrastructure with other *soft* benefits such as access to financial and tax incentives, consultancy services etc. (see Table 12). Models of investment territories mostly differ regarding their specialisation (manufacture and production, services, technology, logistics). An exception is the model of Special Economic Zones; they typically offer a wider range of reduced tax rates and customs tariffs than regular industrial parks.

Figure 7. Components of a successful investment territory



Component 1: Advanced infrastructure

Industrial territories must have a well-developed infrastructure tailored for its target industries. It should include land (green-field) and buildings (brown-field; or access to construction services if no suitable buildings are available), access roads and internal roads, utilities (water handling facilities, electricity and gas, Internet etc.) suitable for industrial use, as well as office space for use of participants of industrial park.

Component 2: Support services

Investment zones should provide a wide range of support services for its resident enterprises, e.g. administrative support, consulting, project consulting and management, resource management, logistics services. In addition, along with green-field territories in industrial parks, park manager should provide tailored construction services.

Component 3: Beneficial location

Industrial zones should be located in a territory which is geographically convenient. It should be located near to important regional, national and transnational transport networks or should have good and fast connections to them. Additionally, investment zones should be located in a low-cost territory which allows low-cost production and operation.

Component 4: Long-term lease

Territories of industrial parks owned by municipalities should be leased for long-term – this is an option preferred by investors who are not willing to be a subject to real estate market fluctuations. However, territories can be and often are also sold to private developers and industrial park operators.

Component 5: Flexible regulations

Investment zones should have a single source service provider (often a private sub-contractor) in order to ease all administrative procedures for resident companies. In addition, a more flexible legislation should be offered.

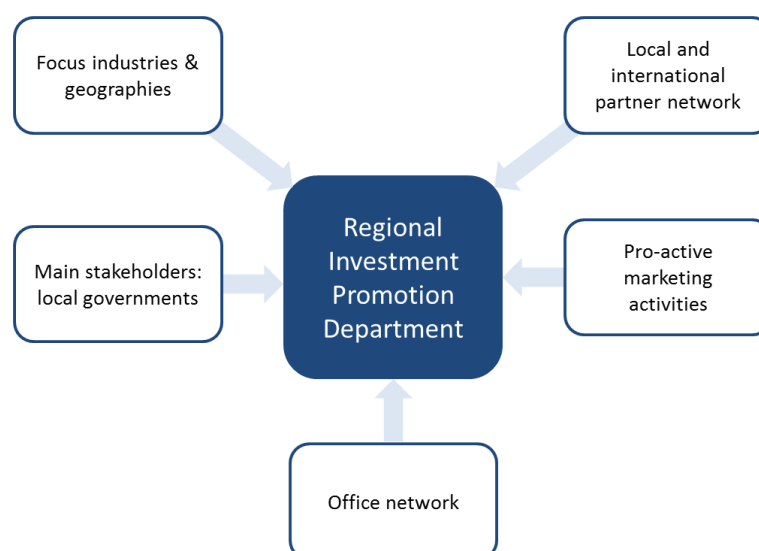
Component 6: Tax incentives in SEZs

In Special Economic Zones, additional financial and tax incentives are offered. Special Economic Zones offer exemption or deferral of customs duties and taxes, grants for developing and employing local human resources, other tax incentives and holidays.

Regional Investment Promotion Agencies

From analysing best practices of regional investment promotion in Baltic Sea Region (see Box 5), it can be concluded that a successful investment promotion agency has six main components. It has a partner network and runs pro-active marketing activities. An investment promotion agency has its own office network and the main involved stakeholders are local governments. Investment promotion agencies have established focus industries and geographies.

Figure 8. Components of Regional Investment Promotion Department



Component 1: small or medium-sized staff

For efficient work, the size of a regional investment promotion agency should not be too large. Depending on the scope of target geographies and industries, the average number of staff members working on foreign direct investment promotion should vary from 3 to 15.

Component 2: focus industries and geographies

For more efficient work, a regional investment promotion agency should define its focus industries and geographies; e.g., industries with existing high flows of FDI and target neighbouring regions. This allows running specifically targeted marketing activities and personalising the offer for potential investors.

Component 3: pro-active marketing approach

To achieve best results, regional investment promotion agencies apply combined marketing approach. They organise pro-active marketing activities such as investment forums, web-marketing, marketing in industry media, organising of workshops and other interactive events. Additionally, agencies run general marketing activities and marketing via intermediates: national level investment promotion agencies, embassies etc.

Component 4: partner network

Many regional investment promotion agencies create a local partner network in order to improve and widen the range of offered services. IPAs partner with universities, business organisations, expert centres and other stakeholders.

Component 5: representation network

In order to strengthen representation outside the region, investment promotion agencies establish foreign offices or representative offices in other regions of country. Another option used by investment promotion agencies is launching a network of 'honorary representatives' – private partners that represent interests of region.

Box 5. Case study of regional investment promotion agencies in Baltic Sea Region

Investment promotion agency	Greater Helsinki Promotion (Helsinki)	WIRMA (Lappeenranta region)	Copenhagen Capacity (Copenhagen)	Invest Gdansk (Gdansk region)	HWF (Hamburg region)
Main stakeholders	National and regional government (e.g. Invest Finland)	City of Lappeenranta, Lappeenranta University of Technology, Saimaa University of Applied Sciences	The Capital Region of Denmark, Region Zealand, City of Copenhagen, National Government	City of Gdansk	Hamburg Marketing GmbH - City of Hamburg
Funding	Public sources (e.g. cities of the Helsinki capital region and the Uusimaa Regional Council)	Owned by the City of Lappeenranta	Private and Public partners	100% owned by the City of Gdansk	By the city of Hamburg/Department of Economics
Staff	~20	23 of which 2,5 in FDI Promotion	15 in the field of FDI promotion	20 of which 5 in investment promotion	40 of which 15 in FDI Promotion
Office network	HQ: Helsinki, Abroad: 3 representatives in US, China & Russia	HQ: Lappeenranta, Abroad: St Petersburg	HQ: Copenhagen	HQ: Gdansk	HQ: Hamburg. Abroad up to the 10 HWF-Representatives and 34 Honorary representatives as „Hamburg Ambassador“
Marketing	Pro-active marketing	Pro-active	Pro-active	Pro-active	Pro-active approach –

approach	– General marketing via intermediates	targeted approach – general marketing – marketing via intermediates	approach – General marketing	marketing – General marketing	General marketing – marketing via intermediates
Target industry sectors	Clean-tech, life sciences, ICT, creative industry	Renewable energy, Stonework, Logistics, engineering, EU-Russia cross-border business	Cleantech, Life Science, ICT, logistics and creative industries	BPO/SSC, logistics, manufacturing and IT	Logistics, aviation, renewable energy, maritime industry and MITT
Target geographies	R&D (wide spread), Regional EHQ, Logistics (hub between Russia and Europe) China, Russia, Europe, North America	Main focus on Russia	USA, Europe and Asia	Mainly Europe, and via trade missions in Asia and USA	Europe, China, Asia/Japan, Russia, rest of the world
Outcomes: No of projects/jobs created, 2011-2013	236/6573	40/88	84/2399	21/2705	No data
Cooperation partners	National FDI agency, business centres, expert networks, chambers of commerce, universities, technical research centre, independent media centre	Universities	Knowledge, business, location advisors, public authorities	No information	No information

1.5. Analysis: What Are Strengths, Weaknesses, Opportunities and Threats of LPR and INPP Region

Table 13. SWOT analysis of LPR and INPP Region

Strengths	Weaknesses
• Border region • Already operating SEZ in Rēzekne • Industry specialisation • Fair and good living conditions • Good infrastructure (roads, Internet) • Visaginas as biggest energy competence professional education centre in Lithuania	• Low GDP overall and per capita • Distant region (far from capital city and seaports) • skilled labour force • Insufficiency of skills in municipalities for work with investors • Weak concentration of companies of similar industries (weak clustering)
Opportunities	Threats

-
- | | |
|--|--|
| • Financial incentives | • Labour outflow |
| • Pro-active investment marketing | • Political risks |
| • Trainings for municipalities on investment attraction | • Economic risks |
| • Investments in education | • Deterioration of road infrastructure |
| • Further investments in infrastructure (industrial zones) | |
| • Well-performing industry facilitation | |
-

Strengths: border region, industry specialisation, living conditions

Strengths of Latgale-Ignalina NPP (Visaginas) region in attracting investors are its location next to external border of the EU and a good industry specialisation (transport equipment, electrical equipment, food, wood and textiles and wearing apparel manufacturing in LPR; metal manufacturing and power industry services in Visaginas). In addition, the region has fair and good living conditions, an already operating Special Economic Zone in Rēzekne which offers benefits for investors and good regional infrastructure (density of roads, Internet accessibility). Another strength is Visaginas professional energy competence centre, which is the biggest in Lithuania.

Weaknesses: low development level, distance and insufficient skills in municipalities

Weak points of Latgale- Ignalina NPP (Visaginas) region are the following: low regional development (low GDP overall and per capita) and distance from capital city and seaports. Other drawbacks include insufficient skills of municipalities to do practical work with investors and investor attraction, as well as weak concentration of companies of similar industries (weak clustering).

Opportunities: financial incentives, marketing, investments in education, training and infrastructure

Opportunities for promoting investment attraction include introducing additional financial incentives, applying pro-active investment marketing and providing trainings for municipalities on investment attraction to improve their level of knowledge and competences. Education and infrastructure are other fields which have many opportunities for further development that require investments. An opportunity is also to facilitate already well-performing industries to improve their competences and strength.

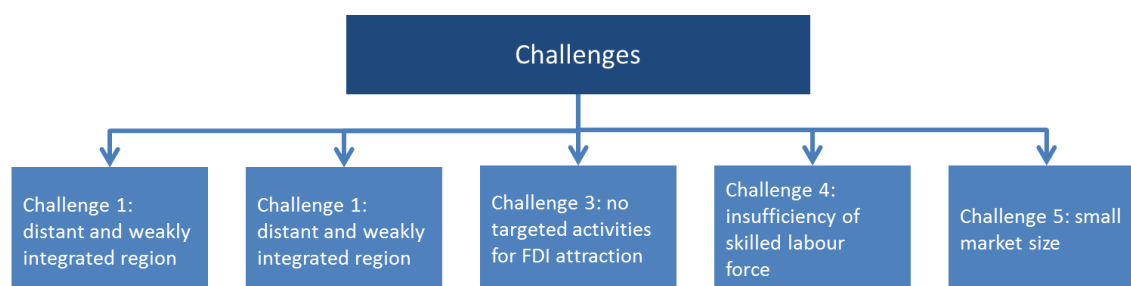
Threats: labour outflow, political and economic risks

Threats that may negatively influence investment attraction to Latgale- Ignalina NPP (Visaginas) region are labour outflow and political and economic risks. Availability of labour is a crucial factor for investment attraction; therefore labour loss might be a serious threat for increasing FDI in region. Political and economic risks most frequently

cannot be influenced at a regional level; nevertheless, they often have a strong negative impact on attractiveness of region to investors and should be taken into account when planning investor attraction process.

1.6. Challenges and Recommendations: What to Do to Attract Investors

Figure 9. Challenges for investor attraction



Challenge 1: distant and weakly integrated region

Latgale-Ignalina NPP (Visaginas) cross-border region is a distant region of the EU and it is weakly integrated into core transport networks of Europe. There is a significant distance from core transport networks and currently the connectivity to them is of low quality.

Challenge 2: few advantages for investor attraction

Latgale-Ignalina NPP (Visaginas) cross-border region has very few advantages for attracting foreign direct investments. Even though it has such pluses as: location next to EU border with Russia and Belarus, access to natural resources and good language skills, its disadvantages compared to other regions are rather significant. Latgale-Ignalina NPP region (Visaginas) is not in the capital region, there is a lack of labour force and the region has low level of development. In addition, currently there is low number of investors which does not create an image of investor-friendly region.

Challenge 3: no targeted activities for FDI attraction

The environment of investment attraction is highly competitive; in Europe alone there currently are 127 IPAs. At the same time, in Latgale-Ignalina NPP (Visaginas) region there are only few municipalities organising targeted activities for investment attraction. Municipalities also admit that they lack skills and knowledge about investment attraction process.

Challenge 4: insufficiency of skilled labour force

Latgale-Ignalina NPP (Visaginas) region is currently facing a challenge of lack of skilled labour force. The level of tertiary and secondary education in industry-demanded

sectors is low and cooperation between companies and educational institutions, e.g. vocational education institutions and training centres, universities etc. is insufficient.

Challenge 5: small market size

Latgale-Igņala NPP (Visaginas) region has a rather small market size. Therefore it makes it difficult for region to attract large investors, which is crucial for gaining critical mass of investors for further investor attraction.

Recommendations

Short-term: financial incentives, pro-active marketing, cross-border cooperation

In short-term the focus areas of improvement should be: offering investors financial and tax incentives, implementing a pro-active investment marketing strategy and promoting strong cooperation between local and cross-border institutions. Financial and tax incentives should include e.g. reduced labour tax, reduced rate of corporate income tax for investments exceeding 3 million euros, grants for business development etc. Tax wedge on labour should be decreased to 30%. Corporate income tax rebate for large-scale investment projects should be provided for investments larger than 3 million EUR and it should be increased to 30%. In addition, companies operating in industrial zones should be provided with access to such financial benefits as grants for labour training etc.

Pro-active regional marketing should be run with focus on manufacturing industries that have existing high concentration of companies and advantages within national market. Additionally, municipalities should be provided opportunities for staff training on investment attraction and build their capacity for practical work with potential investors. Lastly, cooperation of regional governance or investment attraction institutions should be strengthened, as well as development of cross-border cooperation model should be promoted.

Medium-term: development of industrial territories and investments in infrastructure

For medium-term results, investments should be directed towards developing industrial territories in Latgale-Igņala NPP (Visaginas) region in cooperation with private sector. Financial resources for such investments will be available for municipalities from EU investment funds infrastructure (see Strategic objectives 3.3.1. and 5.6.2. of European Commission-Latvia Partnership Agreement³). In addition, actions for strengthening and supporting already well-performing industries should be taken. To improve connectivity of region to transnational networks, investments

³ http://www.esfondi.lv/upload/Planosana/FMPlans_230714_Part1_lig_ar_grozijumiem_17.12.2014.pdf

should be made in cross-border and regional infrastructure – transport networks and communications.

Long-term: investments in education and functional specialisation

To improve investment attraction in long term, there should be investments in education and developed functional specialisation of urban area. Investments in vocational and tertiary, as well as life-long education should facilitate its linking to labour market needs, especially in well-performing industries. In addition, urban areas of Latgale-Ignalina NPP (Visaginas) region should develop functional specialisation to become a network of complementary service areas and offer higher quality services to investors.

SECTION 2: MEDIUM-TERM STRATEGY

2.1. Specialisation: Where to Attract Investors

Specialisation: just-in-time production for manufacturing industries exporting to neighbouring regions of Latgale-Ignalina NPP (Visaginas) cross-border region

Table 14. Specialisation of LPR and INPP region

Specialisation	Latgale Planning Region	Ignalina Nuclear Power Plant region (Visaginas)
Industries	Manufacture of machinery, transport and electrical equipment, textile and wearing apparel, food production, manufacture of wood products	Manufacture of basic metals and fabricated metal products, construction and energetic services and products
Countries	Russia, Belarus, Finland, Sweden, Denmark, Norway, Poland, Ukraine, the Baltic States	

Argument 1: specialisation in manufacturing industry

Latgale-Ignalina NPP (Visaginas) cross-border region is best suitable for manufacturing industries (see Table 14). Specialisation in manufacturing is supported by the following factors: it is a border region with large share of people with secondary education level and currently manufacturing sector has attracted the most FDI. Latgale-Ignalina NPP (Visaginas) region is not suitable for sectors of wholesale and retail and finance services since it is not a capital region. It also does not have any European-level innovation and research centres and has a low share of people with tertiary education.

Argument 2: manufacturing specialisation

Latgale Planning Region is most suitable for manufacture of machinery, transport and electrical equipment, textile and wearing apparel, food production and manufacture of wood products; Ignalina Nuclear Power Plant region (Visaginas) is most suitable for manufacture of basic metals and fabricated metal products and construction and energetic services and products. Currently these industries have one of the largest shares of employees compared to other regions of Latvia and Lithuania, therefore these industries have the more competent labour force. These industries have already attracted significant flows of FDI and have good preconditions for further cluster development (increased concentration of companies in an area).

Argument 3: just-in-time production

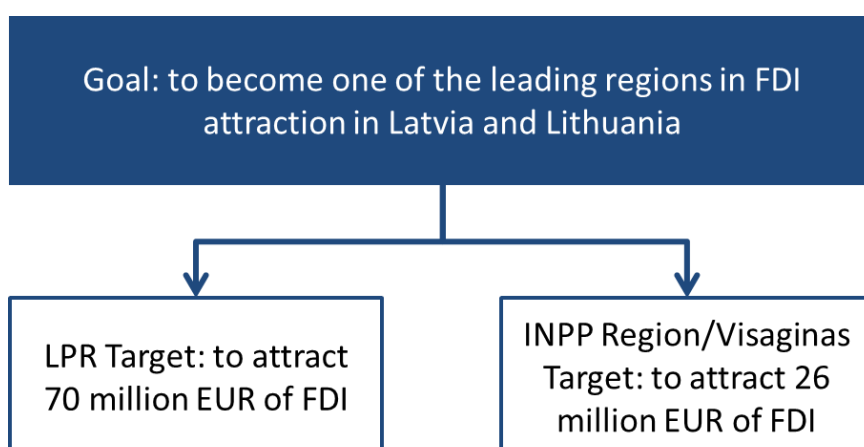
As globally LPR and INPP region (Visaginas) has no essential advantages to regions outside Europe with cheaper labour and more advanced technologies to offer for manufacturing, LPR and INPP region (Visaginas) should focus on region's unique

features. For Latgale-Ignalina NPP (Visaginas) region, it is its geographical location as EU's external border. Therefore Latgale-Ignalina NPP (Visaginas) region should specialise in just-in-time production in industries where it has most comparative advantages, focusing on companies that export to neighbouring markets.

Just-in-time production is a system of production which is based on current demand - making 'only what is needed, when it is needed, and in the amount needed'. The head office receives a request from client for a certain amount of a product. Manufacturing plant is then informed about when and in what quantity a certain product should be manufactured. Just-in-time production requires a flexible production process and can eliminate waste, inconsistencies, and unreasonable requirements, resulting in improved productivity of manufacturing.⁴

2.2. Goal and Targets: What Should Region Achieve

Figure 10. Investment attraction goal and targets



Investment attraction goal for Latgale and Ignalina NPP (Visaginas) region is to become one of the leading regions in foreign direct investment attraction in manufacturing industries by year 2021. To achieve the goal, the following target for Latgale Planning Region has been set: to attract 70 million EUR of investments in manufacture of machinery, transport equipment, textile and wearing apparel, food production, manufacture of wood products by year 2021. Target for Ignalina NPP (Visaginas) region is the following: to attract 26 million EUR of investments in manufacture of basic metals and fabricated metal products, construction and energetic services and products by year 2021.

⁴ http://www.toyota-global.com/company/vision_philosophy/toyota_production_system/just-in-time.html

2.3. Strategy and Priorities: How to Achieve Targets

Figure 11: Goal and priorities



The goal for investment attraction is to become one of the leading regions in Latvia and Lithuania in foreign direct investment attraction to manufacturing industries by year 2021. To achieve the goal, four priorities have been set. All priorities are complimentary and consist of infrastructural improvements together with soft services and skills facilitation.

All priorities facilitate investments in all target industries (but are not limited to them): in Latgale Planning Region, manufacture of machinery, transport equipment, textile and wearing apparel, food production, manufacture of wood products; in Ignalina Nuclear Power Plant Region (Visaginas), manufacture of basic metals and fabricated metal products, construction and energetic services and products. Priorities include actions that require multiple stakeholder collaboration (state, regional and municipal, public and private).

Priority 'Developing Industrial Parks for Fast and Low Cost Manufacturing Setup' entails setting up industrial parks in urban territories of Latgale-Ignalina NPP (Visaginas) region in order to create advantages for region in investor attraction. Priority 'Building Competences to Support Industry Clusters' includes measures aimed at improving accessibility of skilled labour force in Latgale-Ignalina NPP (Visaginas) region by creating competence network that facilitates higher concentration of companies operating in one industry (clustering). Priority 'Running Pro-Active Investment Marketing by Strengthening Regional Institutions' is aimed at tackling the challenge of insufficient mass of investors by creating departments at regional institutions working directly with investment marketing and investor attraction. Priority 'Fast Logistical Connections' includes actions for developing transport infrastructure and setting up logistical parks by EU external border.

Box 6. Cross-border Cooperation in Polycentric Urban Regions

For medium and small-sized cities as in Latgale-Igvalina NPP (Visaginas) region, collaboration-based development strategy should be implemented. A potential cross-border cooperation model has been developed by experts based on: 1) specialisation of urban areas based on FDI flows in industries; 2) investment territory projects selected in WILLINVEST project; 3) cross-border cooperation vision of LPR administration and INPP region business incubator.

Development of a joint cross-border development strategy is vital in order to:

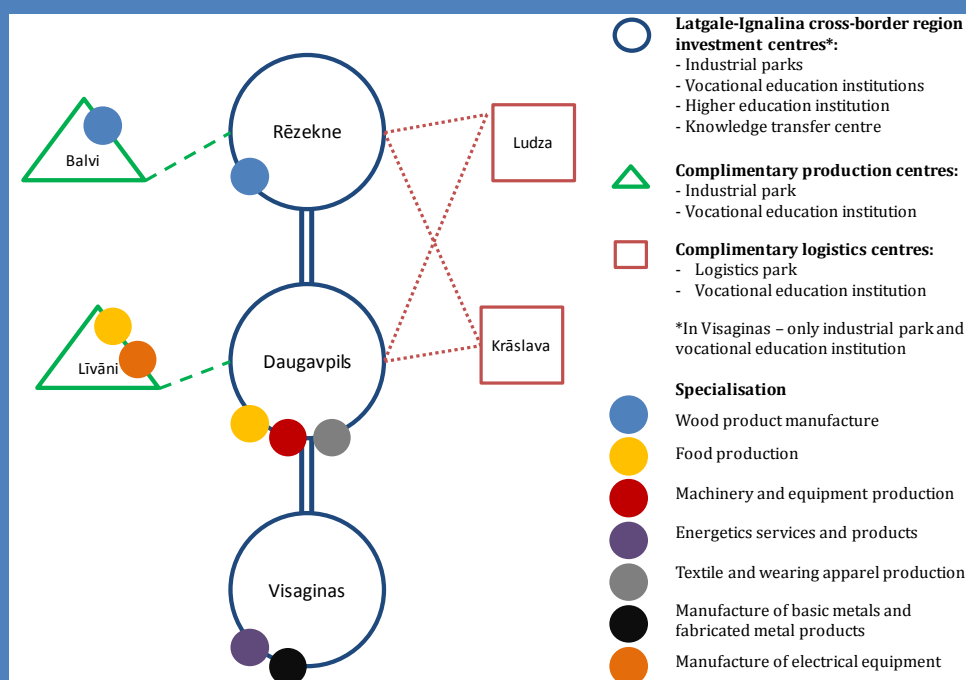
- (1) foster joining and combining resources (infrastructure, buildings, services) of region investment centres Rēzekne, Daugavpils, Visaginas and other complimentary production centres e.g. by transport and IT infrastructure to create the critical mass necessary for growth and development;
- (2) improve functional and sectorial synergy of Latgale-Igvalina NPP (Visaginas) region, by more efficient cooperation of its investment centres (Daugavpils, Rēzekne, Visaginas);
- (3) facilitate development of larger economy for Latgale-Igvalina NPP (Visaginas) region by functional cooperation. Daugavpils, Rēzekne, Visaginas should be regional investment centres with industrial parks, vocational and higher education institutions, Balvi, Līvāni – complimentary production centres with industrial parks and vocational education institutions, Ludza, Krāslava – logistics centres with logistics parks and vocational education institutions.

Crucial investments in urban areas

To strengthen specialisation of urban areas in Latgale-Igvalina NPP region, the following investments should be made. In Rēzekne, industrial areas suitable for wood production manufacture should be developed. The specialization should be supported by a vocational education institution, higher education institution and a knowledge transfer centre. In Daugavpils, industrial area suitable for food production, machinery and equipment production and textile and wearing apparel production should be developed. The city should also have a vocational and higher education institution and a knowledge transfer centre supporting its specialization industries. In Visaginas, an industrial area suitable for manufacture of basic metal and fabricated metal products as well as energetics services and products should be developed and the city should also have a vocational education institution supporting the aforementioned industries. In Balvi, industrial area for wood product manufacture should be developed as well as it should have a vocational education institution with focus on wood manufacture. In Līvāni, an industrial territory for food production and manufacture of electrical equipment should be developed and the town should have a vocational education institution focusing on the aforementioned industries. In Ludza and Krāslava, a logistics centre should operate, as well as these towns should have vocational education institutions focusing on wood product manufacture (Ludza) and equipment manufacture (Krāslava).

To improve collaboration among urban areas in Latgale-Igvalina NPP region as well as general competitiveness of region, the following investments in infrastructure should be made: investments in national and regional motorroads (reconstruction of the existing motorroads and development of high-speed motorroads), investments in railroad infrastructure (electrification of railway) and development of airport in Daugavpils.

Map of Concepts To Build Synergies in Latgale-Igvalina NPP (Visaginas) Cross-Border Region



Management of cross-border cooperation

To manage cross-border cooperation in polycentric urban regions, it is vital to introduce regional or cross-border governance institutions or strengthen cooperation among existing institutions (Latgale Planning Region, Ignalina Nuclear Power Plant Region Business Incubator). These institutions should focus on improving regional cooperation. Possible means for it are: identifying existing cooperation links between companies and assessing potential options for local company cooperation in manufacture (e.g. identifying sectors where region is exporting some components of a product and assess the possibilities of local production of other product components). Assistance for companies willing to create cooperation networks within region should be offered by helping to identify possible products and resources needed for their production, as well as by assisting in potential partner search.

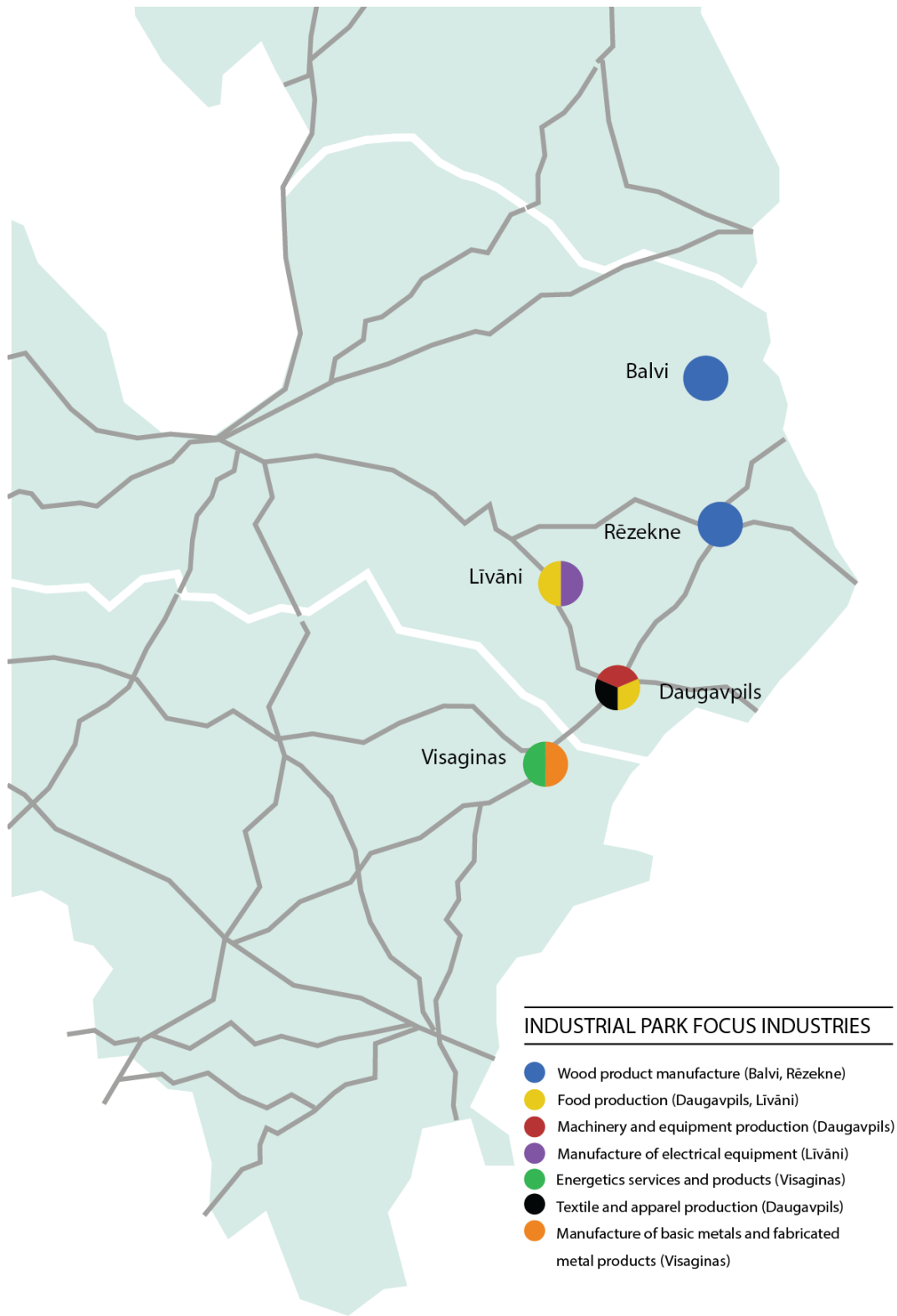
Priority 1: Developing Industrial Parks for Fast and Low-Cost Manufacturing Setup

Challenge and actions

To solve the challenge of Latgale-Ignalina NPP (Visaginas) region having few advantages in foreign direct investment attraction, industrial parks for fast and low-cost manufacturing setup should be developed. Industrial parks should be industry focused (but not exclusive), providing infrastructure, services and financial incentives tailored to needs of investors (See Figure 12 and 13).

In Latgale-Ignalina NPP (Visaginas) cross-border region, industrial parks should be developed in 6 cities and towns. Their specialisation is as follows: Balvi and Rēzekne – wood product manufacture, Daugavpils – food production, machinery and equipment production, textile and apparel production, Līvāni – manufacture of electrical equipment and food production, Visaginas – energetics services and products and manufacture of basic metals and fabricated metal products. Industrial parks should pay special focus to attract companies focusing on eco-friendly and sustainable manufacturing as well as companies of e.g. recycling manufacture.

Figure 12. Spatial locations of industrial parks



Industrial parks should be located close to main transport roads. It is essential in order to ensure that manufacturers have fast logistical connections to ports and road deliveries to neighbouring countries.

Figure 13. Services of industrial park



Industrial parks should have ready-to-use infrastructure: access roads, electric power, IT infrastructure, water supply and sewerage, gas supply, heating as well as industrial and office premises. It would allow investors to start the process of production fast without spending time and money on providing infrastructure to industrial territory. In addition, industrial parks should offer services of construction for investors that need to tailor the existing industrial buildings or for investors who need new industrial buildings.

Industrial parks should offer investors supporting services such as administrative support, accounting, project management, assistance for EU and other grant submissions, resource management etc. These services should be provided by private subcontractors – managers of industrial parks.

In addition, financial incentives should be offered to industrial park resident companies. They should include: reduced labour tax, reduced rate of corporate income tax for investments exceeding 3 million euros, grants for business development etc. Tax wedge on labour should be decreased to 30%. Corporate income tax rebate for large-scale investment projects should be provided for investments larger than 3 million EUR and it should be increased to 30%. In addition, companies operating in industrial zones should be provided with access to such financial benefits as grants for labour training.

Box 7. Suggested operation models for investment territories in LPR/INPP (Visaginas) region

Investment Territory/ha/Location	Specialisation	Operation model	Utilities	Services		Tax & financial incentives	
		Service provider	Private	Municipality	Private	Municipality/State	Private
Daugavpils City Northern Industrial Zone, total area 113 ha, unexploited - 27 ha (Visku-Spalu-Slavu-Mendeļeva streets)	Machinery and equipment production, Textile and apparel production, Food production	Land owned by municipality, leased for long-term for private operators, promoted to investors by municipality	Electric power, IT infrastructure, water supply and sewerage, gas supply, heating	Investment project manager	HR recruitment assistance, project manager, planning and adjusting industrial territory to investor's needs,	Business incubation, assistance in applying for business grants and funds	Property tax reductions, labour tax reductions (potential)
Livani Industrial Park, 140 ha, Fabrikas – Celtniecības – Stirnu street	Manufacture of electrical equipment, food production						
Rezekne Special Economic Zone, additional territory of 22.7 ha	Wood product manufacture	Land owned by municipality, leased for investors, operated by SEZZ administration					Corporate income tax, property tax, value added tax, excise and customs duties reliefs, labour tax reliefs (potential)
Visaginas former industrial zone, 8 ha	Small scale manufacture, power industry services						
Visaginas former military territory, 10 ha	Small scale manufacture, power industry services, other services						
Visaginas potential industrial territory (former school building, two former school/kindergarten buildings, maternity hospital building)	Small scale manufacture, power industry services, R&D services other services		Electric power, IT infrastructure, water supply and sewerage, heating				

Stakeholders and competences

Table 15. Stakeholders and competences for industrial park development and operation

Stakeholder	Competence
State	Investments in infrastructure and provision of financial incentives
Municipalities	Provision of land and buildings for Industrial Parks
LPR & INPP Region Business Incubator	Management of project
Private land owners	Selling or leasing properties for municipalities or private developers for Industrial Park development
Private sector	Sub-contractors manage Industrial Parks and provide services

Compliance with planning documents

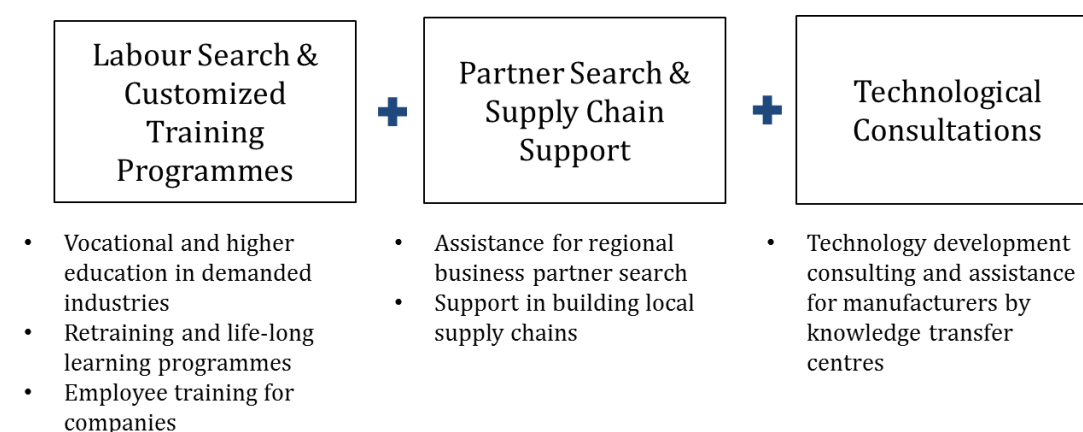
National Development Plan for Latvia 2014-2020, Latgale Programme 2010-2017 and in Visaginas strategic documents include goals aimed at increasing share of FDI in processing and "marketable" industries. The measures for that include: tax incentives, improving small-scale and larger infrastructure, improving legal procedures to ease investment process; and assembling complex proposals for investors. EU Investment Funds Partnership Agreement 2014-2020 includes goal to invest in small-scale infrastructure in municipalities in order to attract more private investors

Priority 2: Building Competences to Support Industry Clusters

Challenge and actions

In order to overcome the challenge of lack of skilled labour force in Latgale-Ignalina NPP (Visaginas) region, it is necessary to strengthen clusters and create competences necessary for industry development. Labour-market demanded competences should be developed at all levels of education via customized learning and training programmes. Clusters should be provided with support in partner search and technological consultations for performance improvements (see Figure 14).

Figure 14. Competence building services to investors



In order to link education with labour market demands, educational institutions and companies should cooperate in developing customized education and training programmes. For adults, retraining and life-long learning programmes should be provided. In addition, educational institutions should provide support to companies in employee training. Cluster organisations should also provide labour search and training services for companies by demand of investors.

To strengthen clusters, investors should be provided assistance in searching for regional business partners. Clusters are groups of specialised enterprises and other related supporting actors that cooperate closely together in a particular location. Companies should be encouraged and provided support when building local supply chains, as by working together companies can be more innovative, create more jobs and register more international trademarks and patents than they would alone.⁵

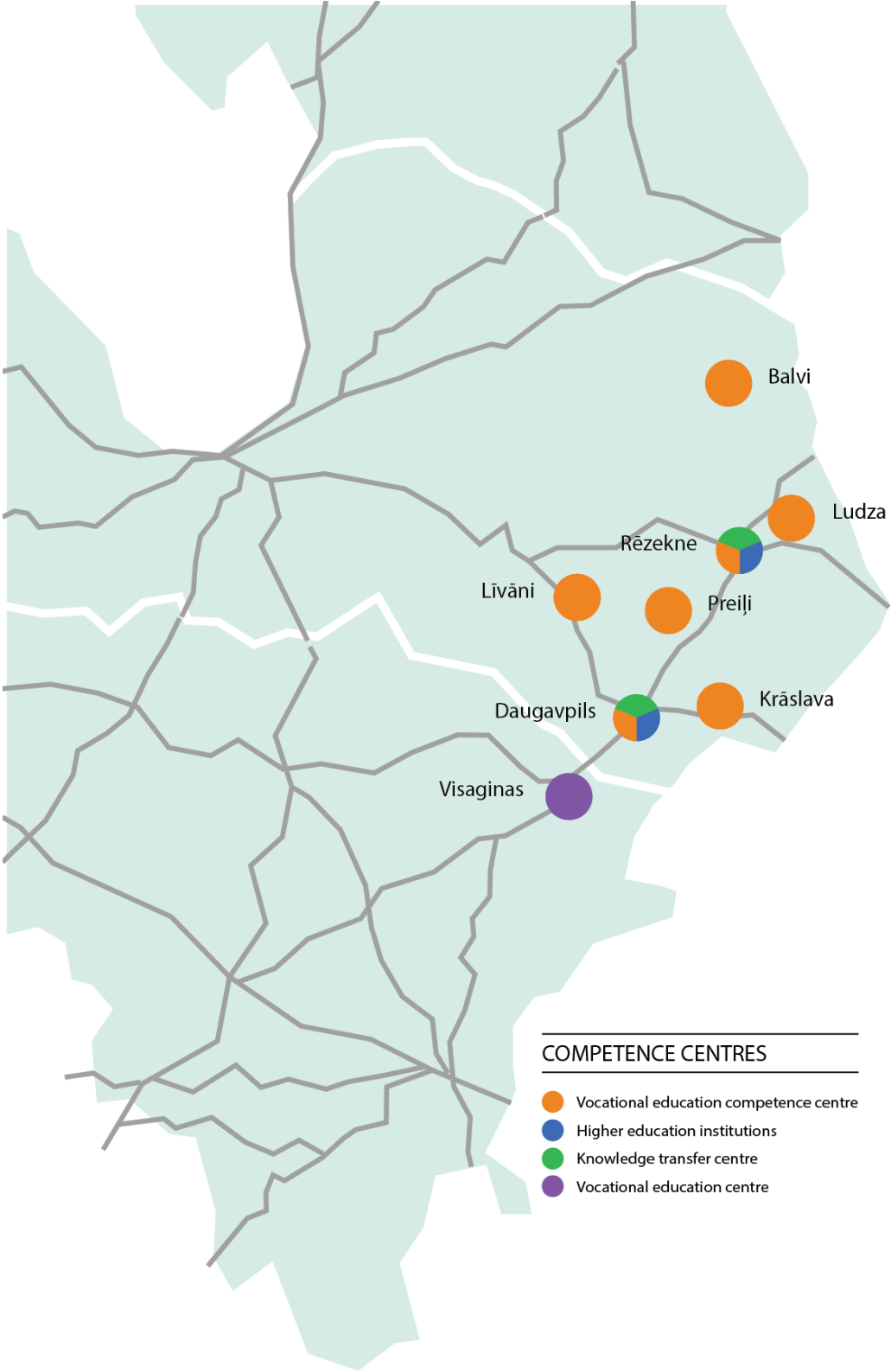
To increase technological competences of companies, technological consultations for developing new technologies and improving productivity should be provided. These consultations should be provided by knowledge transfer centres.

Vocational education competence centres should be located in development centres and republic cities, each of them focusing on a specific industry: Balvi – wood manufacture, Ludza – wood manufacture, food production, Rēzekne – food production, machinery and equipment production, Līvāni – food production and electrical equipment management, Preiļi – food production, Krāslava – equipment manufacture, Daugavpils – equipment manufacture, textile production. Vocational education and training centre in Visaginas should maintain its already existing focus on energetic competence services welding, electric works and mechatronics.

Rēzekne and Daugavpils as republic cities should provide full package of education and research services, hosting a vocational education competence centre, higher education institution (in Rēzekne – profiled in engineering sciences, in Daugavpils – in transport and equipment development and production) as well as a knowledge transfer centre (Rēzekne – engineering sciences, Daugavpils – transport and equipment development and production). In Visaginas branches of Kaunas University of Technology or Vilnius Gediminas Technical University should be established in order to provide full package of engineering education. Visaginas technology and business vocational education and training centre should be used as practical training centre for students of industrial specialisation.

⁵ http://ec.europa.eu/enterprise/initiatives/cluster/index_en.htm

Figure 15. Spatial locations of competence centres



Stakeholders and competences

Table 16. Stakeholders and competences for competence building activities

Stakeholder	Competence
State	Investments in infrastructure
Municipalities	Land/infrastructure provision
LPR and INPP Region Business Incubator	Management of project and coordination of collaboration with private sector (entrepreneurs) in development of educational programmes and trainings
Private sector	Co-development and co-financing of employee training programmes and education programmes

Compliance with planning documents

Investments in all levels of education, especially vocational education and life-long learning are included in priorities and objectives of National Development Plan for Latvia 2014-2020 and EU Investment Funds Partnership Agreement. Investments in education are included also in priorities and objectives of Visaginas municipality and INPP region strategic documents.

Priority 3: Fast Logistical Connections

Challenge and actions

To improve connectivity of region to seaports and airports and ease border crossing, it is important to invest in transport infrastructure and logistics centres with excellent infrastructure (see Figure 16). Such investments are crucial to facilitate export-oriented investor attraction.

Figure 16. Components of successful connectivity and logistics



To improve connectivity of region, the most vital investments should be directed towards transport infrastructure. Investments in national and regional roads should be

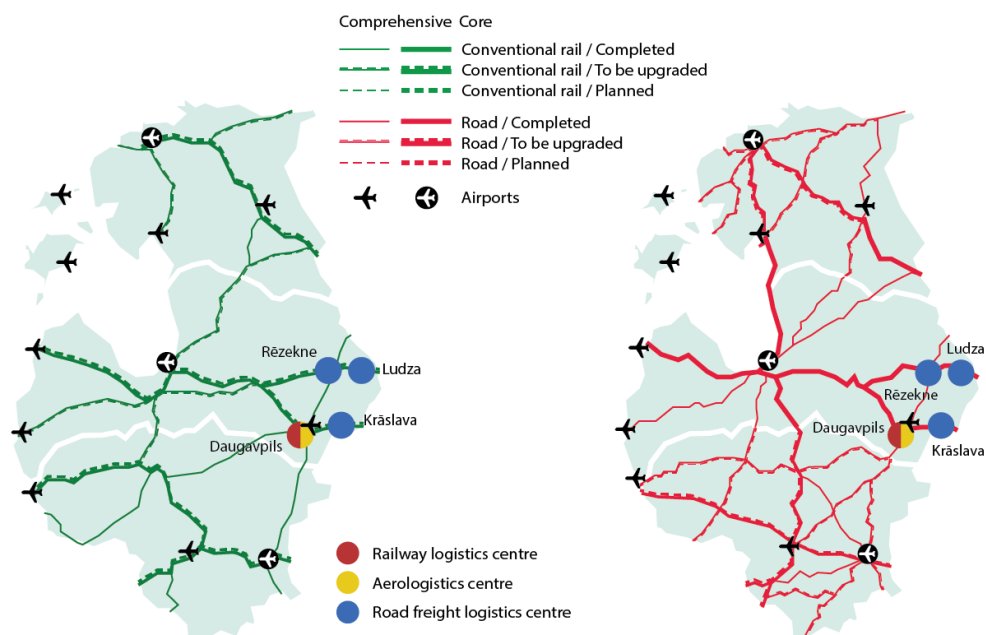
directed to increase connectivity to seaports. Investments in railroads should include electrification of railroads to improve eco-friendliness of rail industry and cheapen the cargo expenses. An airport should be developed in Daugavpils to integrate Latgale/INPP region (Visaginas) into European and international air cargo networks.

In order to facilitate industry of transport and logistics, logistics centres should be established near external border of the EU. Logistics centres should provide logistics and customs services for freight operators: warehouse rent, resource management services, customs service etc. Additionally, regulations on customs services and border crossing should be adapted according to national and EU legislature. Amendments on border-crossing should be implemented in order to create positive effect on freight volume in the region.

Logistics centres

Rēzekne and Daugavpils are important railway intersection points and therefore should function as railway logistics centres. Ludza and Krāslava as regions located close to border Russian and Belarussian border should function as road freight logistics centres. An airport in Daugavpils adapted for cargo shipment should be developed. Implementing the long-planned project would integrate Latgale-INPP region (Visaginas) into aero logistics network of Europe and improve its international connectivity. Investments should also be directed towards improving Latgale-INPP region (Visaginas) connections to seaports which are most often used for small and medium-size cargo.

Figure 17. Spatial location of logistics centre



Box 8. Suggested operation models for logistics centres in LPR/INPP region

Investment							
Territory/ha/Location	Specialisation	Operation model	Utilities	Services		Tax & financial incentives	
		Service provider	Private	Municipality	Private	Municipality/State	Private
Pāternieki and logistics area, 15 ha	Industrial and logistics	Land owned by municipality, leased for long-term private operators, promoted to investors by municipality	Electric power, IT infrastructure, water supply and sewerage, heating	Investment and project manager	HR recruitment assistance, project manager, planning and adjusting industrial territory to investor's needs,	Business incubation, assistance in applying for business grants and funds	Property tax reductions, labour tax reductions (potential)
Ludza Logistics centre, 18.8 ha	Logistics	Land owned by municipality, leased for long-term private operators, promoted to investors by municipality	Electric power, IT infrastructure, water supply and sewerage, heating	Investment and project manager	HR recruitment assistance, project manager, planning and adjusting industrial territory to investor's needs,	Business incubation, assistance in applying for business grants and funds	Property tax reductions, labour tax reductions (potential)

Stakeholders and competences

Stakeholder	Competence
State	Investments in infrastructure, actions to ease customs services and border-crossing process
Municipalities	Land and buildings for logistics centres
LPR and INPP Region Business Incubator	Integrated project development and management
Private sector	Provision of services (customs, logistics)

Compliance with national and regional planning documents

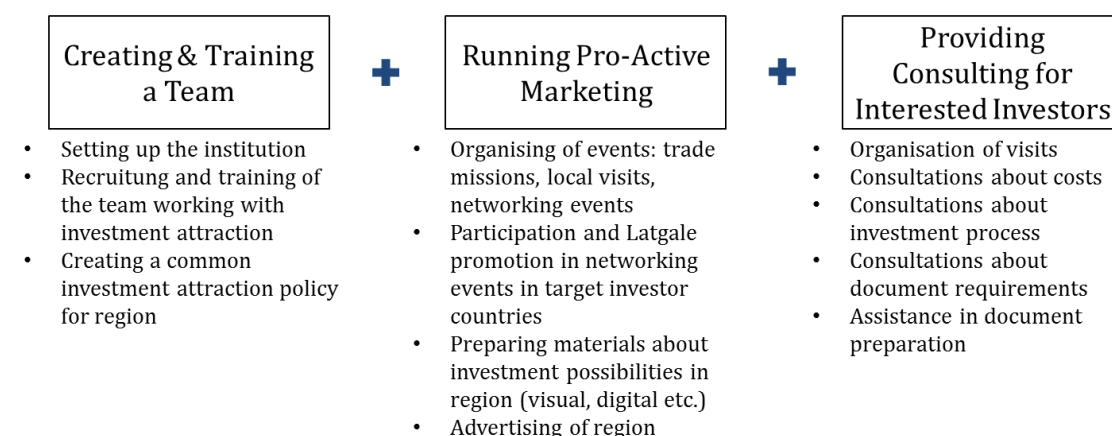
Investments in regional, national and transnational transport infrastructure (roads, railroads) are included in planning documents of all levels. Latvia Sustainable Development Strategy-2030, NDP 2020, Latgale Programme 2010-2017 and EU Investment Fund Partnership Agreement state investments in infrastructure, improvements of logistics connectivity as one of main priorities for national development.

Priority 4: Running Pro-Active Investment Marketing by Strengthening Regional Institutions

Challenge and solution

To attract the critical mass of investors, it is necessary to establish investment promotion departments in regional institutions that run pro-active investment marketing. In Latgale-Ignalina NPP (Visaginas) region investment attraction departments should be established under Latgale Entrepreneurship Centre and Ignalina Nuclear Power Plan Region Business Incubator.

Figure 18. Actions to set up and run investment promotion departments



Investment promotion departments would be new units under Latgale Entrepreneurship Centre and Ignalina Nuclear Power Plant Region Business Incubator. These departments should focus on attracting medium- and large-scale investors to region. A team for the departments should be recruited and trained to work with investment attraction by experienced professionals of the field. In Latgale Entrepreneurship Centre and Ignalina Nuclear Power Plant Region Business Incubator investment promotion departments, three and two people respectively should be working. Additionally, as framework for operation of departments, common investment attraction policy for region should be drafted setting investment attraction guidelines and goals.

After creating the department, it should run pro-active investment promotion marketing. It would include the following actions: organising various events, e.g. trade missions, local visits, networking events for local and foreign companies, as well as participating and promoting region in networking events organised by other stakeholders, especially in target investor countries. Visual, digital and interactive materials about investment possibilities in region should be created. Investment promotion departments should also advertise the region in all kinds of media, especially industry-oriented.

To nurture potential investors, investment marketing departments should provide consulting services. They should organise visits to investment sites, consult about document requirements and investment process and its costs as well as about production costs. Investment marketing departments should also assist investors in document preparation and provide other relevant assistance to ensure easy and fast investment process.

Stakeholders and competences

Stakeholder	Competence
State	Cooperation with LIDA, embassies and consulates
Municipalities	Cooperation with LPR in investment promotion
LPR, Latgale Entrepreneurship Centre and INPP Region Business Incubator	Establishment of department and implementation of investment promotion activities
Private sector	Co-operation with Investment Promotion Department, participating in honorary ambassador programme for region

Compliance with national and regional planning documents

Pro-active investment marketing is included in Latgale Programme 2010-2017 working programme. Its subprogram 'Investor Attraction' and 'Marketing Programme' list marketing and investor support activities as some of priority areas for 2010-2017 in region development. Increasing representation of economic interests of Latvia abroad

by opening new embassies, especially in target investor countries, is included in National Development Plan for Latvia 2014-2020.

Indicative Budget for Strategy Implementation

Table 17. Indicative Budget for Strategy Implementation, 2015-2021*

No.	Priority actions	Competence level	Indicative budget (2015-2021), EUR	Sources of finance
Priority 1: Developing Industrial Parks for Fast and Low-Cost Manufacturing Setup				
1	Development of industrial parks	State, regional institutions, municipalities, private sector	84 000 000	EU investment funds, state budget, municipal budget
2	Provision of supporting services to investors	Regional institutions, municipalities, private sector	n/a	n/a (from budget of regional and local institutions)
3	Financial incentives and tax reductions	State	33 000 000	EU investment funds, state budget
Priority 2: Building Competences to Support Industry Clusters				
4	Labour search support and customized learning programmes	State, regional institutions, municipalities	5 700 000	EU investment funds, state budget
5	Partner search and supply chain support	Regional institutions, municipalities	n/a	n/a (from budget of regional and local institutions)
6	Technological consultations	Regional institutions, municipalities	5 000 000	EU investment funds, state budget
Priority 3: Fast Logistical Connections				
7	Investments in transport infrastructure	State, regional institutions, municipalities	71 000 000	EU investment funds, state budget, municipal budget
8	Development of border logistics centres	Regional institutions, municipalities	12 000 000	EU investment funds, state budget
9	Faster crossing of RU and BY borders	State	n/a	n/a (from budget of regional and local institutions)
Priority 4: Running Pro-Active Investment Marketing by Strengthening Regional Institutions				
10	Creation of investment promotion department	Regional institutions	700 000	State budget
11	Pro-active investment marketing	Regional institutions, municipalities	700 000	State budget, municipal budget, Norwegian Financial Mechanism
12	Consulting to potential investors	Regional institutions, municipalities	700 000	State budget

* **Note.** Provisional budget for strategy implementation was based on indicative budgets of investment territory developments in WILLINVEST project, indicative programme financing in Latgale Programme 2010-2017 and consultations with regional and local stakeholders.

2.4. Implementation and Indicators: How to Measure Success

Box 9. FDI project in Eastern European countries, 2012-2014. Data: fdimarkets.com

Country	Projects recorded	Average FDI per 1 project, mln EUR	Jobs created by 1 million of FDI, average
Romania	341	31,78	7
Poland	430	28,90	6
Hungary	145	26,08	6
Czech Republic	207	25,41	7
Estonia	34	24,33	4
Latvia	32	22,79	3
Bulgaria	109	22,67	6
Slovakia	100	21,01	8
Lithuania	74	15,05	6
Slovenia	20	14,52	8

* **Note.** For calculating implementation indicators for Latgale-Ignalina NPP (Visaginas) region, current investment trends were taken into account and it was assumed that 1 million of FDI on average would create 5 job posts and that 1 investment project would on average be 5 million EUR.

Implementation with the involvement of all significant stakeholders will be managed by Latgale Planning Region and Ignalina Nuclear Power Plant Region Business Incubator Administration. They will be responsible for managing cooperation among involved parties in order to implement projects and actions suggested by strategy. In 2018, a mid-term report on the implementation shall be provided by LPR and INPP Administrations, measuring indicators and progress on project development. In 2020, the final evaluation of strategy implementation should be provided by Latgale Planning Region and Ignalina Nuclear Power Plant administrations.

The following indicators for quantitative progress evaluation have been chosen (see Table 18):

Table 18. Indicators of investment attraction strategy

Region	Indicator	2014	2018	2020	Source
LPR	FDI Balance, EUR	85 million	120 million	155 million	Lursoft statistics
	Number of jobs in manufacturing industries	9543	9718	9893	Central Statistical Bureau
	Number of investors in LPR	994	1001	1008	Lursoft statistics
INPP Region	FDI Balance, EUR	8 million	13 million	34 million	Central Statistical Bureau
	Number of jobs in manufacturing industries	3000	3065	3130	Central Statistical Bureau

Number of investors in INPP Region	2	5	7	Central Bureau, Lithuania	Statistical Invest
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SECTION 3:

INVESTMENT MARKETING PLAN

Plan for Latgale Planning Region Administration and Latgale Entrepreneurship Centre

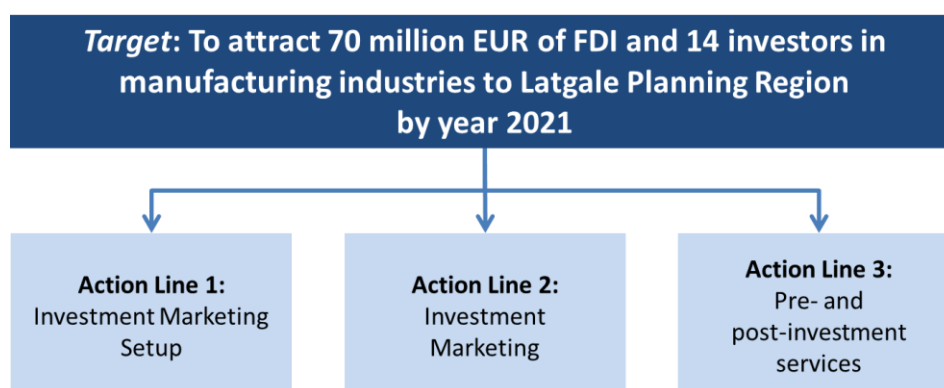
3.1. Target Groups: Who To Approach

Investment marketing target groups: transnational manufacturing companies exporting to neighbouring regions of Latgale

Direct target groups of investment marketing include local and transnational manufacturers of machinery, electrical equipment, food products, textiles and wearing apparel and wood products. Investment marketing should be aimed at companies in the abovementioned industries that export to countries in neighbouring regions of Latgale - Estonia, Lithuania, Russia, Belarus, Poland, Sweden, Finland -, emphasising the advantage of fast production delivery. **Intermediary** target group includes stakeholders that help to contact and reach investors: Latvian Investment and Development Agency and its foreign offices, embassies, honorary ambassadors of region and international real estate consultants.

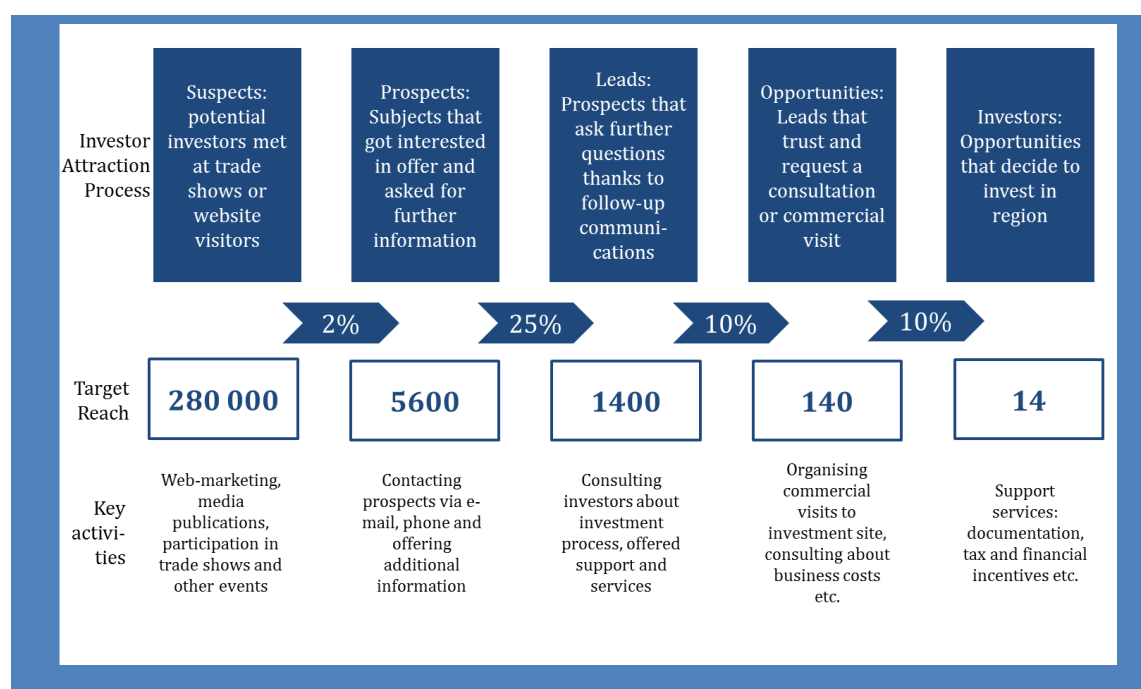
3.2. Action Lines: How to Achieve Targets

Figure 19. Target and action lines



Investment marketing target for Latgale Planning Region is to attract 70 million euros of foreign direct investments in manufacturing of machinery, electrical equipment, food products, textiles and wearing apparel and wood products. By year 2021, 14 new investors should be attracted to region.

Box 10. Investment marketing targets for Latgale Planning Region. Source: Hurtado X., FDI Attraction Academy



In order to reach the target, it is necessary to reach at least 280 000 potential investors and maintain communication with 1400 investors, as well as organise at least 140 commercial visits. Marketing activities such as publications in media, preparation of information materials, maintaining website, participating in industry events etc. have to be carried out. Therefore, the estimated budget of for successful implementation of the marketing plan including aforementioned activities was drafted based on regional development agencies' case studies and consulting with Latgale Planning Region and other local and regional stakeholders (300 000 EUR per year; see Table 19).

Table 19. Total budget of investment promotion department, EUR

Action Line	2015	2016	2017	2018	2019	2020	2021	TOTAL
Action Line 1: Investment Marketing Setup								
Investment Marketing Setup	93 000	56 000	7 000	11 000	7 000	7 000	7 000	188 000
Action Line 2: Investment Marketing								
Investment Marketing	171 000	208 000	257 000	253 000	257 000	257 000	257 000	1 660 000
Action Line 3: Pre- and Post-Investment Services								
Pre- and Post-Investment Services	-	-	-	-	-	-	-	-
Salaries	36 000	36 000	36 000	36 000	36 000	36 000	36 000	252 000
TOTAL	300 000	300 000	300 000	300 000	300 000	300 000	300 000	2 100 000

** Note: Sums in Action Lines include outsourced services or additional costs that will not be covered as employees' responsibilities and included in their salary rates, e.g. expenses for participation in trade shows*

Action line 'Investment Marketing Setup' includes actions to set up an investment promotion department under Latgale Entrepreneurship Centre, which is a branch of

Latgale Planning Region that is working to create a consultation network and to provide a coordinated support for business development. Action line 'Investment Marketing' includes actions of web and media marketing, participation in industry events and organising investor visits, running intermediary marketing actions. Action line 'Pre- and post-investment services' includes actions aimed at consulting investors on various issues and providing practical assistance in process of investment.

Action Line 1: Investment Marketing Setup

Actions	Indicative expenses, EUR						
	2015	2016	2017	2018	2019	2020	2021
Results: established investment promotion department with 6 trained employees							
Recruiting & setting up department							
Recruiting 6 employees for department	x						
Purchasing necessary office equipment for investment promotion department employees	5000			4000			
Training 6 employees on investment marketing	8000	3000	3000	3000	3000	3000	3000
Administrative costs (office phones, printing, utilities, travel costs etc.)	3000	3000	4000	4000	4000	4000	4000
Department Website							
Maintaining investment promotion website <i>invest.latgale.lv</i>	2000	x	x	x	x	x	x
Collaboration with other stakeholders							
Collaboration with LIDA and municipalities in investment promotion activities	x	x	x	x	x	x	x
Development of technical projects for investment sites	70 000	50 000					
Preparing procurement for sub-contracting managers of investment parks (in collaboration with municipalities)	5 000						

* **Note.** Actions marked with "X" will be employees' responsibilities and covered by salaries; actions marked with sums are outsourced or involve additional costs

Action Line 1 'Investment Marketing Setup' includes actions necessary for establishing an investment promotion department under Latgale Entrepreneurship Centre and its basic responsibilities. 6 employees have to be recruited and trained, as well as the necessary office equipment has to be purchased. Other actions under this action line include setting up a website for department, developing technical projects for investment sites and preparing procurement for sub-contracting managers of investment parks. As a result of implementing Action Line 1, an investment promotion department with 6 trained employees should be established. The department will focus on attracting medium- and large-scale investors in focus industries of Latgale Planning Region.

Action Line 2: Investment Marketing

Actions	Indicative expenses, EUR						
	2015	2016	2017	2018	2019	2020	2021
Results: 280 000 reached entrepreneurs, 5600 informed investors (e.g. via e-mails)							
Web and Media Marketing							
Design informational materials about investment possibilities in LPR: videos, leaflets, brochures and booklets in languages of target countries	15 000	5 000	15 000	10 000	15 000	10 000	10 000
Running search engine marketing of investment promotion department website	3 000	2 000	4 000	4 000	4 000	4 000	4 000
Run advertising in social networks and industry-significant online media	30 000	10 000	30 000	30 000	50 000	30 000	50 000
Publish promotional articles in industry-significant media (printed)	15 000	11 000	18 000	13 000	18 000	20 000	20 000
Advertising in local and target country and international television channels	50 000	50 000	80 000	60 000	60 000	53 000	60 000
Creating an database of companies in target industries and updating it at least once per 1/2 year	x	x	x	x	x	x	x
Using Google Alerts for tracing potentially interested companies on social networks and other sites	x	x	x	x	x	x	x
Preparing and sending short surveys (max 10 close-ended questions) to companies about their requirements to invest in a region to receive company contact info for further informational updates	x	x	x	x	x	x	x
Participation in events and organising of visits							
Creating a trade show booth: concept and visual materials	3000			3000			3000
Visiting local entrepreneurs and investors and informing on possibilities to expand business in Latgale	x	x	x	x	x	x	x
Organising Latgale Investment Forum		100 000		100 000		100 000	
Visiting and presenting Latgale Planning Region in trade shows	45 000	25 000	100 000	25 000	100 000	30 000	100 000
Visiting events of associations that target companies belong to	10 000	5 000	10 000	8 000	10 000	10 000	10 000
Gathering contact info of potential leads at trade shows (e.g. by offering free consultation on investing in region)	x	x	x	x	x	x	x
Sending informational e-mails to contacts from trade shows	x	x	x	x	x	x	x
Follow-up calls to contacts from trade shows after sending informational e-mails	x	x	x	x	x	x	x
Participating in trade missions organised by ministries and embassies in target countries	x	x	x	x	x	x	x
Intermediary Marketing							
Establishing Latgale Planning Region ambassador network in target countries for frequent investor	x	x	x	x	x	x	x
Disseminating information to LIDA and embassies about investment possibilities in Latgale for further distribution to foreign investors	x	x	x	x	x	x	x
Dissemination information about investment sites in Latgale to international real estate consultant offices	x	x	x	x	x	x	x

*** Note.** Actions marked with "X" will be employees' responsibilities and covered by salaries; actions marked with sums are outsourced or involve additional costs

Action Line 2 'Investment Marketing' includes actions of web and media marketing, such as designing an information booklet, running advertising in social media, web and other platforms etc. It also includes actions directed towards participation in trade events and organising investors' visits to Latgale. Another group of actions is aimed at running marketing via intermediaries: establishing a network of Latgale Planning Region ambassadors and disseminating information about the region and its investment sites to LIDA and international real estate consultants. As a result of implementing Action Line 2, 280 000 entrepreneurs should be reached and 5600 of them should have received additional information about investment possibilities in LPR e.g. via e-mail.

Box 11. Suggestions for successful investment promotion department website

- Website should be available in languages of target countries of investors and it should be available through native language search engines (e.g. google.ru)
- It should be easy-to-navigate and allow investors to find the information they need with less than 3 clicks (e.g., straight-forward buttons like 'Request a Free Consultation on Investment Procedure' should be used)
- In 'Contacts' section, international phone numbers or Skype account name for live chat should be available
- Website should contain interactive features, e.g. maps with investment sites showing their distance to ports, airports, transport networks etc., videos with information necessary for investors
- Downloadable materials – brochures, flyers, booklets – about investment possibilities should be available
- Website should include a '3S Story' - Star (Decision Maker/Company); Story (How they decided to invest in region); Solution (How IPA facilitated investment process)
- Website should be technology-friendly and accessible through browsers and gadgets
- It should include investment calculators, where investors can do preliminary calculations of their costs when deciding to invest in region (calculator should also offer the possibility to receive more accurate simulation via direct consulting)
- Online surveys and request forms to invest in region should be available to capture investor contacts – they should be short and serve as starting point for further communication with investor

Box 12. Tips for successful trade show booth

- Location matters – prime booth locations usually cost more, but also attract more
- Booth design should have a clear message and able to be seen from all directions
- Booth should have enough staff to communicate to all interested people and staff should be approachable and well-informed
- Offering snacks and drinks in line with booth host's theme is much appreciated
- Showing expertise can offer attendees additional value to visiting a booth – e.g. detailed information about region, newest industry trends etc.
- Using social networks to engage attendees – e.g. by offering prizes or special incentives through social media channels
- Promotional products and branded gifts are a good way to remind of oneself after a trade show has ended. By making sure that gifts are useful it can be ensured that they will be kept for a longer period of time – e.g. pens, notebooks, cups, USB drives, bags, folders etc.

Action Line 3: Pre- and Post-Investment Services

Action	Indicative expenses, EUR						
	2015	2016	2017	2018	2019	2020	2021
Results: 1400 consulted investors, 140 commercial visits							
Consulting Services							
Consulting investors on available investment sites and labour recruiting	x	x	x	x	x	x	x
Consulting investors on investment process	x	x	x	x	x	x	x
Consulting investors on business costs (total cost business case: estimate of labour, utilities, real estate, logistics, taxes etc. costs)	x	x	x	x	x	x	x
Consulting investors on how prepared they are to invest in region (knowledge, finance, network assessment)	x	x	x	x	x	x	x
Helping investors to choose most cost-effective investment sites	x	x	x	x	x	x	x
Practical Assistance							
Organising commercial missions for investors to municipalities and investment sites	x	x	x	x	x	x	x
Providing translators for commercial visits of investors to municipalities	x	x	x	x	x	x	x
Assisting investors in paperwork and document preparation and communication with institutions	x	x	x	x	x	x	x
Assisting investors in applying for tax incentives	x	x	x	x	x	x	x
Assisting investors in applying for local and EU grants for business development	x	x	x	x	x	x	x
Helping investors find and contact potential local distributors and suppliers	x	x	x	x	x	x	x

*** Note.** Actions marked with "X" will be employees' responsibilities and covered by salaries; actions marked with sums are outsourced or involve additional costs

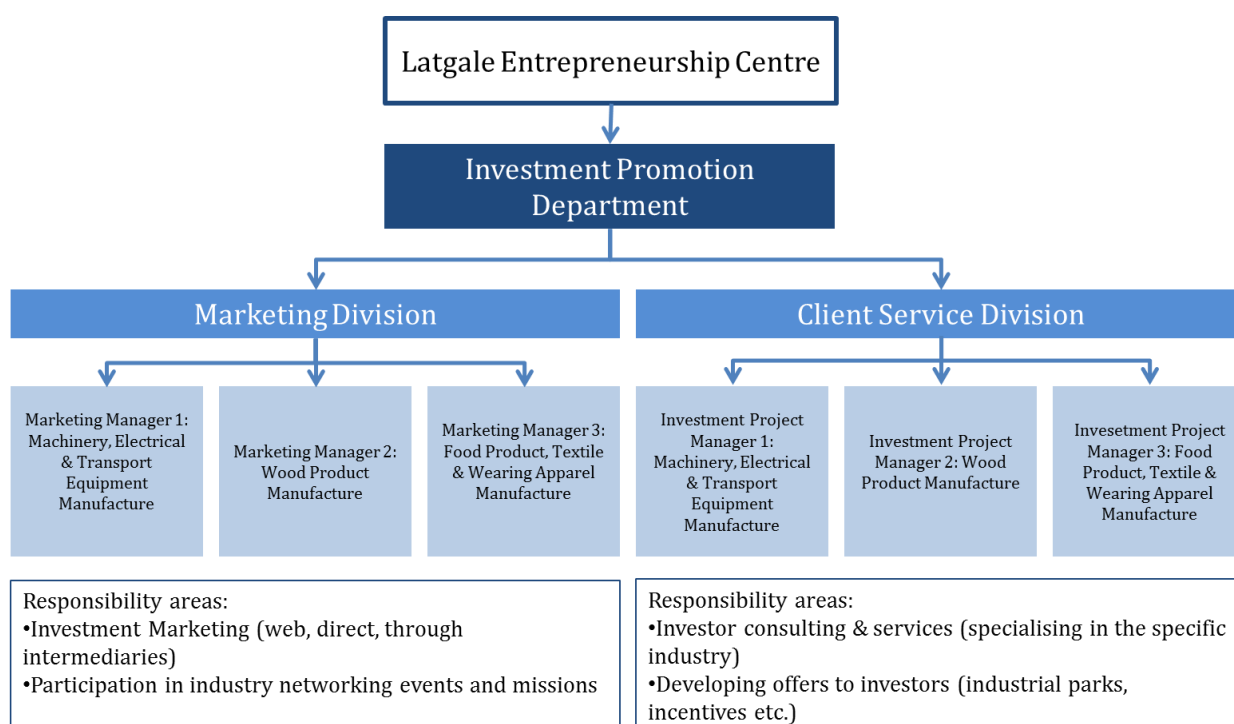
Action Line 3 'Pre- and Post-Investment Services' includes actions of providing consulting and practical assistance to medium- and large-scale investors that have shown interest to invest in Latgale Planning Region. Consulting services include consulting on investment sites, investment process, business cost etc. As practical assistance, department will organise commercial missions to municipalities and investment sites, assist investors in document preparation and grant applications etc. As a result of Action Line 3, 1400 investors should be consulted on investment possibilities and process and 140 commercial on-site visits should be organised.

3.3. Organisational Structure: Who Will Implement the Plan

Organisational structure of investment promotion department

The investment promotion department would be operating under Latgale Entrepreneurship Centre administration. It would employ six staff members, three of them in marketing division and three – in client service division (see Figure 20). All staff members would be recruited by Latgale Entrepreneurship Centre administration via standard application procedure. At the department development phase, department employees would be trained by investment marketing and investor service professionals.

Figure 20. Organisational structure of investment promotion department

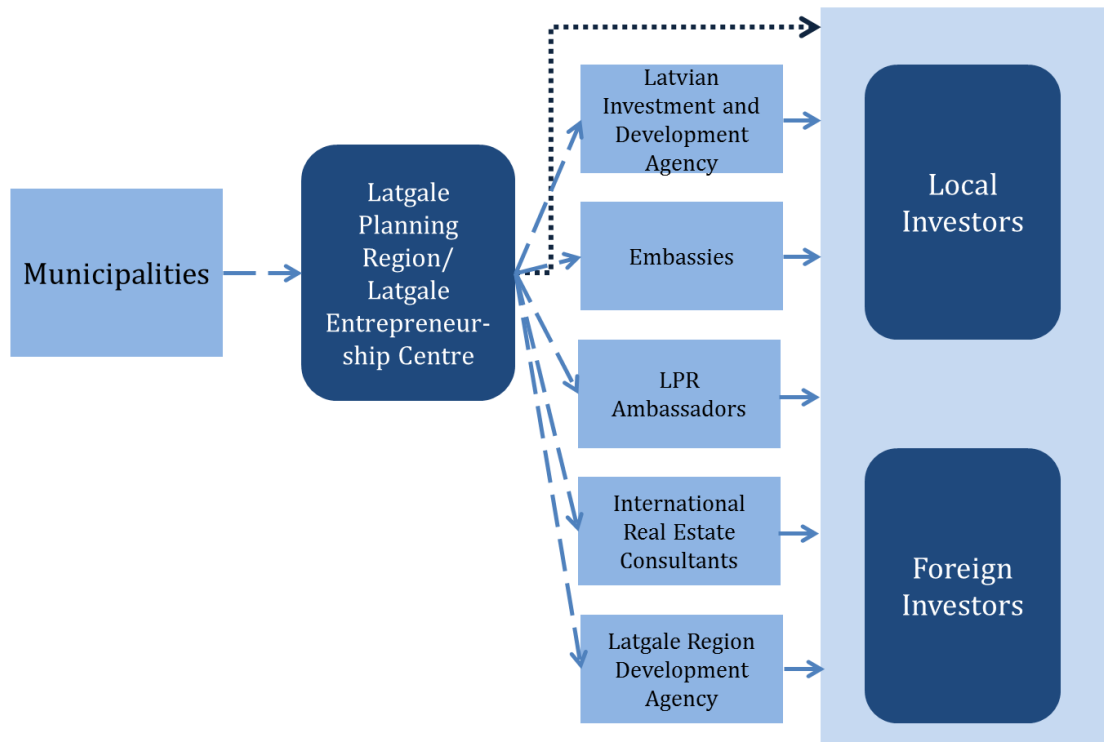


In marketing division, each marketing manager would be focused on certain industries: Marketing Manager 1 on machinery, electrical and transport equipment manufacture, Marketing Manager 2 on wood product manufacture, Marketing Manager 3 on food product, textile and wearing apparel manufacture. Responsibilities of Marketing Managers would include fostering investor attraction in their respective industries: running investment marketing activities, participating in industry networking events and missions etc.

Similarly, in client service division, each investment project manager would be focused on certain industries: Investment Project Manager 1 on machinery, electrical and transport equipment manufacture, Investment Project Manager 2 on wood product manufacture, Investment Project Manager 3 on food product, textile and wearing apparel manufacture. Investment Project Managers would provide consulting and support services to potential and existing investors. They would also be working on developing offers to potential investors.

Suggested cooperation model for interested stakeholders

Figure 21. Suggested cooperation model for interested stakeholders



Municipalities should act as primary information source, providing Latgale Planning Region administration and the newly established Latgale Entrepreneurship Centre Investment Promotion Department with information about investment sites and possibilities. Latgale Planning Region should accumulate the information and distribute it to intermediaries (LIDA, embassies, LPR ambassadors, International Real Estate Consultants, Latgale Region Development Agency) or approach the target group – potential local and foreign investors – directly.

3.4. Implementation and Indicators: How to Measure Success

Implementation with the involvement of all significant stakeholders will be managed by Latgale Planning Region Administration together with Latgale Entrepreneurship Centre. They will be responsible for creating an investment promotion department under Latgale Entrepreneurship Centre and for ensuring implementation of all planned activities. In 2018, a report on marketing plan implementation shall be provided by LPR and Latgale Entrepreneurship Centre administrations, measuring indicators and progress on its development.

The following indicators for quantitative progress evaluation have been chosen (see Table 20):

Table 20. Indicators of marketing plan

Indicator	2014	2018	2021	Source
FDI Balance, EUR	85 million	120 million	155 million	Lursoft statistics
Number of jobs in manufacturing industries	9543	9718	9893	Central Statistical Bureau
Number of investors in LPR	994	1001	1008	Lursoft statistics

Plan for Ignalina Nuclear Power Plant Region Business Incubator Administration and Visaginas municipality administration strategic development department

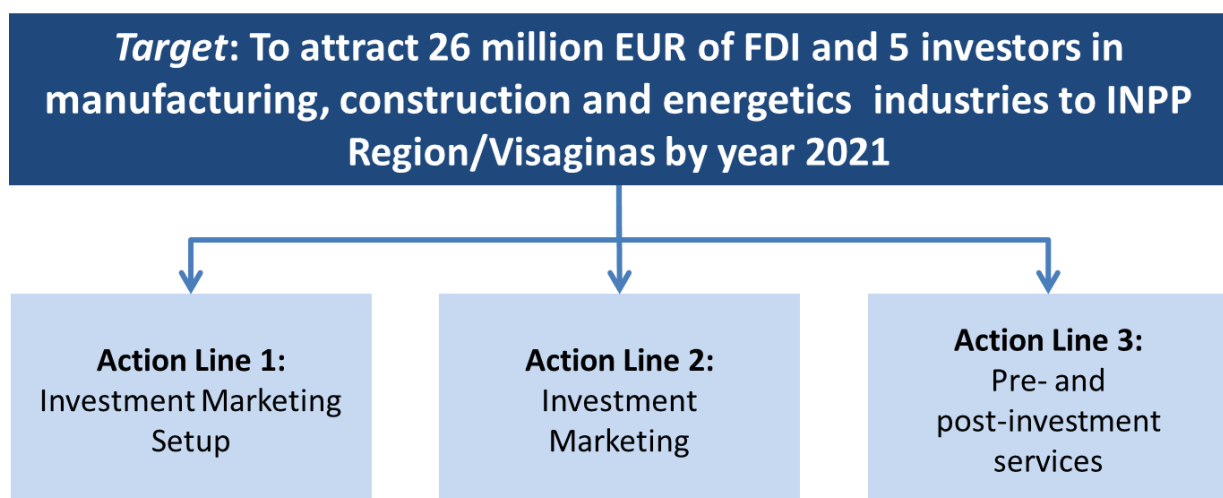
3.5. Target Groups: Who to Approach

Investment marketing target groups: transnational manufacturing companies exporting to neighbouring regions of INPP region

Direct target groups of investment marketing include local and transnational manufacturers of basic metals and fabricated metal products and providers of construction and energetic services and products. Investment marketing should be aimed at companies in the abovementioned industries that export to countries in neighbouring regions of INPP region (Visaginas) - Latvia, Estonia, Russia, Belarus, Poland, Sweden, Finland -, emphasising the advantage of fast production delivery. **Intermediary** target group includes stakeholders that help to contact and reach investors: 'Invest Lithuania' and its foreign offices, embassies, honorary ambassadors of region and international real estate consultants.

3.6. Action Lines: How to Achieve Targets

Figure 22. Target and action lines



Investment marketing target for INPP region (Visaginas) is to attract 26 million euros of foreign direct investments in manufacturing of basic metals and fabricated metal products and provision of construction and energetic services and products. By year 2021, 5 new investors should be attracted to region. To achieve the target, 3 action lines have been set. Action line 'Investment Marketing Setup' includes actions to set up an investment promotion department under INPP Region Business Incubator administration in collaboration with Visaginas municipality administration, set up a website for department and actions to collaborate with other stakeholders. Action line 'Investment Marketing' includes actions of web and media marketing, participation in industry events and organising investor visits,

running intermediary marketing actions. Action line 'Pre- and post-investment services' includes actions aimed at consulting investors on various issues and providing practical assistance in process of investment. The actions will be implemented by the aforementioned investment promotion department in collaboration with Visaginas municipality administration.

Table 21. Total budget of investment promotion department, EUR

Action Line			2015	2016	2017	2018	2019	2020	2021	TOTAL
Action	Line	1:	45 000	22 000	3 000	6 000	3 000	3 000	3 000	85 000
Investment Marketing Setup										
Action	Line	2:	31 000	54 000	73 000	70 000	73 000	73 000	73 000	447 000
Investment Marketing										
Action Line 3: Pre- and Post-Investment Services			-	-	-	-	-	-	-	-
Salaries			24 000	24 000	24 000	24 000	24 000	24 000	24 000	168 000
TOTAL			100 000	100 000	100 000	100 000	100 000	100 000	100 000	700 000

Action Line 1: Investment Marketing Setup

Action	Indicative expenses, EUR						
<i>Results: established investment promotion department with 2 trained employees</i>	2015	2016	2017	2018	2019	2020	2021
Recruiting & setting up department							
Recruiting 2 employees for department	x						
Purchasing necessary office equipment for investment promotion department employees	5000			3000			
Training 2 employees on investment marketing	8000	2000	3000	2000	3000	2000	3000
Administrative costs (office phones, printing, utilities, travel costs etc.)	3000	3000	4000	4000	4000	4000	4000
Department Website							
Setting up and maintaining a web-site of investment promotion department aimed at informing investors	2000	x	x	x	x	x	x
Collaboration with other stakeholders							
Collaboration with 'Invest Lithuania' and municipalities in investment promotion activities	x	x	x	x	x	x	x
Development of technical projects for investment sites							
Preparing procurement for sub-contracting managers of investment parks (in collaboration with municipalities)	50 000	40 000					

** **Note.** Actions marked with "X" will be employees' responsibilities and covered by salaries; actions marked with sums are outsourced or involve additional costs*

Action Line 1 'Investment Marketing Setup' includes actions necessary for establishing an investment promotion department under Ignalina Nuclear Power Plant business incubator administration in collaboration with Visaginas municipality administration, and actions concerning the department's basic responsibilities. 2 employees have to be recruited and trained, as well as the necessary office equipment has to be purchased. Other actions under this action line include setting up a website for department, developing technical projects for investment sites and preparing procurement for sub-contracting managers of investment parks. As a result of implementing Action Line 1, an investment promotion department with 2 trained employees should be established. The department will focus on attracting medium- and large-scale investors in focus industries of Ignalina Nuclear Power Plant region/Visaginas.

Action Line 2: Investment Marketing

Action	Indicative expenses, EUR						
	2015	2016	2017	2018	2019	2020	2021
Results: 100 000 reached entrepreneurs, 2000 informed investors (e.g.via e-mails)							
Web and Media Marketing							
Design informational materials about investment possibilities in INPP: leaflets, brochures and booklets in languages of target countries, banners, roll-ups	10 000	5 000	15 000	10 000	15 000	10 000	10 000
Running search engine marketing of investment promotion department website	3 000	2 000	4 000	4 000	4 000	4 000	4 000
Run advertising in social networks and industry-significant online media	30 000	10 000	30 000	30 000	50 000	30 000	50 000
Publish promotional articles in industry-significant media (printed)	15 000	11 000	17 000	12 000	17 000	16 000	19 000
Creating an database of companies in target industries and updating it at least once per 1/2 year	44 000	25 000	80 000	30 000	60 000	30 000	60 000
Using Google Alerts for tracing potentially interested companies on social networks and other sites	x	x	x	x	x	x	x
Preparing and sending short surveys (max 10 close-ended questions) about their requirements to invest in a region to receive their contact info for further informational updates	x	x	x	x	x	x	x
Participation in events and organising of visits							
Creating an trade show booth: concept and visual materials	x	x	x	x	x	x	x
Visiting local entrepreneurs and investors and informing on possibilities to expand business in INPP region	3000			3000			3000
Visiting and presenting INPP region/Visaginas in trade shows	x	x	x	x	x	x	x
Visiting events of associations that target companies belong to		100 000		100 000		100 000	
Gathering contact info of potential leads at trade shows (e.g.by offering free consultation on investing in region)	45 000	25 000	70 000	25 000	70 000	27 000	70 000
Sending informational e-mails to contacts from trade shows	5 000	5 000	5 000	5 000	5 000	5 000	5 000
Follow-up calls to contacts from trade shows after sending informational e-mails	x	x	x	x	x	x	x
Participating in trade missions organised by ministries and embassies in target countries	x	x	x	x	x	x	x
Intermediary Marketing							
Establishing INPP Region ambassador network in target countries for frequent investor	x	x	x	x	x	x	x
Disseminating information to Invest Lithuania and embassies about investment possibilities in INPP region/Visaginas for further distribution to foreign investors	x	x	x	x	x	x	x
Dissemination information about investment sites in INPP region to international real estate consultant offices	x	x	x	x	x	x	x

* **Note.** Actions marked with "X" will be employees' responsibilities and covered by salaries; actions marked with sums are outsourced or involve additional costs

Action Line 2 'Investment Marketing' includes actions of web and media marketing, such as designing an information booklet, running advertising in social media, web and other platforms etc. It also includes actions directed towards participation in trade events and organising investors' visits to INPP region/Visaginas. Another group of actions is aimed at running marketing via intermediaries: establishing a network of INPP region/Visaginas ambassadors, disseminating information about the region and its investment sites to 'Invest Lithuania' and international real estate consultants. As a result of implementing Action Line 2, 100 000 entrepreneurs should be reached and 2000 of them should have received additional information about investment possibilities in Ignalina Nuclear Power Plant region/Visaginas e.g. via e-mail.

Action Line 3: Pre- and Post-Investment Services

Action	Indicative expenses, EUR						
	2015	2016	2017	2018	2019	2020	2021
Results: 500 consulted investors, 50 commercial visits							
Consulting Services							
Consulting investors on available investment sites and labour recruiting	x	x	x	x	x	x	x
Consulting investors on investment process	x	x	x	x	x	x	x
Consulting investors on business costs (total cost business case - estimate of labour, utilities, real estate, logistics, taxes etc. costs)	x	x	x	x	x	x	x
Consulting investors on how prepared they are to invest in region (knowledge, finance, network assessment)	x	x	x	x	x	x	x
Helping investors to choose most cost-effective investment sites	x	x	x	x	x	x	x
Practical Assistance							
Organising commercial missions for investors to municipalities and investment sites	x	x	x	x	x	x	x
Providing translators for commercial visits of investors to municipalities	x	x	x	x	x	x	x
Assisting investors in paperwork and document preparation and communication with institutions	x	x	x	x	x	x	x
Assisting investors in applying for tax incentives	x	x	x	x	x	x	x
Assisting investors in applying for local and EU grants for business development	x	x	x	x	x	x	x
Helping investors find and contact potential local distributors and suppliers	x	x	x	x	x	x	x

*** Note.** Actions marked with "X" will be employees' responsibilities and covered by salaries; actions marked with sums are outsourced or involve additional costs

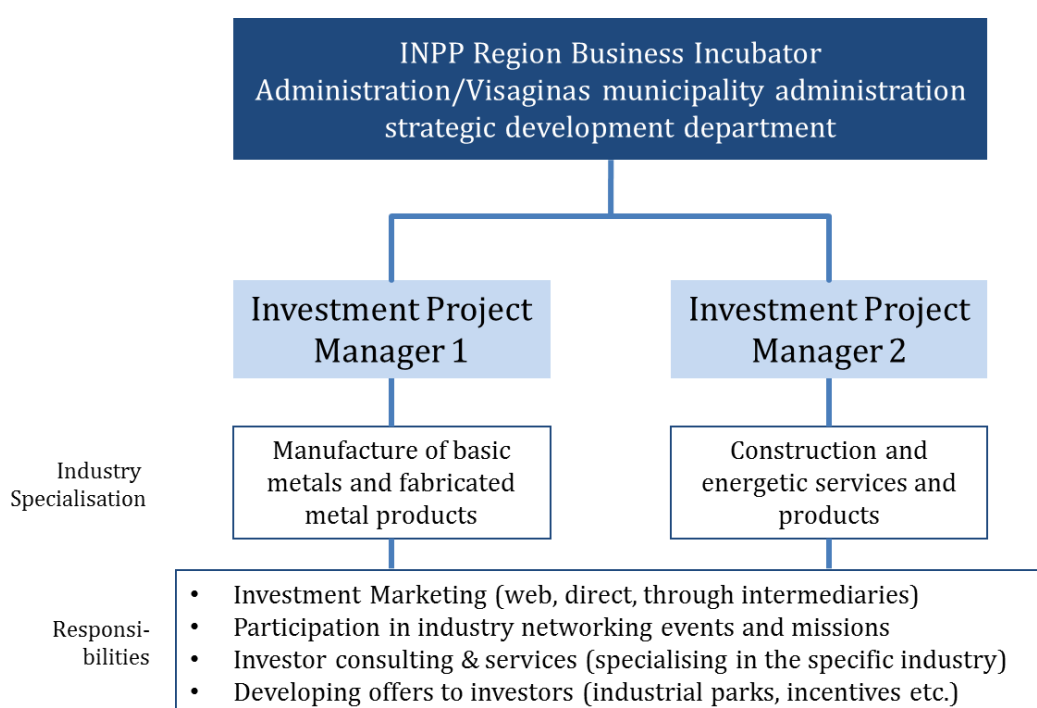
Action Line 3 'Pre- and Post-Investment Services' includes actions of providing consulting and practical assistance to medium- and large-scale investors that have shown interest to invest in INPP region/Visaginas. Consulting services include consulting on investment sites, investment process, business cost etc. As practical assistance, department will organise commercial missions to municipalities and investment sites, assist investors in document preparation and grant applications etc. As a result of Action Line 3, 500 investors should be consulted on investment possibilities and process and 50 commercial on-site visits should be organised.

3.7. Organisational Structure: Who Will Implement the Plan

Organisational structure of investment promotion department

The investment promotion department would be operating Ignalina Nuclear Power Plant Region Business Incubator administration and supervised by Visaginas municipality administration strategic development department. It would employ 2 investment project managers (IPMs) who would be recruited by Ignalina Nuclear Power Plant Region Business Incubator and Visaginas municipality administration strategic development department via standard application procedure (see Figure 23). At the department development phase, IPMs would be trained by investment marketing and investor service professionals.

Figure 23. Organisational structure of investment promotion department



Each Investment Project Manager would focus on a different industry: Investment Project Manager 1 on manufacture of basic metals and fabricated metal products and Investment Project Manager 2 on construction and energetic services and products. Responsibilities of Investment Project Managers would include fostering investor attraction in their respective industries: running investment marketing activities, participating in industry networking events and missions, consulting investors and providing support services and working on developing offers to potential investors.

3.8. Implementation and Indicators: How to Measure Success

Implementation with the involvement of all significant stakeholders will be managed by Ignalina Power Plan Region Business Incubator administration and Visaginas municipality administration strategic development department. They will be responsible for creating an investment promotion department within business incubator administration and for ensuring

implementation of all planned activities. In 2018, a report on marketing plan implementation shall be provided by business incubator administration, measuring indicators and progress on its development.

The following indicators for quantitative progress evaluation have been chosen (see Table 22):

Table 22. Indicators of marketing plan

Indicator	2014	2018	2021	Source
FDI Balance, EUR	8 million	13 million	34 million	Central Statistical Bureau
Number of jobs in manufacturing industries	3000	3065	3130	Central Statistical Bureau
Number of investors in INPP Region	2	5	7	Central Statistical Bureau, Invest Lithuania