BUSINESS SERVICES SECTOR **IN LATVIA 2022**

IN COOPERATION WITH THE INVESTMENT AND DEVELOPMENT AGENCY OF LATVIA

Report prepared by the Association of Business Service Leaders in Latvia (ABSL Latvia) in cooperation with the Investment and Development Agency of Latvia & Colliers.

Interested in cooperating with ABSL?

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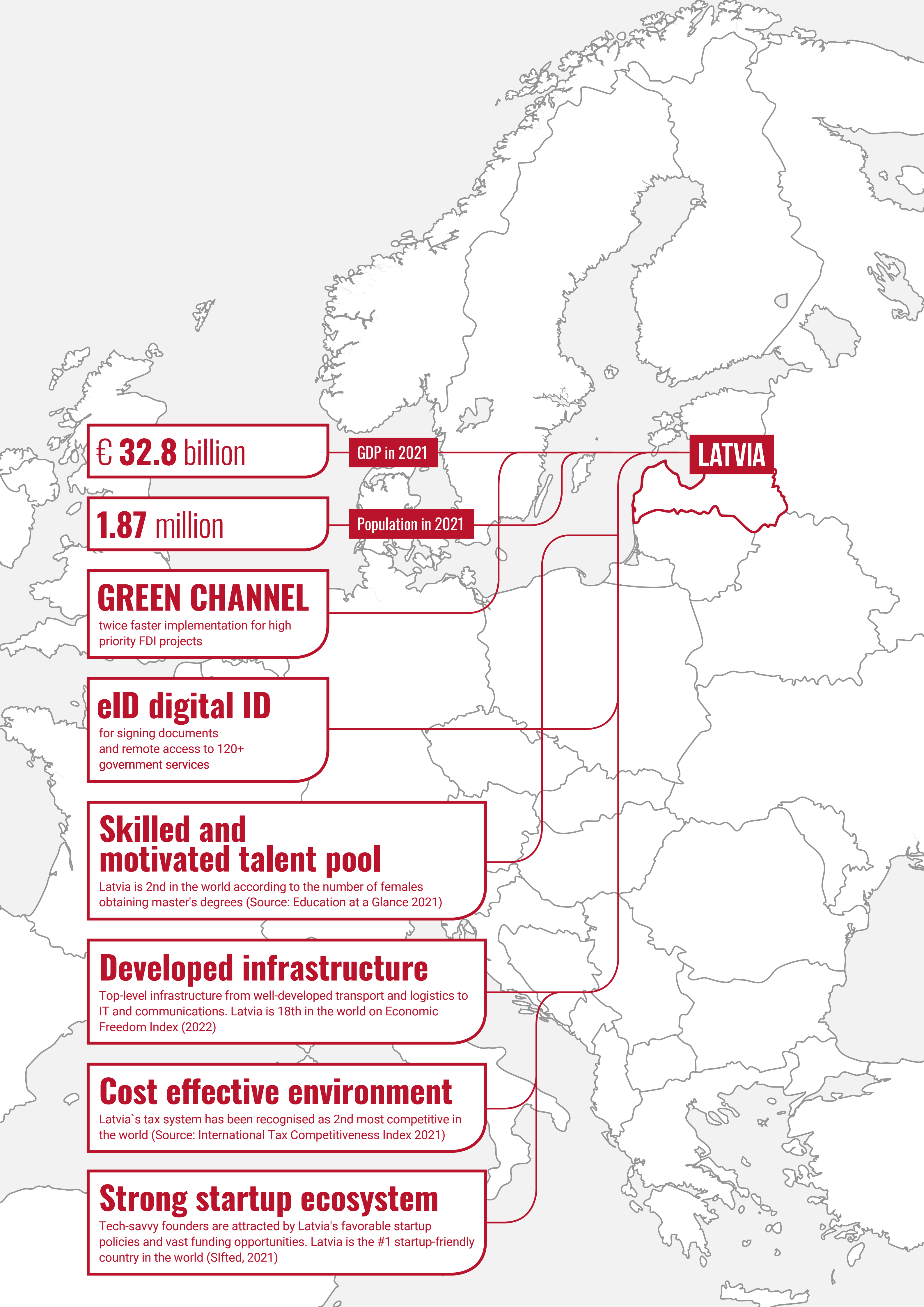
CONTENTS


€ 32.8 billion
GDP in 2021
1.87 million
Population in 2021
LATVIA
GREEN CHANNEL
twice faster implementation for high priority FDI projects
eID digital ID
for signing documents and remote access to 120+ government services
Skilled and motivated talent pool
Latvia is 2nd in the world according to the number of females obtaining master's degrees (Source: Education at a Glance 2021)
Developed infrastructure
Top-level infrastructure from well-developed transport and logistics to IT and communications. Latvia is 18th in the world on Economic Freedom Index (2022)
Cost effective environment
Latvia`s tax system has been recognised as 2nd most competitive in the world (Source: International Tax Competitiveness Index 2021)
Strong startup ecosystem
Tech-savvy founders are attracted by Latvia's favorable startup policies and vast funding opportunities. Latvia is the #1 startup-friendly country in the world (SIfted, 2021)

FOREWORD

Alesja Kircenko
Chairperson of the Board, ABSL Latvia

Dear reader,

It is my great pleasure to introduce our 3rd Global Business Services (GBS) sector report in Latvia.

The GBS industry in Latvia has been one of the few sectors that have successfully managed to steer through the global COVID-19 pandemic and avoid negative consequences which have impacted other industries. Still, without a shadow of doubt, 2021 has been a challenging year. Business Continuity Plans of almost all companies were tested in different ways. We all had to adapt to the new conditions and embrace new ways of working.

Despite the pandemic, in 2021 GBS sector continued to show a stable growth. Majority of ABSL members and other market players in our industry managed to expand their scope of services and had have a positive outlook for 2022 by planning to increase their operations in Latvia.

Who would have thought that while we were preparing this report, the light in the end of the tunnel of COVID-19 would be overshadowed by an unprecedent geopolitical and humanitarian crisis – the war in Ukraine. There are countless concerns about people suffering in Ukraine and open questions regarding the impact this crisis will have on the geopolitical landscape and world economies.

In these uncertain times, companies are focusing on reshuffling of their supply chains and re-evaluating their operating models, but also on taking care of wellbeing of their employees and strengthening their mental resilience to minimize the impact on businesses.

We are aware of difficult challenges ahead of the global economy and GBS sector in particularly, yet let's have a look into highlights and achievements of 2021. We hope that you will find this report useful and informative.

ABSL LATVIA STRIVES FOR CONTINUED GROWTH AND STRENGTHENING OF THE GBS SECTOR IN LATVIA

The Association of Business Service Leaders in Latvia (ABSL Latvia) was founded in 2019. It is the main association of companies operating in the business services industry, which includes shared services centers and global business service centers (SSC/GBS), business process outsourcing (BPO), information technology outsourcing (ITO) and Research & Development (R&D) centers. ABSL Latvia acts as a platform for enhanced dialogue, networking, and collaboration within the business services community, government, public sector and other relevant stakeholders operating in Latvia and in the global field.

Throughout the numerous challenging presented by year 2021, ABSL Latvia was tirelessly marching towards achieving its goals and bringing together fifteen members by providing an environment that facilitates networking and knowledge sharing in a safe and open way. We were happy to organize more than 20 webinars, thematic discussions and physical events. It is also worth to mention the support and contribution of two of our strategic partners Deloitte and Colliers which are highly appreciated.

Targeted approach on one of our top priorities – to build recognition of the GBS industry – resulted in various media activities. A number of opinion articles and press releases were published on dienasbizness.lv, ir.lv, delfi.lv, la.lv, and in printed magazines. Visibility of GBS industry was boosted by participation of our speakers in ten public events and discussion panels, for instance BREL Forum, HR Week Latvia, World Latvian Economics and Innovations Forum and other occasions.

Throughout 2021, the association continued to partner and build strong ties with higher education institutions in the field of talent development. Our guest lecture portfolio doubled and more than 40 guest lectures on topics related to our industry were held at the University of Latvia, Riga Technical University, BA School of Business and Finance, RISEBA, Riga Business School, Riga Stradins University.

Successful cooperation with government, authorities and public institutions is another cornerstone that helps to ensure a stable environment for business development for existing and potential investors. Therefore, ABSL Latvia focussed on making the voice of the sector heard by policymakers in areas relevant to members' needs, for instance by voicing our concerns about issues in attracting talent.

Despite considerable uncertainty and challenges caused by the Russian invasion of Ukraine, ABSL Latvia is looking forward to the 2022 with optimism and is ready to work on defined priorities. The association will concentrate more strongly on improving the awareness of the industry, knowledge sharing & networking between its members, and talent attraction issues, to help its member grow and develop. For instance, we will continue to explore further in-depth cooperation with universities and introduction of specific programs with tailor-made content for students' need as well as industry needs and competences. This could allow the members to attract more potential employees directly from the universities.

ABSL LATVIA MEMBERS AND STRATEGIC PARTNERS:

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CABOT
cognizant
CIRCLE K
Colliers
CONTAINERSHIPS
Deloitte.
DNB
if...
intrum
msc
SEB
SOLVAY
tietoevry

BUSINESS SERVICES INDUSTRY IN A NUTSHELL AT THE 2022

50	Number of business services centres based in Latvia
17,000	Jobs
10%	Average growth in people employed by the sector in 2021 (7% in 2020)
IT, FINANCE, & CUSTOMER SERVICES	Most popular business support functions in 2021
46%	Headquartered in Scandinavian countries
92%	Planning to expand operations in Latvian in 2022
62%	Providing their services globally; the remaining part serves specific regions or countries
340	Average number of employees per company in 2021 (310 in 2020)
RUSSIA, UKRAINE, NORWAY & INDIA	Top countries of origins for expats working in industry
ENGLISH, SWEDISH, NORWEGIAN & GERMAN	Top languages used to provide services

SECTOR CONTRIBUTION TO ECONOMIC GROWTH OF LATVIA

1300 EUR	Average gross salary in Latvia
2020 EUR	Average gross salary in business services industry
1300 EUR	Average entry-level salary in business services industry

HIGHLY SKILLED & MULTILINGUAL TALENTS

52	Higher education institutions
77,000	Students
15,000	Graduates each year
84%	Employees of business services centers holding Bachelor's, Master's, or Doctor's Degrees; the remaining 16% represent students in their final year of studies
75%	Talent employed by BPO, SSC/GBS, IT, and R&D business services centers under the age of 35
8%	Employees from foreign countries

COMMENT OF DIRECTOR GENERAL OF INVESTMENT AND DEVELOPMENT AGENCY OF LATVIA

Kaspars Rozkalns
Director General, Investment and Development Agency of Latvia

The Investment and Development Agency of Latvia highly appreciates the cooperation with ABSL. Working together, we have ensured that investment projects in the sector of the global business services (GBS) qualify as “Green Corridor” projects, which shortens their implementation time by half. Despite some challenges for the GBS sector regarding attracting skilled labour, digital transformation, and raising operational costs, the business services exports have grown, reaching around €2.8 billion in the last 6 months. In 2021, Latvia’s total services exports reached €4.8 billion.

Also, we are working closely with Riga Investment and Tourism Agency to ensure the best conditions for new GBS companies to enter the market and for existing ones to expand. At the same time, we encourage companies and potential investors to consider other major Latvian cities outside Riga as places to develop their businesses. On the part of the state, we are ready to provide the necessary support in high-level staff training and other areas to improve companies’ international competitiveness in the sector.

COMMENT OF MAYOR OF RIGA CITY

Martins Stakis
Mayor of Riga city

In 2021 and first half of 2022, the industry of Global Business Services (GBS) in Latvia has grown steadily and convincingly, companies plan and implement geographical expansion, increase the volume of services and employees, and introduce new technologies.

Around 50 international level players have already chosen Riga as their base of operations and both the city and the existing companies are open to new and upcoming investment projects.

As the flagship of Latvia's economy, talent pool, and intellect, Riga has set a clear vision for investment attraction and support for existing companies, and has also singled out the GBS industry, which provides high-added-value jobs for approximately 17000 employees, as one of top priority economic sector and social partner.

Riga Investment and Tourism Agency has been established a year ago and is fully focused on promoting Riga city as an attractive business destination for new investments in the GBS sector. Riga already has a strong presence of GBS companies, however it is not as highly saturated as its competing cities. Therefore now is the perfect time to expand in Riga.

1 OVERVIEW OF THE BUSINESS SERVICES **SECTOR IN LATVIA**

REPORT CONCEPT AND METHODOLOGY

The purpose of the ABSL Latvia Report 2022 is to provide an overview of the GBS industry in Latvia and highlight the most important operational data. The source of data comes from the ABSL Annual Survey using an online survey tool. The survey included 34 questions addressing different areas, for instance changes in headcount, skills needed to perform the work, business services provided by industry, future development plans, challenges faced due to pandemic and remote work, etc.

Even though this year we had only 14 ABSL members participating in the survey, the respondents represented almost half of industry in terms of employee number. We hope that over the next years, we will have a growing number of responding companies, which would allow us to develop even more precise data and conclusions about the industry.

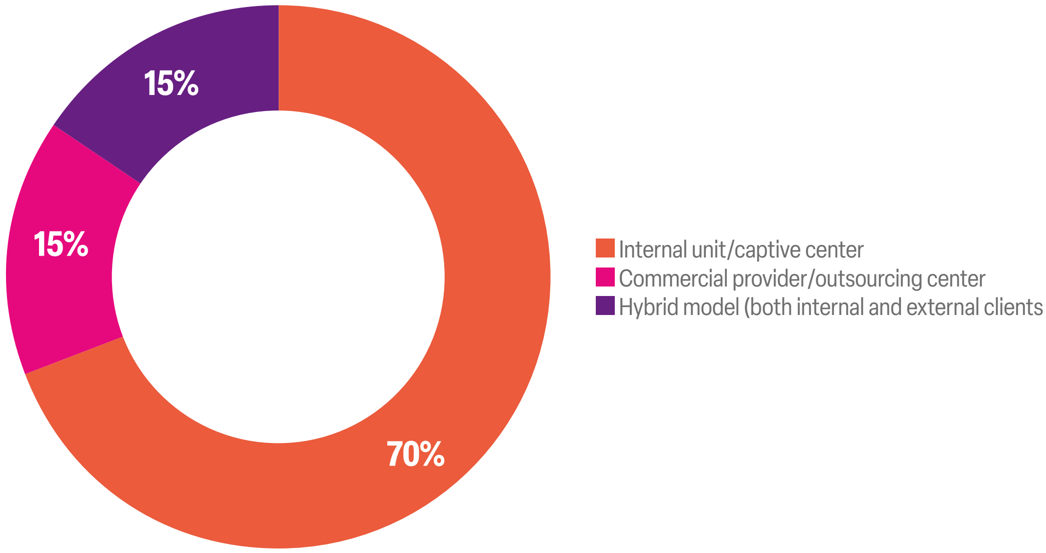
Here are the main principles describing the business services sector in Latvia:

- The service centre is formed as the separate business unit (delivery centre) of a globally represented organisation in order to provide business support functions to its group's companies or legally unrelated entities.
- The most frequently served business support functions are IT, finance and accounting, customer services, logistics, procurements, HR, and legal. However, these are only the most popular functions — other specific services may derive from a company's core business, including broadcast services, quality control of chemical products, banking services, etc.
- At least 50% of turnover should represent the export of business services.
- More than 50% of company shares should be owned by a foreign entity.

The research features several frequently used terms: Business Process Outsourcing (BPO) refers to a business unit that provides services to a legally unrelated entity, while Shared Service Centre/Global business Services (SSC/GBS) represents a company with the main responsibility of supporting a group of companies either regionally or worldwide. ITO companies are those which provide IT solutions and software development services, IT support, and system maintenance services to external customers mainly based outside of Latvia, or those which sell or customise already developed software.

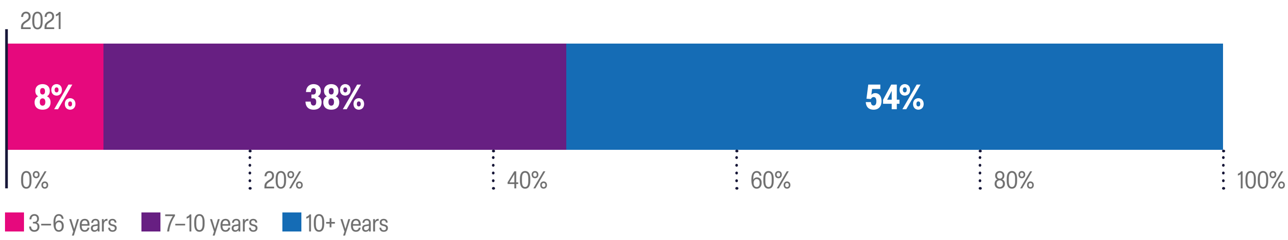
SERVICES PROVIDED AND OPERATING MODELS

FIGURE 1.1
TYPES OF OPERATING MODELS
IN THE LATVIAN BUSINESS SERVICES SECTOR, 2021



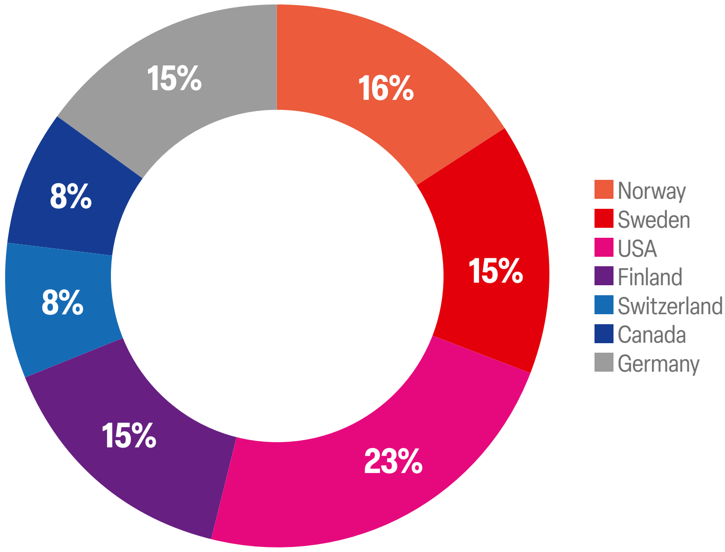
While majority of the centres in the Latvia (70%) operate as internal units and captive service centres, 15% of responding organisations are operating a hybrid model. They have their captive units and outsourcing services combined under one legal entity. Remaining 15% are pure outsourcing service providers. Compared to the last year proportion of internal units/captive centers have slightly increased.

FIGURE 1.2
LENGTH OF TIME THAT BUSINESS SERVICES CENTRES HAVE HAD THEIR OPERATIONS IN LATVIA



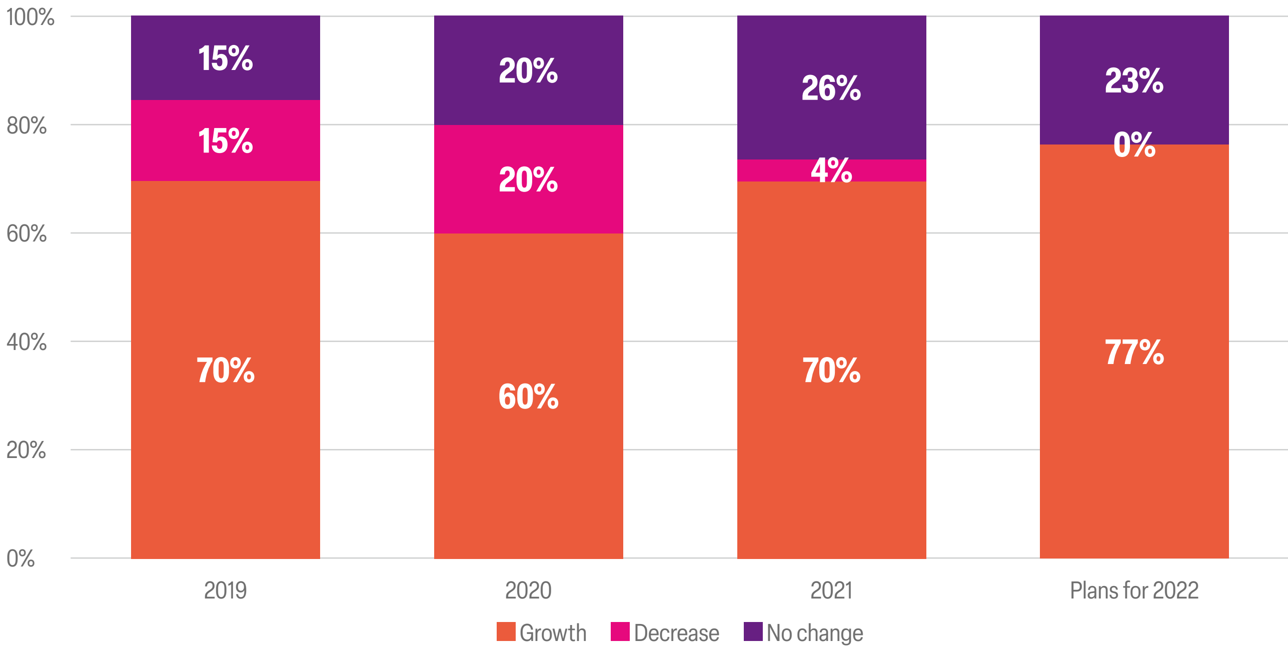
Pursuant to long term strategy the majority of SSC/GBS, BPO, and IT organisations, which form the core of the industry, adhere to overall trend of the industry maturing, expanding their functions and responsibilities. These companies have a strong presence in Latvia, and they prove that Latvia is an attractive business location for GBS companies. Although 2021 does not exhibit any new market entrants, there are several entities that have been formally established in Latvia earlier but started their actual operations in 2021.

FIGURE 1.3
COUNTRIES OF ORIGIN OF BUSINESS SERVICES CENTRES BASED IN LATVIA, 2021



Consistent to previous surveys, majority of GBS originate from Nordics. In addition to the traditional drivers, such as geographic proximity, similar time zones, language fluency and cultural similarities, number of new aspects have gained its momentum – work ethics, agility, common best practices, regulatory environment and cyber security standards to name a few. Although Nordics remain dominant, Central Europe and North America have also established a notable presence in Latvian GBS industry landscape.

FIGURE 1.4
HEADCOUNT TRENDS IN 2019–2022

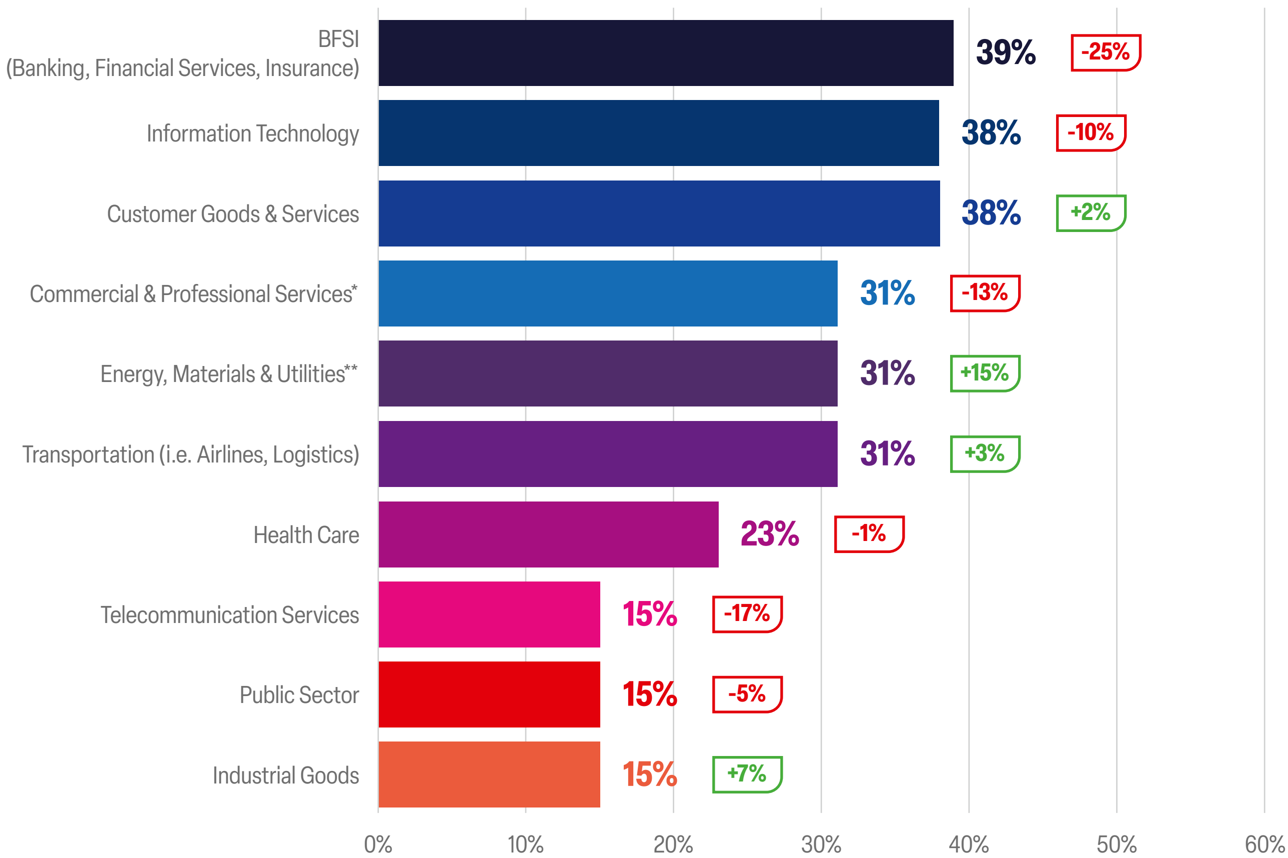


The bar chart illustrates changes in industry employment rates in four very different situations: pre-COVID-19 rates; impact of COVID-19 during the 2020; stabilisation in 2021; and post-COVID-19 plans for 2022. The GBS sector has been one of the very few areas of Latvian economy that were least impacted by the pandemic.

The headcount is projected to grow over year 2022 after the very challenging year of 2021 when many centres continued to recruit, even during the lockdown, thus, demonstrating remarkable resilience and a capacity to adapt. Employment plans for 2022 are a proof that industry has adapted well to the new normal, characterised by hybrid working model, increased flexibility and improved readiness and tooling for remote work. Consistent investment in digitalisation and automation has proved to be the winning strategy and will continue to be in forefront of progress and further efficiency gains. As a result, 77% of respondents plan a headcount increase in 2022.

The geography of GBS locations remains unchanged. Riga remains the preferred location for both existing players and newcomers. Options to expand to other locations are regularly under consideration, but there is little actual development towards this goal. Currently the number of projects outside Riga is insignificant. In search for talent, several of GBS companies, mostly in IT sector, are opening secondary offices in other larger cities of Latvia, such as Daugavpils, Liepaja to name a few. This move has been well perceived by staff who appreciate enhanced flexibility, less commute and being closer to their home.

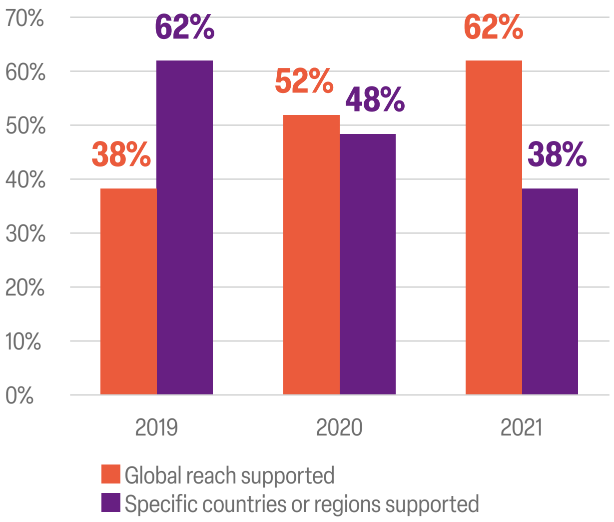
FIGURE 1.5
BUSINESS SECTORS OTHER THAN BPO, SSC/GBS, AND IT CENTRES SERVICED FROM LATVIA (INTERNAL/EXTERNAL CLIENTS), 2021



* i.e. Business Support Services, HR Services, Legal Services, Research & Consulting Services
** i.e. Oil & Gas, Chemicals, Paper & Forest Products, Metals & Mining

-1% +1% The percentages shown separately indicate the changes compared to data collected in 2020

FIGURE 1.6
GEOGRAPHICAL PROFILE OF THE ACTIVITY OF BUSINESS SERVICES CENTRES BASED IN LATVIA



Over the period of last three years the geographical profile has made a remarkable reversal – if in 2019 total of 62% were servicing only single country or region, then in 2020 it was practically 50/50 and in 2021 – already 62% of GBS companies are providing services with a global reach.

It illustrates a very positive trend, which has been observed by many in the industry. If initially decisions to locate certain services in a GBS in Latvia were mostly cost driven – basically relocating the services as-is from more expensive locations to Latvia, now more and more often the decisions are based on availability of talent and competence in GBS organisations.

FIGURE 1.7
GEOGRAPHICAL RANGE OF BUSINESS SERVICES PROVIDED FROM LATVIA

The observation of an enhanced geographical reach is confirmed also by a very positive trend of more and more GBS organisations reporting an increase in the number of countries and regions serviced.

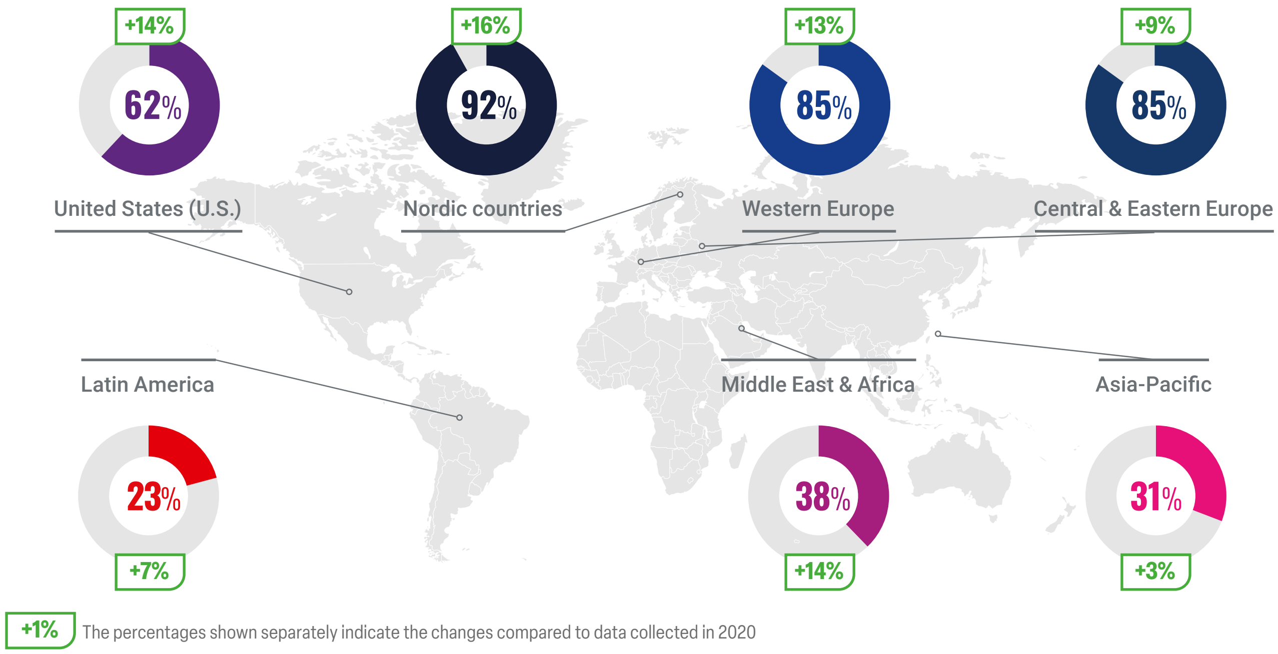
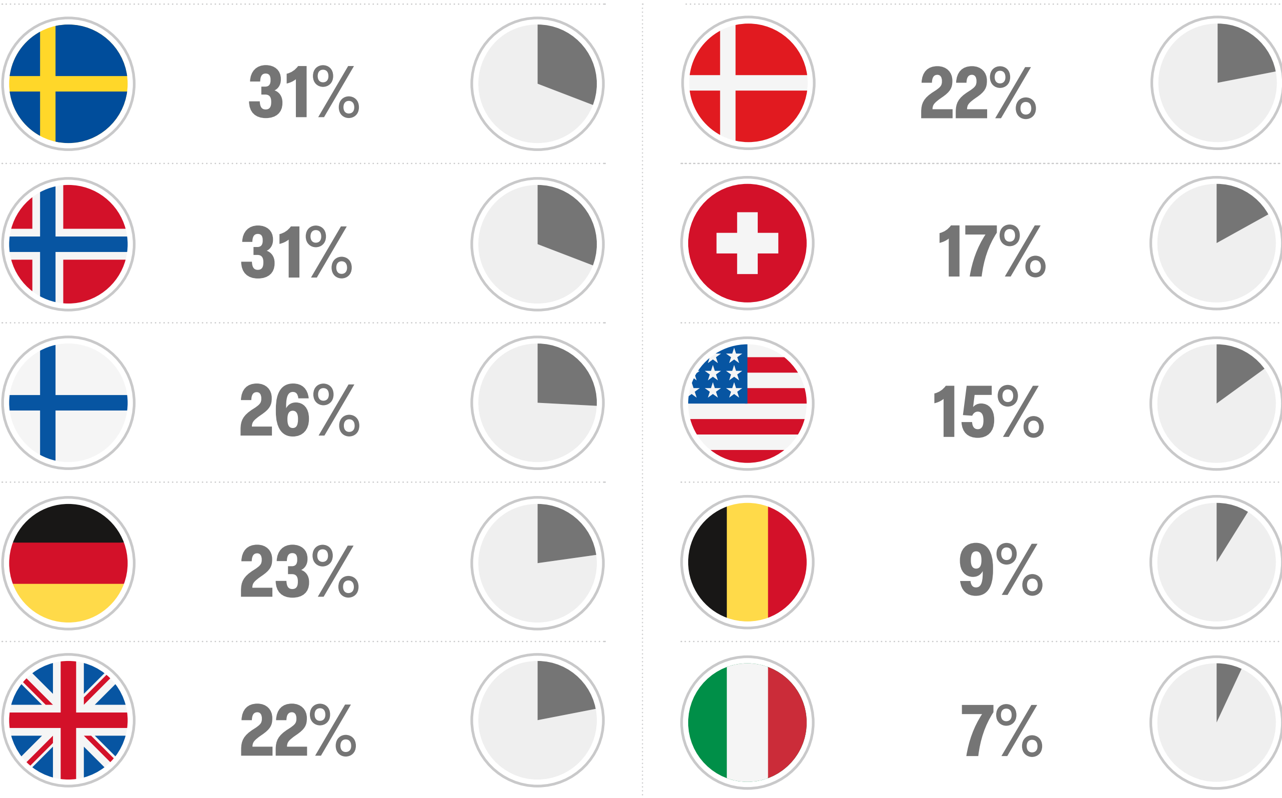
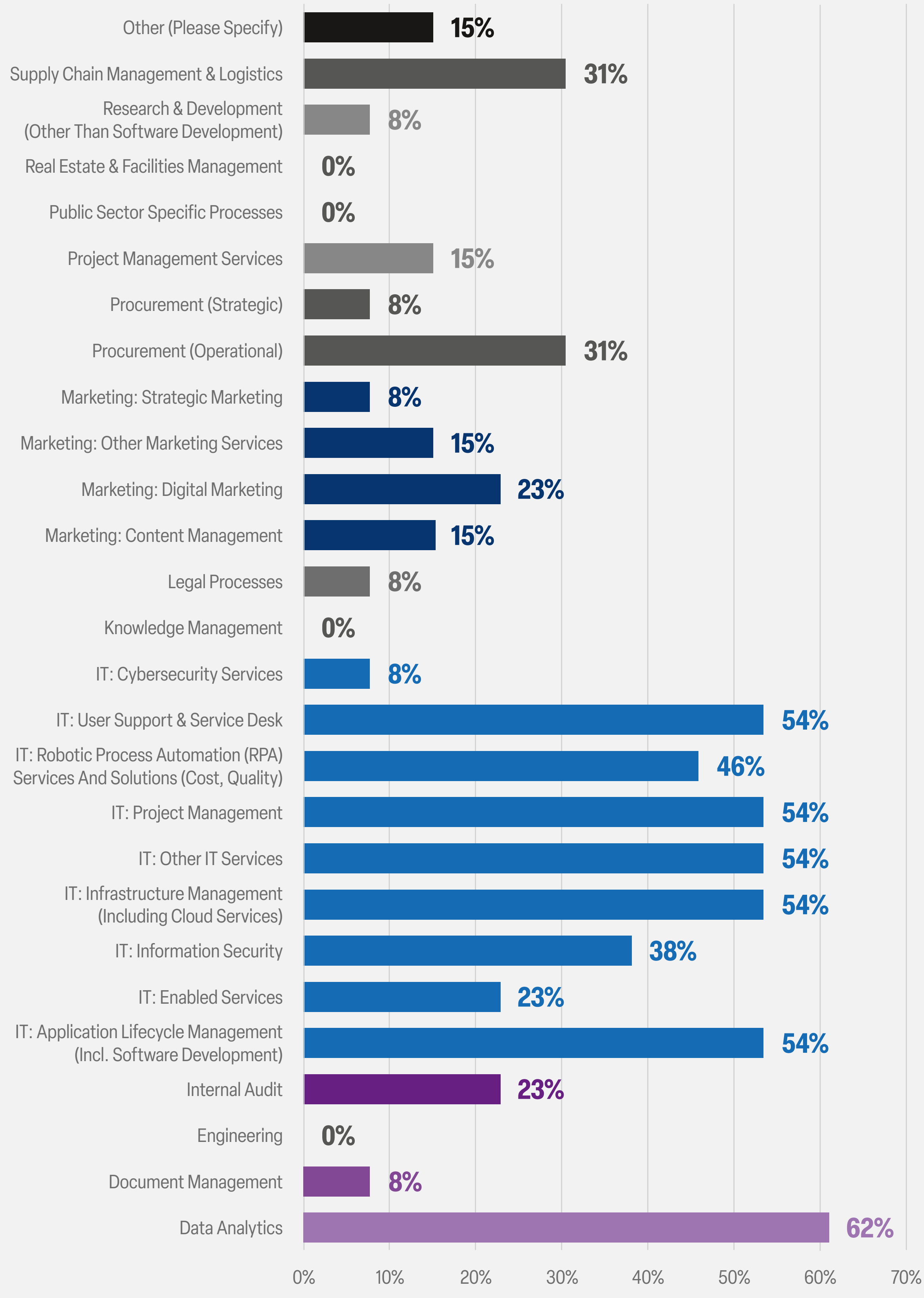


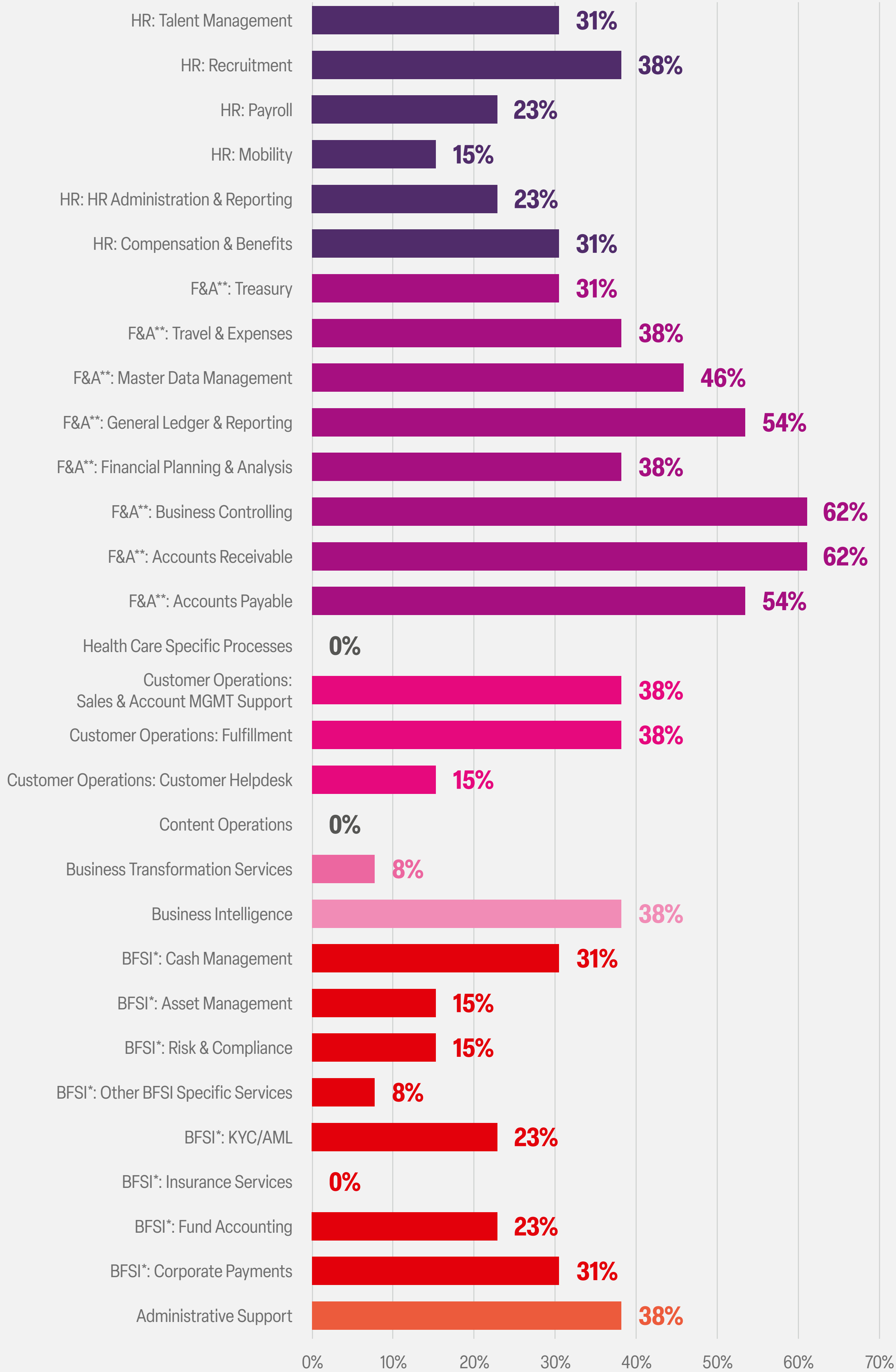
FIGURE 1.8
THE MOST POPULAR COUNTRIES SERVICED
BY THE BUSINESS SERVICES INDUSTRY FROM LATVIA IN 2022



As before, there is no single dominant country on the list of the locations to where the services are provided. Nordics are traditionally running strong and Southern Europe remains less engaged - but overall, on a country-by-country level the distribution is even.

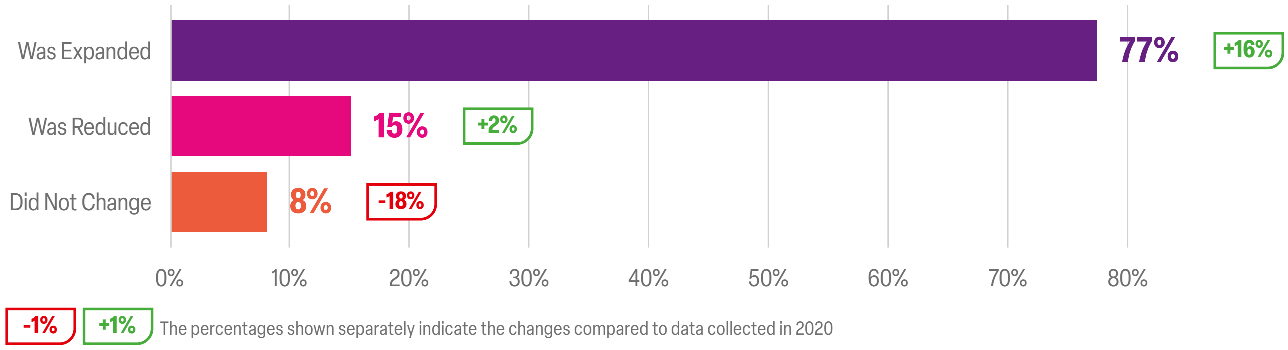
FIGURE 1.9
PROFESSIONAL BUSINESS SERVICES PROVIDED BY INDUSTRY COMPANIES IN 2021





*BFSI – Banking, Financial Services, Insurance; **F&A – Finance and Accounting

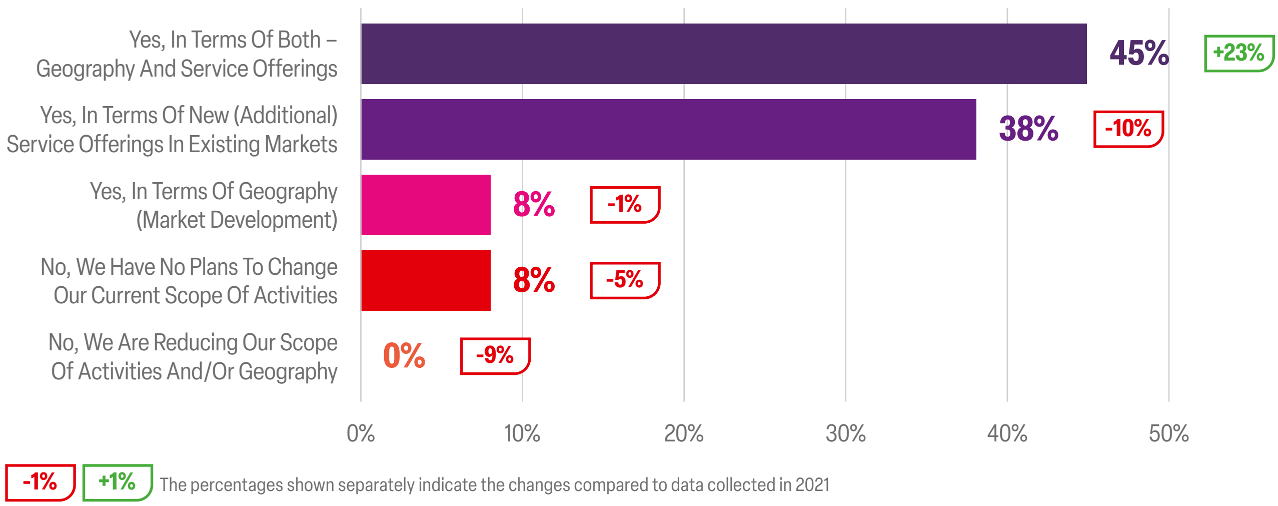
FIGURE 1.10
THE CHANGES IN SCOPE OF SERVICES PROVIDED BY ORGANISATIONS IN 2021



GBS industry in Latvia keeps growing and expanding steadily. The number of organisations, expanding their activities on a year-by-year basis has reached an unprecedented level of 77%.

It has to be noted, that the proportion of 1:4 – 1:5 between the growth and compression has been there for every year since the survey has been taking place.

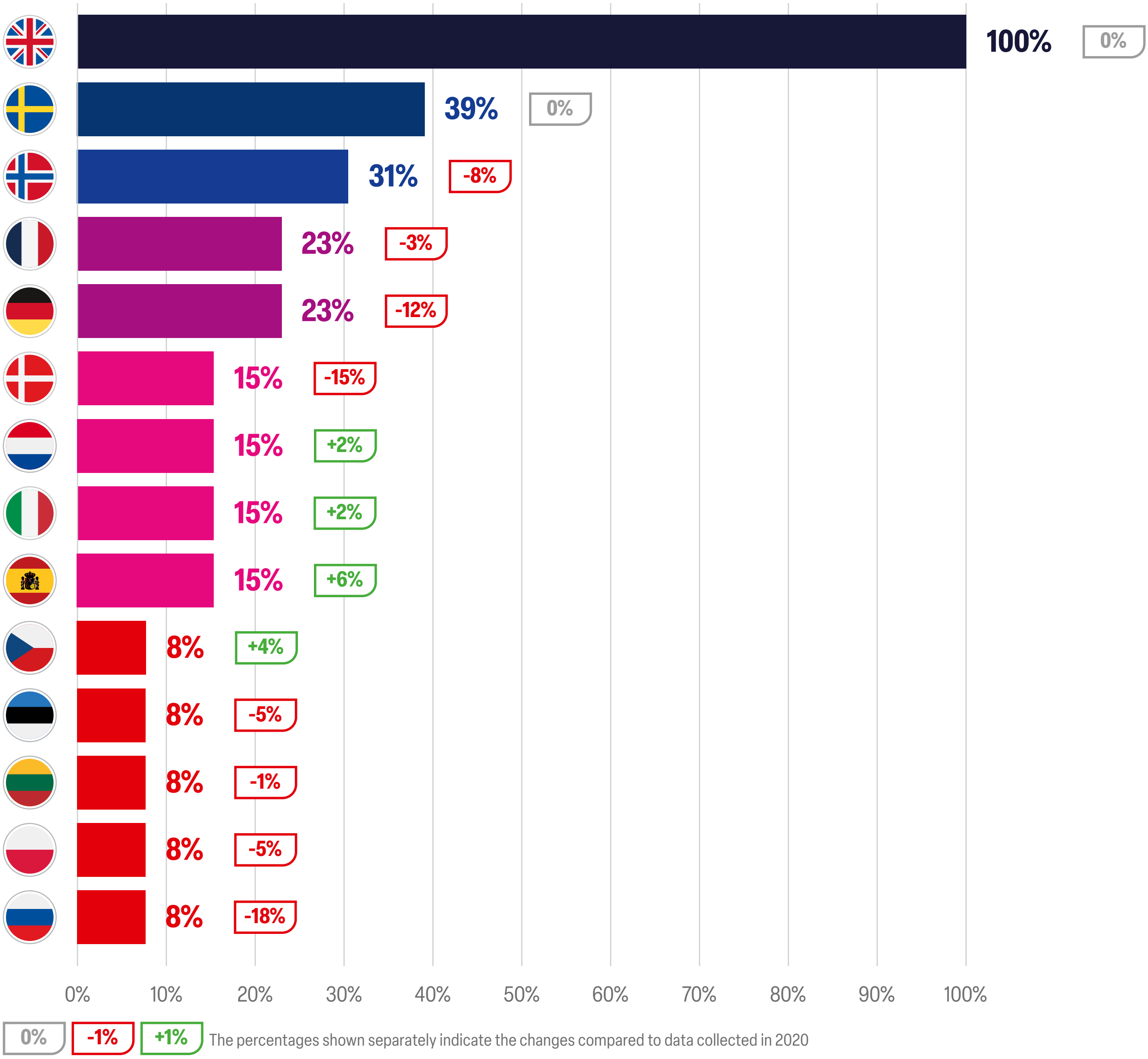
FIGURE 1.11
PLANS TO EXPAND THE SCOPE OF ACTIVITIES OVER THE NEXT 12 MONTHS



92% of organisations under review are planning to expand their operations in 2022, either by taking on new services, serving new geographic regions, or both.

Riga still remains the main location for both the existing operations and expansion – 76% of those who are willing to expand, are not planning to open new locations but rather to strengthen and enhance their existing centres.

FIGURE 1.12
FOREIGN LANGUAGES USED BY THE INDUSTRY TO SERVE CUSTOMER



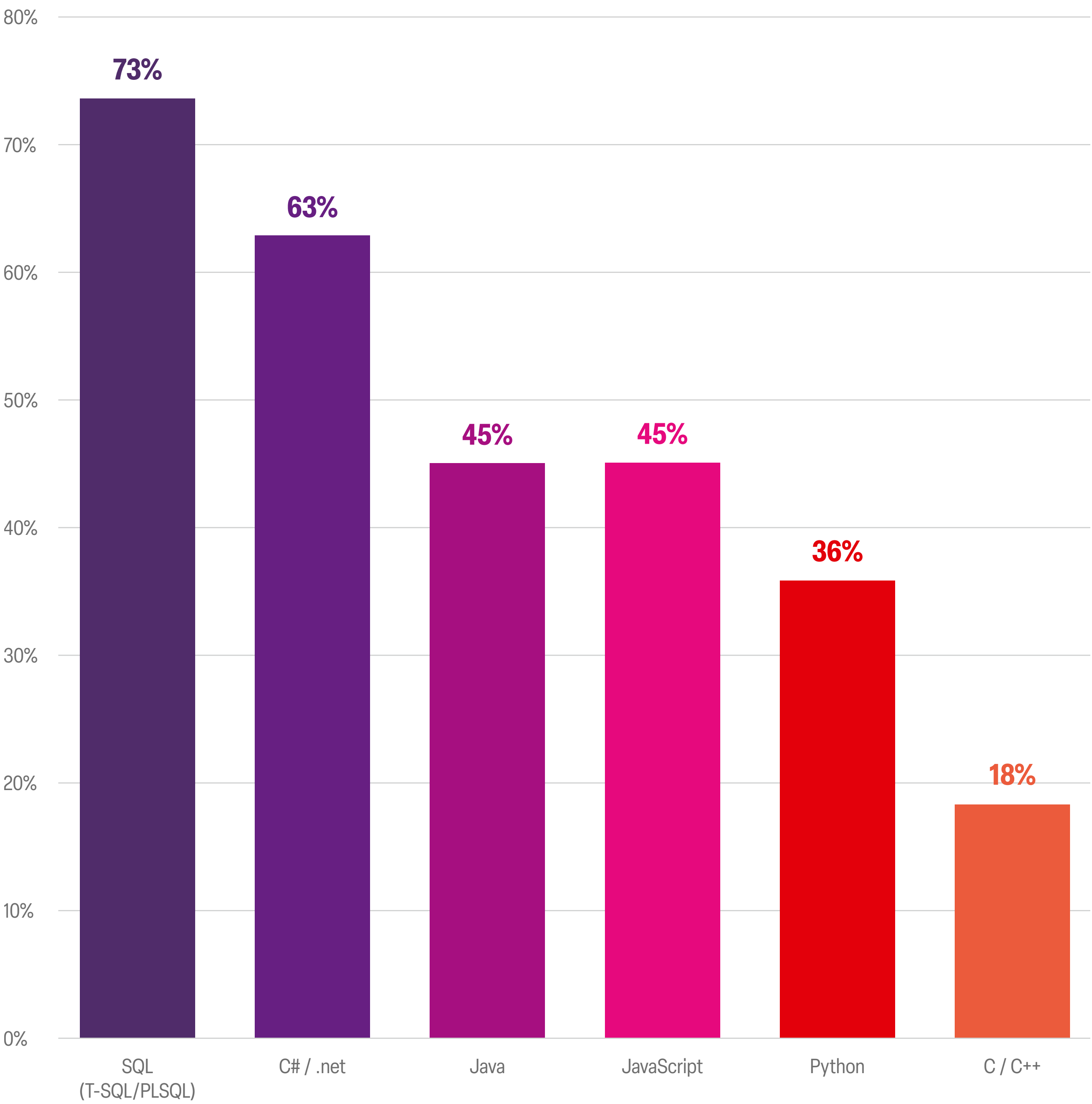
The percentages shown separately indicate the changes compared to data collected in 2020

The most widely used language in business services sector in Latvia remains English. English language skills are considered a "must have" for any employee, given the fact that all GBS companies are representatives of a global, interconnected business family.

Given the fact, that about half of all GBS industry companies in Latvia derive from Nordic countries, Swedish and Norwegian are also among the top languages used in the industry, followed by German, French and others. It should be taken into account that the survey does not cover all participants of previous year's survey, and most likely if more companies would participate, there would not be any decrease in some of the languages (German, Danish, Russian).

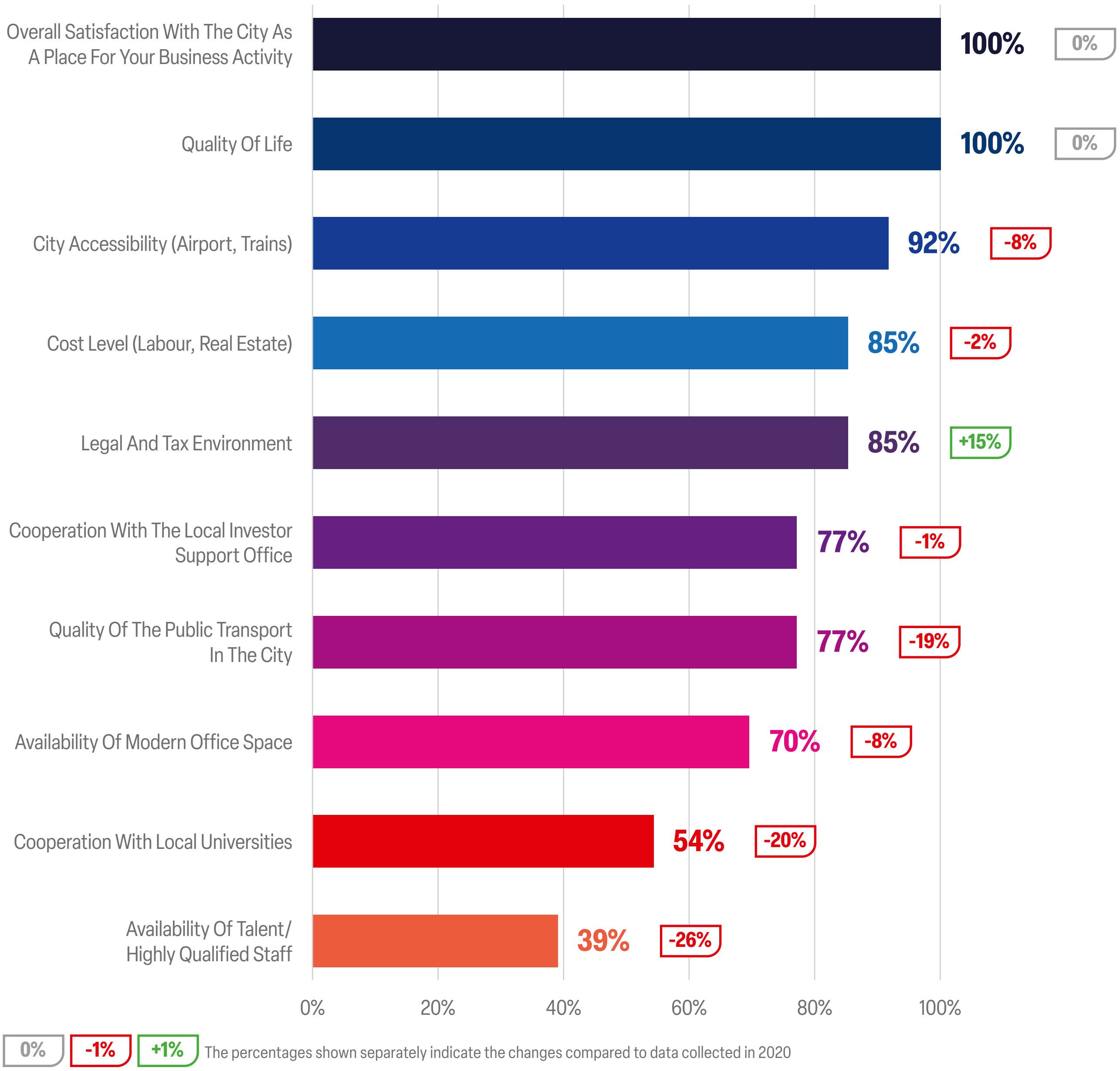
The Latvian government & EU institutions have established several programs which are designed to help companies upskill the workforce in line with the needs of future jobs. ABSL Latvia continues to offer significant support by providing access to the European Regional Development Funding program, which covers up to 70% of different trainings costs, including languages courses.

FIGURE 1.13
PROGRAMMING LANGUAGES USED BY IT-RELATED GBS, 2021



JavaScript, SQL, Java, C# / .net, C / C++, and Python remains the most popular programming languages three years in row. On top of traditional languages, we can see increase in a niche languages such as SQOL, 3 Java, Go, Scala, Elm, Ruby, etc.

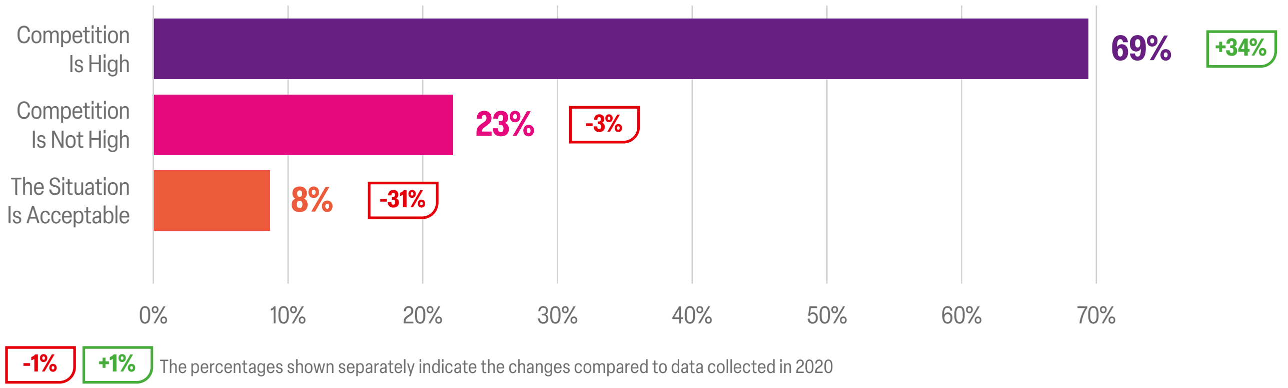
FIGURE 1.14
OVERALL SATISFACTION WITH CERTAIN FACTORS FOR BUSINESS ACTIVITIES IN RIGA/LATVIA



Overall business environment in Riga and Latvia is considered as business friendly and appreciated by current investors. The overall satisfaction with Riga, and Latvia as a country for business activities reaching 100% for three years in the row. Factors with highest scores are quality of life, cost level and city accessibility.

GBS sector is growing and 40% of respondents named talent availability as one of the top priorities and challenges. Companies expect government to foster supportive regulatory regimes, reskilling and upskilling programs, as well as incentives to attract foreign talent. ABSL is making the voice of the sector heard by government officials, policymakers and academic sector in talent availability and competences development areas.

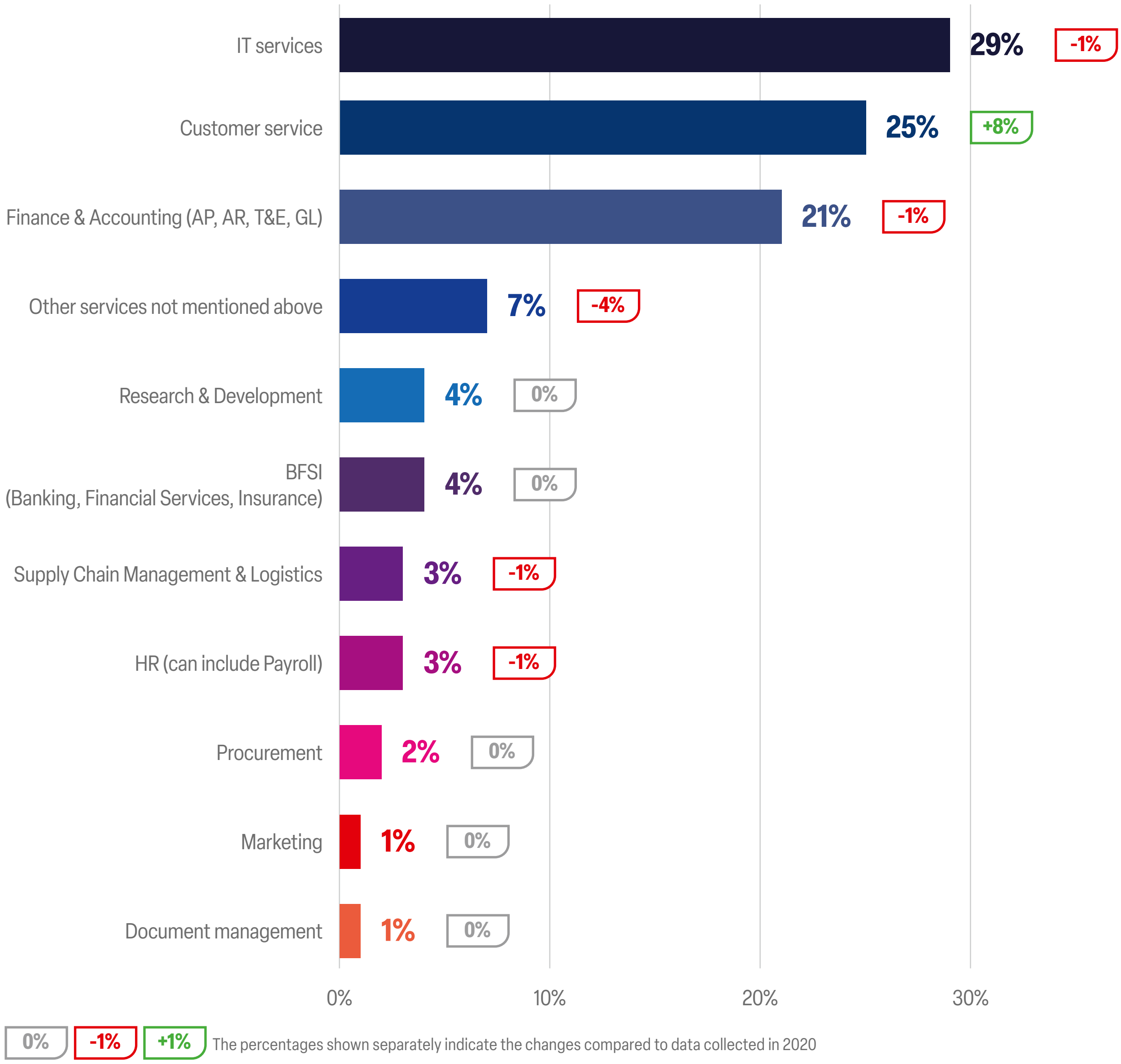
FIGURE 1.15
THE INTENSITY OF COMPETITION ON THE LOCAL LABOUR MARKET



The above mentioned challenge with talent availability is confirmed when looking into company assessments of intensity of competition on the local labour market. During COVID-19 pandemic, there was a temporary relief and a slight decrease in competition. However almost 70% of the organisations considered competition for talent on Latvian labour market as very high in 2021.

EMPLOYMENT IN THE SECTOR

FIGURE 1.16
EMPLOYMENT STRUCTURE BY BUSINESS FUNCTIONS

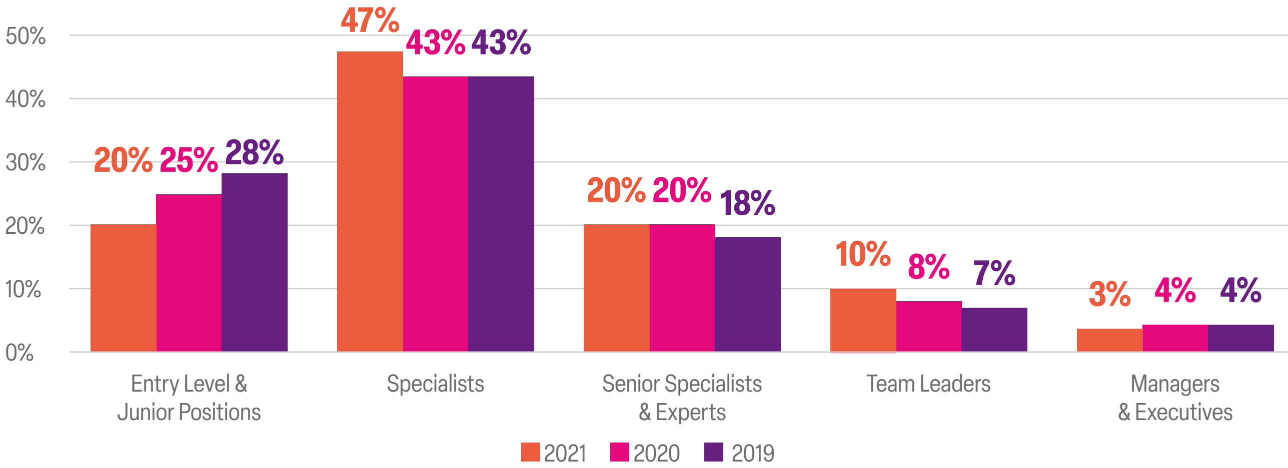


The percentages shown separately indicate the changes compared to data collected in 2020

GBS industry in Latvia is consistent with global trends in selecting business functions for outsourcing. The top three business functions remain the same as previous years – IT, finance and accounting, and customer services, this trend is projected to remain stable for the foreseeable future.

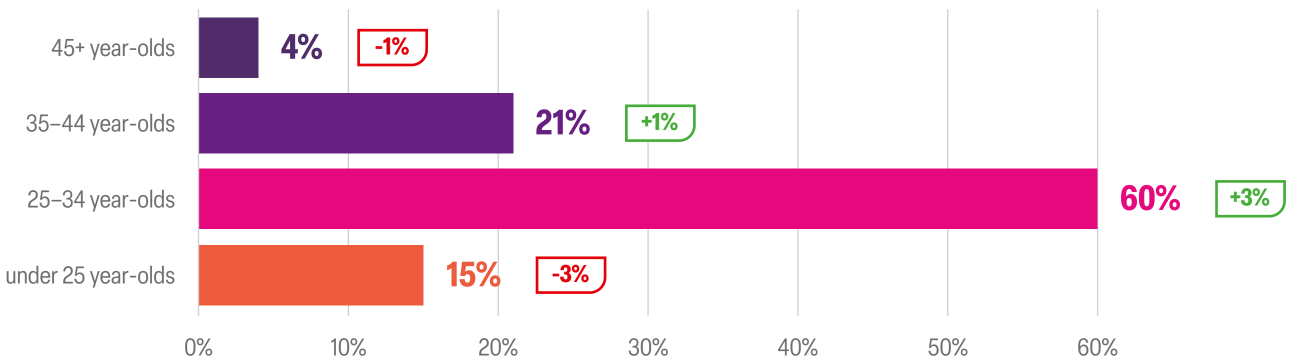
Expanding competence centers in Latvia, GBS companies are building cross-functional, multi-disciplinary and multinational teams, and onboarding more and more high value-added functions, for instance risk management, compliance, data management etc.

FIGURE 1.17
EMPLOYMENT STRUCTURE BY SENIORITY



Employment in GBS sector is characterised by a relatively high proportion of students and post-graduates. Therefore, the proportion of junior positions are among 20–25% of overall employment. GBS companies do provide extensive trainings and mentorship programs, as well as opportunities for professional and personal growth. Often specialists and experts in GBS are nurtured internally. As a result, average tenure in companies is increasing. This is supported by data, clearly showing a slow, but steady decrease in junior positions and proportional growth in specialist level. Steady increase in proportion of specialist positions indicates that more complex, higher value-added tasks and responsibilities are being entrusted to Latvia-based GBS.

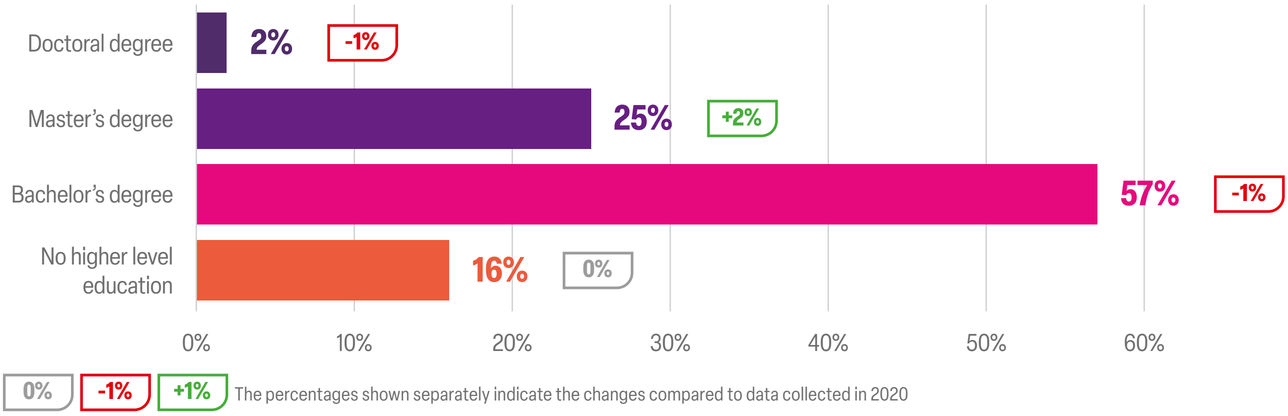
FIGURE 1.18
EMPLOYMENT STRUCTURE BY AGE



-1% +1% The percentages shown separately indicate the changes compared to data collected in 2020

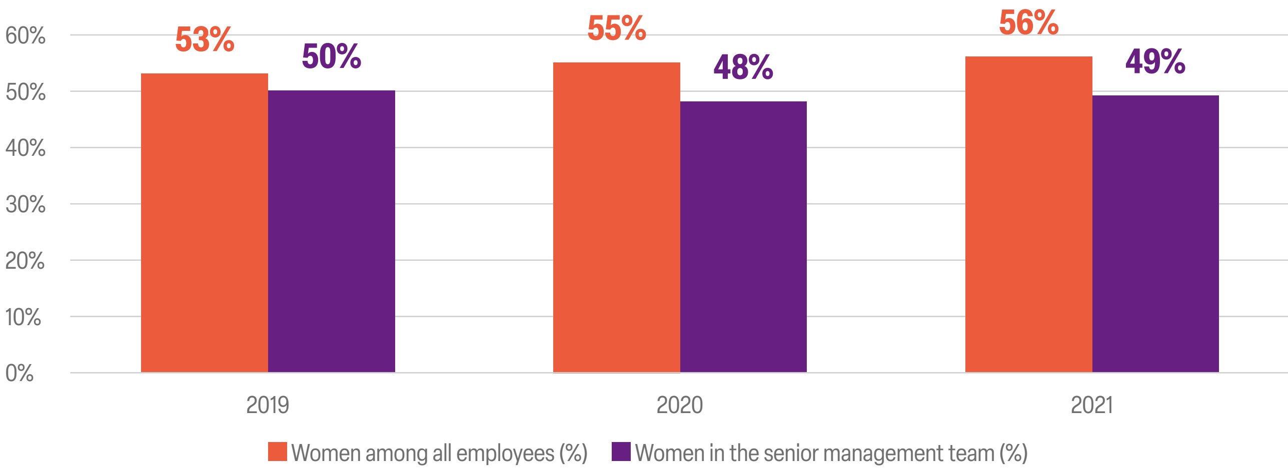
The above mentioned is confirmed when looking into employment structure by age. The proportion of under 25 year olds mirrors the proportion of junior level position and 25–34 year olds reflect the trends of specialist roles. Moreover, the conclusions made on talent being nurtured internally finds supporting evidence in practically identical statistical structure of age groups vs position seniority in team lead and managerial roles.

FIGURE 1.19
EMPLOYMENT STRUCTURE BY HIGHEST LEVEL OF EDUCATION



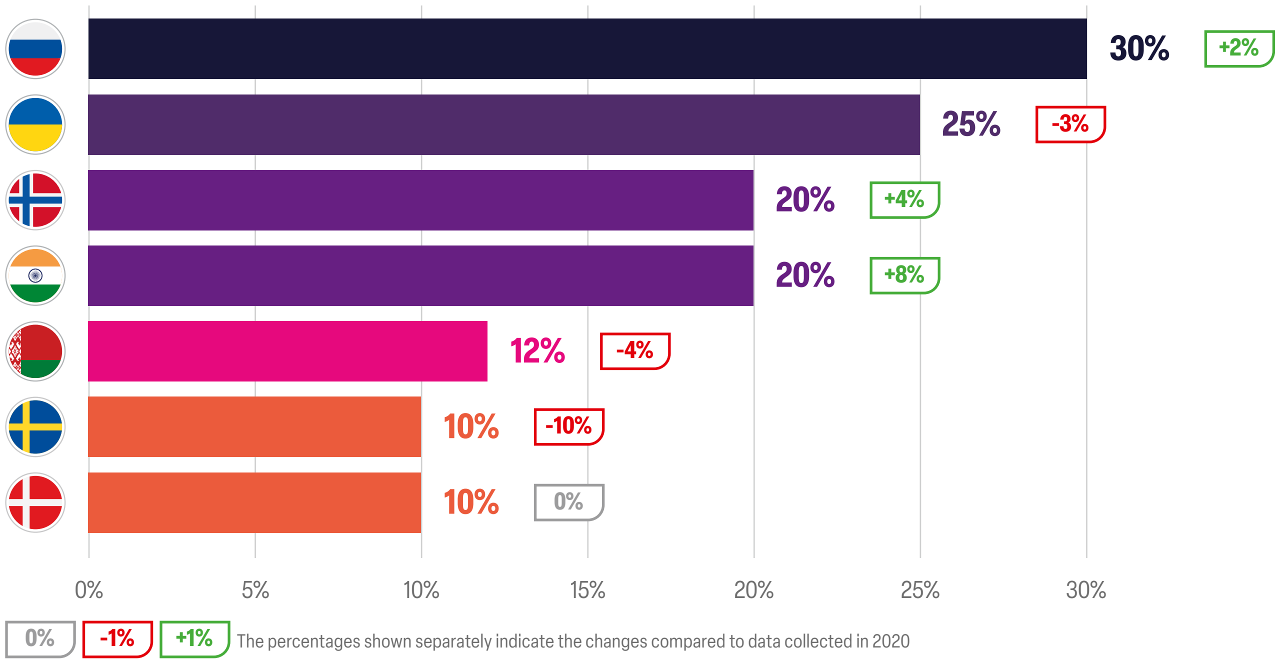
Most employees in the GBS industry have a university degree. Almost 60% of talent hold a bachelor's degree and almost 30% have a master's degree or higher. Remaining employees are in their last years of studies. The educational pattern remains very stable throughout the years.

FIGURE 1.20
EMPLOYMENT STRUCTURE BY GENDER



Latvia as a country is characterised by higher-than-average gender equality at workplace. This positive trend is even more noticeable in Latvian GBS industry. More than half of employees are female and almost half of senior management roles are held by women. Although there is still a gap, it is much smaller than the European average.

FIGURE 1.21
GBS ENTERPRISES EMPLOYING FOREIGNERS BY COUNTRIES OF ORIGIN



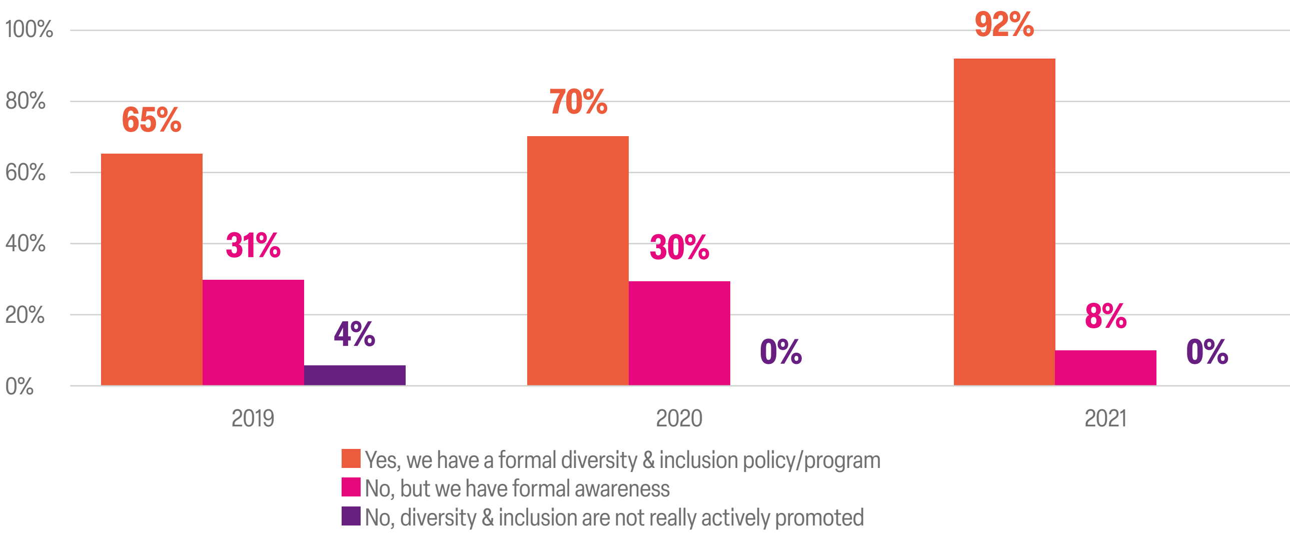
Overall geographical split in employment of foreigners in GBS remains quite stable. Around 70% of all the enterprises are employing people from the Eastern Europe – and around 40% have employees from Nordics.

Notably employment of India nationals has been growing quite steadily over the last few years and has reached 20% in 2021, making it the third most represented region in the industry.

Industry remains diverse and accepting, and we foresee that this aspect of GBS culture in Latvia will keep running strong going forward.

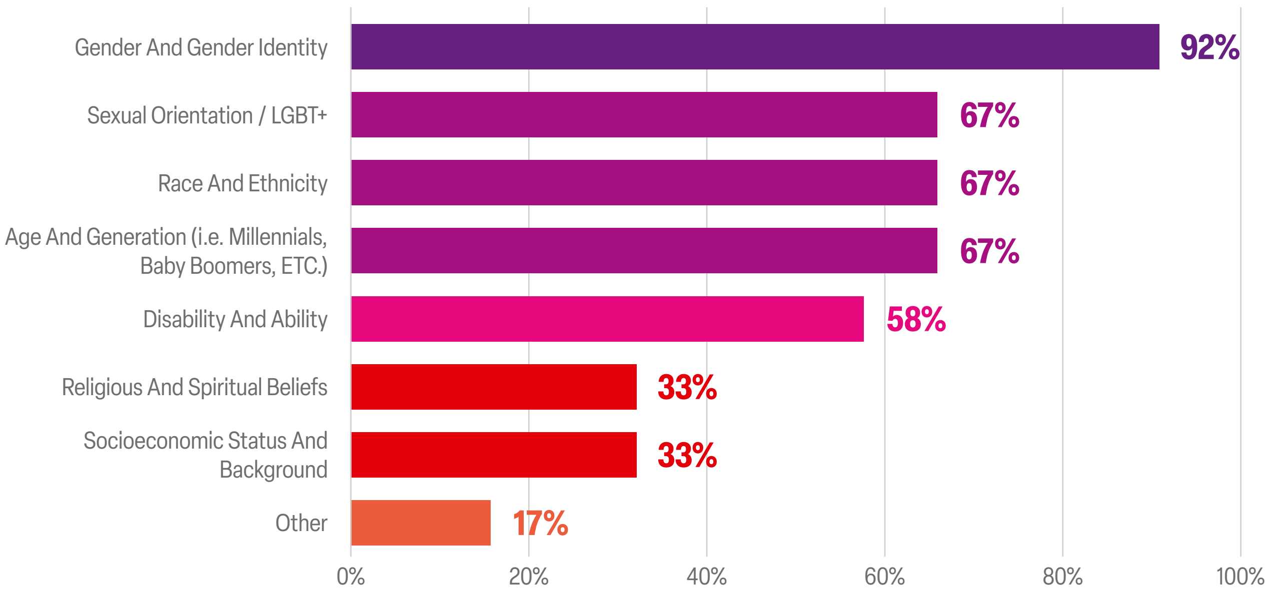
Although the outlook is overall positive, many industry players have noted still unreasonably complicated and bureaucratic procedures, which must be followed to obtain work permits and EU Blue cards. ABSL is engaged in the ongoing process with several government agencies with an aim to lessen the burden and enable the industry to engage with the foreign talent in a less burdensome process.

FIGURE 1.22
THE IMPORTANCE OF DIVERSITY & INCLUSION POLICIES ACROSS THE GBS INDUSTRY IN LATVIA



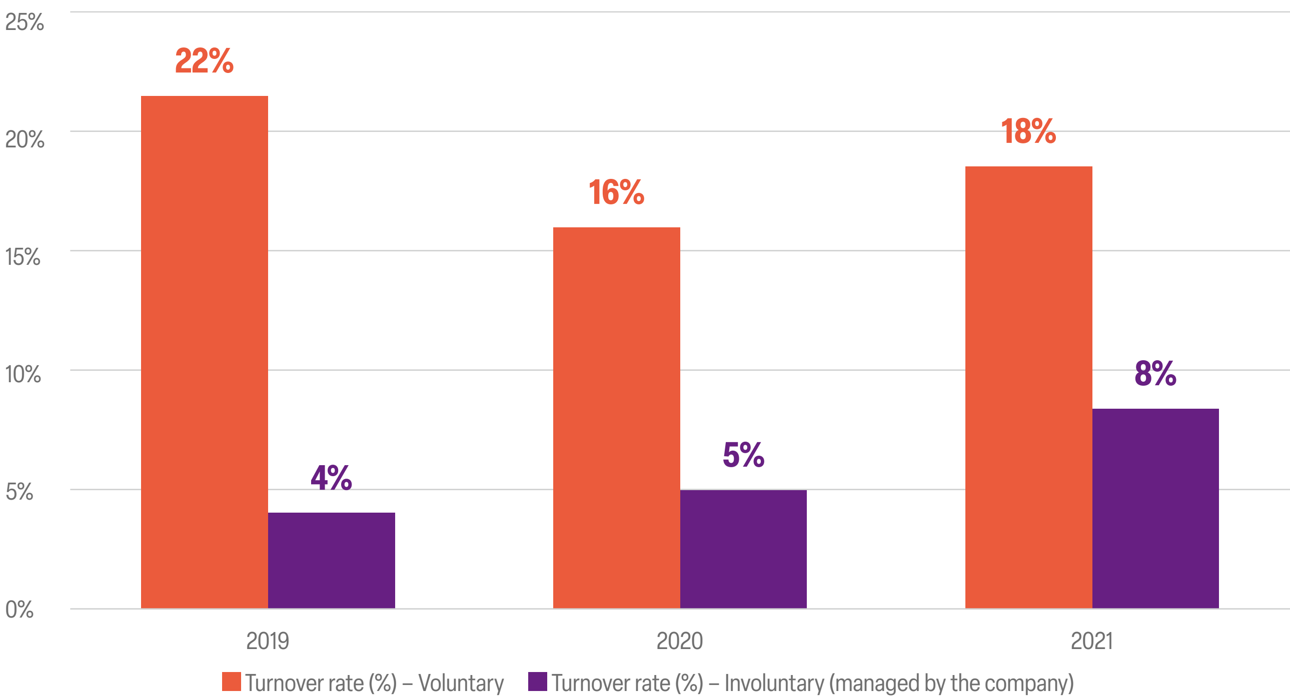
Diversity and inclusion (D&I) in the workplace, where employees feel appreciated and valued, regardless of their identity, are essential nowadays. Survey data explicitly show that GBS industry companies seek to create an inclusive workplace culture and a diverse workforce, and it is high on their agenda. Back in 2019 65% of GBS companies in Latvia had a Diversity and Inclusion Policies implemented, while in 2021 this number grew till 92%.

FIGURE 1.23
THE MAIN FOCUS AREAS OF DIVERSITY & INCLUSION POLICIES/PROGRAMS IMPLEMENTED BY INDUSTRY ORGANISATIONS IN 2021



Creating a diverse and inclusive workplace requires many parts working together in developing a long-term strategy. Gender equality, including closing gender pay gap is in a focus for more than 90% of GBS companies participated in the survey. Equally important are other types of D&I, for instance age and generation, sexual orientation, disability, race and ethnicity.

FIGURE 1.24
EMPLOYEE TURNOVER RATES IN THE BUSINESS SERVICES INDUSTRY



The voluntary turnover rate in GBS centres, analysed by ABSL Latvia for 2021, is 18%. In comparison with 2020 the second year of the COVID-19 pandemic has slightly increased the turnover rate by 2%. The level of voluntary turnover stays manageable and stable, which illustrates that GBS centers successfully attract and retain talents.

FIGURE 1.25
NON-WAGE BENEFITS PROVIDED BY ORGANISATIONS TO THEIR OPERATIONAL STAFF

Effective rewards systems, including non-monetary incentives, makes companies more attractive to top talent. As a hygiene factor, none-wage benefit packages in the majority of organisations include health insurance, internal training opportunities and opportunity to participate in different corporate and sport events. Striving for improved work-life balance and flexibility for their employees, more than 90% of GBS centers kept or even increased the opportunity to work flexible work hours and work from home.

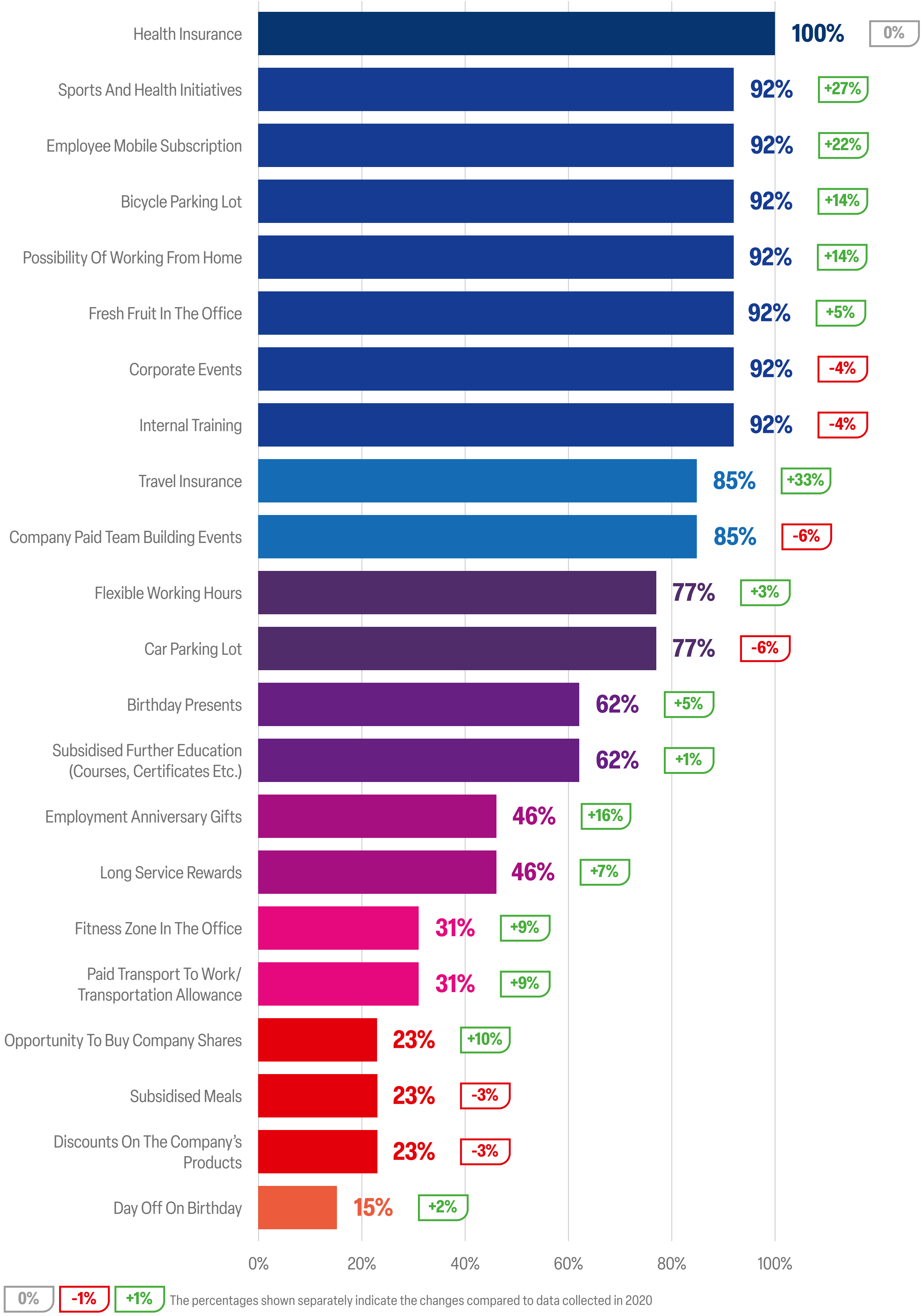
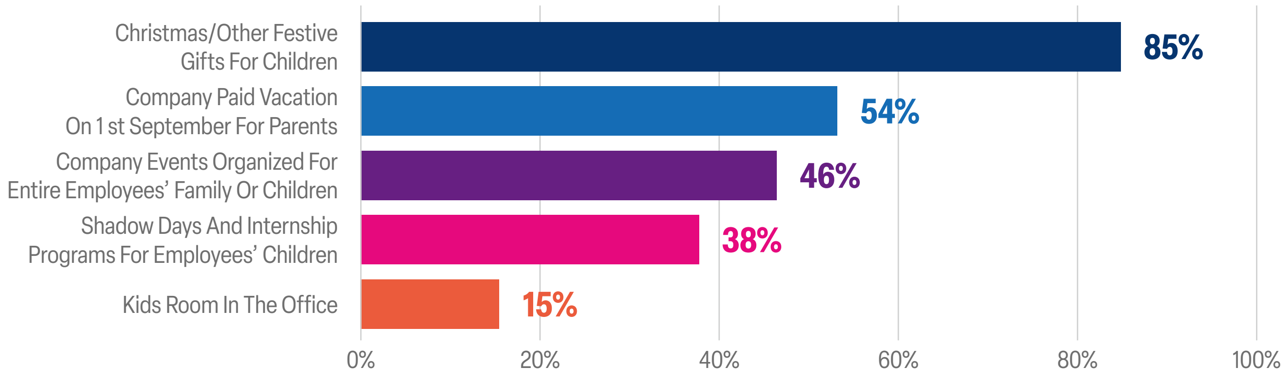
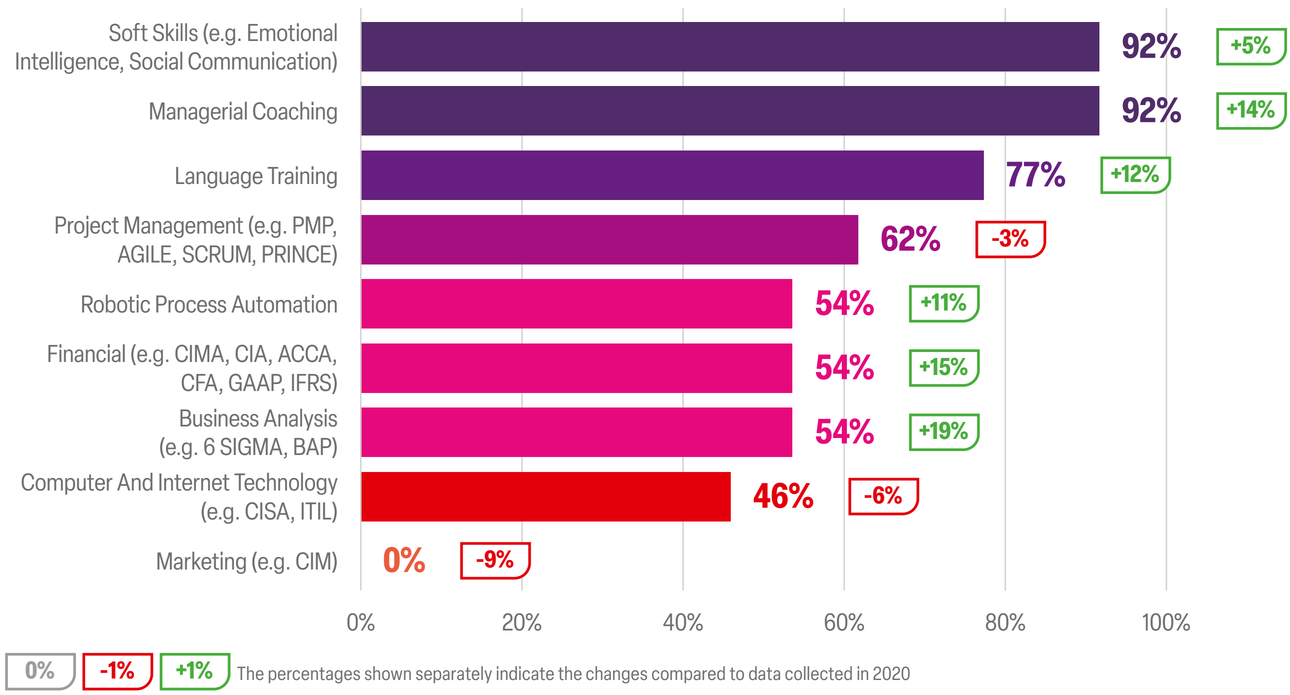

Health Insurance 100% 0%
Sports And Health Initiatives 92% +27%
Employee Mobile Subscription 92% +22%
Bicycle Parking Lot 92% +14%
Possibility Of Working From Home 92% +14%
Fresh Fruit In The Office 92% +5%
Corporate Events 92% -4%
Internal Training 92% -4%
Travel Insurance 85% +33%
Company Paid Team Building Events 85% -6%
Flexible Working Hours 77% +3%
Car Parking Lot 77% -6%
Birthday Presents 62% +5%
Subsidised Further Education (Courses, Certificates Etc.) 62% +1%
Employment Anniversary Gifts 46% +16%
Long Service Rewards 46% +7%
Fitness Zone In The Office 31% +9%
Paid Transport To Work/ Transportation Allowance 31% +9%
Opportunity To Buy Company Shares 23% +10%
Subsidised Meals 23% -3%
Discounts On The Company's Products 23% -3%
Day Off On Birthday 15% +2%
0%
20%
40%
60%
80%
100%
0% -1% +1% The percentages shown separately indicate the changes compared to data collected in 2020

FIGURE 1.26
NON-WAGE BENEFITS ORGANISATIONS PROVIDE TO EMPLOYEES AS A FAMILY-FRIENDLY COMPANY



Many of GBS centers strive to be family-friendly organisations and have therefore introduced a number of non-wage related benefits for their employees. 85% of companies are providing Christmas and other festive gifts for employee children. More than half of the companies are providing a company paid day off on 1st September for parents with school-age children. In addition, organisations are organising events to involve the entire families. These efforts are particularly appreciated by GBS employees. The largest proportion of people employed by the industry are millennials, young people with children, or people who are planning to start families and have children soon.

FIGURE 1.27
TYPES OF PROFESSIONAL TRAINING PROVIDED TO EMPLOYEES



The percentages shown separately indicate the changes compared to data collected in 2020

Many young graduates want to join the GBS industry, as it offers a higher salary than the national average, as well as a unique international experience while working in the home country. However, often the knowledge of young specialists acquired in universities does not correspond to the specifics of the industry, and companies are actively engaged in employee training.

The top three most popular training areas remain unchanged: soft skills 92%, managerial coaching 92%, and language training 77%.

The increase in the training volumes can be explained by the availability of financial support. During the 2021 with the help of ABSL Latvia, GBS industry members had an opportunity to obtain financial aid to foster the training of their employees from the EU Structural Funds. Several organisations have already benefitted from the support provided and many others have an opportunity to obtain financial support for their training programs over 2022–2023.

FIGURE 1.28
AVERAGE GROSS SALARY (EURO) IN MOST POPULAR BUSINESS SUPPORT FUNCTIONS

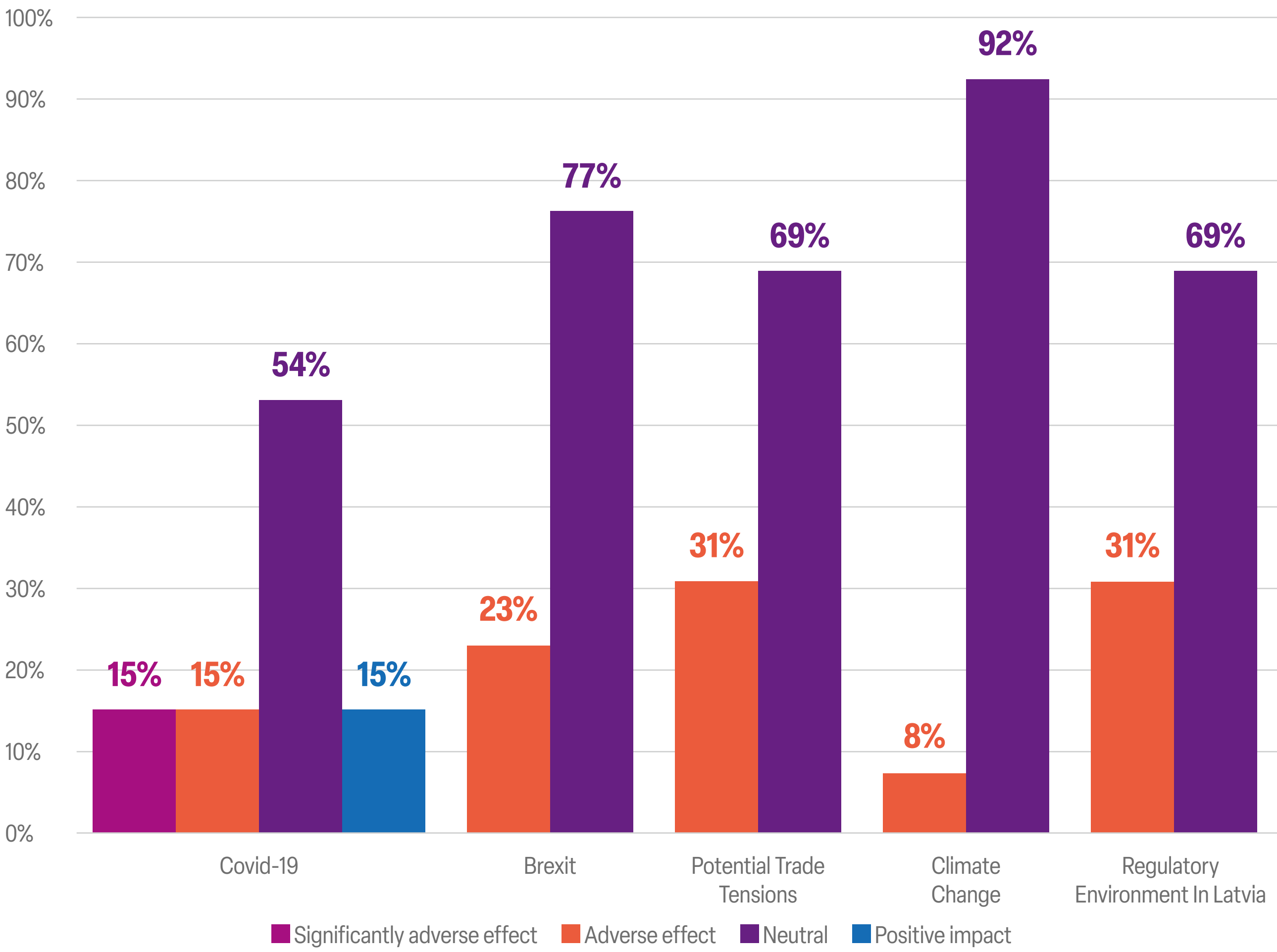
€ **1,569** **Junior** – IT	€ **1,222** **Junior** – Customer Care	€ **1,145** **Junior** – Finance, Acounting
€ **2,465** **Middle Level** – IT	€ **1,530** **Middle Level** – Customer Care	€ **1,508** **Middle Level** – Finance, Acounting
€ **3,985** **Expert, Manager** – IT	€ **2,550** **Expert, Manager** – Customer Care	€ **2,250** **Expert, Manager** – Finance, Acounting

The average salary in the industry in 2019 was 1657 euros before tax, in 2020 it jumped to 2000 euros before tax. During the 2021 the average salary increased slightly to 2025 euros before tax.

Average salary increase has been observed in IT sector, where average salary has increased in all seniority levels. This is largely dictated by global competition for talent and scarcity of good specialists in the market.

FACTORS AFFECTING THE INDUSTRY IN 2021 AND FORECAST FOR 2022

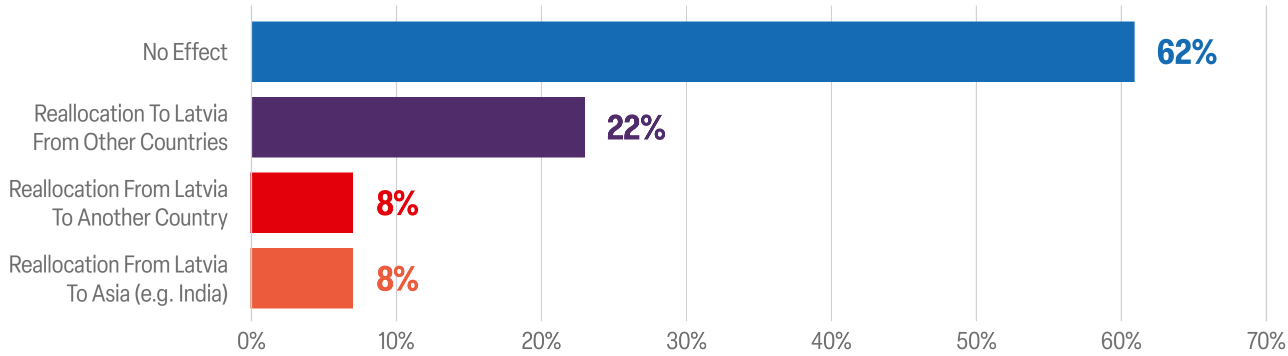
FIGURE 1.29
FUTURE OUTLOOK ON FACTORS AFFECTING THE INDUSTRY'S ACTIVITY IN 2022



When surveyed on outlook of 2022, one third of the companies are concerned that trade tensions, regulatory environment in Latvia would have an adverse effect towards company growth. Overall, the impact of COVID-19 is expected to significantly decrease. Nevertheless, a number of respondents have also recognised its positive effect towards overall efficiency increase, introduction of hybrid working model along with its supporting tools and programs.

Similar to 2020 which brought the global pandemic as an unexpected surprise, at the time of preparing of this report it is clear that the future outlook of 2022 had not foreseen the impact of the Russian invasion in Ukraine. The effect and consequences that it has brought and will continue to have on safety, business and overall environment is impossible to foresee.

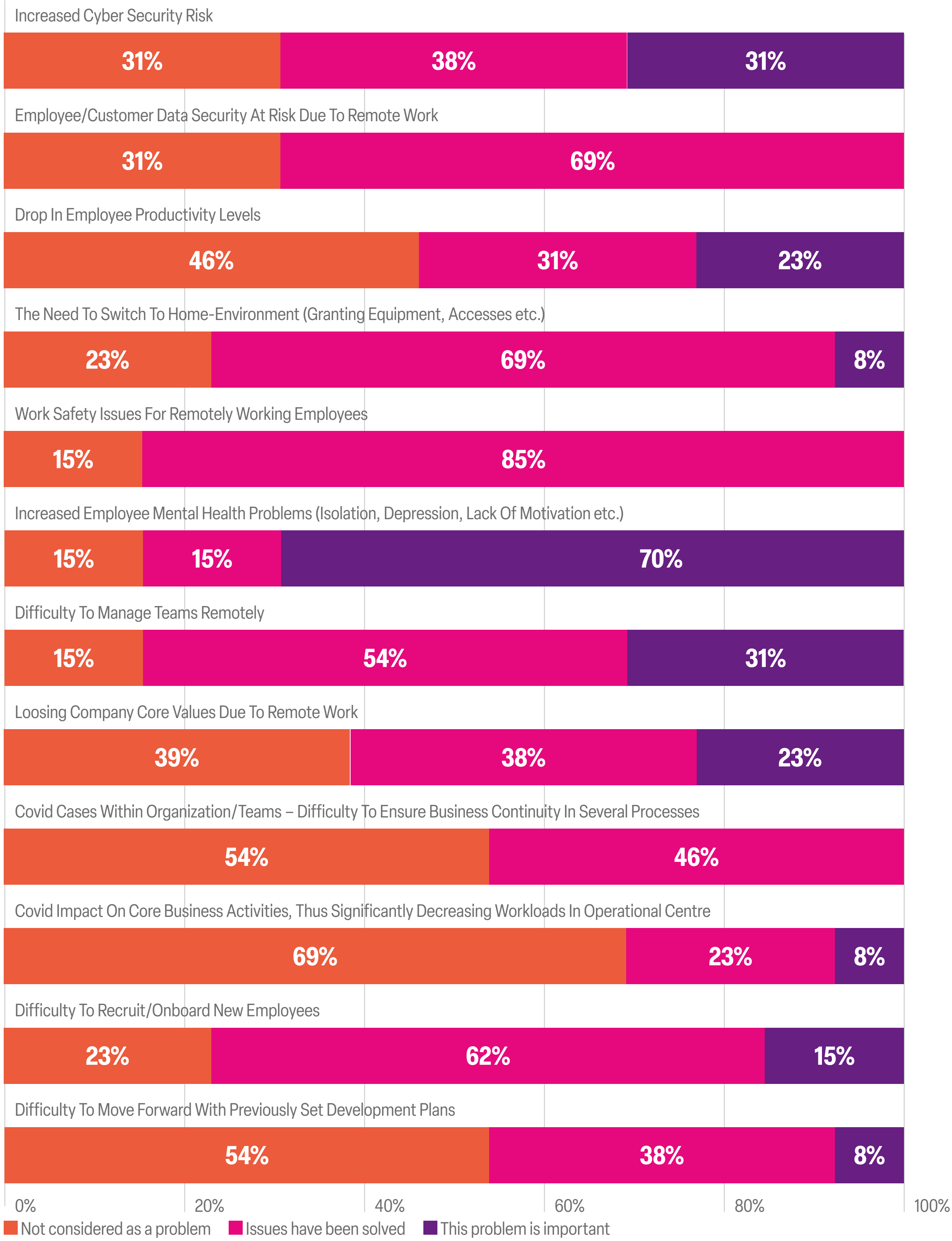
FIGURE 1.30
THE IMPACT THAT COVID-19 HAS LEFT ON GBS COMPANIES' IN 2022



62% of respondents claim that COVID-19 has had no effect on their business activity plans in Latvia for 2022. Considering that during 2021 travel restrictions, curfew hours, requirements towards testing, wearing masks and social distancing were still present and at times requirements even were strengthened, this response signals high agility of GBS sector towards change. High adaptability to changes is also supported by GBS industry having less adverse effect from the requirements of remote work, the restrictions proposed by the government compared to other industries in Latvia during 2021.

Only 8% relocated some of the functions from Latvia to another countries. Opposite, for the second year in row organisations report more benefits or business expansion opportunities due to COVID-19, and opportunities for relocation of functions from other countries to Latvia.

FIGURE 1.31
IMPACT ON BUSINESS OPERATIONS IN LATVIA CAUSED BY COVID-19

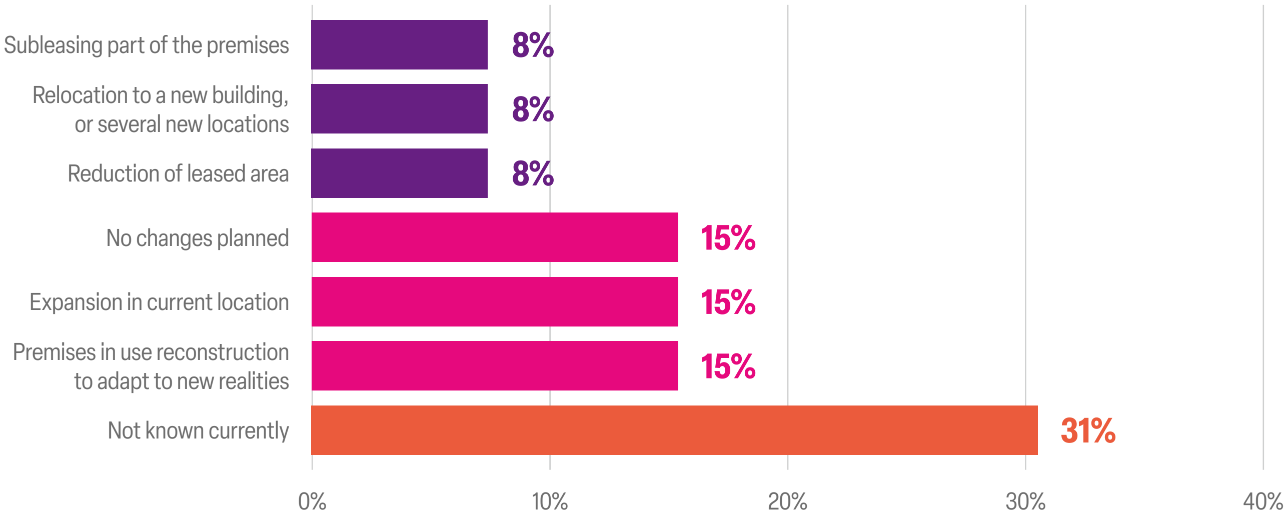


During 2021 GBS industry has efficiently handled number of challenges brought by the COVID-19 pandemic. Many topics that were relevant during 2020 have either been solved during 2021 or are not consider a problem anymore. However, there is evidence indicating a rise of side issues caused by working from home: mental health of employees has become an area of concern for 70% of respondents. This factor is not unique for GBS industry, nevertheless organisations have put action plans in place to address this issue by offering independent paid counselling sessions, series of virtual events to foster team spirit, mental health support lines, trainings for management and staff to name a few.

Among other topics that GBS companies have highlighted as areas of attention are cyber security risks, employee productivity drops and difficulty in efficiently managing teams while working remotely. Remote and hybrid work has even created a completely new challenge for companies – concern of loosing of companies' core values and identity. This is coherent with the difficulties to recruit and properly onboard new employees in the company due to complexity of transferring the company values and team feeling for new employees through remote channels.

GBS REQUIREMENTS TOWARDS OFFICE PREMISES

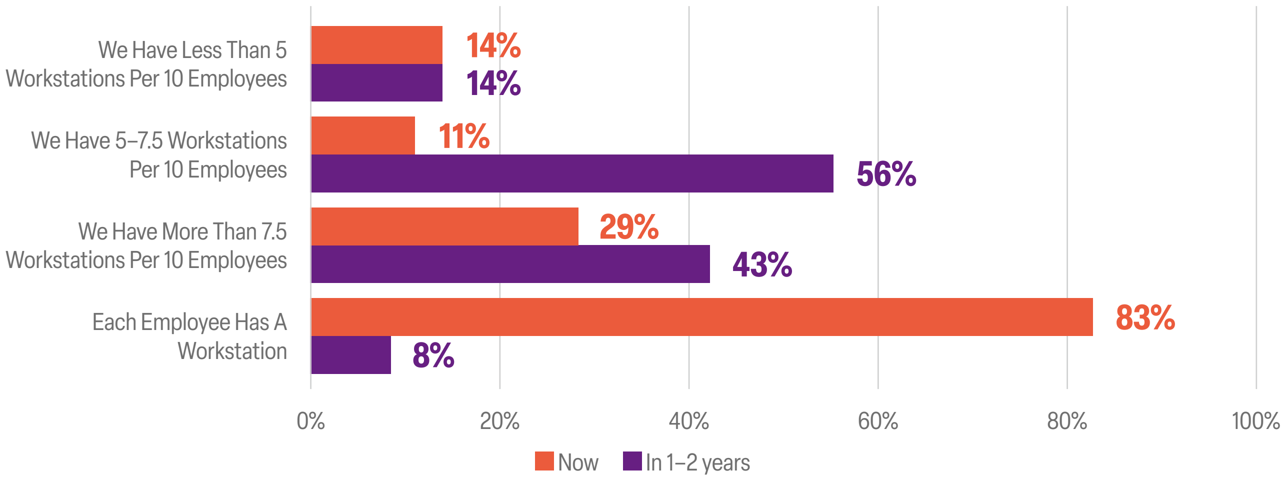
FIGURE 1.32
PLANS FOR CURRENTLY LEASED/OWNED OFFICE PREMISES FOR 2022



Looking at plans towards GBS premises for 2022, companies are embracing the status quo and watching out for future developments during 2022. Almost half of respondents are not changing their premises or have not yet decided on any subsequential changes (31%).

Only one third of respondents are planning some incremental changes on their existing premisses to adapt to the new standards of epidemiological safety or expansion of their existing premises.

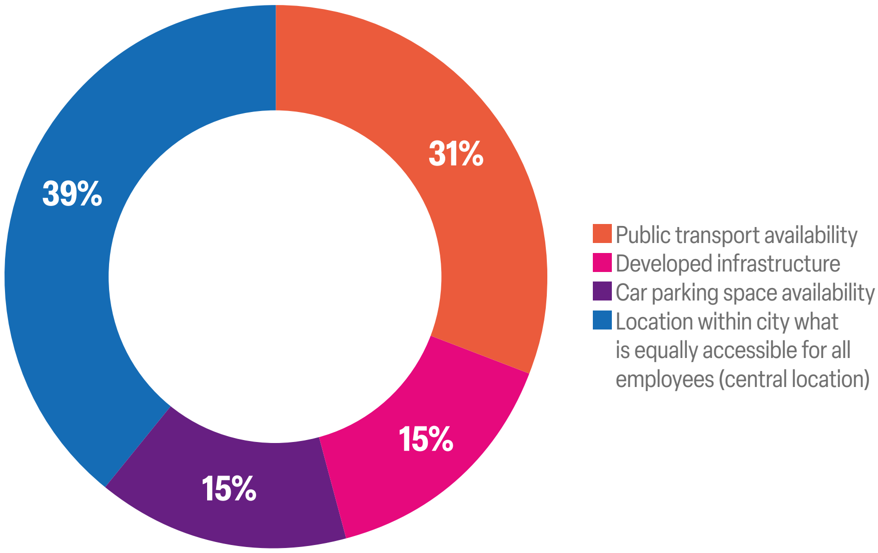
FIGURE 1.33
WORK STATIONS PER EMPLOYEE



Due to the working model adjustments induced by the pandemic, the expectations from employees are to maintain flexibility of working at least partially in the remote working model. Hence, most companies are transforming their offices by moving away from dedicated workstations towards co-working spaces and reducing the number of individual workplaces. In upcoming 1–2 years majority of companies will have 5–7 workplaces per 10 employees which indicates a strong tendency for hybrid way of work working. This trend will not only provide savings of office space and growing costs for utility services, but most importantly this will also allow to use the same space in a smart way, giving employees more flexibility in seating arrangements as well as opportunities for more enhanced team collaboration for when working in office.

FIGURE 1.34

MAIN REQUIREMENTS TOWARDS OFFICE LOCATION CHOICE



When selecting location for office premises for GBS industry companies, the location itself and its convenient accessibility to all employees are the most crucial factors. Central location or ease of accessibility by public transport are among key consideration for office choices.

2 MARKET OVERVIEW BY COLLIERS

OVERVIEW

Year 2021 overall was silent in terms of completed office projects, with no larger scale projects commissioned and only one professional building added to stock – The Icon, class B1 building with GLA 2,050 sqm. As previously forecasted, commissioning of new office projects experienced a slowdown in 2021 and will remain modest in 2022.

In 2021 total office stock reached 780,200 sqm and the total GLA will likely exceed 813,900 sqm by the end of 2022. Over GLA 160,000 sqm are currently under constructions and will be added to the office market in the next two years.

More than GLA 117,700 sqm are in an active planning stage, however due to the uncertainty brought to the market due to the war in Ukraine, and thus rising energy and construction costs start of these projects have been put on a temporary hold.

Total take-up in 2021 reached record high figure – GLA 60,000 sqm, mainly driven by pre-lease deals, which made 40% of all deals. These market signals boosted developers' confidence in office market potential.

THE ICON, COMMISSIONED IN Q3 2021

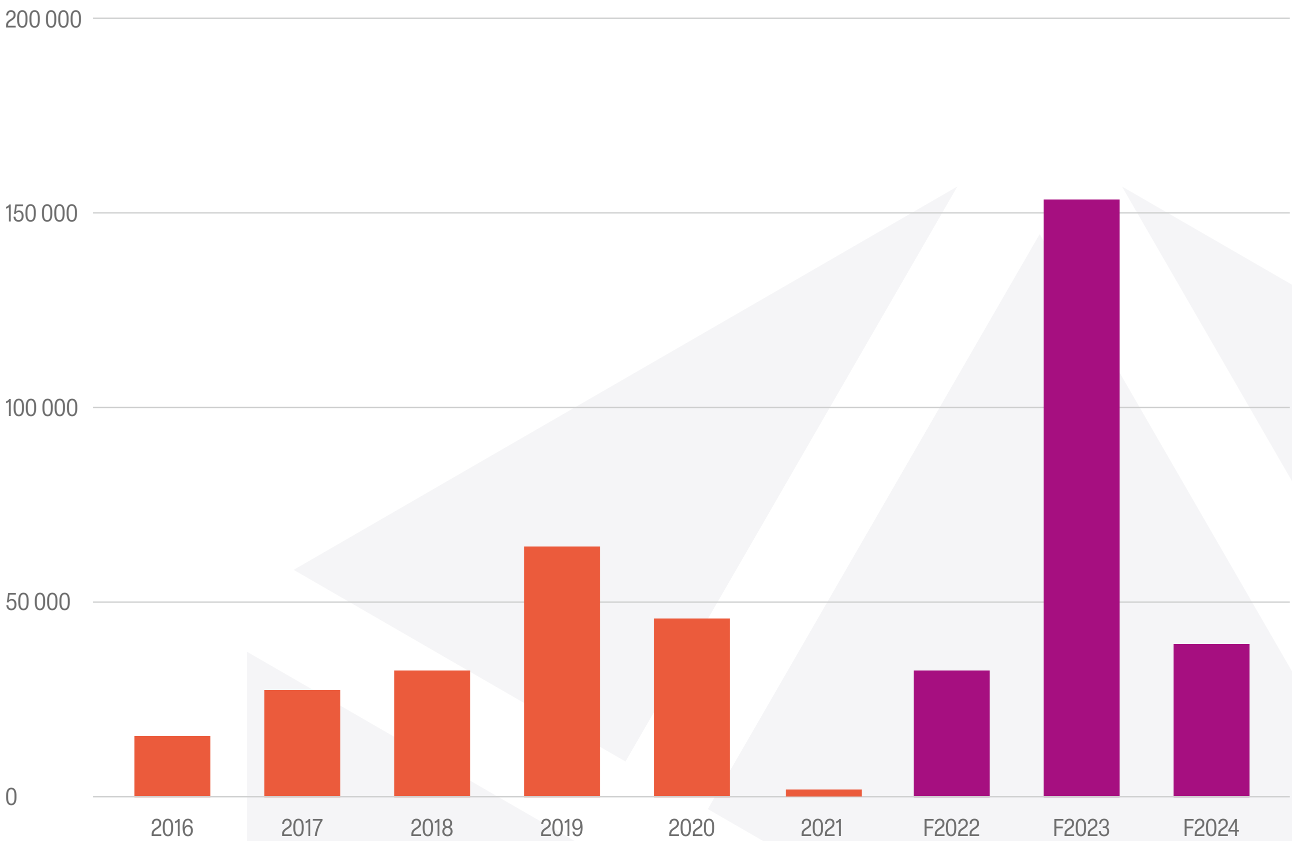
STRONG DEVELOPMENT PIPELINE

Although only one professional building was commissioned in 2021, development pipeline for office market is exceptionally strong. Currently there are 16 office projects under construction with GLA over 161,000 sqm. More than 117,700 sqm of office space is currently in an active planning stage. This is the largest recorded development activity of the last 10–15 years.

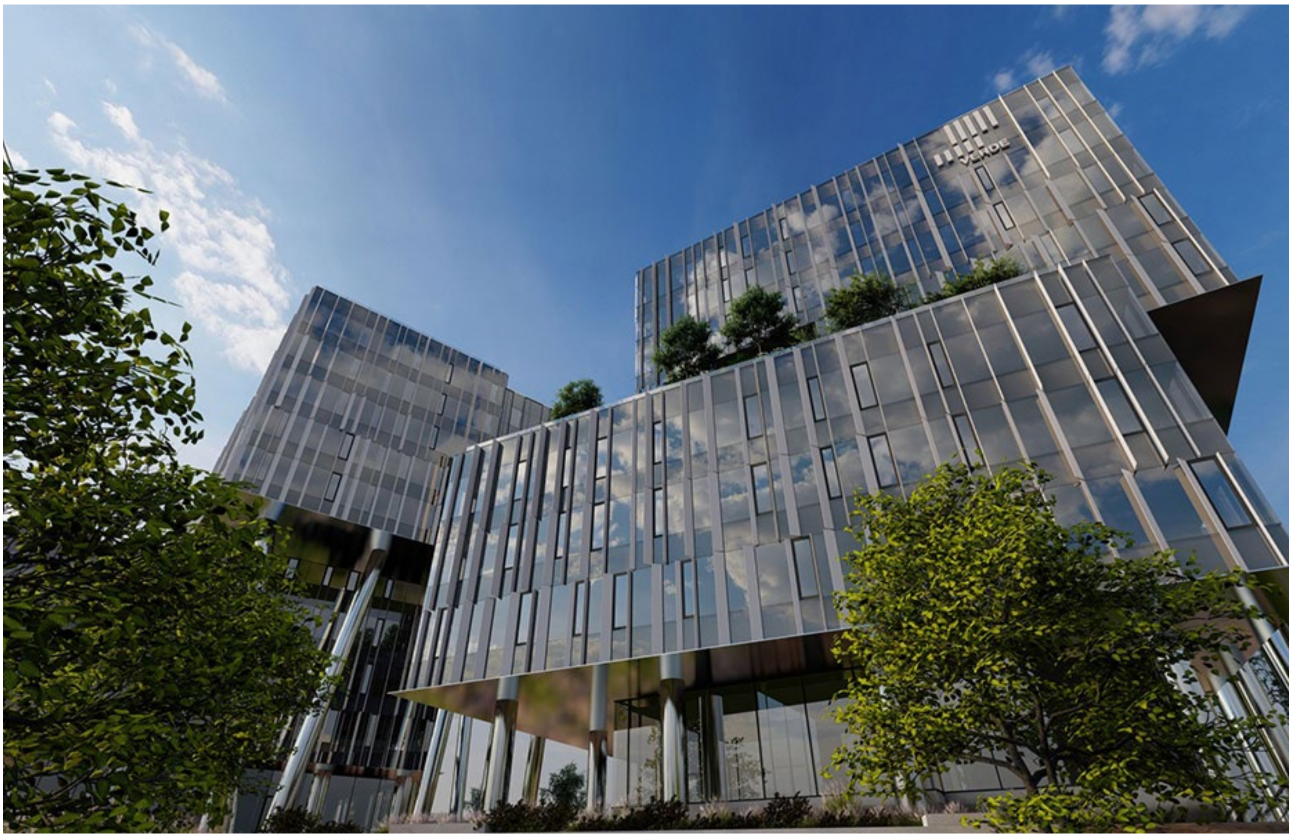
Over 65% of the projects under construction are in the city centre and Skanste district, marking them as the most desirable business districts in Riga, together with VEF/Teika district, for both developers and companies.

Notable office projects will be added to the stock in the upcoming years. Class A project Verde by Capitalica in Skanste district started it's 2nd building, while construction of 1st building is not yet finished. Both buildings will add GLA 30,000 sqm to the office stock. Construction works on a large- scale class B1 office project Gustavs BC by Galio in VEF/Teika district were started with GLA 12,200 sqm for the 1st construction stage. Skanste district continues to develop with upcoming A-class office project Elemental Skanste by Kapitel, which will add GLA: 20,250 sqm to the office market.

FIGURE 2.1
DEVELOPMENT VOLUME, SQM



VERDE OFFICE COMPLEX BY CAPITALICA (PLANNED COMPLETION STAGE I IN 2022, STAGE II IN 2023)



All of the Class A buildings under construction will be BREEAM Excellent or LEED Gold certified, while some will even be nearly zero-energy buildings. Some class B1 projects will also be BREEAM certified.

DEMAND FOR OFFICE SPACE

With an absolute record high total take-up of GLA 60,000 sqm in the last 10 years we saw that demand for new office space and for projects under development grew considerably throughout the year, despite already existing office space on the market. Around 40% of all the pre-lease deals were between tenants and buildings under construction or in planning stages.

In 2021 the largest lease deals were signed between Swisscom and Capitalica for the expansion to the Verde project and Printful Latvia and Baltic Re for the move to the Icon, while projects were in a construction stage. Major pre-lease deals were signed between SEB GBS and Galio Group, and between SEB HQ and Linstow Baltic for projects in a planning stage.

Overall, the largest contribution for office take-up, as expected, was from GBS sector, IT and financial sectors.

In 2021 vacancy in office space slightly decreased but remained high at 11.5% of total vacancy, despite the record high take-up figures, as 40% were pre-lease deals. In the next few years, with new office projects coming on the market, older office buildings might face challenges in filling their vacant premises.

We saw only minor changes in rent rates in 2021 – upper band of Class A and B1 slightly increased, while lower band of B1 slightly decreased. For new developments there is an upward pressure on the rent rates due to rising construction costs.

COVID-19 AND WORKSPACE

In 2021 companies were adapting considerably better to the COVID-19 pandemic inflicted challenges, comparing to 2020, and new workplace strategies were implemented. From complete remote work to combined remote and in office working regime was implemented to comply with government set epidemiological restrictions.

Growing interest in the new office space, which we saw with the record high take-up figures, showed that companies and their employees wanted to return to offices, a positive change after a less predictable 2020. However, new COVID-19 variant Omicron spread and continuing uncertainty around COVID-19 pandemic course might further impact office market in the future. Most of the companies so far seems to keep hybrid work regime for the near future while many still have not determined their new working strategies.

COVID-19 pandemic related delays in the production and shipment of construction materials caused a rapid increase in construction costs already in 2021, affecting developers and tenants, as developers were pressured to increase upper band rent rates. Also, energy and heating costs increased in the 2nd half of 2021, which was caused by an increased cost of natural gas. Further increase both of construction and energy costs continues due to the war in Ukraine and sanctions imposed on Russia and Belarus, which altogether will significantly affect new developments, rental rates and operation costs of offices.

780,200 sqm

2,050 sqm

161,000 sqm

Class A: 14–17 EUR/sqm

11,5 %

117,750 sqm