



# BUSINESS CLIMATE SURVEY

Latvia

Swedish Trade Council  
Autumn 2008



# AGENDA

- **Summary**
- Introduction and methodology
- General business climate
- Establishment and operation conditions
- Legislation
- Economy and financial
- Trends and future outlook

## SUMMARY

- Most of Swedish companies in Latvia are SME-s and nearly half of all companies have only insignificant part of their revenue in Latvia
- It is very positive to be Swedish businessman in Latvia and Swedes are satisfied with their working environment here
- Finding reliable business partners is rather hard, contacts and network are extremely important
- Language is not an obstacle, English works well as business language
- It is still regarded as important to use Swedish managers when setting up operations in Latvia
- Decision making in Latvia companies is often made by the top management
- Payment terms are not followed satisfyingly in Latvia



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# GOAL OF THE SURVEY IS TO GIVE SWEDISH COMPANIES RELEVANT INFORMATION ABOUT THE LATVIAN BUSINESS CLIMATE

The Swedish Trade Council carried through a business climate study during June-August 2008. The main purpose with the study was to identify the business climate in central and eastern Europe and then put it in contrast to a similar study made in 2005.

The business climate study discusses areas like law-making, economy, financing, rules of establishment and background for trade in Estonia, Latvia, Lithuania, Poland, Slovakia, Russia, Romania, Serbia and Bulgaria. The study is based on questionnaires and interviews with a great number of Swedish companies with establishment in those countries.

## Methodology:

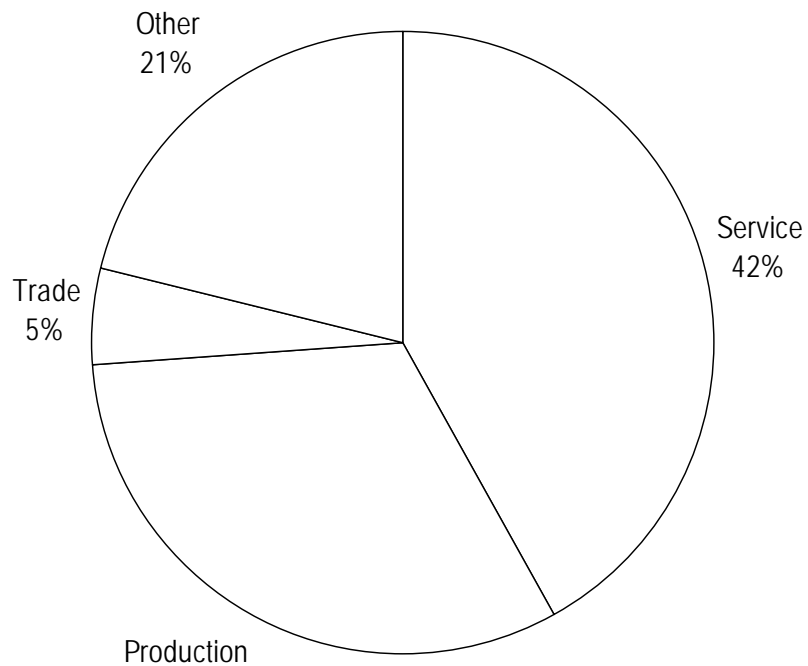
- Web-based questionnaire was sent out to 50 Sweden-related companies in Latvia
- 40% answered to questions
- Questionnaire was complemented by 10 personal interviews with carefully selected Swedish businessmen who have long experience of doing business in Latvia and good insight in the Latvian business climate
- Results and conclusions in this report are based in answers to questionnaire and interviews



# SERVICE SECTOR IS STRONGEST REPRESENTED

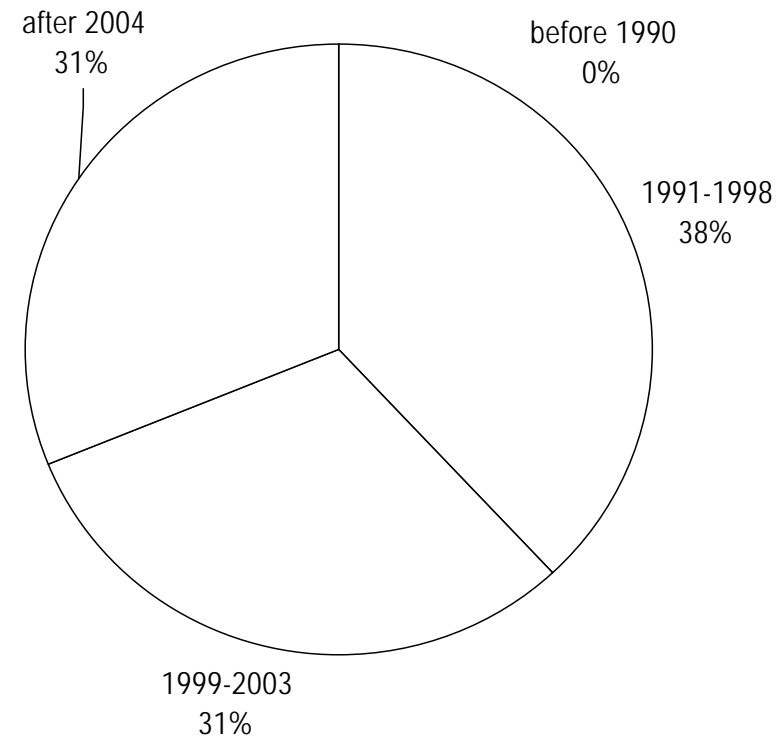
## Respondents by sector

Percent



## Company established on the market

Percent

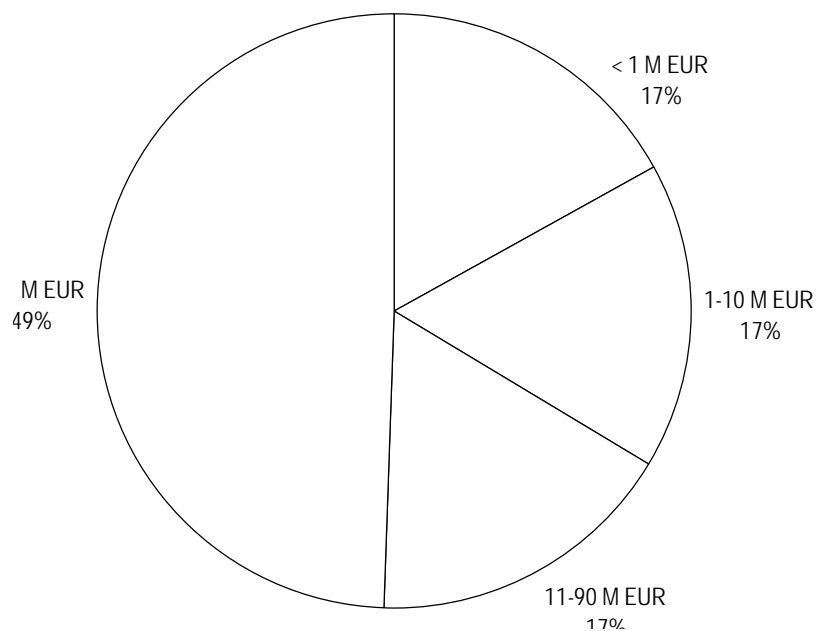




# THE LATVIAN MARKET ADDS SIGNIFICANT VALUE

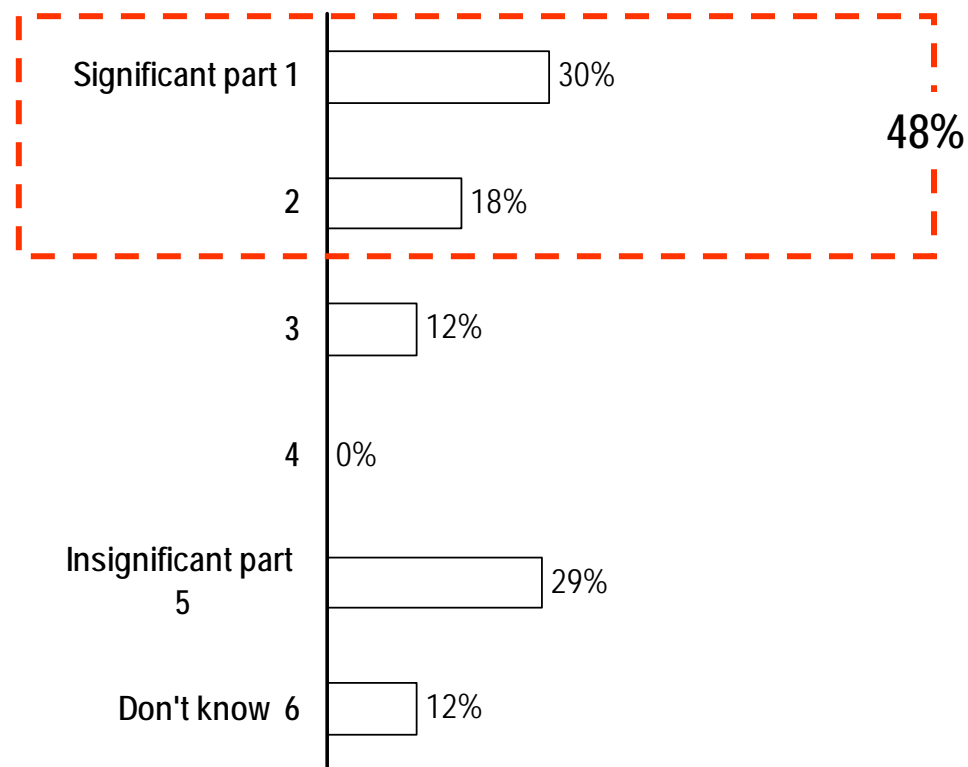
## Respondents by turnover

Percent



## What part of the total revenue is your revenue in the Latvian market?

Percent





# AGENDA

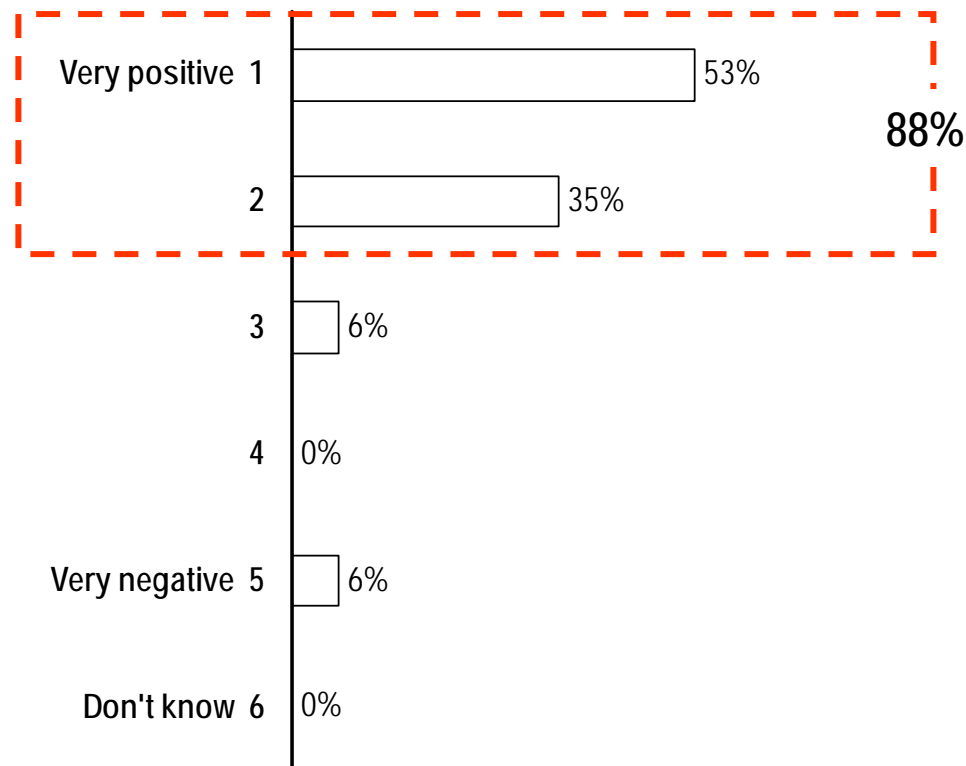
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# IT IS SO GOOD TO BE A SWEDISH BUSINESSMAN

## How are you received as a Swedish businessman?

Percent



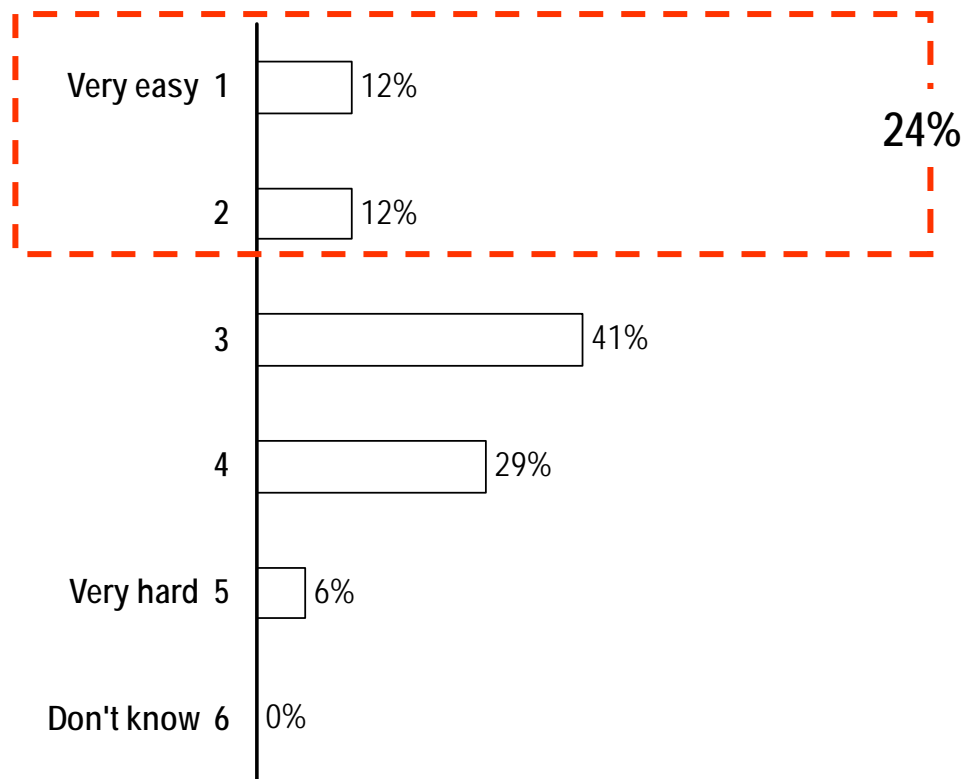
- Latvia is welcoming towards Swedish businessmen
- Some respondents claim that the workplace in Latvia is getting more and more similar to any European office



# A STRONG NETWORK MAKES FINDING PARTNERS EASIER

## How do you estimate the possibility to find reliable business partners?

Percent



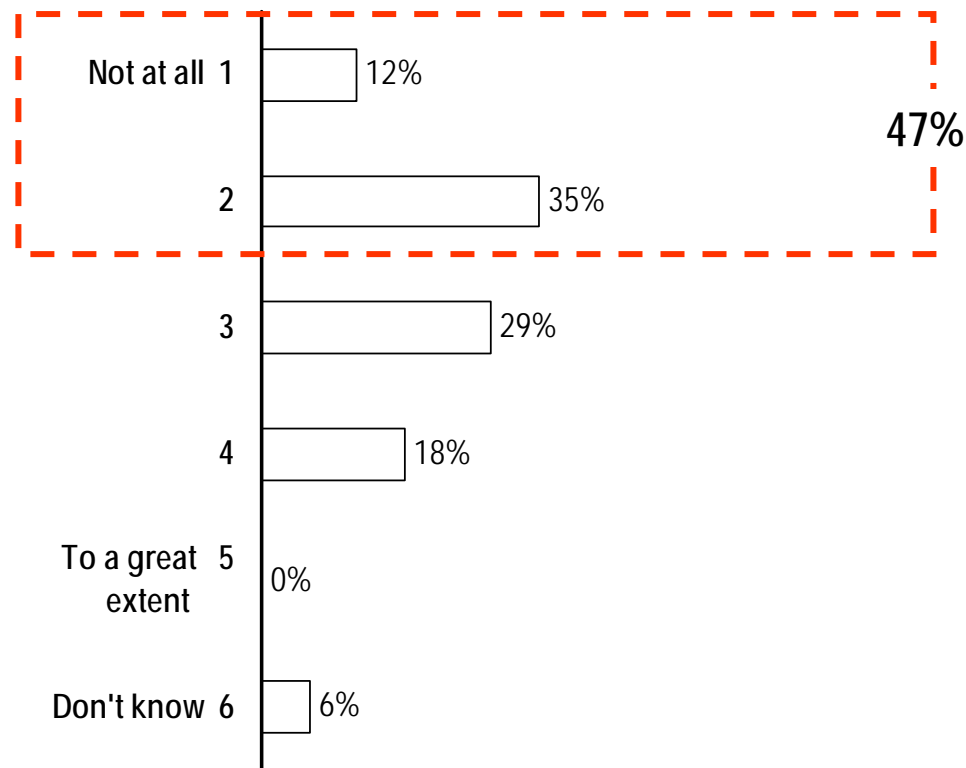
- It is perceived as quite easy to find reliable business partners in Latvia
- Small businesses find it easier to find reliable business partners
- Service and production companies found it equally easy to find business partners
- Some respondents perceive networking and contacts to be more important in Latvia than in Sweden, while some say that networking is equally important



# LANGUAGE IS NOT A PROBLEM IN THE CITIES

Does your experience show limited linguistic knowledge among the business people?

Percent

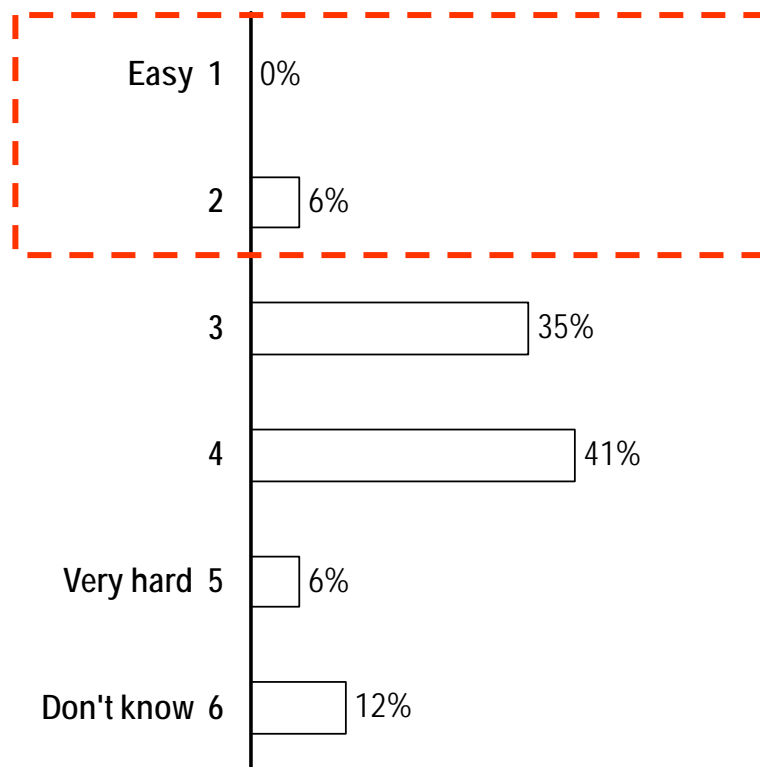


- Most respondents manage with English while doing business in Latvia

# INFORMATION ABOUT COMPANIES ARE QUITE HARD TO GET - and authorities are not very helpful

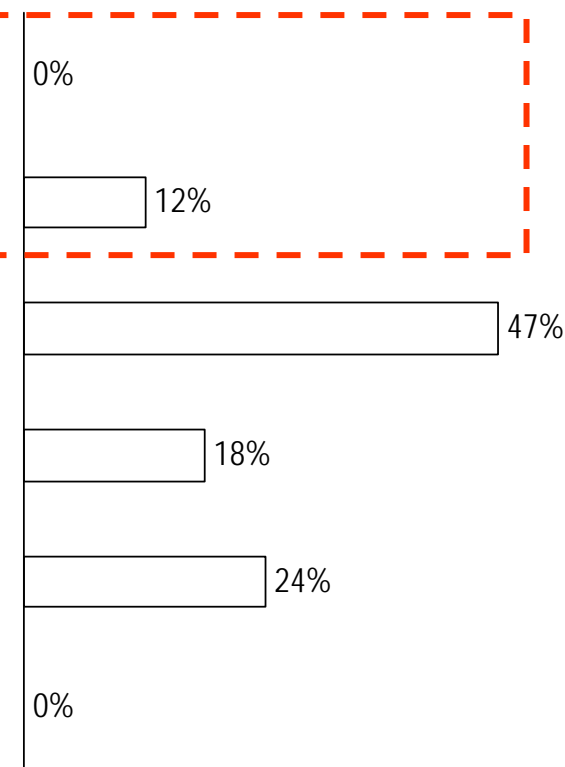
How do you estimate the gathering of  
financial information about local companies?

Percent



How do you estimate the gathering of  
information from the authorities?

Percent



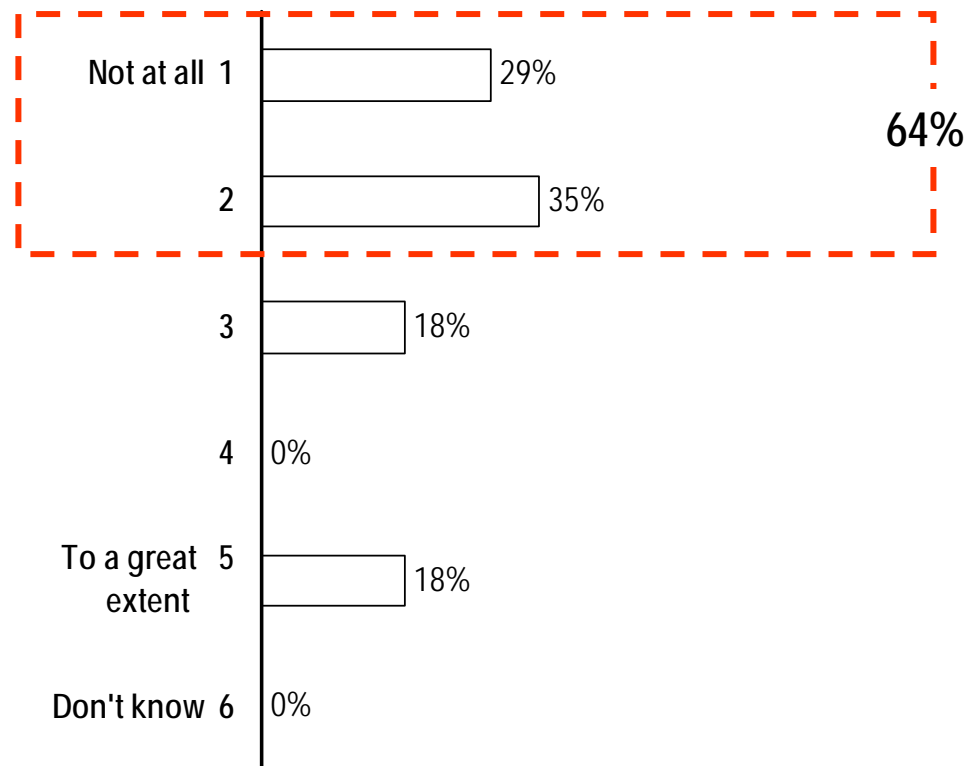
- Some respondents claim that finding information is much more easy if you present yourself as a manager rather than as an assistant



# CORRUPTION IS NOT A BIG PROBLEM FOR SWEDISH COMPANIES

Is the corruption noticeable for your operation?

Percent



- Only one out of five claim that they have encountered noticeable corruption problems
- Big and small companies were equally affected by corruption
- There is a common opinion among the respondents that corruption is quite common in Latvia, however not many have had direct contact with it



## QUOTES ABOUT GENERAL BUSINESS CLIMATE

*"It's easier to set up a business in Latvia, takes less time, decisions are made much quicker, but you need to meet in person to get things right."*

*"In Latvia, decision-making always seems to be made by top management, delegated responsibility is very unusual."*



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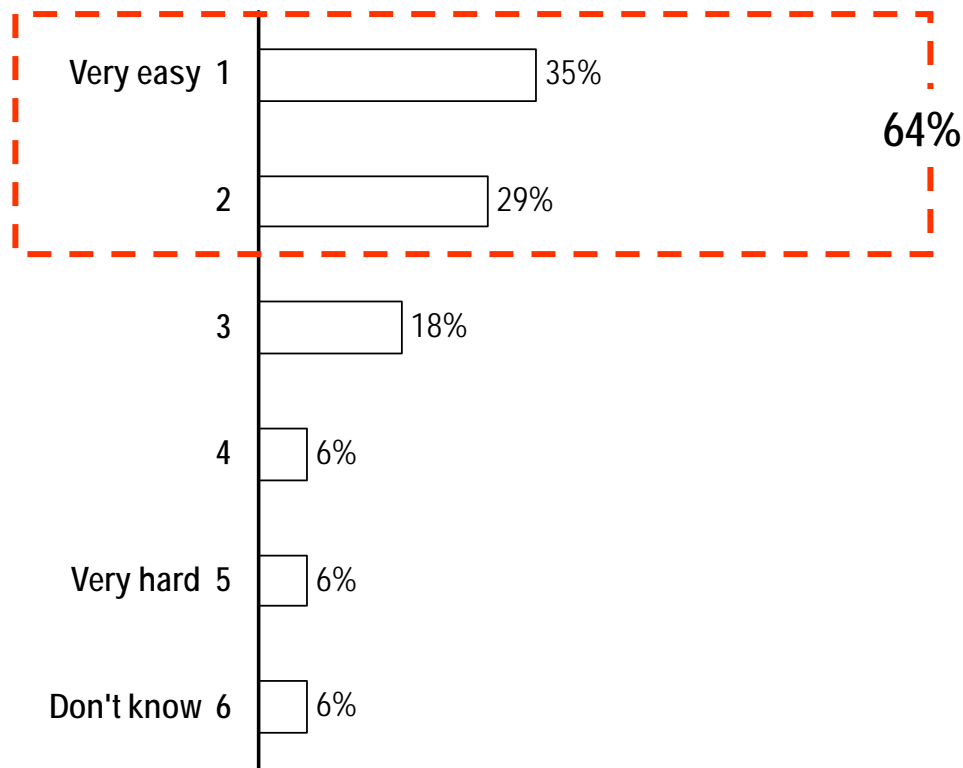


# ESTABLISH A COMPANY IS NOT COMPLICATED

## - Some even claim it to be easier than in Sweden

### How difficult was it to establish your company?

Percent



- Legislation is being made easier since Latvia became a EU member
- To establish a company were perceived as equally difficult among big and small companies

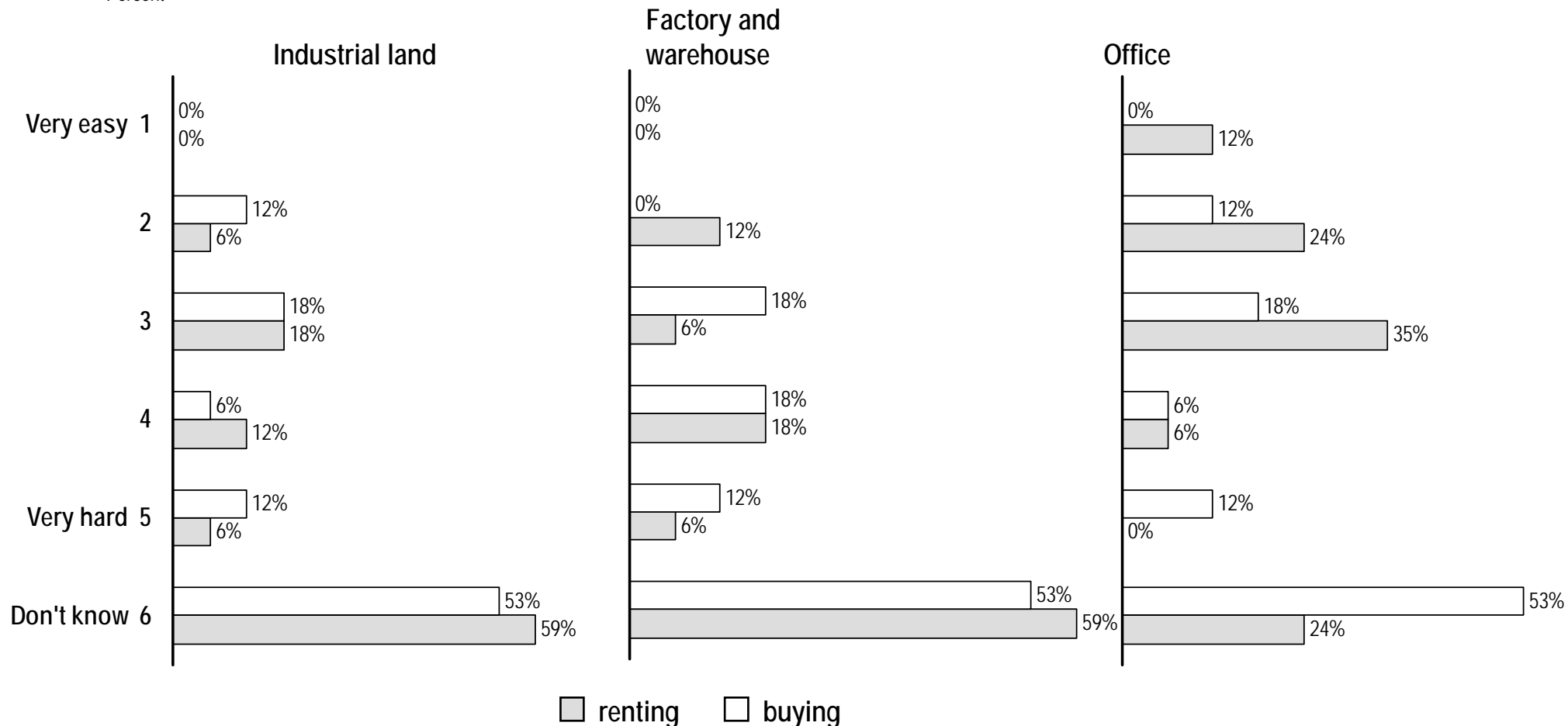


# IT DOESNT MATTER IF YOU RENT OR BUY

## -Though, knowlege about it is limited

What is your judgment on renting/buying the following objects?

Percent

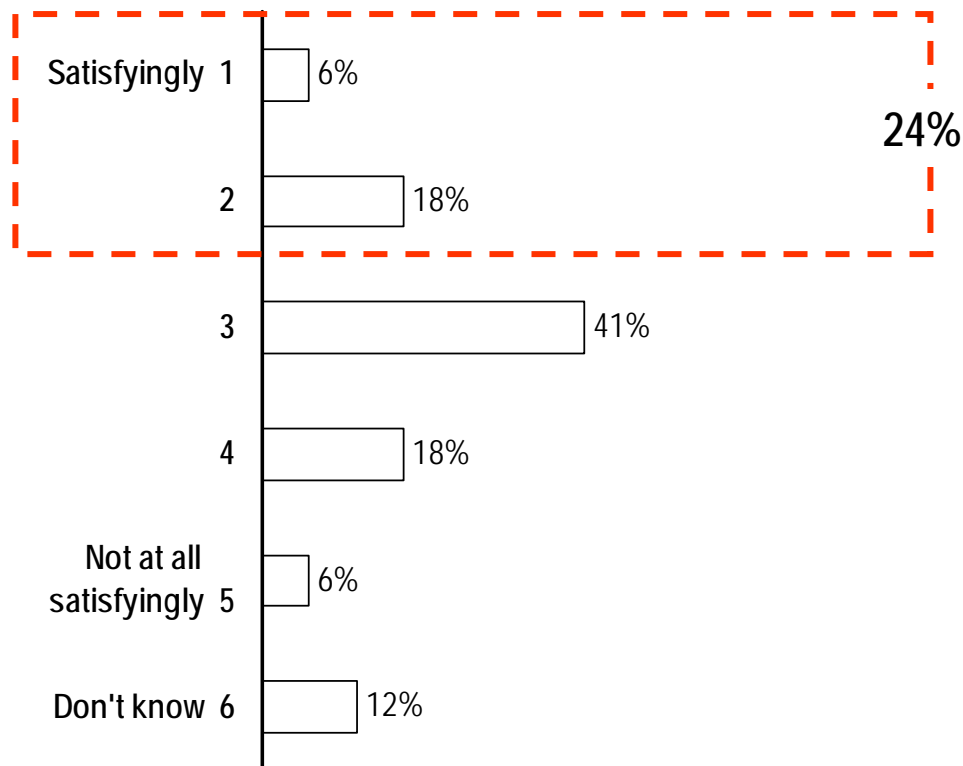




# CUSTOM PROCEDURES WORK NORMALLY, AS IN ANY OTHER EU COUNTRY

## How do you think the custom processes work?

Percent

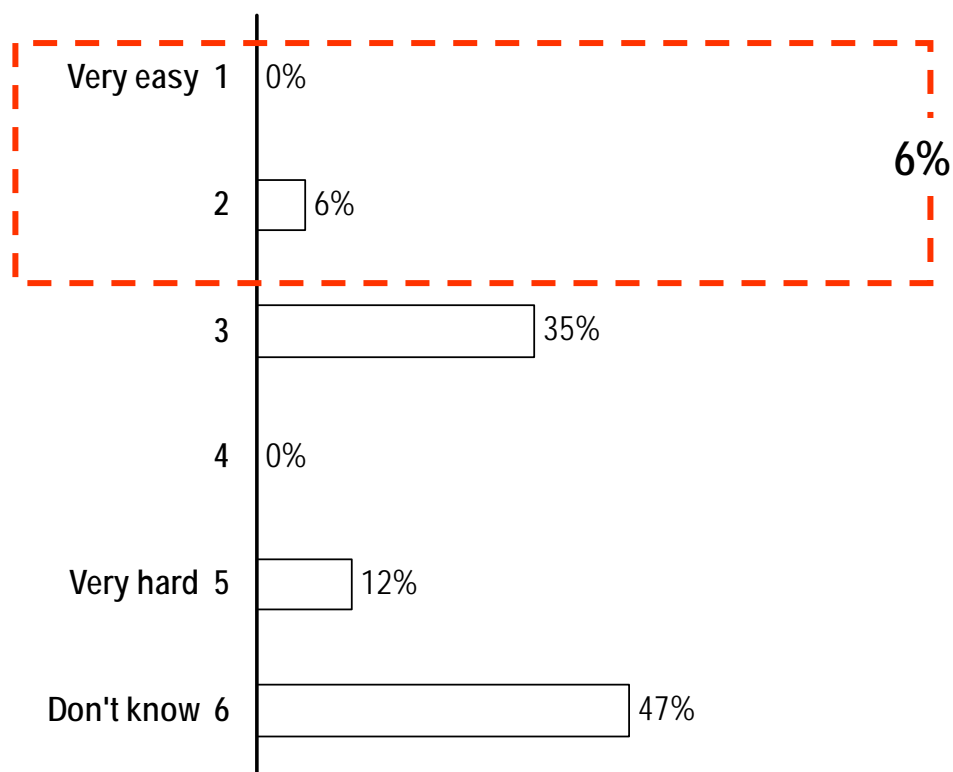




# CERTIFICATION PROCESS IS COMPLICATED AND HARD TO UNDERSTAND

How do you think the process of product certification is?

Percent



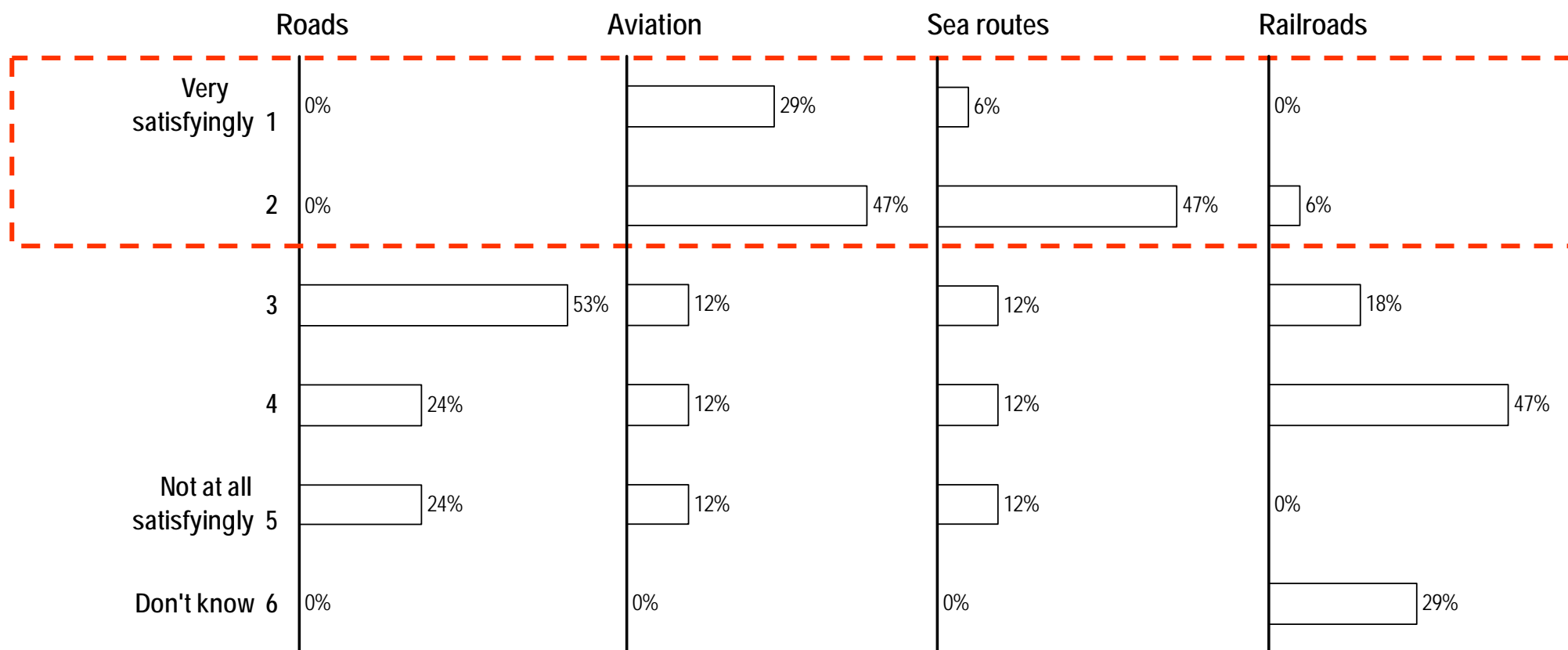
- Only half of the respondents knew about the the certification process

# AVIATION WORKS VERY WELL

- Roads need to be improved

How do you think the infrastructure works?

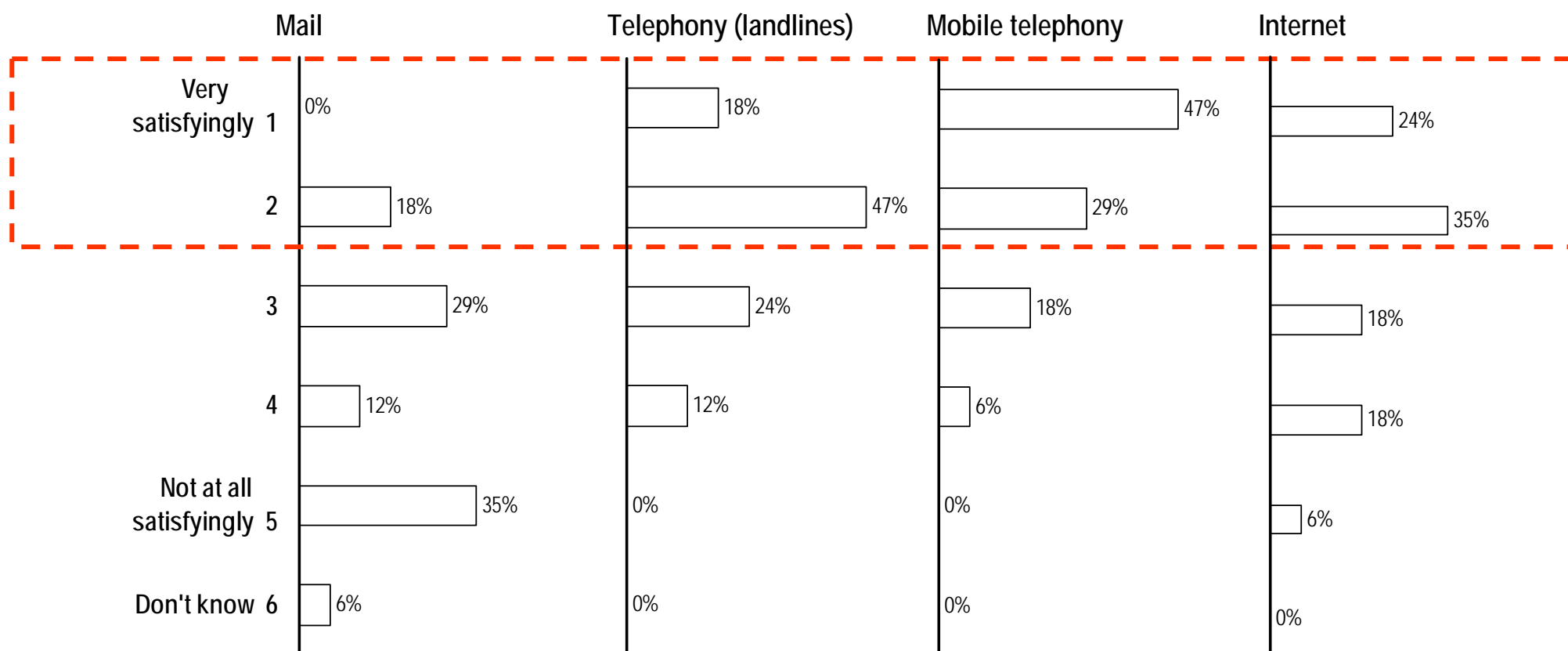
Percent



# THE INFRASTRUCTURE IS UP TO DATE

## How do you think the infrastructure works?

Percent

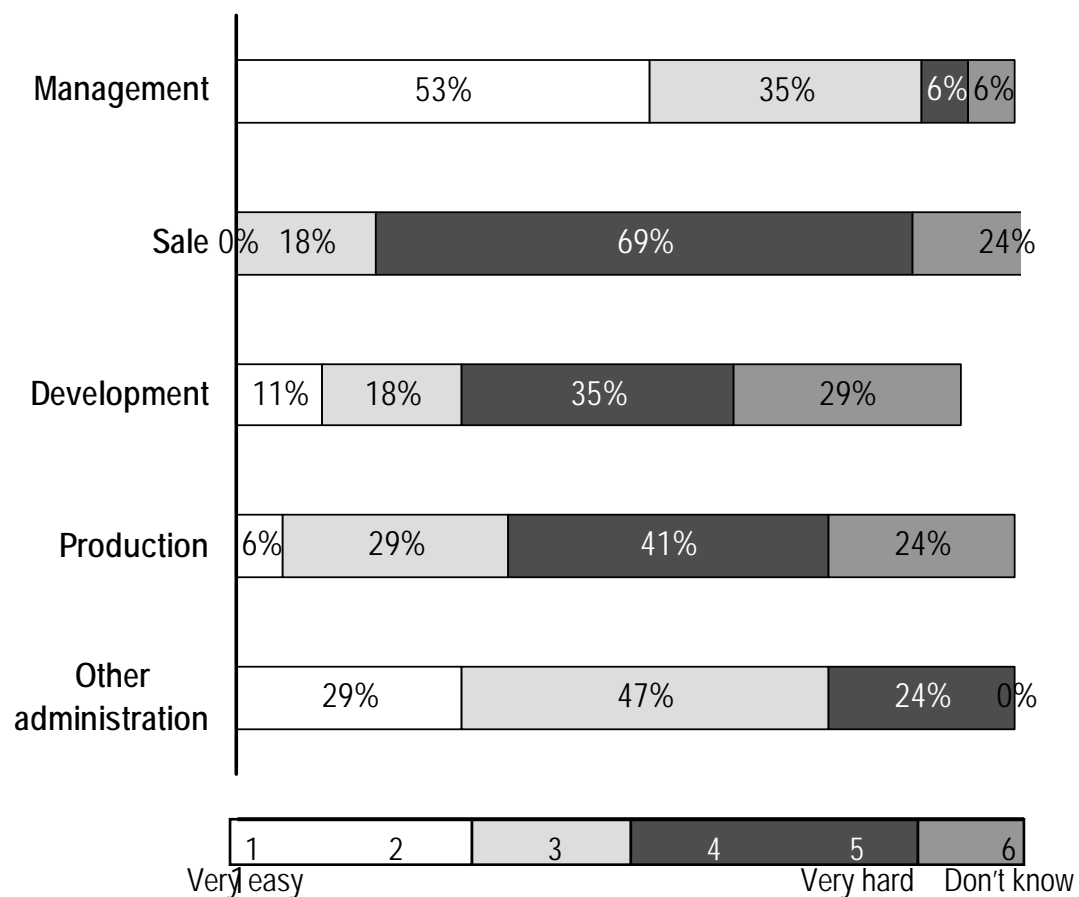


# SALES MANPOWER IS HARDEST TO FIND

## - Followed by Management

How do you think the availability of local manpower is?

Percent

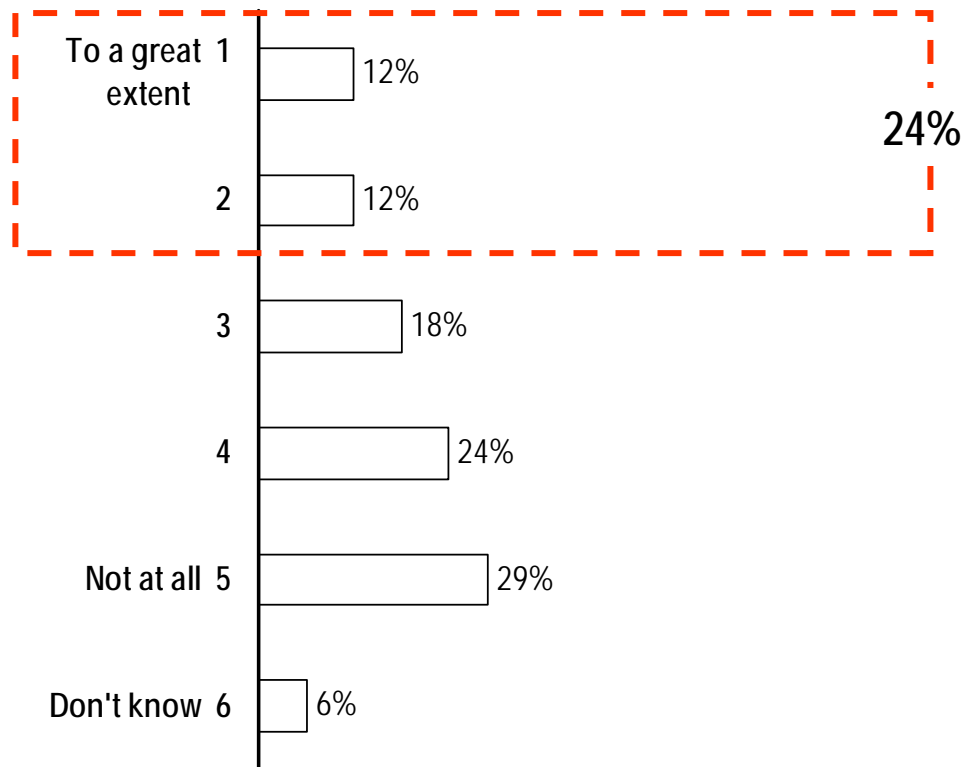




# SALARY LEVEL COMPARED TO PRODUCTIVITY

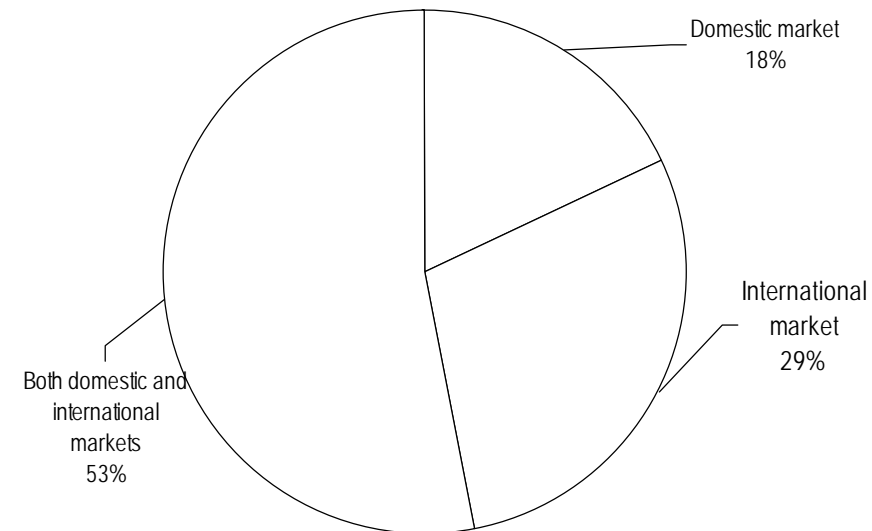
Is the salary level compared to the productivity a reason to move the production to Latvia?

Percent



What market does the production supply?

Percent





# EU ENLARGEMENT HAS POSITIVELY INFLUENCED MOST OF THE COMPANIES

*"EU is the big reason to the boom in our market. Exports/imports are much easier now, life is easier. The transparency is better."*



## QUOTES ABOUT ESTABLISHMENT

*"Use a Swedish key person – my colleagues thinks the same that locals can try to cheat and make benefits for them self."*

*"We practice they way that a Swedish person supervises and is kind of overall boss, but plant manager is a local person. It is better that he can communicate to all employees, authorities, service providers and there is a clear understanding"*



## QUOTES ABOUT OPERATIONS

*"When starting up in Latvia, find a good local manager who you can trust and be clear about tasks, dos and donts, and don't fool him yourself, I also believe you have to have a real DOER type at the start up. Then find a good lawyer that can help you when you need him so he is up to date about your history, specifics and can give efficient advice. And of course establish good working relationship with STC"*

*"In Sweden, management trusts employees more. Latvian culture is more money driven, thus also the management style has to be modified to meet this"*

*"The Latvian service standard is improving. Garbage collection, cleaning of the plant for example is better. Latvian post service I think has space for improvement"*



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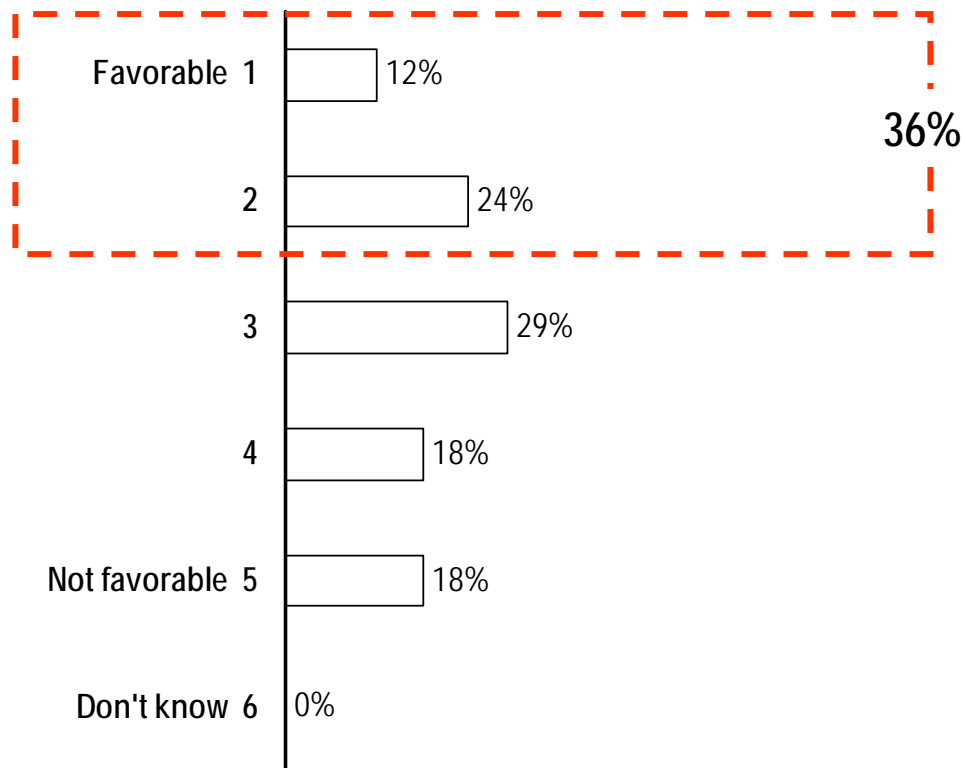


# LEGISLATION IS FAVORABLE

## - Getting easier to understand

Do you think that the country has a legislation that is favorable for your operation?

Percent



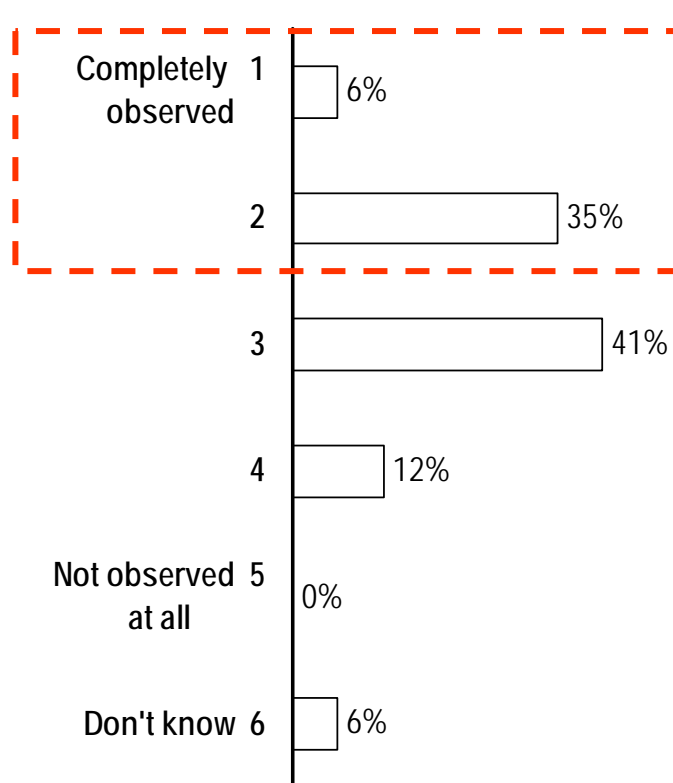
- Overall, the respondents found the legislation favourable



# LAW OF CONTRACTS AND GOVERNMENT INFLUENCE

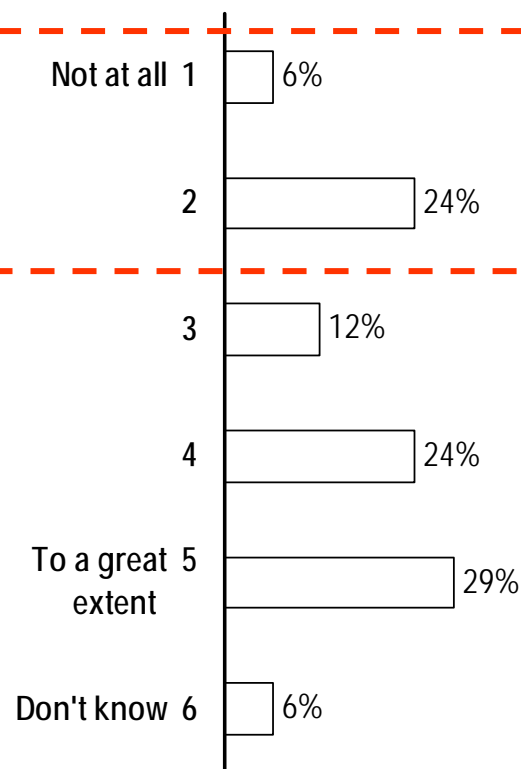
To what extent do you think the law of contracts is observed?

Percent



Do you think that the actions of the governments influence the operation?

Percent





## QUOTES ABOUT LEGISLATION

*"In Latvia contracts are mostly all written. But I notice change in this as well, for example recently some service jobs we have got done based on oral agreement. So this "all in writing" isn't really true anymore. As there are more and more service companies – more competition, more flexibility"*



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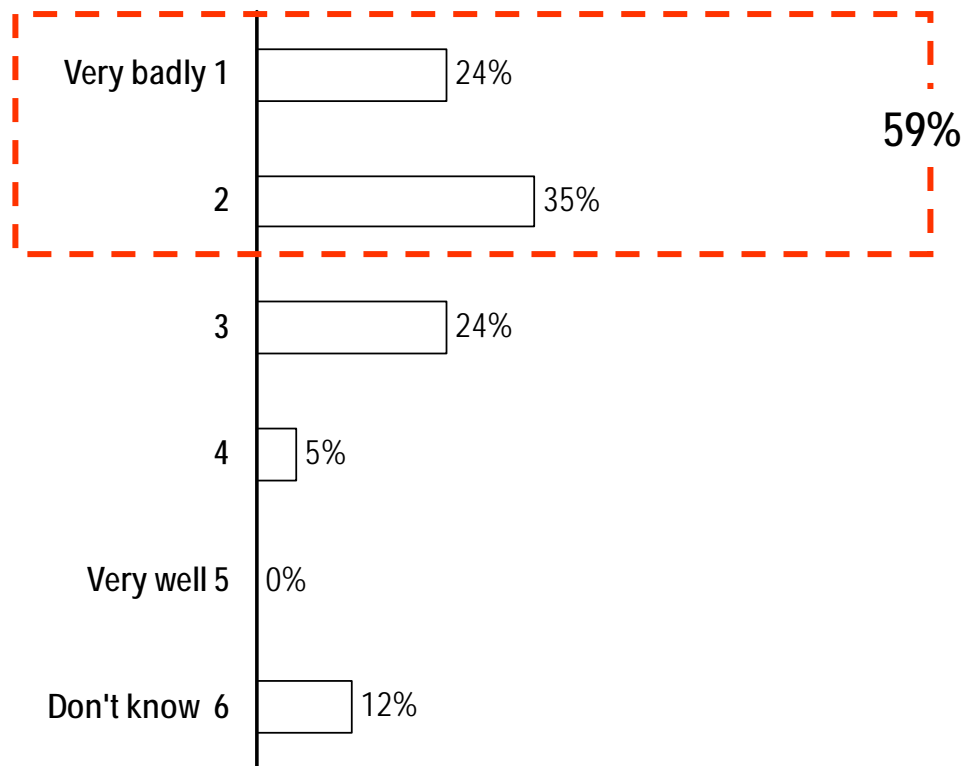


# VAT REFUNDING COULD BE BETTER

## - Many are complaining

### How do you think the refunding of VAT works?

Percent



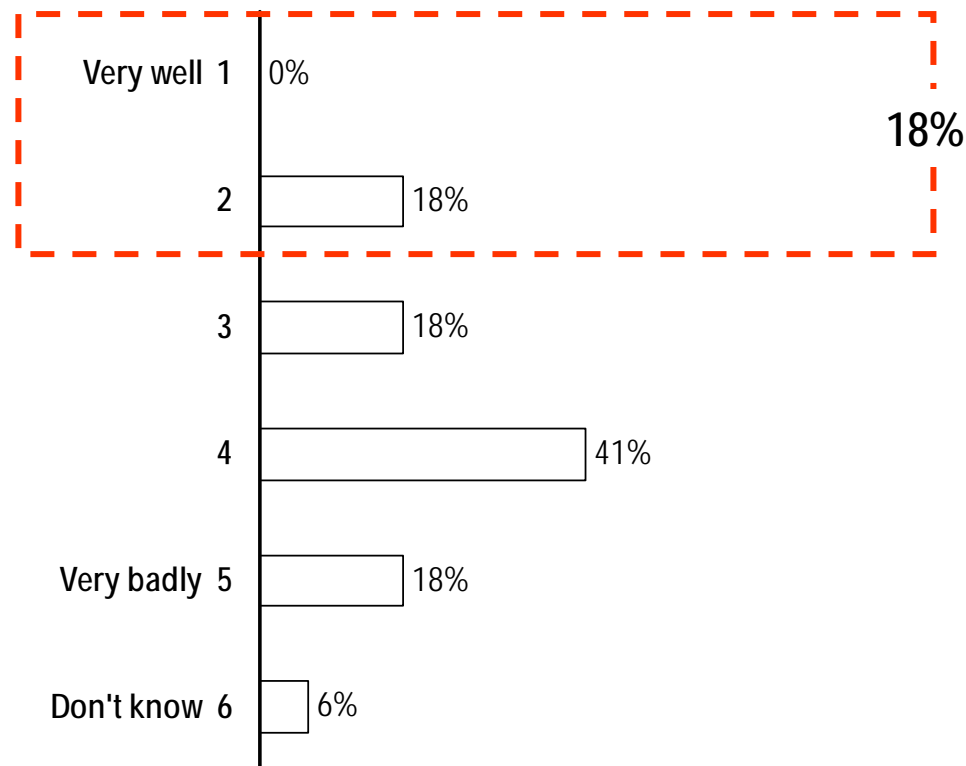
- The lion's share are not very pleased with the VAT refunding
- No significant differences were found regarding small and big companies



# PAYMENT TERMS ARE NOT IN TIME

## How do you think payment terms are followed?

Percent



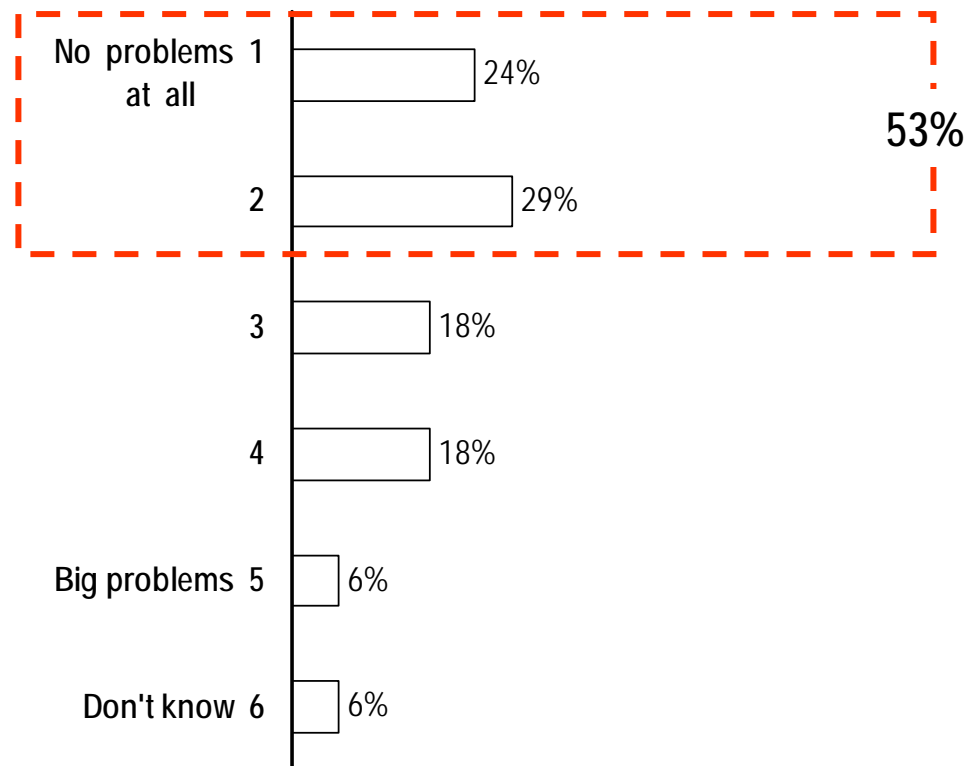
- Almost 60 % of the respondents are utterly dissatisfied with the punctuality of payments



## DIFFERENCES IN BOOKKEEPING

Do you think that the differences of Swedish bookkeeping and the bookkeeping of the country cause problems for the operation?

Percent



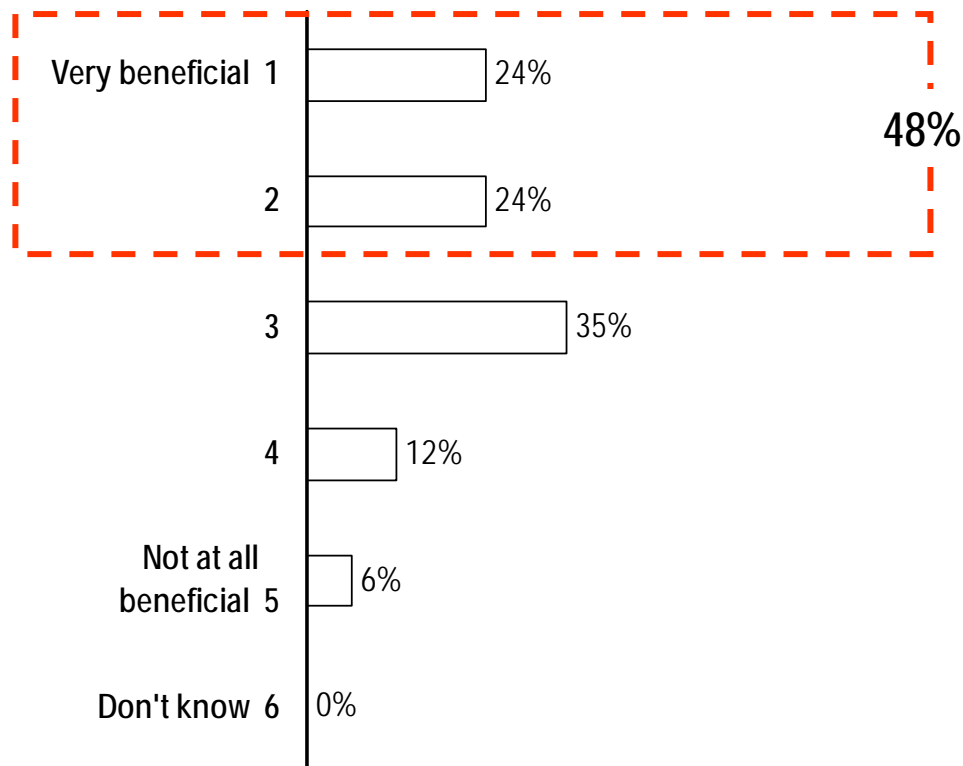
- Few companies experience big problems regarding bookkeeping in Latvia
- Small companies experienced somewhat more problems with bookkeeping than big corporations



# TAXATION SYSTEM IS ONE OF MAIN REASONS BEING HERE

## What do you think about the company taxation?

Percent



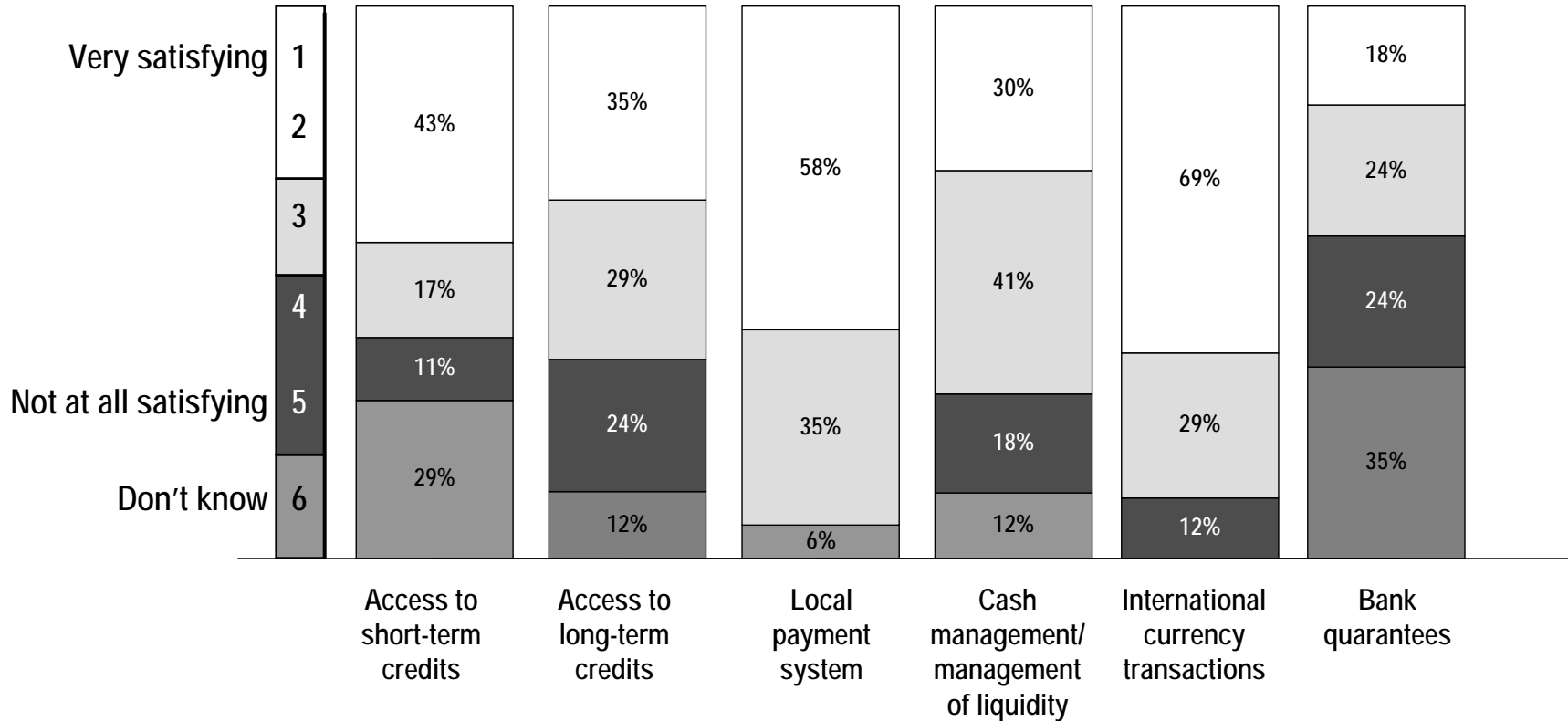
- Small companies found the taxation more beneficial



# BANK SYSTEM IS GOOD

## How do you think the bank system works?

Percent





## QUOTES ABOUT ECONOMY AND FINANCES

*"No major problems with payments. Small things like – we pay 2 times a month, which makes some suppliers happy because we pay ahead of time, but some not so happy that we are overdue, but that's the way our system is. I need to mention this - Latvian post office is slow, which means we get invoices by the time they sometimes have to be paid."*



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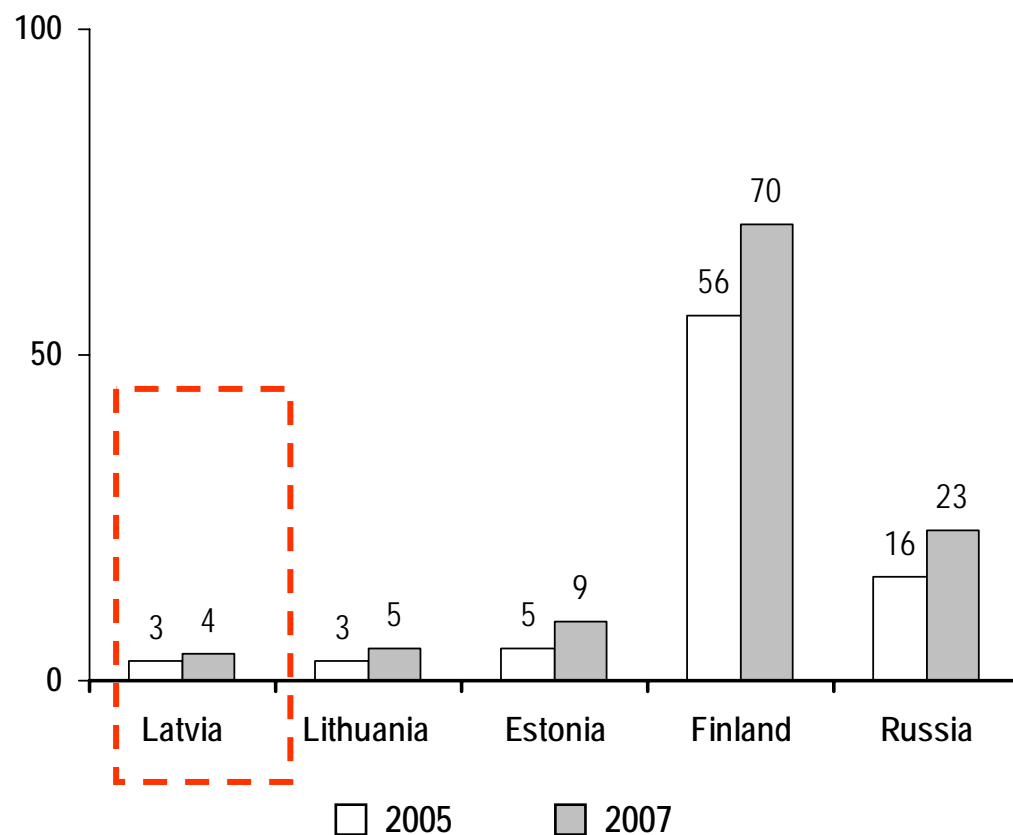
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# LATVIA'S SHARE IN SWEDISH EXPORT IS CONSTANTLY GROWING

## Export from Sweden by countries, 2005 and 2007

billion SEK



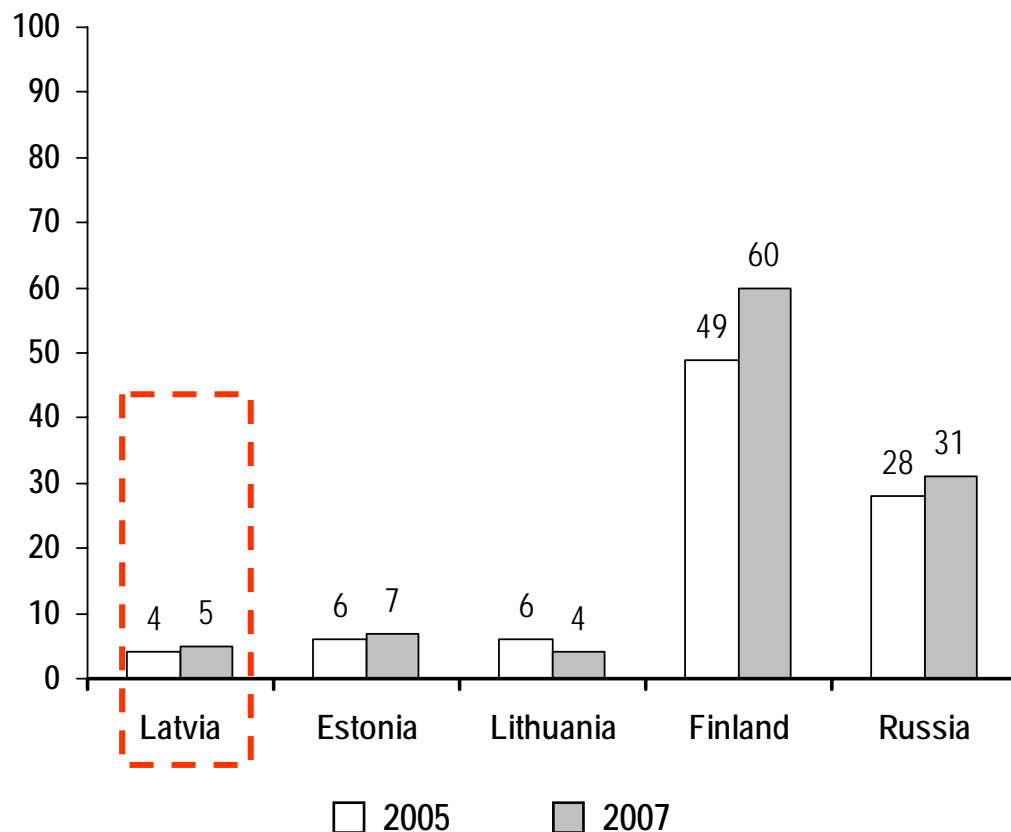
- Latvia's share of Swedish export has increased by 32 % in the last two years and does now account for 0,37 % of total exports



# LATVIA IS A RELATIVELY SMALL IMPORT COUNTRY FOR SWEDEN

## Import to Sweden by countries, 2005 and 2007

billion SEK



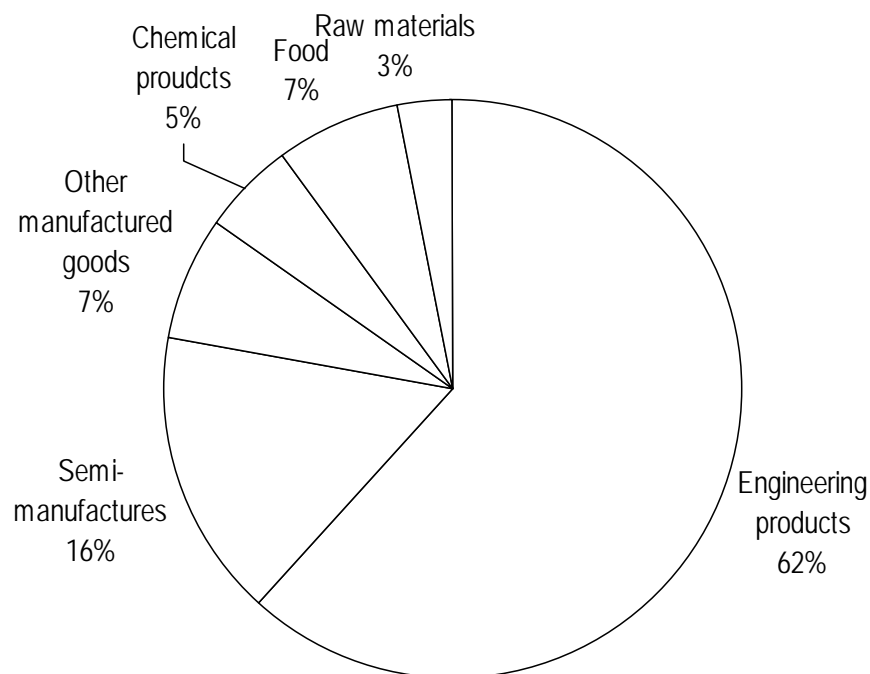
- Latvia's share of Swedish imports has increased by 18 % in the last two years and does now account for 0.51 % of total import

# RAW MATERIALS ARE THE MAIN IMPORTS TO SWEDEN

- Engineering products are the main Swedish export products to Latvia

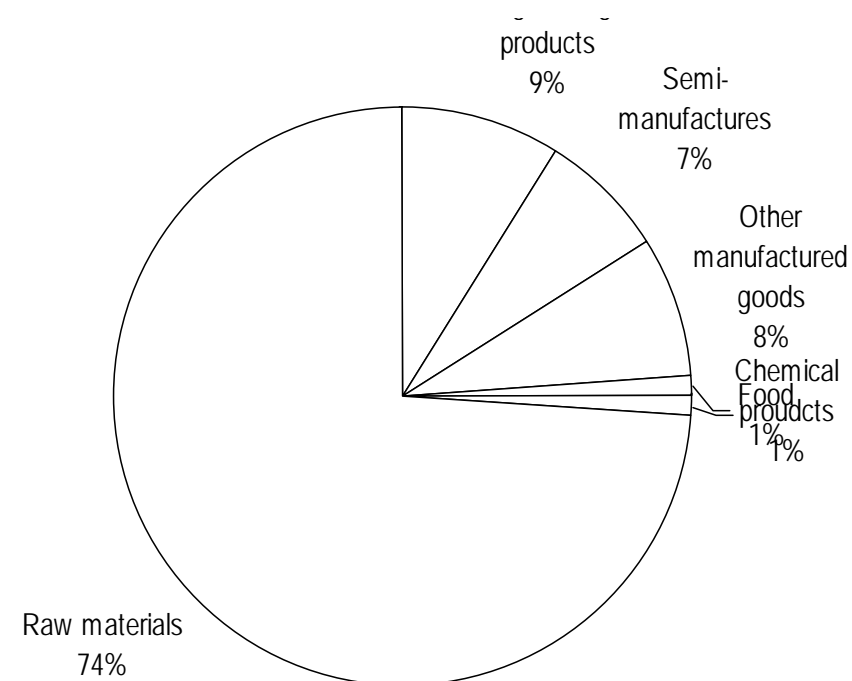
### Swedish export to Latvia by product category, 2007

Percent, 100% = 4000 M SEK



### Swedish import from Latvia by product category, 2007

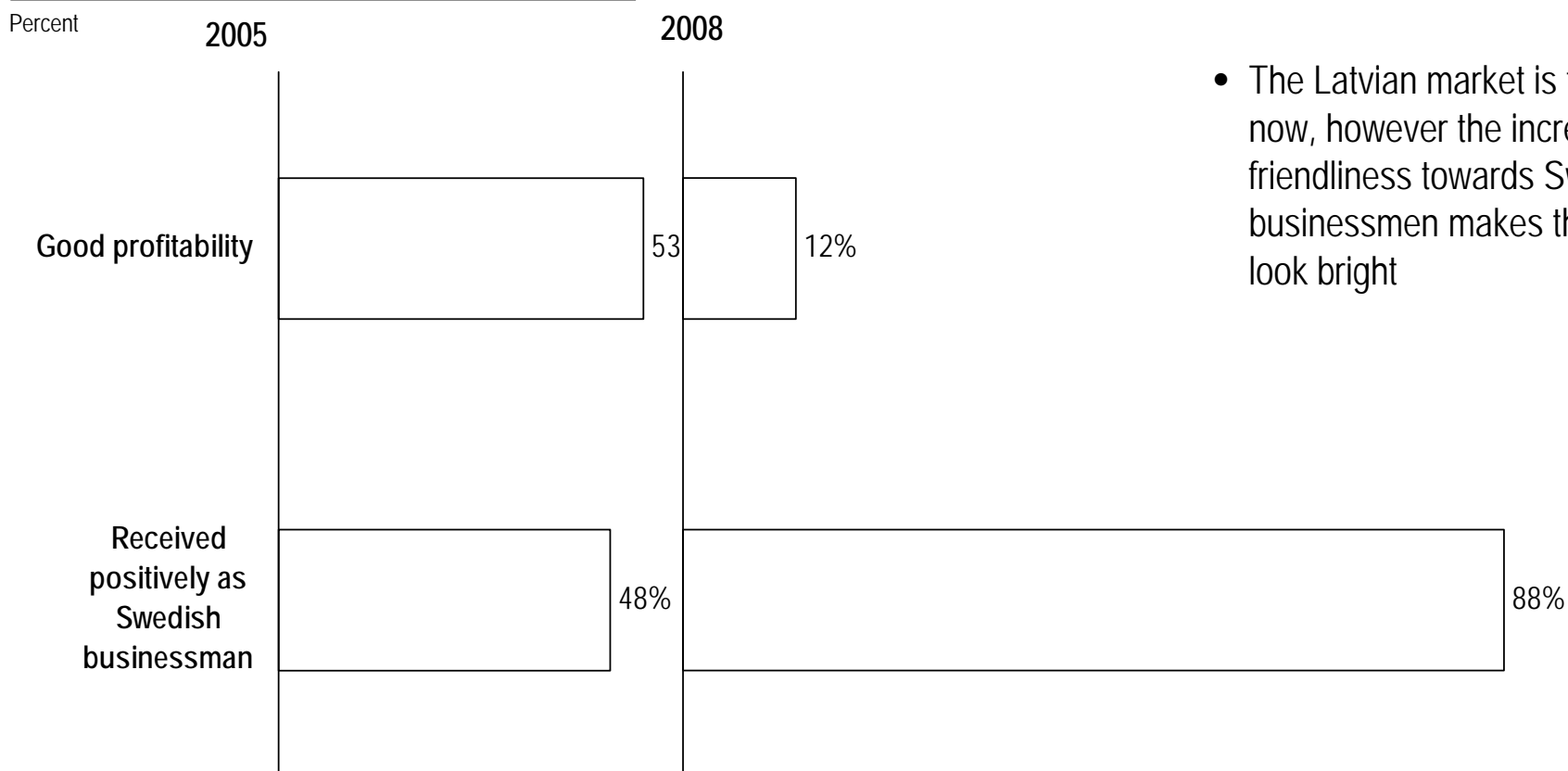
Percent, 100% = 5000 M SEK





# PROFITABILITY IS DECREASING... - ...BUT BENIGNITY IS NOT

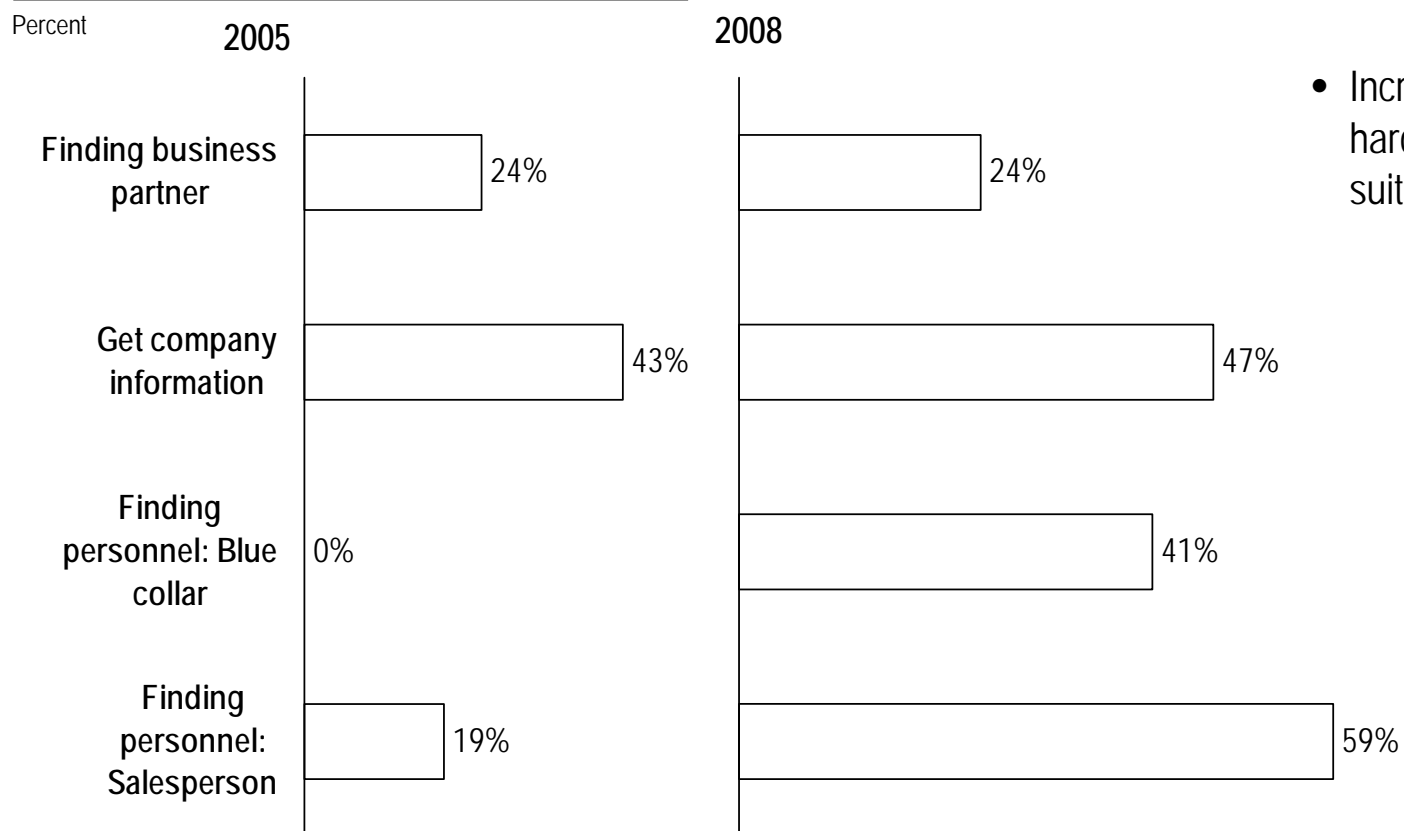
## Conclusions



- The Latvian market is tough right now, however the increased friendliness towards Swedish businessmen makes the future look bright

# FINDING PERSONNEL IS GETTING HARDER

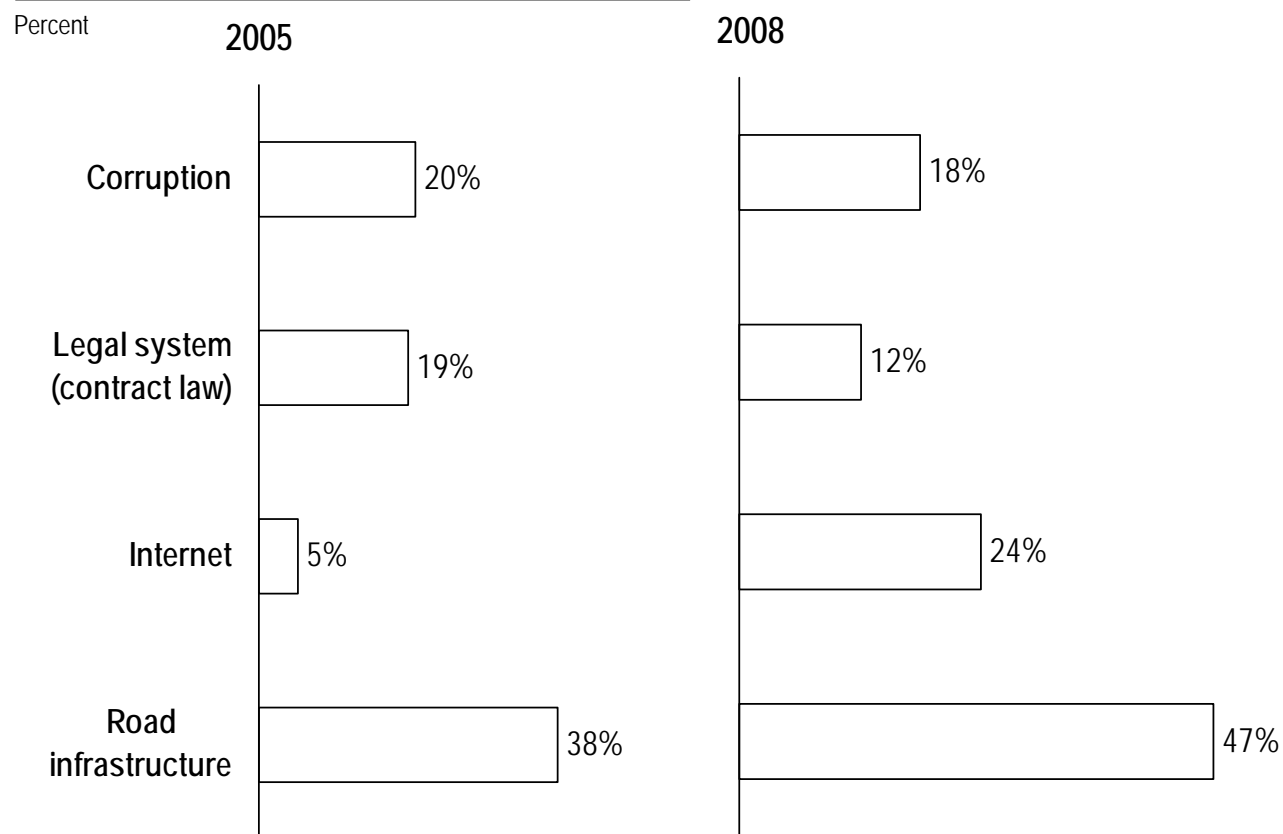
## Difficulties observed



- Increased Latvian salaries make it harder for companies to find suitable personnel

# LEGAL SYSTEM IS BETTER NOW

## Difficulties observed



- Today, it is easier to trust a business agreement than it was three years ago.
- Corruption is still a problem in Latvia

# THESE ARE TOUGH TIMES...

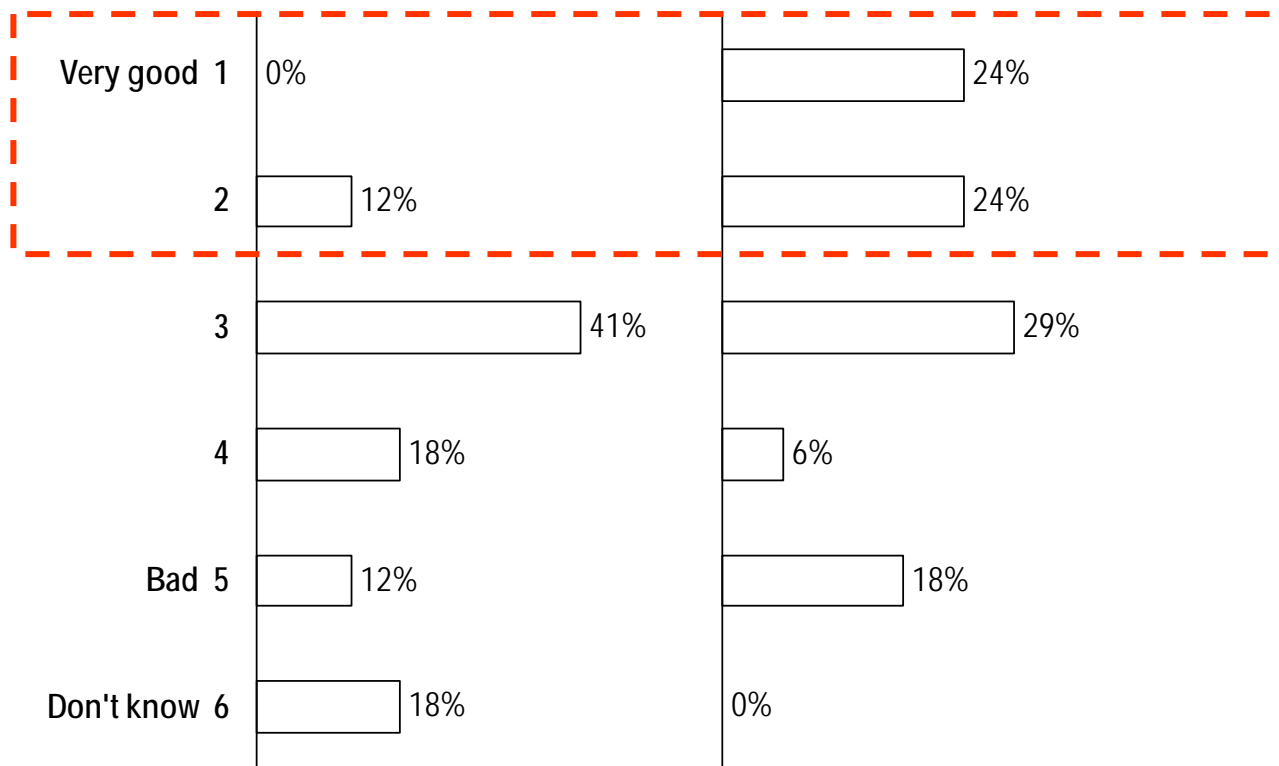
## ...But the market will probably improve

If possible, how do you estimate the profitability in comparison with other markets?

Percent

How do you estimate your company's future growth potential on this market?

Percent



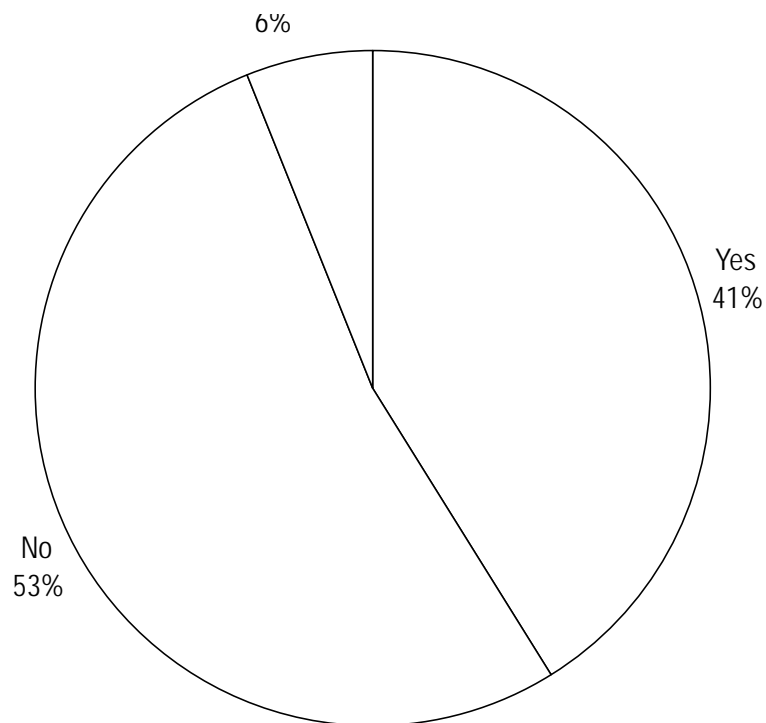
- The Latvian market is slow at the moment but Swedish companies assume that this phase will pass.
- Small companies see a higher growth potential than big companies
- Service companies see a higher growth potential on the Latvian market than the production oriented companies



## 41% OF COMPANIES PLAN TO EXPAND BUSINESS

Do you have plans to expand the business outside the larger cities/regions?

Percent



- Many are happy with their investments made in Latvia, hence they want to expand their business on the market
- Service companies have more plans to expand their business in Latvia



## QUOTES AND CONCLUSIONS ABOUT TRENDS AND FUTURE

*"Latvia is a small market, but they have great opportunities for those who seek other Eastern markets. The big mixture of Latvian and Russian identities in Latvia makes it easy to use Latvians when you want to establish a company in another eastern country "*

*"The relations with Russia will be better and better. Latvia is a natural transit country in the Baltic region."*