

Business Climate Survey Baltic States 2021



Embassy of Sweden



In partnership with



September 2021

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- Executive summary
- Business climate in the Baltic States: strengths and challenges
- Survey results
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Business Climate Survey Baltic States 2021

- The study has been conducted by the Baltic Consulting Team on behalf of the Embassies of Sweden in Riga, Tallinn and Vilnius in partnership with the law firm Glimstedt, Swedbank and Telia. Data gathering took place in May and the analysis was carried out in June and July 2021.
- 570 representatives of companies with Swedish capital, local companies with Swedish management, and other companies associated with Sweden in the Baltic States were approached in the survey.
- 128 individuals representing various sizes of companies and industries participated in the survey whereof 58 were from Estonia, 39 from Latvia and 31 from Lithuania. 44% of the respondents represented small companies with up to 9 employees, 18% with 10-49 employees, 29% with 50-249 employees, and 9% of companies with more than 1000 local employees.
- The survey was composed of quantitative and qualitative questions aiming to understand the current business climate as perceived by the Sweden related companies in the Baltic States.
- In order to understand the current state of businesses, a number of questions about internal factors such as the number of employees and the year of business was established were also included in the survey. The respondents were also asked to express their views about future investment plans and the impact of Covid on their business operations.



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Executive summary

- **Swedish investors generally find that the business climate in the Baltic States is good**, but that the situation has slightly worsened in all three countries compared to the results from 2018. Even though the overall differences in key aspects of the Baltic business climates are rather small, Estonia and Lithuania seem to have more similar conditions in common than Latvia.
- **Sweden has historically been a strong brand** in the Baltic States, and Swedish owned companies acknowledge the positive effect of its contribution to local business in the Baltics, especially in Lithuania.
- **Swedish companies in the Baltics are fast to adapt.** Despite the pandemic, the companies in general managed to adapt their operations to new circumstances and turned their financial results in 2020 into profitable or break-even results, especially in Latvia, but positive economic trends in Estonia and Lithuania.
- **Swedish entrepreneurs have strong market confidence.** They are optimistic about the future, especially in Latvia where most respondents forecast turnover growth, but also more than every second company is expected to grow in Estonia and Lithuania in the coming year. Planned increases in investments in the coming year are also a sign of market confidence in the Baltic States. At the same time, cost efficiency is a key driver in the attempt to remain competitive in the Baltic market.
- **Infrastructure.** An important aspect of the business climate concerns physical infrastructure. Roads, railroads, harbors and airports have, according to the respondents, improved during the past three years in all three countries, but especially in Estonia and Lithuania. It may partly be due to the recent pandemic with various restrictions on travelling which has resulted in slightly lower expectations, but at the same time all three countries have made visible investments in the local infrastructure which gained positive attention by companies.

Executive summary

- **Market conditions**, apart from sustainability aspects, meet the expectations of the Swedish companies in all three Baltic States. Estonia scores highest when it comes to digitalization and corporate taxation. The Lithuanian work culture and business mindset, on the other hand, corresponds to Swedish expectations slightly better than Estonian and Latvian. Latvia seems to struggle with license and permit approvals, which from the Swedish perspective is the only area below expectations.
- **Sustainability**. In terms of sustainability practices there is some room for improvements in all three Baltic States. Although major CSR related developments have taken place during the past 10 years, the survey respondents claimed that it is still not that important for Baltic customers that their suppliers are actively engaged in Agenda 2030 and CSR. According to the Swedish companies, neither environmental nor social aspects have a major effect on purchasing decisions today in their respective industries. Even though sustainability awareness among Baltic companies seemed to be rather limited, almost half of the Baltic State respondents were slightly more optimistic and could see the potential in green public investments, indicating that sustainability practices are gaining ground.
- **Corruption**. According to the survey, corruption seems still to be a challenge in the Baltic States, especially in Lithuania where every 4th respondent said it affected their business much or very much. The actual situation with corruption may, however, not be as bad as the numbers indicate. Based on the comments from the interviewees, companies have today become less tolerant of corrupt business practices than a few years ago and even minor non-transparent practices attract attention.



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Business climate in Estonia: Strengths and challenges

Strengths

- Business climate is perceived good or very good by 64% of the respondents, but compared to 2018 has dropped by 21 percentage points.
- Swedish companies seem to have good market confidence as 65% of respondents forecast turnover growth and 59% plan to increase their investments in Estonia in the coming 12 months.
- Estonia stands out from its Baltic neighbors for its greater digitalization and more beneficial corporate taxation system from the point of view of the Swedish companies.
- Low corruption level and good logistics towards the Nordic countries.
- Swedish brand contributes and has a positive effect on the local business according to 48% of respondents.

Challenges

- The main challenge in Estonian business culture seems to be sustainability awareness related.
- It seems not to be so important for Estonian clients that their partners are engaged in Agenda 2030 and CSR (41%). Only 19% of the respondents agree that environmental aspects affect purchasing decisions, social aspects are slightly more important (21%).

Business climate in Latvia: Strengths and challenges

Strengths

- Good geographical location.
- Ability to adapt. Swedish companies in Latvia did economically well even during the pandemic situation and are optimistic about the future turnover growth (75%).
- Swedish brand supports the local business in Latvia (40%).
- Infrastructure in Latvia compared to 2018 has improved and today meets Swedish expectations.
- Swedish companies see potential in green public procurements and in the European Green Deal (52%).

Challenges

- Latvia's business climate is according to the Swedish companies not as good as its Baltic neighbors, and compared to 2018 it has dropped the most, from 74% to 39% who considered the business culture good or very good.
- Various permits and approval procedures do not correspond to the Swedish expectations.
- Low awareness of sustainability practices, even though environmental aspects of purchasing decisions are slightly more important than in Estonia and Lithuania. Nevertheless, it is still rather low, ie. 25% finding it important or very important.
- Although 36% of the respondents say that corruption affected their businesses very little and 36% little, still 13% said it affected them very much, this topic is worth attention and further improvement.

Business climate in Lithuania: Strengths and challenges

Strengths

- Swedish companies appreciate the business climate in Lithuania, with 62% found it good or very good even though it had dropped by 14 percentage points compared to 2018.
- 62% of Swedish companies demonstrated profitable results in 2020 and 64% forecast turnover growth in the coming year.
- The Swedish brand shows strong support for local business (56%).
- Infrastructure has improved compared to 2018 and satisfies Swedish expectations.
- Lithuanian work culture along with its business mindset are attractive for Swedish companies.

Challenges

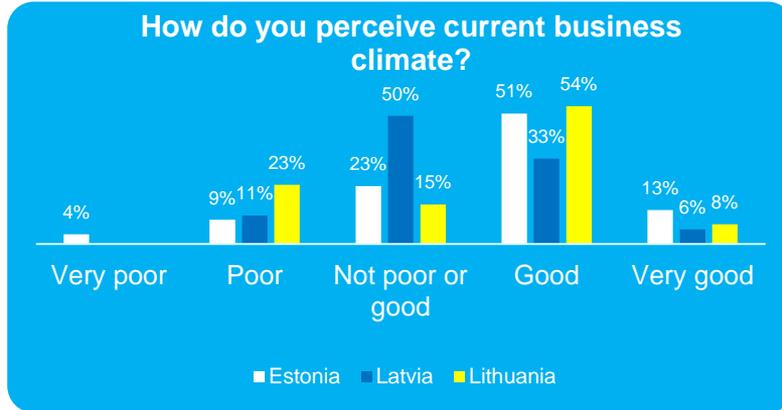
- Corruption is a challenge in Lithuania, 25% of respondents in Lithuania commented that their business was either much or very much affected in Lithuania.
- Sustainability in general is also a challenge. Respondents say it is not that important for Lithuanian companies that their suppliers are actively engaged in Agenda 2030 and CSR (59%).
- Environmental and social issues have not yet had so much effect on purchasing decisions, with environmental issues regarded as important for 24% and social angles for 31%.



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Business climate in the Baltics is good



- Respondents consider the Baltic business climate rather good, with more than half of them satisfied or finding it attractive.
- Estonia seems to have the most attractive business climate in the Baltic States. On a scale from 1 (very poor) to 5 (very good), Estonia scored highest with an average value of 3.6 followed by Lithuania 3.5 and Latvia 3.3.

Good level of knowledge of population, level of digitalization and Estonian preference in Nordic / Swedish business relationships.

Comment from Estonia

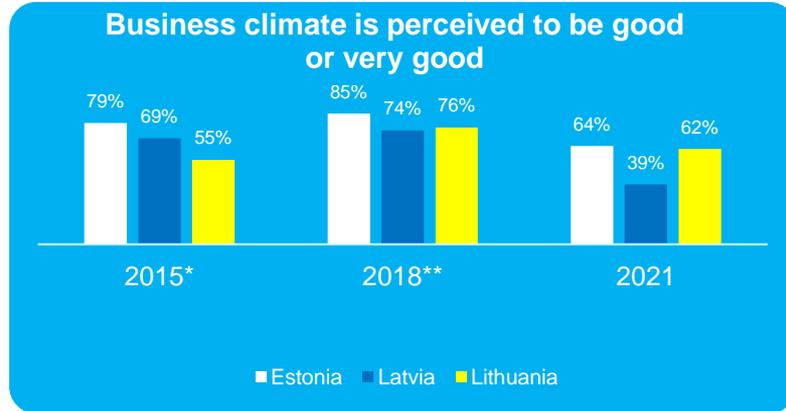
Good location for production of products for Nordic and Baltic market. Well-educated young people who want to work for international companies.

Comment from Latvia

Spirit, drive, energy and a lot of well-educated people.

Comment from Lithuania

However, business climate in the Baltics has not improved in the past three years



- The business climate in the Baltic States from a Swedish perspective is good, even though, according to respondents, it has worsened compared to the previous study in 2018.
- The decline in positive opinion is most pronounced in Latvia, with the proportion of those considering the local business climate good or very good declining from 74% in 2018 to 39% in 2021.

There should be more incentives for businesses to invest in green-tech such as solar energy and EVs. Faster decision making to approve new investments, construction. Secure healthy invest support schemes take very long time to receive approvals.

Comment from Estonia

More transparent and clear decisions (especially in the pandemic), seeking businesses involvement in driving economy, easier cash desk system approval process, incentives for business to go green and invest into sustainable solutions.

Comment from Latvia

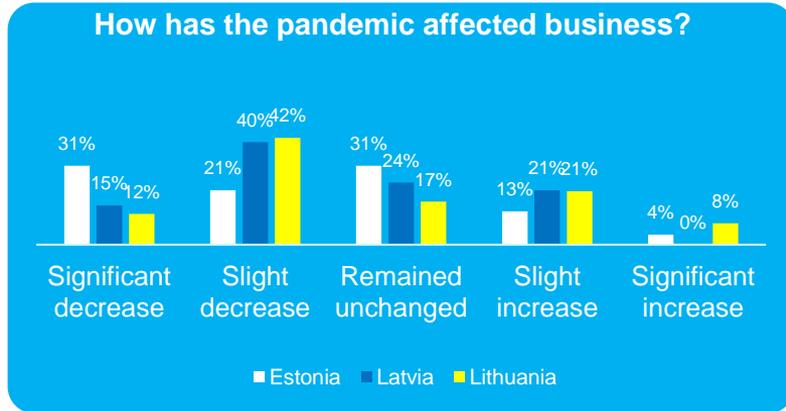
Lithuania could improve its branding in Sweden significantly. I feel sorry that there is so much bad publicity in the Swedish media about very well-organized criminal gangs being active in Sweden that are from Lithuania.

Comment from Lithuania

* Data from Business Climate Survey 2015

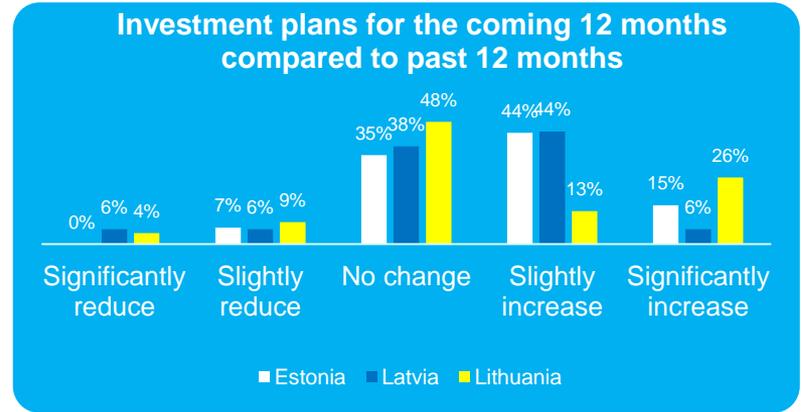
** Data from Business Climate Survey 2018

Swedish companies did well despite the pandemic



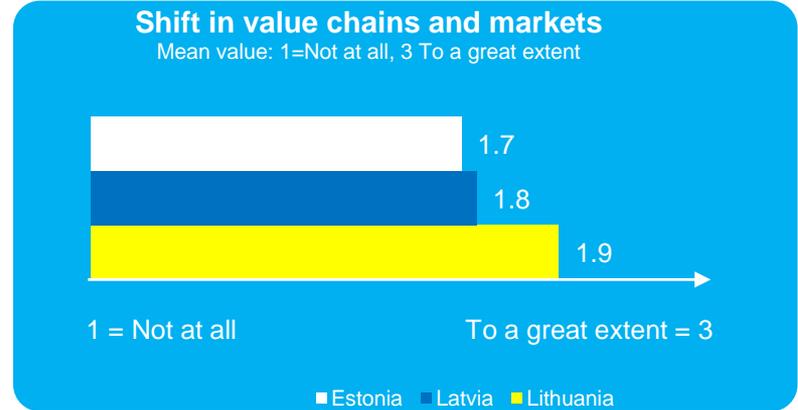
- The pandemic had an effect on the Swedish businesses in the Baltic States. On the other hand, almost one in three companies in Lithuania managed to increase their turnover.
- On a scale from 1 (business decreased significantly) to 5 (business increased significantly), Lithuania demonstrated the highest score with an average value of 2.7 followed by Latvia 2.5 and Estonia 2.4.
- According to the respondents, a majority of the Swedish companies in the Baltic States demonstrated good financial results in 2020. Fewer companies in Latvia declared negative results in 2020 (6%) than their Baltic neighbours - every 3rd respondent in Estonia and every 4th in Lithuania declared financial loss for 2020.
- On a scale from 1 (loss) to 3 (profitable), Latvia demonstrated an average value 2.5 followed by Lithuania 2.4 and Estonia 2.3.

Swedish companies are optimistic about the future



- Swedish companies in the Baltic States are optimistic about the future economic outlook. Respondents in Latvia are most optimistic about the turnover growth within the coming 12 months (74%). In contrast, every 5th respondent in Estonia forecast a decline.
- On a scale from 1 (significant decrease) to 5 (significant increase), Latvia and Lithuania demonstrated the highest score with an average value of 3.8 followed by Estonia 3.6.
- Swedish companies in the Estonia and Latvia plan to increase their investments during the coming 12 months
- On a scale from 1 (significantly reduced) to 5 (significantly increased), Swedish companies in Estonia demonstrated the highest score with an average value of 3.7, in Lithuania 3.5 and Latvia 3.4.

Shift in focus to value chains and markets closer to Sweden



- Majority of the respondents in the Baltic states have experienced a shift in focus to value chains and markets closer to Sweden.

Well-developed infrastructure which complements to our value chain in other countries of operation.

Comment from Latvia

Geographical location, values, people, eagerness to be innovative and need for high-end products.

Comment from Lithuania

Swedish brand is important in the Baltics

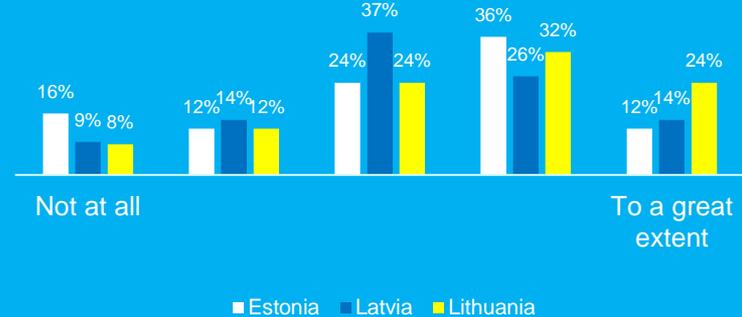
How are you perceived as a representative of a Swedish/Nordic company?*



92% EST
69% LAT
67% LIT

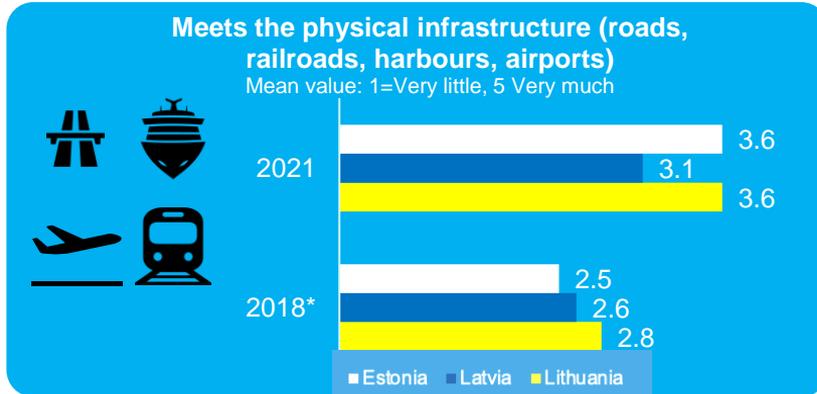
...of the respondents think that as a representative of a Swedish company they are perceived well or very well

Swedish brand contributes to local business



- In 2018 companies with Swedish background was very positively perceived. It provided good prerequisites for doing business in the Baltic States and being seen as representative of a Swedish company was very positively perceived.
- In 2021 Swedish brand had a major affect on local business in the Baltic States, especially in Lithuania with an average value of 3.5 on a scale from 1(not at all) to 5 (to a great extent) followed by Latvia on 3.2 and Estonia on 3.2.
- 16% of the respondents among Swedish companies in Estonia did not see any value in promoting themselves as Swedish while in Latvia and Lithuania only 9% and 8% respectively shared the same opinion.

Physical infrastructure has improved and fills Swedish expectations



- Physical infrastructure in the Baltic States has undergone major improvements compared to 2018 according to the respondents in all the three Baltic countries.
- The Baltic infrastructure meets the expectations of Swedish companies. Estonia and Lithuania are fulfilling Swedish expectations for infrastructure slightly better i.e. 3.6 on a scale from 1 (very little) to 5 (very much) compared to 3.1 in Latvia. According to the respondents, the major improvements during the three years have taken place in Estonia.

Good IT infrastructure. Good communication opportunities. Normally flights and boat traffic work well, even though it is a total disaster right now.

Comment from Estonia

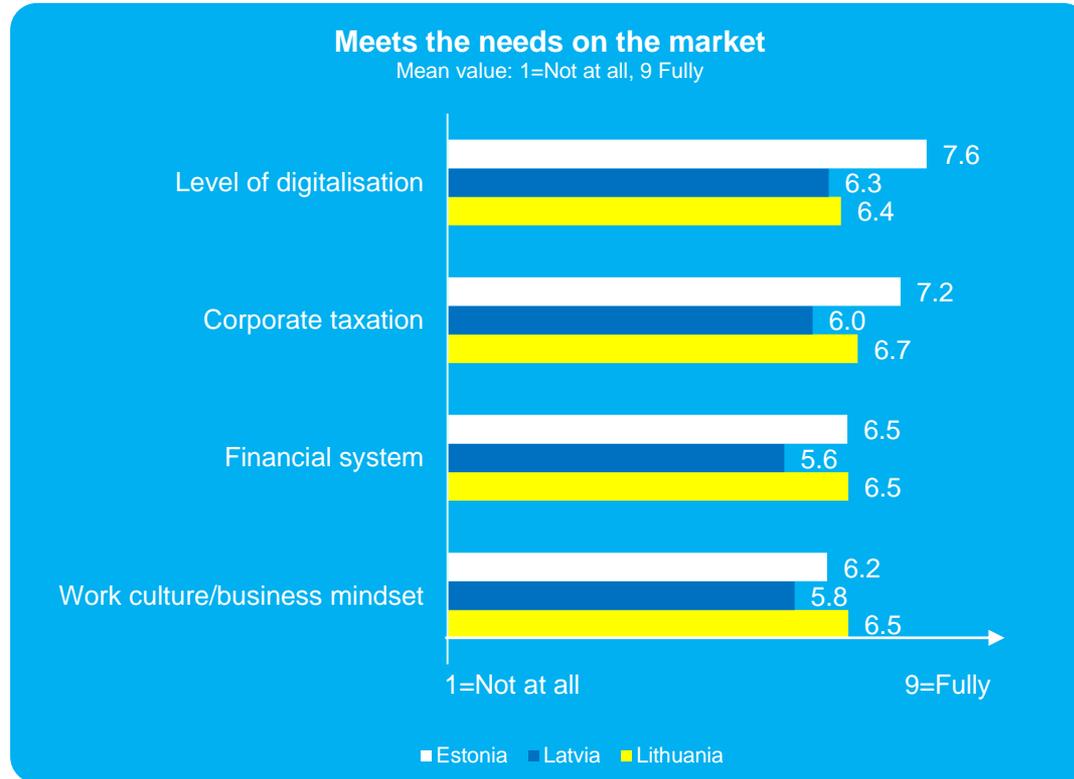
Well developed infrastructure which complements to our value chain in other countries of operation.

Comment from Latvia

Nice people, but Lithuania needs a ferry-line between Klaipeda and Karlskrona in order to increase its business attraction. Lithuania and Sweden need better infrastructure to be able to interact!

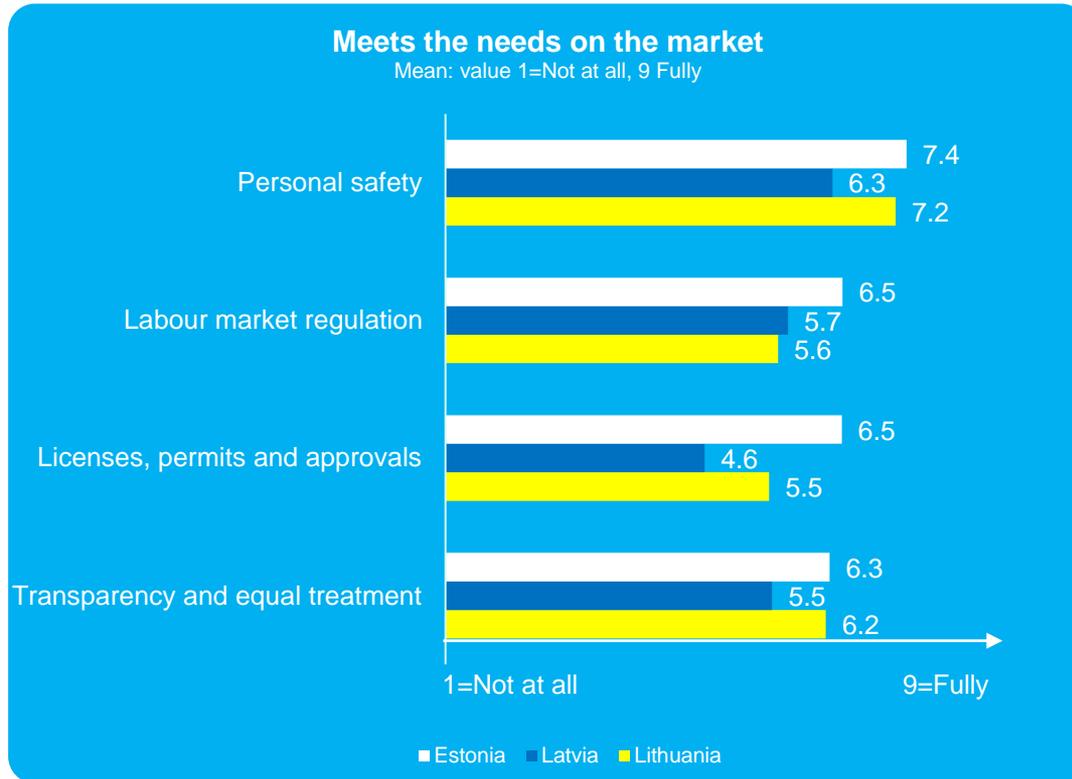
Comment from Lithuania

Estonia scores highest within level of digitalization, Lithuania with its work culture and business mindset



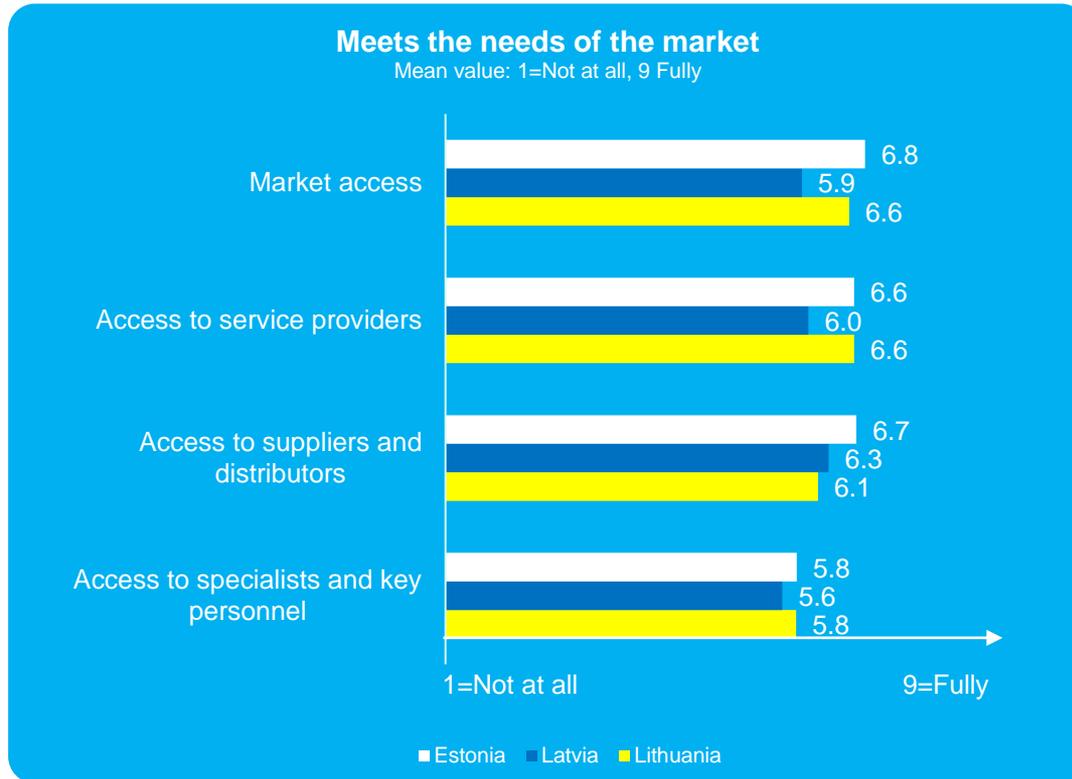
- High level of digitalisation is characterizing Baltic business environments, especially in Estonia – 7.6 on a scale from 1 (not at all) to 9 (fully).
- Also, corporate taxation is satisfying expectations of Swedish companies in the Baltic States. It meets the needs the most in Estonia, but also in Lithuania and Latvia companies are satisfied with the corporate taxation system.
- Even though financial systems in the Baltics States are rather similar, Swedish companies in Estonia and Lithuania are more satisfied than respondents in Latvia.
- Lithuanian companies are the best when it comes to Swedish expectations on work culture and business mindset.

Work with license and permit approvals is less satisfying in Latvia



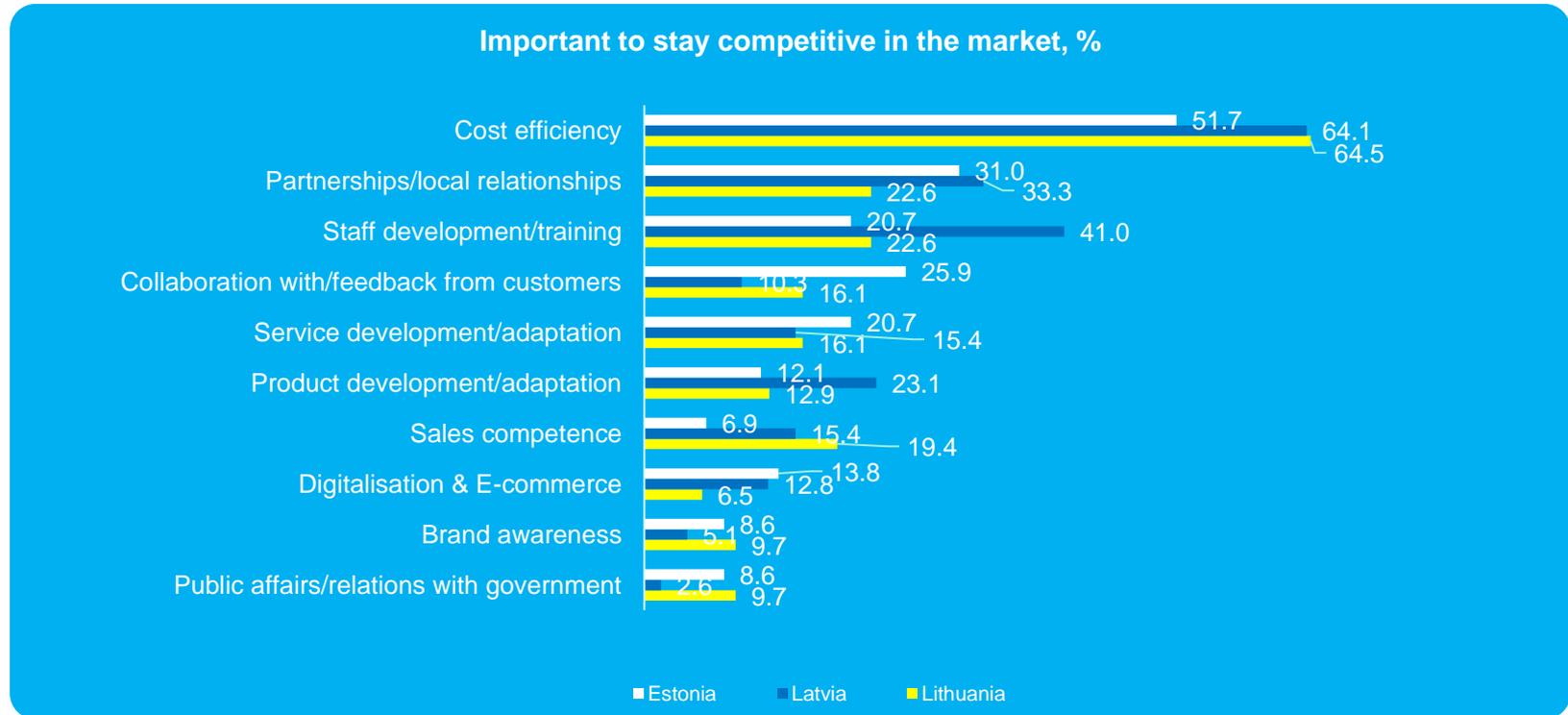
- Personal safety satisfies Swedish expectations in the Baltic countries, especially in Estonia and Lithuania and slightly less in Latvia.
- Labour market regulations in the Baltic States function best in Estonia, followed by Latvia and Lithuania.
- Lowest degree of satisfaction concerns work with licenses, permits and approvals in Latvia, where it doesn't meet the Swedish expectations, while in Estonia and Lithuania companies are quite satisfied.
- Sustainability in terms of transparency and equal treatment is best developed in Estonia and Lithuania.

Access to key personnel is more difficult than finding a collaboration partner



- Business environment in general seems to satisfy Swedish needs in the Baltic States.
- Access to the market, i.e. open business environment scored highest in Estonia.
- Based on the input from respondents, in it is easier to find service providers in Estonia and Lithuania than in Latvia.
- Suppliers and distributors are slightly less accessible in Lithuania than in Estonia and Latvia.
- Access to specialist and key personnel is more difficult than finding a collaboration partner.

Cost efficiency is the key to remain competitive



Corruption still exists

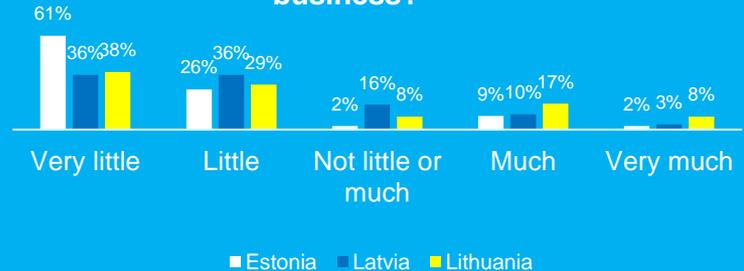
Have you experienced corruption while doing business, offered bribes or used other forms of corruption?*

-NO!

83% EST
74% LAT
60% LIT

...have not experienced any corruption or been offered bribes

To what extent do you perceive that corruption in the country affects your business?

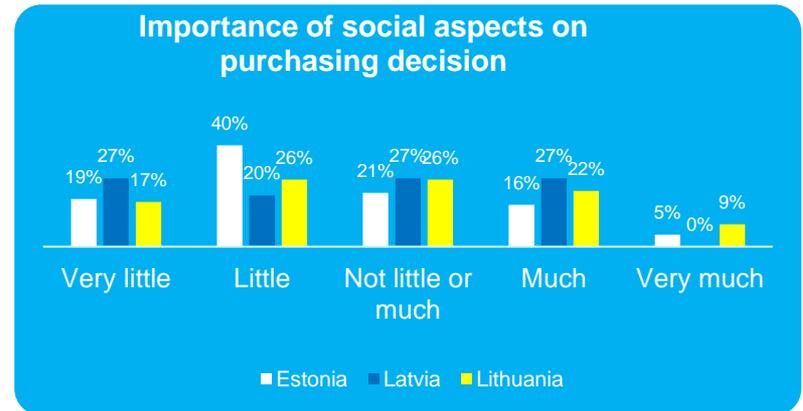
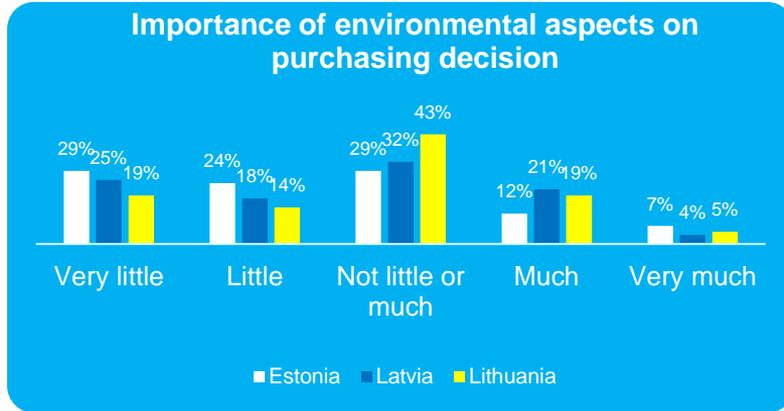


- In 2021 87% of respondents in Estonia were of the opinion that corruption had affected their business very little or little. In Latvia 72% had the similar opinion and 67% in Lithuania. 25% in Lithuania admitted that corruption affected their business much or very much, while in Latvia the corresponding figure was 13% and in Estonia 11%.
- On a scale from 1 (very little) to 5 (very much) the average value for Estonia was 1.6 followed by Latvia 2.1 and Lithuania 2.3.

Seems like many local companies receive illegally paid undeclared salaries work which are not subject for VAT and so on.

Reduce corruption and improve image of Lithuania.

Environmental and social issues have not yet affected purchasing decisions that much



- When purchasing products or services, environmental and social issues do not yet play a big role in the purchasing decision-making process. In Latvia and Lithuania every 4th respondent regards environmental issues as being important, while in Estonia less than every 5th prioritises environmental issues when making purchasing decisions.
- Social aspects seem to be slightly more important, specifically in Lithuania where almost every 3rd respondent emphasizes social issues when making a purchase, the respective proportion in Latvia is 27% and 21% in Estonia.

As our employees and owners find it important, we take the challenge seriously. But I am not sure our clients are that interested in our sustainability work.

Comment from Estonia

It's not actually really on the agenda yet, but a huge possibility for the future.

Comment from Lithuania

Suppliers work with sustainability practices is not yet that important

Important for customers that you are actively engaged in Agenda 2030 and CSR

Mean value: 1=Very little, 5 Very much

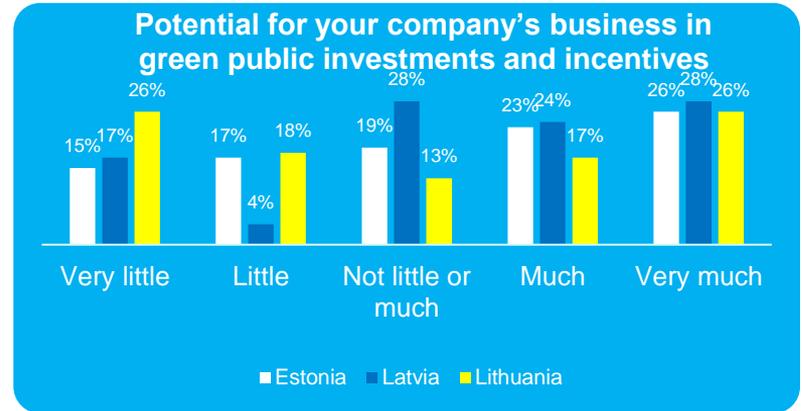
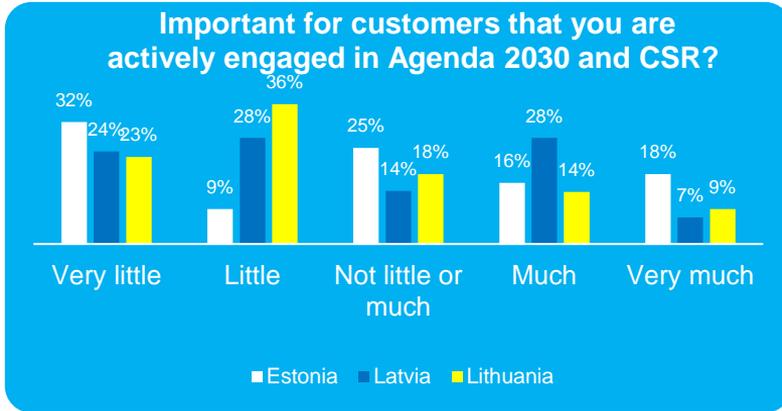


Importance of social and environmental aspects on purchasing decision

Mean value: 1=Very little, 5 Very much



Some potential is seen in green public investments, but sustainability is not yet priority for Baltic firms



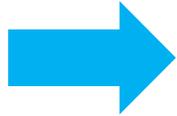
- According to the respondents, Baltic companies do not yet prioritise that their customers are actively involved with CSR and Agenda 2030.
- European Green Deal doesn't yet seem to fully motivate Baltic companies, 49% in Estonia, 52% in Latvia and 43% in Lithuania see much or very much potential in green public investments and investments.

It is important to raise the awareness of these issues, too often they are laughed at, saying that "we have poor people to care about before we can care about the polar bears". Also, doing business with countries with a high degree of sustainable thinking.

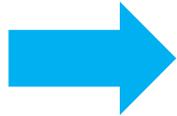
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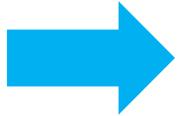
Recommendations suggested by the Swedish respondents



Based on the respondents' comments, the main sustainability challenges in Estonia are related to lack or low levels of awareness. Also, there seems to be a current lack of available incentives to increase it. Estonia should focus on making it easier for specialists to move to Estonia and on developing incentives to increase the level of green investments as well as raising sustainability awareness.



Swedish companies in Latvia require more transparent decision making and digital support systems for reporting and communicating with the authorities. The respondents also pointed out that the general awareness of the importance of sustainability is rather low and there is lack of information concerning the countrywide vision of the needs or measures that are required.



Respondents representing Lithuania stated that sustainability practices are not sufficiently high in the agenda yet and several Swedish respondents expressed concerns about the level of corruption in the comment section. Swedish companies require more work on improving the country's branding in Sweden. Greater digitalization of business processes with other partners and authorities would also be much welcomed.



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Baltic
Consulting
Team



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Please contact Baltic Consulting Team if you have any questions about the survey or need assistance in growing your business in the Baltic States:

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