



UNITED NATIONS ECONOMIC COMMISSION FOR EUROPE

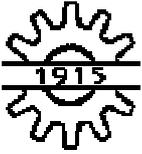
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" Disincentives that Greek Companies face in their Business Activities in Southeast European Cooperative Initiative (SECI) countries, Yugoslavia, and Russia "

**Background Paper for Special Session III on FDI and the
restructuring of transition and emerging economies ***

prepared by

**FEDERATION OF INDUSTRIES OF NORTHERN
GREECE**



FEDERATION OF INDUSTRIES OF NORTHERN GREECE

Research into the Disincentives that Greek Companies face in their Business Activities in Southeast European Cooperative Initiative (SECI) countries, Yugoslavia, and Russia

Thessaloniki, 1st of December 1998

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1. INTRODUCTION

This survey was conducted by the Federation of Industries of Northern Greece within the framework of its involvement in Southeast European Cooperative Initiative (SECI). The results of the survey will be used to confront the inhibitive factors which are deterring investment and other business activities in the developing countries of the Balkan and Black sea areas.

The field of investigation are companies active in the SECI countries, namely Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Hungary, Moldova, Romania, Slovenia, the former Yugoslav Republic of

Macedonia. The survey did not include one SECI country, Turkey, but did include Yugoslavia, which is not included in SECI. The survey also included the Russian Federation, which supports SECI.

It is worth taking note of certain basic factors on the basis of which Greek companies select a country in which to develop their companies. The most decisive factor is the distance between Greece and the market under consideration, while consumer habits and the size of the market seem to be of major importance.

Generally speaking, Greek companies show a preference for Bulgaria, Romania and the former Yugoslav Republic of Macedonia. All three countries neighbour Greece and their markets are similar in size to that of Greece; this is why businessmen feel more prepared for what they will face and why they consider these three countries, and the Balkans in general, as an initial investment opening with a view to later expansion via these nations into Russia and the Black Sea states.

Similarly, the majority of Greek companies feel positive about the future expansion of the European Union to include the countries under examination. They would like to reinforce their present activities and to expand into other countries such as Hungary, Poland, the Czech Republic and Slovakia, where they are not currently a major presence.

2. EXECUTIVE SUMMARY

The basic conclusions which can be drawn from the present survey are summarized below:

- All disincentives are rated on a scale from less restrictive to most restrictive.
- The most significant disincentive to development in all the countries under examination was found to be **political and economic instability**. More specifically:

Disincentive	Average rating
1. Political and economic instability	8,03
2. Crime - lack of transparency - corruption	7,14
3. Deficient infrastructure	6,93
4. Insufficient legal and administrative framework	6,89
5. Inadequate policy towards foreign investments	6,37
6. Negative business environment	5,19

- The results concerning Bosnia and Herzegovina, Hungary, Moldova, and Slovenia should be viewed with reservations since the number of completed replies was insufficient for us to be confident about the reliability of our conclusions.
- When we categorized the results on the basis of the importance (in percentage terms) attached to each factor by our respondents (most restrictive, restrictive, less restrictive), it was seen that 71% of respondents considered "Political and Economic Instability" to be the most restrictive disincentive, while a further 23% rated it as restrictive. Next in order of importance was "Insufficient legal and administrative framework" which was considered to be highly restrictive by 70% and restrictive by a further 13% of those responding.
- The major disincentives arranged by country are as follows:

Disincentive	Country
Political and economic instability	Albania, Moldova, Yugoslavia, Romania, Russia
Crime - lack of transparency - corruption	Bosnia and Herzegovina, Bulgaria, Hungary
Inadequate policy towards foreign investments	Croatia, Slovenia
Insufficient legal and administrative framework	The former Yugoslav Republic of Macedonia

- An **evaluation of the factors constituting each disincentive** led to the following results:

1. Political and economic instability

Most significant factors

1 st	Difficult to plan for the future
2 nd	Inadequate acquaintance with the "market economy"

2. Crime - Lack of transparency - Corruption

Most significant factors

1 st	Corruption in the public sector
2 nd	Lack of transparency in public procedures so that certain businessmen are favoured

"Corruption in the public sector" was rated at 8.12. This makes it the second highest factor of all those constituting any disincentive.

3. Deficient infrastructure

Most significant factors

1 st	Road network
2 nd	Telecommunications

4. Insufficient legal and administrative framework

Most significant factors

1 st	Complicated customs and cross border procedures
2 nd	Customs duties legislation

5. Inadequate policy towards foreign investment

Most significant factors

1 st	Bureaucracy
2 nd	Difficulties in land ownership

"**Bureaucracy**" was rated **8.33**, making **it the most important of all the factors** constituting disincentives.

"Bureaucracy" - "Corruption in the public sector"

The above factors received the **highest ratings** (8.33 and 8.12 respectively) of all the rated factors constituting disincentives.

Comparing these factors, we can see that despite the fact that they are factors in two different development disincentives, they are related in so far as **both concern problems with the machinery of state.**

In conclusion, we can see that the most significant disincentives to the efficient running and development of foreign business activities have their origins in the state sectors of the nations under consideration.

6. Negative business environment

Most significant factors

1 st	Inexistent financial and banking systems
2 nd	Black market

Additional disincentives

Further disincentives to entrepreneurial activity are as follows:

- The **lack of political will in the countries under examination** to intervene in and reform their legal and administrative frameworks; and
- **With specific reference to Greek investors,**
 - I. **The lack of an investment support policy on the part of the Greek state;**
 - II. **Inadequate state assistance in investment projects** on the part of the Greek state. (insufficiently well-informed state-sector junior executives; vestigial support mechanisms; the lack of secure export credit lines etc.).

Proposals

Our main proposals for alleviating disincentives to development are the following :

- **examination of the possibility of cooperation** along the path used by **International Finance Corporation (IFC)**, that belongs to World Bank, in order **to finance SME's investing** in the candidate countries;
- **investment from EU businessmen to CEEC**, having as common strategy the industrial cooperation of SME's and as **objective the revitalization of the productive web;**
- the **economic support and promotion of cooperation between foreign companies and representative bodies and associations** there and their opposite numbers in the target nations with a view to improving business relations;
- **facilitation of cross-border controls;**
- the **formulation of bilateral and multilateral agreements** along with the provision of secure export credit lines;
- the **creation of reliable information and research networks**, to keep investors informed of current economic, social, legal and administrative developments in the relevant nations.
- **adoption and use of European quality standards, measures and levels**, for the creation of a single entrepreneurial culture and the removal of differences in the evaluation of quality.

3. OBJECTIVES

This survey aims to **identify and rank the most serious disincentives to development** faced by European, and in particular Greek, companies active or wishing to be active in the SECI nations (that is, the Balkan and Black Sea states); to **evaluate them**, and to **propose possible ways forward**.

4. METHODOLOGY

This presentation is based on **field-research** data gathered **via a structured questionnaire**. For maximum confidence in our results we sent the questionnaire to two **different groups: a) companies; and b) organizations**.

More specifically, questionnaires were sent to:

a) companies

- To **members of the Federation of Industries of Northern Greece.**
- To **companies throughout Greece** with a presence in the SECI countries; presence here being taken to include both the running of installations there and trading therein. We were guided in our choice of companies by information made available to us by the Economic and Commercial Services Offices of the Greek Embassies in the relevant countries.

b) organizations

- To the **offices of the International Finance Corporation (IFC)**, a part of the World Bank., in those countries constituting our field of research. We were assisted here by the IFC representative who made relevant details available to us on his visit to our offices here in Thessaloniki.
- To the **Economic and Commercial Services Offices of the Greek Embassies** in the SECI countries.

The structure of the questionnaire

- e. A **concise presentation** of the **six (6) basic categories of development disincentives** for the respondent to rank:
 1. Insufficient legal and administrative framework
 2. Political and economic instability
 3. Negative business environment
 4. Inadequate policy towards foreign investments
 5. Deficient infrastructure
 6. Crime - lack of transparency - corruption
- An **analytical presentation by category** of the disincentives for the respondent to assess.
- **Space for the respondent to list disincentives not mentioned** in the body of the questionnaire;
- **Space for the respondent to list any proposals** concerning their improvement and alleviation.

Processing of the results

- a. The disincentives were assessed on a **scale of significance** from **1: less restrictive to 10: highly restrictive** (the scale of significance was reversed)
- b. The **Level of Significance** of each disincentive was worked out on the basis of the aggregate score from all returned questionnaires
- c. The **Average score for each disincentive** was worked out on the basis of the aggregate level of significance taken from all returned questionnaires
- d. **Microsoft® Excel was used to process** the returned questionnaires.

The mailing and collection of the questionnaires

- e. Questionnaires were sent to **F.I.N.G. members** on October 20, 1998.
- f. Questionnaires were sent to **companies throughout Greece** active in the SECI countries between October 23 and November 2, 1998.
- g. The sending of questionnaires to **organizations** (IFC offices, Economic and Commercial Services Offices) in the countries under examination in the survey was completed on November 2, 1998.
- h. In total, **questionnaires were sent to a total of three hundred and eighty (380) companies and organizations.**

i. Two hundred and seventy (270) questionnaires were returned for processing from 92 companies and organizations.

The last completed questionnaires were received on November 17, 1998.

5. RESULTS

5.1. Sample identification

The survey sample is considered representative in so far as it displays the following characteristics:

5.1.1 Enterprises

i. are highly export-oriented

ii. have already invested significantly in the SECI nations in the form of production unit (which is true of the majority of the sample) or in the form of representatives or commercial premises.

As a result, the selected companies face impediments to the development of various kinds of commercial activity on a daily basis..

More specifically, it is worth noting that the majority of Greek companies active in the countries under examination are small or medium-sized enterprises (SMEs), which, according to the EU, means they employing less than 250 employees. A small number of the companies included in the survey can be described as large in size.

They are mainly involved in light industry and trade. An analytical break down of these activities is as follows:

Food and drink, cloth, clothing and footwear, paper, plastic products, basic metal products and machinery not including electrical goods or means of transport.. Furthermore, 90% of the Greek companies selected to take part in the survey are active in more than one country in Central and Eastern Europe and the former Soviet Union.

Bulgaria has the greatest number of active Greek companies in the Balkans, followed, in order, by Albania, Romania, Russia, and Hungary and Poland.

5.1.2. Organizations

Both the IFC executives and the Economic and Commercial Advisers who took part in the survey have a great deal of experience through their everyday involvement in the world of business and their opinions constitute a substantiated view as to the assessment and alleviation of disincentives to development.

5.1.3. Sample characteristics

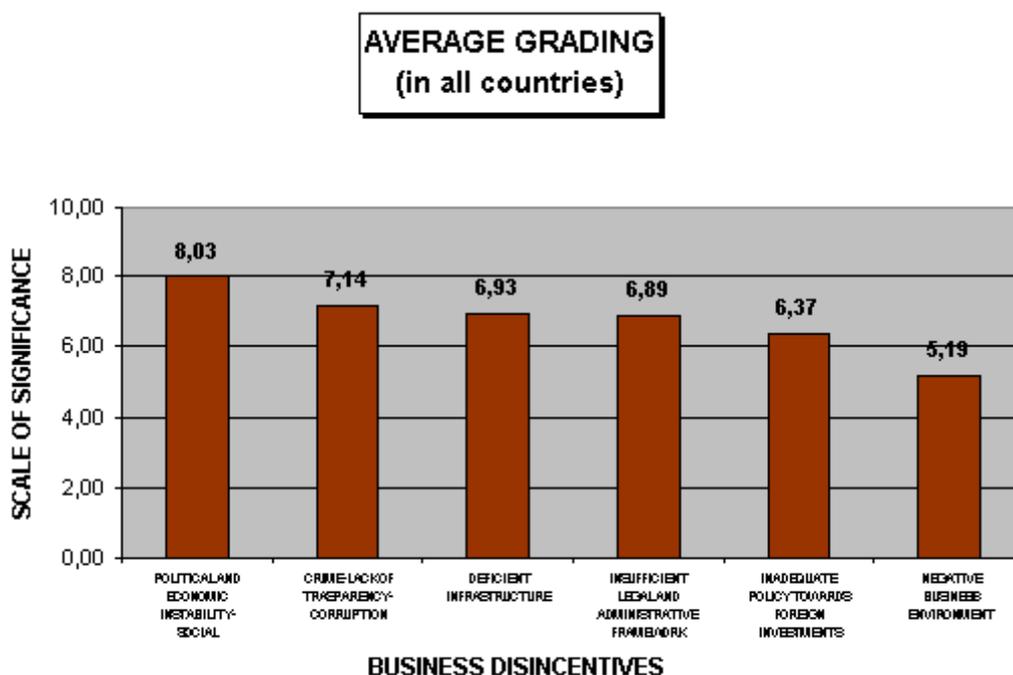
- A total of **8,359 employees** work for the companies and organizations which completed and returned the questionnaires.
- **Companies constitute 75%** of the total number of returned and completed questionnaires, while
- **Organizations make up the remaining 25%** of the replies.

5.2. Results Analysis

The survey sample is considered representative in so far as it displays the following characteristics:

5.2.1. Most significant business research

○ On processing all the completed questionnaires it became clear that according to the assessments of the businesses and organizations included in the survey sample, **the most significant development disincentive is «Political and Economic Instability»**, with an average score of 8.03, while the least important disincentive was «Negative Business Environment» with an average score of **5.19**.



Similarly, it can be seen that **all the development disincentives had an average score greater than 5.**; that is they were all high enough to be **considered «significant»** in line with our system of categorization..

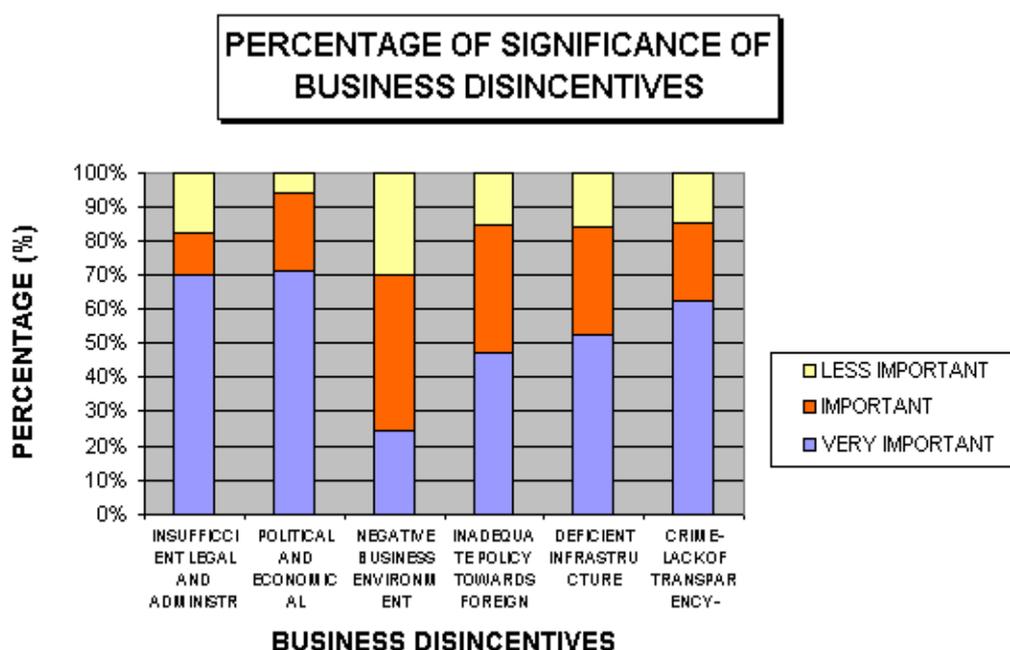
○ **The most significant disincentive on average is Political and Economic Instability** which received the following average scores by country:

▪ Moldova	10	▪ Hungary	8
▪ Albania	9	▪ Croatia	7,75
▪ Yugoslavia	8,63	▪ Romania	7,57
▪ Russia	8,57	▪ The former Yugoslav Republic of Macedonia	6,86
▪ Bulgaria	8,20	▪ Slovenia	6
		▪ Bosnia and Herzegovina	5

However, more reliable results **require the removal from the above scores of those for Moldova, Bosnia, Slovenia and Hungary** since our replies from these countries were insufficient for accurate conclusions to be drawn from them.

5.2.2. Percentage of significance of business disincentives

- The level of significance attributed by respondents to each type of business disincentive is presented in the following table. We created three categories of significance: **highly significant (7-10)**, **important (5-6)**, and **less important (1-4)**, the sum of which for every disincentive is 100.



- We can see that «Negative business environment» and «Inadequate policy towards foreign investment» were assessed as being highly significant by the least number of respondents: **only a quarter (1/4) of those responding considering «Negative business environment» to be highly significant**, and **less than half the respondents (47%) considered «Inadequate policy towards foreign investment» as a highly significant disincentive**.
- In contrast, «Political and Economic Instability» was assessed by 71% of respondents as **Highly Significant** and by 23% as Significant; while «Insufficient Legal and Administrative Framework» was considered by 70% of respondents to be highly significant and by 13% to be significant.

5.2.3. Basic disincentive per country

The **main disincentive** across all the relevant countries proved to be «**Political and Economic Instability**».

Analytically, by country, we have:

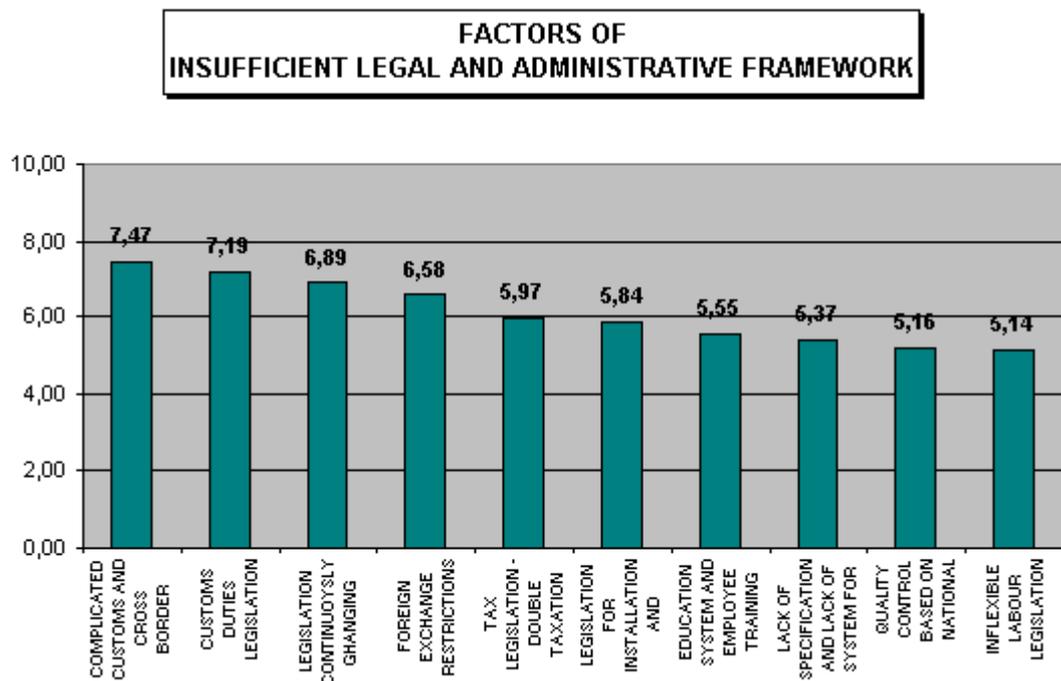
- **POLITICAL AND ECONOMIC INSTABILITY** for Albania. Moldova. Yugoslavia. Romania and Russia (5 of the 11 countries)

- **CRIME - LACK OF TRANSPARENCY - CORRUPTION**
for Bosnia, Bulgaria and Hungary, (3 of the 11 countries)
- **INADEQUATE POLICY TOWARDS FOREIGN INVESTMENTS**
for Croatia and Slovenia (2of the 11 countries)
- **DEFICIENT INFRASTRUCTURE**
for The former Yugoslav Republic of Macedonia (1 of the 11 countries)

5.2.4. Total presentation of disincentives

INSUFFICIENT LEGAL AND ADMINISTRATIVE FRAMEWORK

- The **most important factor** of those constituting «Insufficient Legal and Administrative Framework» was seen to be «**Complicated customs and cross border procedures**» with an average score of **7.47**, followed by «**Customs duties legislation**» with an average score of **7.19**.
- The least significant factor was deemed to be «**Inflexible Labour Legislation**» with an average score of **5.14**. However, every factor had a score in excess of 5 which indicates that the respondents considered every factor to be significant.
- More specifically, the factors were assessed as follows:

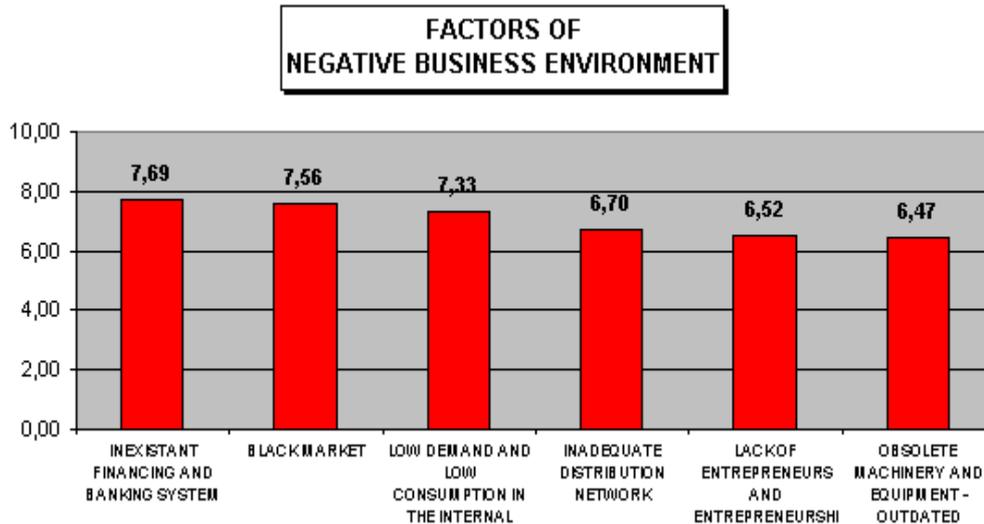


NEGATIVE BUSINESS ENVIRONMENT

- The **most significant factor** was considered to be «**Inexistent banking and financial system**» with an average score of **7.69**, with «**Black market**» in second place with a score of **7.56**.
- The least significant factor was considered to be «**Obsolete machinery and equipment - outdated technology**» with an average score of **6.47**. However, it is worth noting that all the factors

constituting this disincentive have an average score of over 6.47 which would indicate that they are all considered to be significant.

o A more analytical assessment of the factors is as follows:



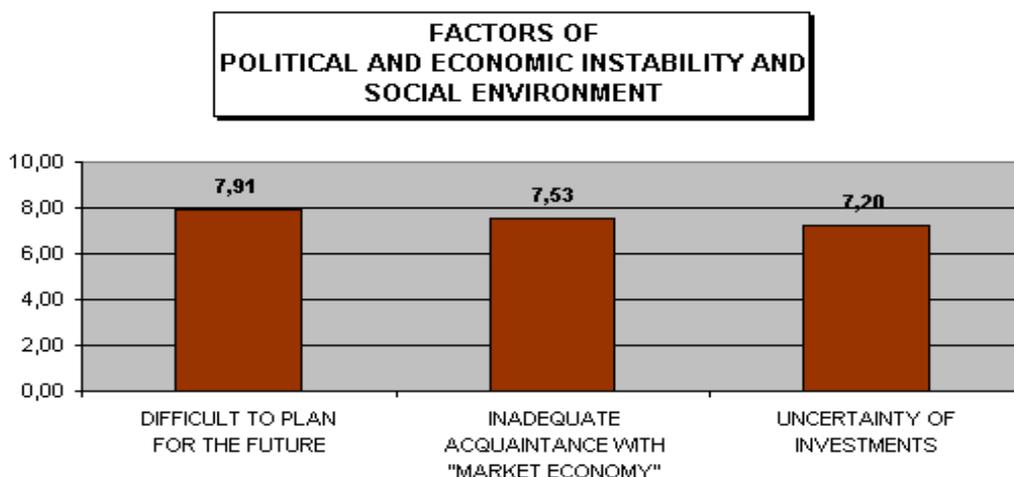
POLITICAL AND ECONOMIC INSTABILITY

o The most significant factor was considered to be «Difficult to plan for the future» with an average score of 7.91, while

o considered least significant was «Uncertainty of investments» with an average score of 7.20

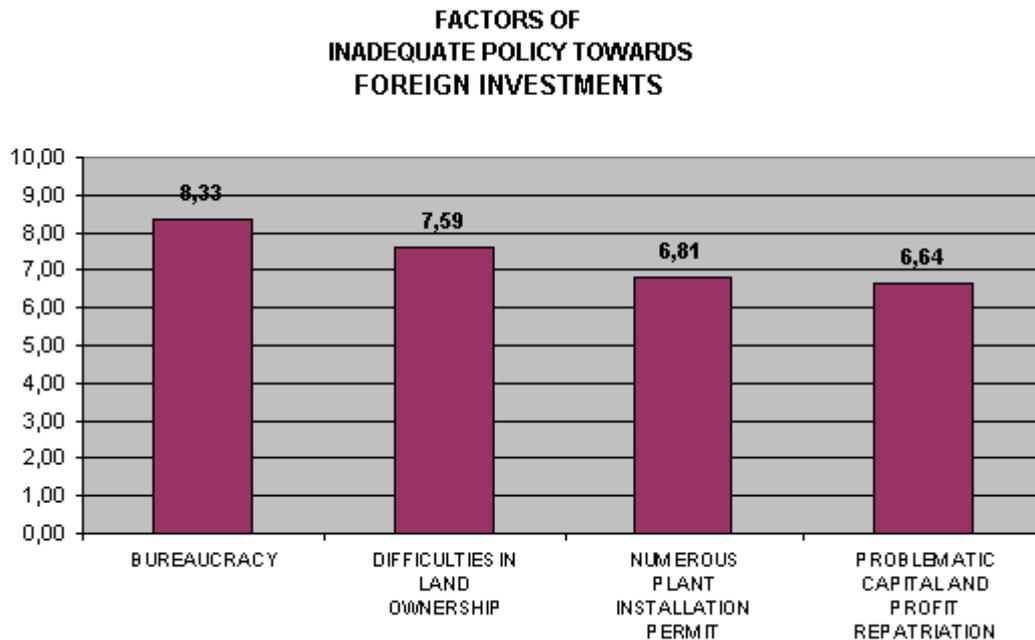
o Every factor constituting this disincentive was assessed as being very significant as all three scores are in excess of 7.

o The assessment of the factors was as follows:



INADEQUATE POLICY TOWARDS FOREIGN INVESTMENTS

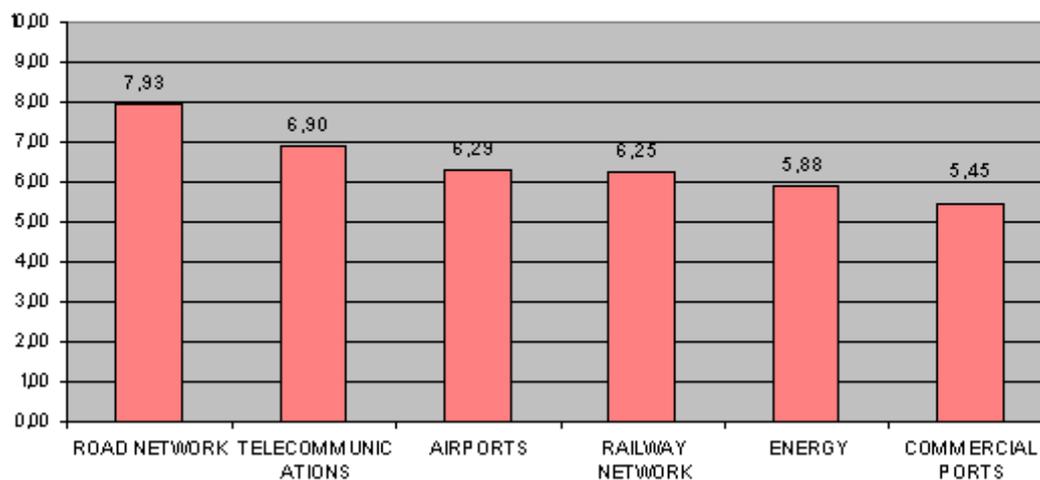
- The assessment of the factors of this disincentive showed **the most important factor to be «Bureaucracy»**. The average score was **8.33**, which was **significantly higher than any of the other factors**.
- The least significant factor was seen to be «Problematic capital and profit repatriation» with an average score of 6.64.
- The assessment of the factors was as follows:



DEFICIENT INFRASTRUCTURE

- The assessment of the factors of this disincentive **showed the most important factor to be «Road network»** by a considerable margin; it had an average score of **7.93**.
- The least important factor was considered to be «Commercial Ports» with an average score of 5.45.
- The assessment of the factors was as follows:

FACTORS OF DEFICIENT INFRASTRUCTURE

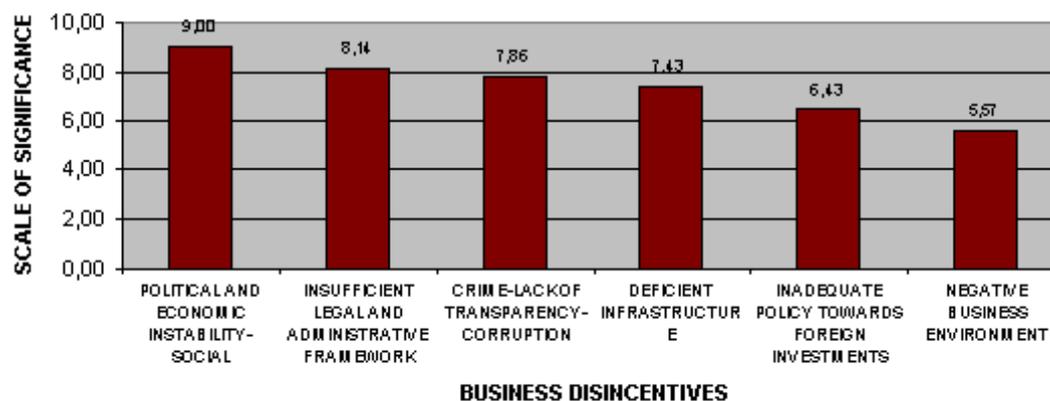


CRIME - LACK OF TRANSPARENCY - CORRUPTION

o In this case the most significant factor was seen to be «Corruption in the public sector» with an average score of 8.12.

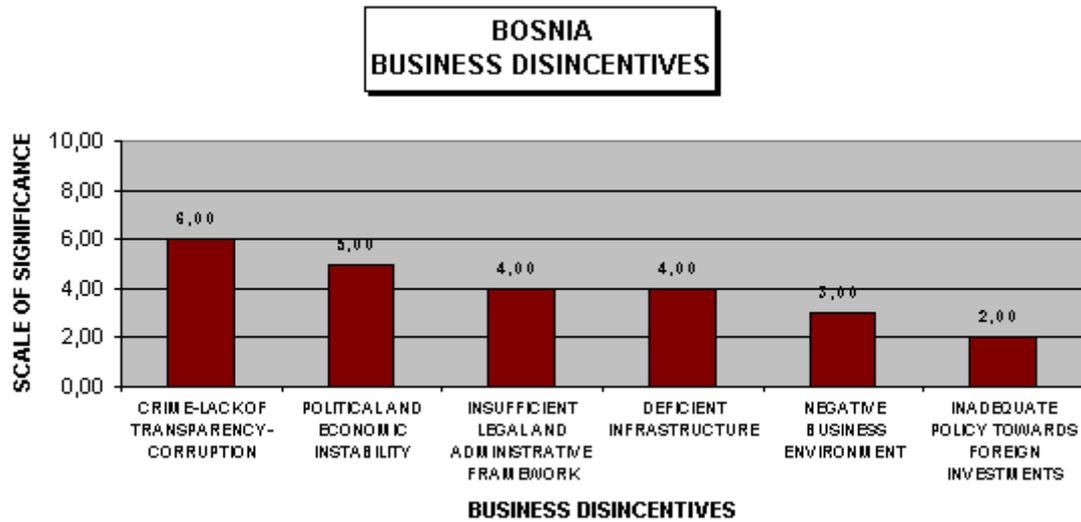
5.2.5 Presentation of disincentives by country

ALBANIA BUSINESS DISINCENTIVES

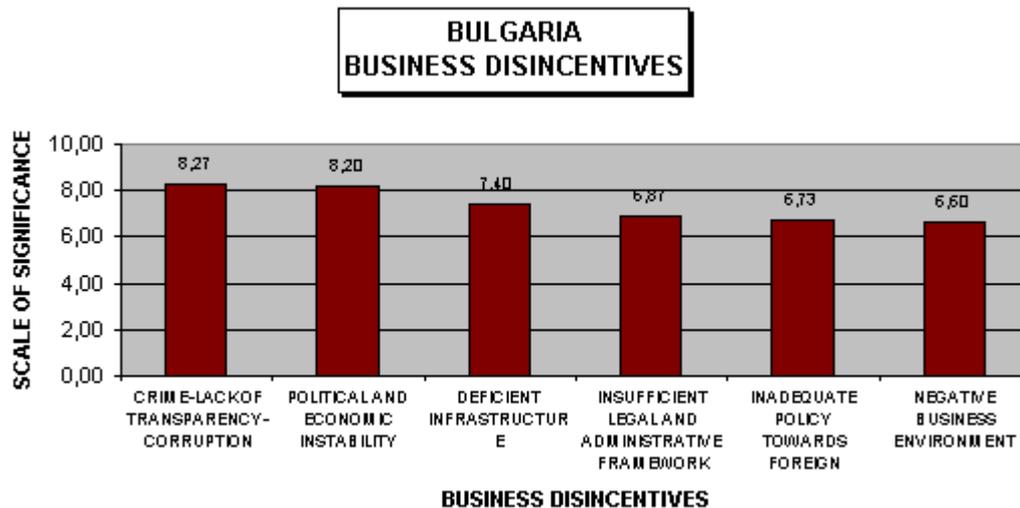


The most significant development disincentive in Albania is **Political and Economic Instability**

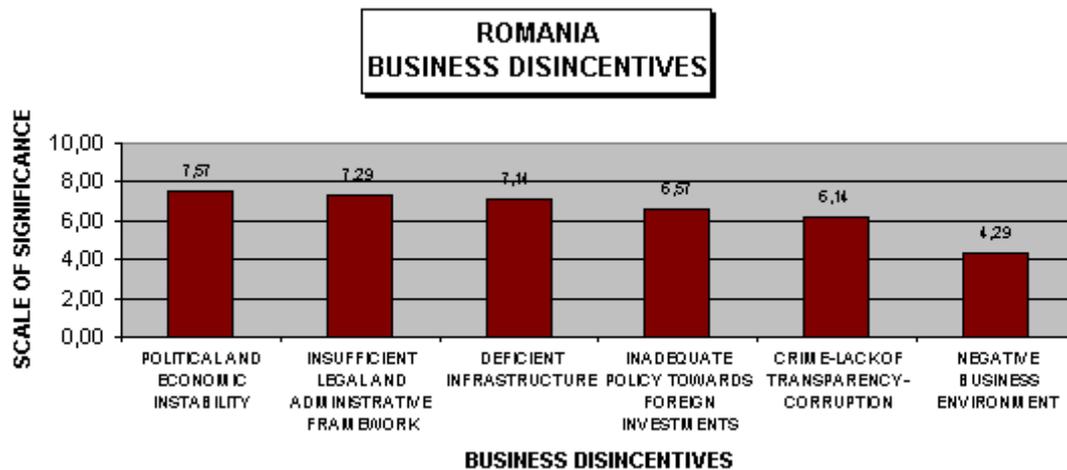
(Average score: 9)



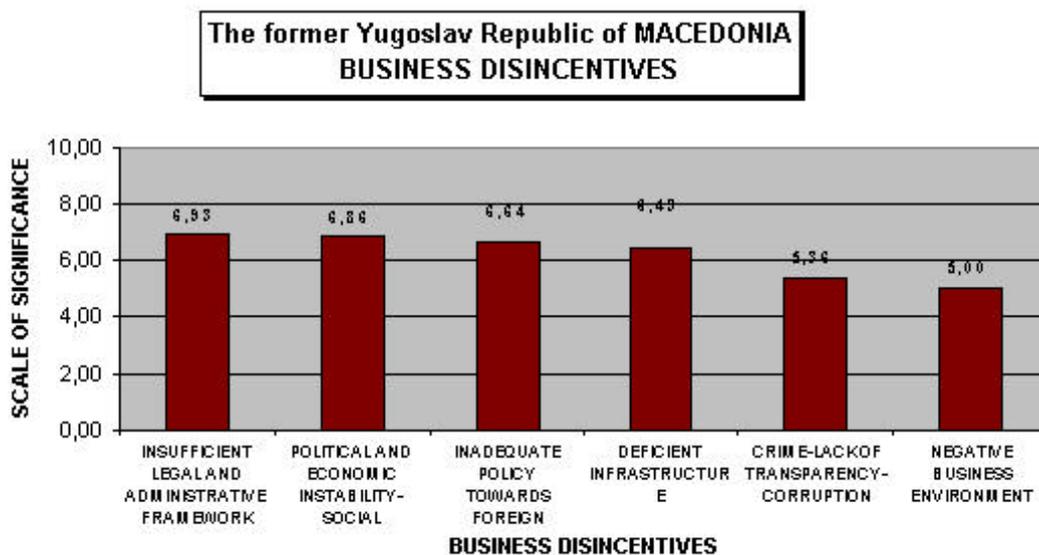
The most significant development disincentive in Bosnia is **Crime - Lack of transparency - Corruption** (Average score: 6)



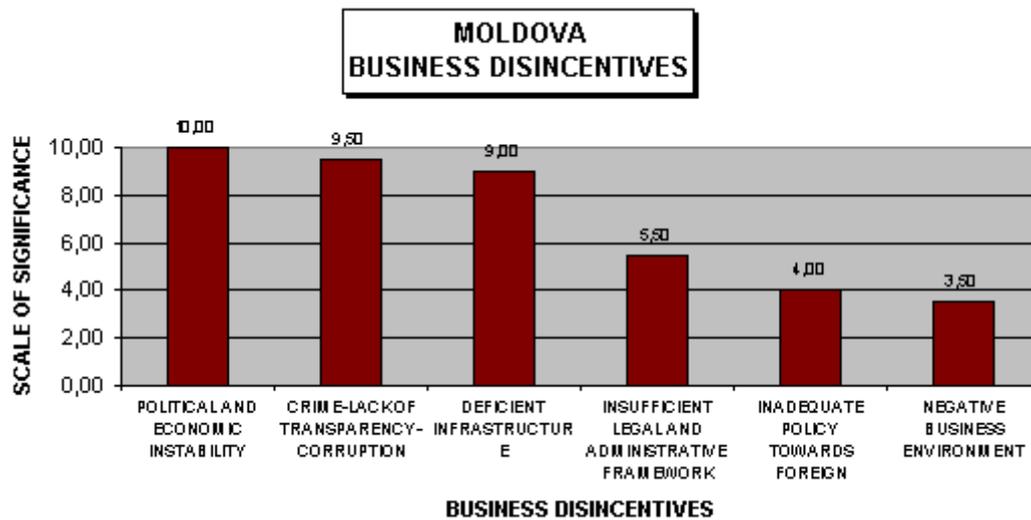
The most significant development disincentive in Bulgaria is **Crime - Lack of transparency - Corruption** (Average score: 8.27)



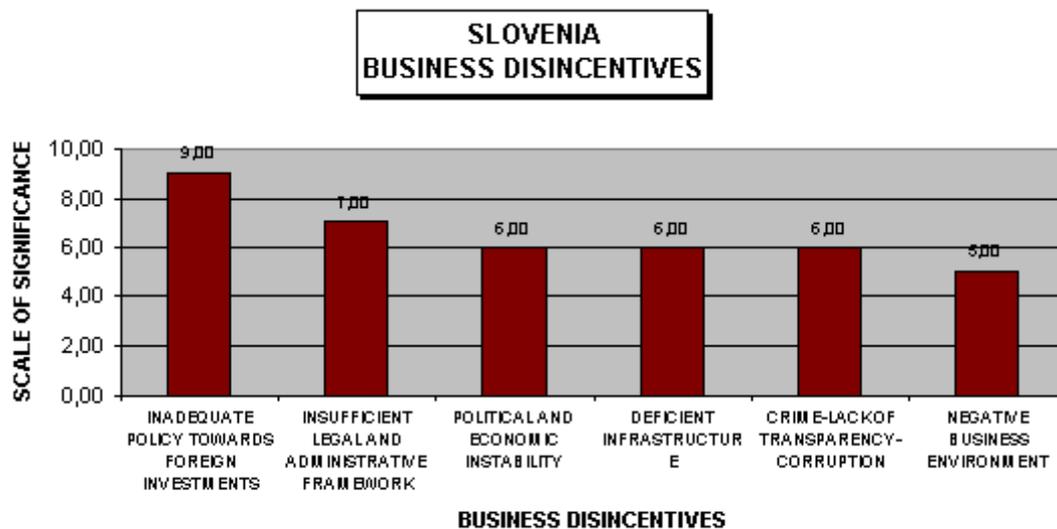
The most significant development disincentive in Romania is **Political and Economic Instability** (Average score: 7.57)



The most significant development disincentive in the former Yugoslav Republic of Macedonia is **Insufficient Legal and Administrative Framework** (Average score: 6.93)

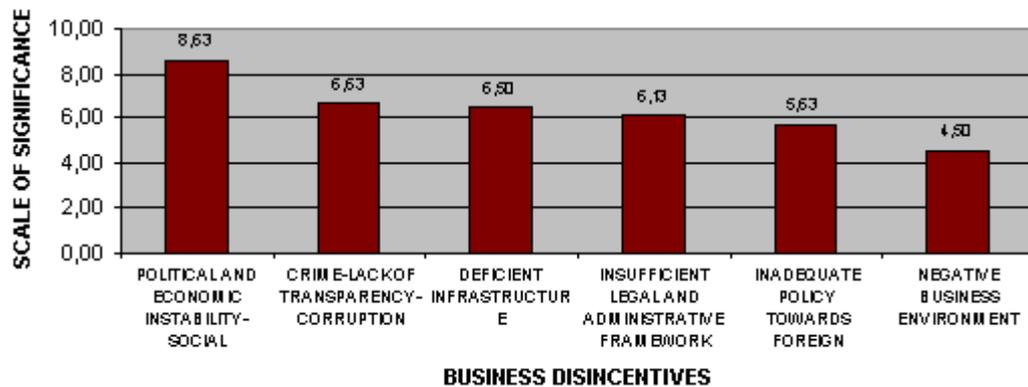


The most significant development disincentive in Moldova is **Political and Economic Instability** (Average score: 10)



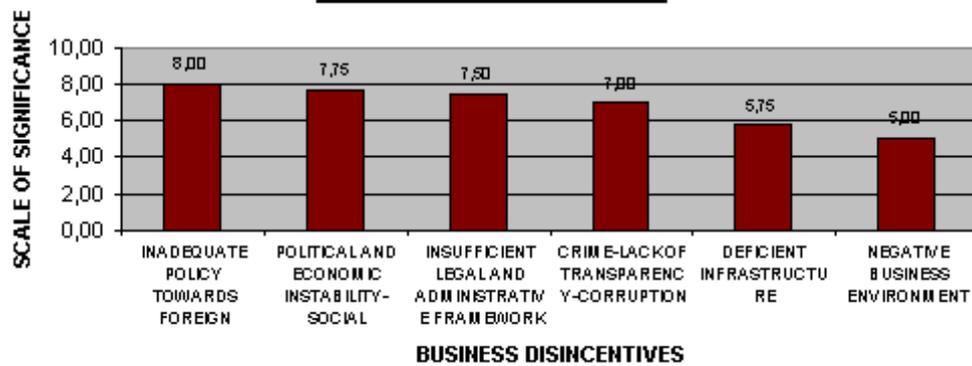
The most significant development disincentive in Slovenia is **Inadequate Policy towards Foreign Investments** (Average score: 9)

YUGOSLAVIA BUSINESS DISINCENTIVES

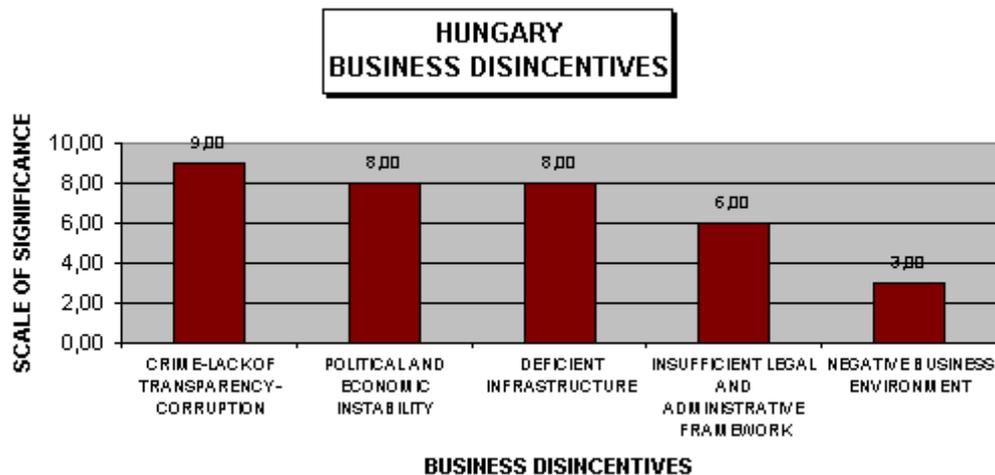


The most significant development disincentive in Yugoslavia is **Political and Economic Instability (Average score: 8.63)**

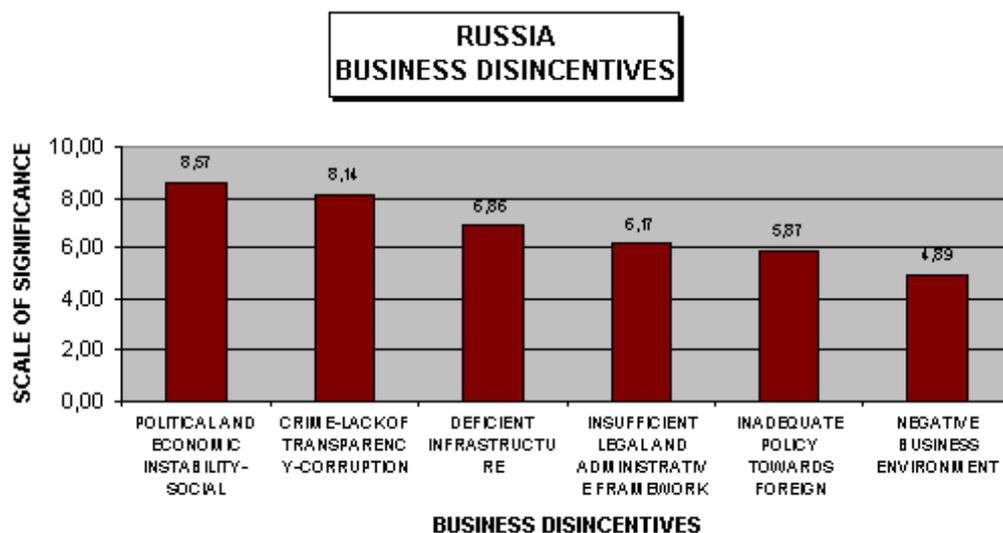
CROATIA BUSINESS DISINCENTIVES



The most significant development disincentive in Croatia is **Inadequate Policy towards Foreign Investments (Average score: 8)**



The most significant development disincentive in Hungary is **Crime - Lack of Transparency - Corruption (Average score: 9)**



The most significant development disincentive in Russia is **Political and Economic Instability (Average score: 8.57)**

5.2.6. OTHER DISINCENTIVES BY COUNTRY

In addition to the disincentives included in the questionnaire, **respondents listed additional disincentives faced.**

More specifically :

ALBANIA

- the lack of business associations and representation;

- inadequate information from existing organizations for the support of investment projects;
- the failure of the legal system;
- inadequately enforced customs agreements on the part of the Greek state.

ROMANIA

- an inadequate judicial and public order system;
- the lack of suitable business premises;
- excessive rent increases and highly disadvantageous leasing terms.

The former Yugoslav Republic of MACEDONIA

- the non-existence of an official translating body resulting from the lack of any formal dictionary for the regional Slavonic dialect.;
- the lack of legal cover.

YUGOSLAVIA

- non-existence of guaranteed export credit lines
- the absence of Greek banks

5.2.7. Proposals

Specific proposals have been made with a view to improving the situation and alleviating and removing development disincentives. **The most important proposals by country**, focus on state support, community support and reliable, up-to-the-minute information. More specifically:

ALBANIA

- the restoration of public order
- the modernization of the banking system
- the reduction of import duties.

BULGARIA

- cooperation between commercial organizations in the countries under examination with a view to improving business relations;
- to request more E.U. funds to be channeled into Greece to strengthen its business activities;
- economic support for the Economic and Commercial Office of the Greek Embassies from the Greek government;
- the facilitation and provision of larger sums for guaranteeing export credit lines;
- a reduction in import duties;
- the promotion of Greek and European banks.

More specifically from the point of view of the businessman

- full and accurate information for potential investors before they commit themselves to any form of economic activity and the provision of good legal cover;
- maintaining a low profile in the local community.

ROMANIA

- cooperation between businessmen and the Economic and Commercial Offices of the Greek Embassy;
- financial support for the Economic and Commercial Office of the Greek Embassies from the Greek government;
- the provision of insurance by the Greek government against «political risk»

More specifically, from the point of view of the businessman

- the selection of suitable and reliable business partners should a joint-stock company be proposed;
- the specification of the capital which the business is willing to risk.

The former Yugoslav Republic of MACEDONIA

- financial support for existing bodies (embassies, commercial attachees) by the Greek government;
- the promotion of bilateral agreements between the states on all levels (trade, investment, tourism, banking etc.);
- investment support from the Greek Ministry of Development (Industry);
- the provision of insurance against «political risk» by the Greek government
- The promotion of staff training and development programs by the businessmen

Action on the part of the former Yugoslav Republic of MACEDONIA

- the creation of a Register of Business Professionals in FYROM (lawyers, accountants etc.) by the relevant government departments to facilitate the development of cooperation with foreign investors;
- the strengthening of the commercial courts;
- the speeding up of the due processes for conveyancing land and chattels;
- a reduction in import duties.

YUGOSLAVIA

- financial support for existing bodies (embassies, commercial attachees) by the Greek government;
- the provision of guaranteed export credit lines by the Greek government;
- the promotion of Greek and European banks;
- the signing of bilateral agreements with the Greek government;
- financial support from the E.U. for the renewal of infrastructure, especially in the fields of transportation and telecommunications;
- interbank cooperation with E.U. banks to ease the transfer of capital;
- a reduction in import duties;
- request E.U. funds to help finance high technology research;
- the gradual and unproblematic incorporation of Yugoslavia into international political and economic organizations;
- the creation of information networks in cooperation with all interested parties.

6. ANNEX

6.1. Questionnaire *QUESTIONNAIRE*

for the **DISINCENTIVES**
that Greek companies face in their business activities, in the **Balkan and Black Sea**
countries

COUNTRY OF INTEREST :

.....

I. COMPANY PROFILE

COMPANY NAME	
NAME OF THE PERSON who replied the questionnaire	
POSITION	
NUMBER OF EMPLOYEES	
DATE	

II. *GENERALLY*, the disincentives to the business development in the **Balkan and Black Sea** countries

q Please, based on your business experience, prioritize the disincentives you deal with, starting from the most restrictive to the less restrictive..

(Number from 1 : most restrictive, to 10 : less restrictive)

	Insufficient legal and administrative framework	
	Political and economic instability and social environment	
	Negative business environment	
	Inadequate policy towards foreign investments	
	Deficient infrastructure	
	Crime - lack of transparency - corruption	

III. ANALYTICALLY, the disincentives to the business development in the Balkan and Black Sea countries

○ **Insufficient legal and administrative framework**

Please, based on your business experience, prioritize the disincentives you deal with, starting from the most restrictive to the less restrictive

(Number from 1 : most restrictive, to 10 : less restrictive)

	Legislation, continuously changing	
	Inflexible labour legislation (overtime, leaves, special allowances, dismissals, obligation of steady employment for newly privatized enterprises)	
	Legislation for installation and operation of foreign enterprises	
	Tax legislation -double taxation	
	Customs duties legislation	
	Foreign exchange restrictions	
	Quality control based on National standards	
	Lack of product specification and lack of system for quality accreditation	
	Complicated customs and cross border procedures	
	Education system and employee training	

○ **Political and economic instability and social environment**

(Number from 1 : most restrictive, to 10 : less restrictive)

1	Uncertainty of investments	
2	Difficult to plan for the future	
	Inadequate acquaintance with "market economy"	

- **Negative business environment**

(Number from 1 : most restrictive, to 10 : less restrictive)

	Inexistent financing and banking system	
	Low demand and low consumption in the internal market	
	obsolete machinery and equipment - outdated technology	
	Lack of entrepreneurs and entrepreneurship	
	Inadequate distribution network	
	Black market	

- **Inadequate policy towards foreign investments**

(Number from 1 : most restrictive, to 10 : less restrictive)

	Numerous plant installation permit requirements	
	Difficulties in land ownership	
	Problematic capital and profit repatriation	
	Bureaucracy	

- **Deficient infrastructure**

(Number from 1 : most restrictive, to 10 : less restrictive)

	Road network	
	Railway network	
	Energy	
	Telecommunications	
	Airports	
	Commercial ports	

- **Crime - lack of transparency - corruption**

(Number from 1 : most restrictive, to 10 : less restrictive)

	Paid "protection" to groups of organized crime	
	Lack of transparency in public procedures so that certain businessmen are favoured	
	Corruption in the public sector	

IV. WHICH OTHERS DISINCENTIVES do you face in your business activities ?

V. WHICH ARE YOUR PROPOSALS, for the improvement of the situation and for smoothing out the disincentives ?