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INVESTMENT LEVEL AND STRUCTURE IN THE REGION OF CENTRAL AND EASTERN EUROPE AND BARRIERS FOR INVESTMENT GROWTH REPORTED BY ENTREPRENEURS IN THE LIGHT OF FINDINGS OF OWN SURVEY RESEARCH

Keywords: Region of Central and Eastern Europe, entrepreneur, barriers for investment growth, inflexible labour law, labour costs, tax system complexity, amount of taxes, corruption, volatility and low quality of law, access to financing, inflexible labour law, survey research

Abstract: The purpose of the paper was to conduct the author's own survey research on barriers reported by entrepreneurs in the countries of Central and Eastern Europe. It should be pointed out that in this article the notion of Central and Eastern Europe was "limited" and covers 10 countries: Poland, the Czech Republic, Hungary, Slovakia, Slovenia, Lithuania, Latvia, Estonia, Romania, and Croatia. As a result of the selection from among 1000 enterprises, a group of 600 was selected, including the survey covered 129 enterprises. The method of indirect survey was adopted (surveys were sent to enterprises by e-mail). The surveyed sample was selected in such a way that the surveyed enterprises were arranged evenly across particular countries and were characterized by different range and profile of activities. Service enterprises were a dominant group (96 enterprises, i.e. 74.4% of surveyed enterprises), others were production enterprises (33 enterprises, i.e. 25.6% of the surveyed enterprises). Among the surveyed enterprises, 98% were small and medium-sized enterprises. During the survey, eight investment barriers in particular countries of the region, were most often indicated by the surveyed enterprises. The conducted survey research on investment barriers for enterprises in the region of Central and Eastern Europe indicates serious problems associated with complexity and instability of the tax system and with excessive bureaucracy, high labour costs, volatility and low quality of law, and high taxes.

1. Introduction

Investment raises efficiency in the economy not only directly, but also indirectly provide knowledge about new technologies by flows of employees between enterprises with foreign capital and national capital and as a result of cooperation between these groups of enterprises. A relatively low investment rate can be attributed to the sector of enterprises whose investment in the previous 10 years accounted for on average slightly approximately 16% of GDP in the region. Public investment increased significantly as a result of EU funds and after 2008 was the highest in Poland than in most countries of the region. However, they will not replace private investments, which can be concluded from an analysis of experience in such countries as Greece, Spain or Portugal.

A considerable part of public investment does not increase (even indirectly) the production potential of the economy, and it will require outlays on maintenance in the future. At the same time, EU funds that enabled their growth will be diminishing. The possibilities for financing them from national funds depend on growth rate of the economy, and the pace of reforms. Still too low investment rate towards real needs of Central European and Eastern countries limits the growth rate of the economies of this region. The article shows that both the investment rate and the inflow of foreign direct investment are still too low as compared to the potential of the discussed region. When analysing the factors affecting investment decisions of enterprises, it was indicated that, presently, the greatest problem for growth in investment in the Central and Eastern European countries is uncertainty as to the condition of law and regulations, including their complexity. It should be pointed out that in this article the notion of Central and Eastern Europe was "limited" and covers 10 countries: Poland, the Czech Republic, Hungary, Slovakia, Slovenia, Lithuania, Latvia, Estonia, Romania, and Croatia[1].

2. Factors Affecting Investment

In the future years, work productivity will be the most important potential source of economic growth in the region of Central and Eastern Europe. A greater investment rate is necessary for this purpose. Given current demographic conditions, within the next 25 years the region is awaiting decrease in the number of the employed. Potential reforms can, as a matter of fact, decrease the scale of this slope, but a rapid growth in the number of the employed is hardly likely (Oleksiuk 2013, 197–216). It means that the main source of growth will be work productivity, which results from two factors: availability of capital and the so-called total factor productivity (TFP).

Employees in the region have at their disposal effectively much less machines than the employees in the West. For instance, in 2014 capital per one employees in Poland was below EUR 47 thousand as compared to EUR 135 thousand in Germany; without eliminating this difference, Poland and other countries of the region do not have real opportunities to achieve the standard of living in Germany. Baker et al. (2015) show, using the data of American enterprises, that the periods of political

[1] The need for such definition of this group of states is related to the possibility of using feedback questionnaires received for analysis and presentation of findings of the survey conducted with the group of enterprises from the countries from which filled in questionnaires were returned.

uncertainty imply slope in investment and employment in the sectors dependent on the state such as defence, construction and health care. This effect may be potentially stronger in Lithuania, Latvia, Estonia, Romania or in Hungary, owing to still large share of state ownership in comparison to OECD economies. The stock exchange is one of mechanisms allocating capital for investment of enterprises. Pastor and Veronesi show (Pastor, Veronesi 2012, 1219–1264) in their theoretical paper, and Baker et al. confirm, using the data of 12 enterprises, that political uncertainty raises the unsteadiness of stock prices (Baker, Bloom, Davis 2015).

We define investment as outlays on fixed capital, namely, among others, machines and devices, which will generate value in the future. We apply thereby the definition from national accounts, in accordance with which investment does not include, among other things, investment in human capital. Growth in capital resources in the economy is estimated as a result of investment (namely newly generated capital) and depreciation (namely consumption of the existing capital). Then it is assumed that changes in capital resources affect the economic growth. This commonly used in literature simplification does not consider fully improvement in capital quality. The convention adopted in most papers concerning growth account would require that estimates of contribution of capital outlays to the economic growth should include the following: (i) contribution of capital identical in technical terms and (ii) contribution of this part of technical progress, which is embodied in new capital. Because of difficulties with the assessment of improvement in capital quality (problem of deflators and depreciation rates), contribution of capital outlays to the growth considers only a part of technical progress embodied in new capital.

A significant growth in capital per one employed requires long-term investment. The investment rate in the countries of Central and Eastern Europe is diverse: it is the lowest in Poland, Lithuania and in Hungary, and the highest in Estonia and Slovenia. The low savings rate in many countries of the region does not enable financing even the present, low investment rate. So far, it has not been an important restriction because such countries as Poland, Hungary or Slovakia have attracted foreign investments, but the situation is changing slowly. International research indicates imperfect international capital mobility (Mussa, Goldstein 1993, 245–335). Attracting foreign investors will be a serious problem particularly in the case when the crisis scenario is fulfilled. At the same time, enterprises with share of foreign capital play an important role in the economy and for instance account for most domestic export.

This not too low potential of increase in revenues from investment in the region is responsible for a low rate of investment and attracting a relatively smaller volume of FDI. It suggests problems related with costs or uncertainty. Enterprises indicate in the survey research that the tax system is the main barrier of activities in Poland, Bulgaria, Romania and Hungary. From the point of view of an enterprises, adjusting to a complicated tax system and groundless competitive advantage on the part of enterprises to which the tax system facilitates violation of law are costs that reduce return on investment. On the other hand, the instability of tax and administrative regulations along with vagueness as to the practice of their enforcement, as well as the inefficiency of the judiciary introduce uncertainty as to expected profits. It makes it difficult for enterprises to make plans in the long run.

3. Investment Rate and Structure of Central and Eastern European Countries

The countries of the region inherited from the period of socialism large resources of hardly effectively used fixed capital whose quality was difficult for evaluation. Growth in effectiveness of use of the existing capital was one of the most important factors of growth in the 1990s. However, without increasing investment in new machines, buildings and infrastructure, the region of Central and Eastern Europe will fail to reach the Western European level of development. For instance, for the last 10 years (2005–2014), Poland invested on average 21.4% of the GDP, and Lithuania and Hungary slightly above 22%. This was much below the regional average of 26% of GDP.

In the case of such countries as Hong Kong, Ireland, Taiwan and Spain, investment rates were from 3 to 10 p.p. higher than the ones recorded in the above mentioned countries of Central and Eastern Europe in 2014, and in Korea, Finland, and Singapore they were higher by as much as 15–30 p.p.

Low investment of enterprises is particularly alarming. Unfortunately, no data are available on the difference between investment of private enterprises and enterprises with share of the state, although e.g. in the coal mining sector investment of private mines it is clearly higher (Bukowski, Maśnicki, Śniegocki, Trzeciakowski 2015). In the period of the last 10 years, investment of enterprises in the Central and Eastern Europe accounted for on average 16.2% of GDP. Low investment of enterprises is associated with low investment in machines, which, from the point of view of long-term economic growth is particularly alarming, because this type of investment strongly affects effective capital supply (DeLong, Summers 1991). Estimates of the scale of this impact vary, depending on the adopted methodology, but remain significant.

Sakellaris and Wilson analysed a sample of more than 24 thousand factories in industrial processing in the USA from 1972–1996. It seems from the analysis that the average annual rate of increase in capital productivity is as much as 8–17% (Sakellaris, Wilson 2004, 1–26). In the paper of Tokui et al., where a similar methodology was applied, the average annual growth rate obtained was 8–22% on the data concerning enterprises in the Japanese industrial processing from the years

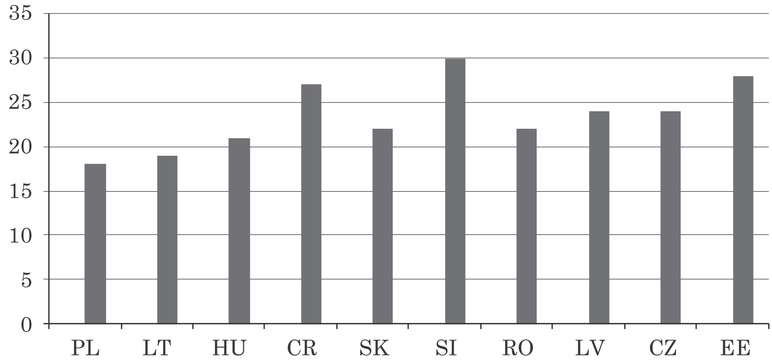

Chart 1. Average investment rates in countries of the region in the years 2002–2014 (in %)
Instead of investment, gross accumulation (investment increased by inventory) was applied on the chart
Source: prepared by the author on the basis of Eurostat

1997–2002 (Tokui, Inui, Kim 2008). A lower investment rate of enterprises in the region of Central and Eastern Europe cannot be explained by a different sectoral structure of the economy, namely large significance of sectors with naturally low investment rate as compared to the countries of Western Europe.

The amount of public investment does not make the countries of Central and Eastern Europe stand out as negatively as compared to other EU Member States as in the case of private investment. Furthermore, fast growth in public investment was recorded in 2004–2012 in the countries that acceded the EU in 2004; this trend was particularly visible in the years 2011–2012: over this period a significant growth was recorded. Public investment cannot replace private investment as a source of growth economic: at most, they may be of complementary, rather than substitute character. In the long run, investment and associated development of private enterprises that respond to market signals, is a decisive factor for economic growth.

4. Possibilities of Financing Investments from National Savings

Despite low investment rate, national savings were not enough to finance investment. A gap between the savings rate and the investment rate in the Central and Eastern Europe in the period 2004–2014 was on average 4.3% of GDP. This gap was undergoing strong fluctuations. In the period of pre-crisis boom of 2004–2009, the average difference between investment and savings in new Member States was 9% of the GDP, but later it plummeted (the average value of 2010–2014 region: 0.3% of GDP). The shortage of savings is covered in most countries of Central and Eastern Europe by foreign capital, largely inflowing in the form of foreign direct investment. Although the inflow of foreign direct investment alone involves many benefits, the shortage of national savings is unwanted phenomenon. Investment raises labour productivity and, at the same time, wages, regardless of whether or not they are financed from national or foreign savings. At the same time, however, foreign owners of savings expect remuneration for completed projects, due to which part of profits may be transferred abroad. From the point of view of long-term economic growth, we are dealing with the most beneficial situation when national and foreign enterprises execute, in the region, investment projects financed from national savings. A good example may be foreign enterprises that build factories, financed from credit. The presence of foreign enterprises contributes to transferring know-how and technology, and credit interest will be transferred to national owners of savings.

Relying on foreign savings is risky under the conditions of shocks which can cause their sudden drain, in the context of hazard of crisis. For this reason, from the point of view of long-term economic growth, it would be beneficial to raise national savings rate. The IMF (2014) analysed data of 135 countries over the years 1960–2012 and found cases of at least one episode of quick growth in rate of savings in as many as 69 economies. Most of these cases were concerned with economies that, similarly to Poland, were just aiming at a high level of income and standard of living of the developed countries. Episodes of growth in the savings rate were, in the vast majority, a consequence of accelerated income growth rate, rather than its cause. However, the raised rate of savings would make it possible to keep later a higher rate of economic growth. Countries which managed to raise the savings rate were characterized not only by high rates of economic growth, but also low rates of unemployment and balanced public finances. For this reason, the fulfilment of these conditions should be a goal of structural reforms in most countries of Central and Eastern Europe which, indirectly, should bring also growth in the savings rate.

In the period 2004–2009, the savings rates in countries of the region were clearly positive, apart from some countries, such as Poland, Lithuania or Slovakia. On the other hand, in the years 2010–2014, after the outbreak of the debt crisis, according to the data of the EC, the situation only slightly worsened and the region of Central and Eastern Europe recorded slightly positive rates.

5. Importance and Structure of Foreign Investment

In the contemporary economy, appropriate level of capital employment is necessary for stable economic development of each area (country, region). Foreign direct investment is a valuable source of capital. Therefore, particular areas (countries, regions) compete for capital, namely investment.

It is worth emphasizing that foreign investment firstly creates jobs in enterprises in which foreign investment is allocated, and secondly raises their work efficiency. FDI is accompanied by a significant technology transfer, namely improvement in the quality of capital, rather than only increase in its volume. Both national and foreign entrepreneurs report problems with different barriers that limit development of their enterprises and scope of investment.

Post-communist Member States of the EU were attractive for foreign investors. In the years 2005–2014, the share of the region in the world FDI stream was 59% above the share in world GDP. This attractiveness decreased after the outbreak of the global financial crisis and the European debt crisis: the share in the world FDI stream decreased.

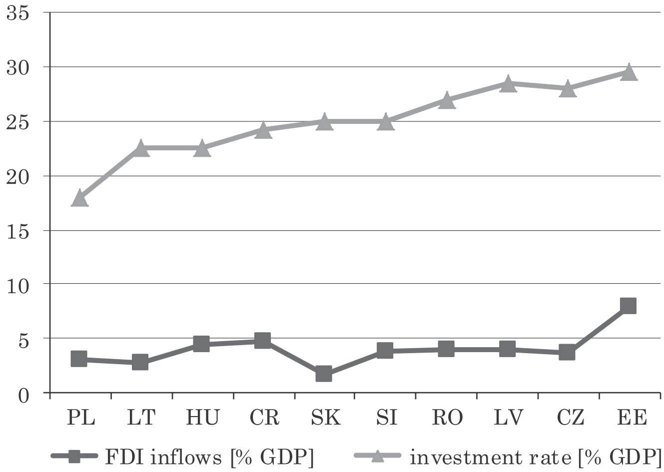

Chart 2. The inflow of FDI and the investment rate in the region of CEE in 2004–2014
Source: prepared by the author on the basis of UNCTAD and IMF data

FDI may be, however, limited by regulatory restrictiveness which is relatively high as compared to the region (see chart 3). Its index is estimated by OECD that verifies whether there are regulations that treats foreign investors differently than national investors in the areas of equity restriction, verification and approvals, key foreign personnel, etc. The highest restrictiveness in the region of Central and Eastern Europe characterizes Poland, Slovakia, Latvia and Lithuania.

During the initial phase of transition, the main restriction in economic growth was shortage of capital (investment gap) and modern technologies (technological gap). It implied the need for executing the strategy of growth which was based on external sources of capital, knowledge and technology. Therefore, it can be assumed that a characteristic feature of the countries of Central and Eastern Europe, especially in the initial period of transition, was complementary nature of absorption of FDI and national investments. On the other hand, however, it is necessary to take into consideration lack of preparation of national entities for competing effectively with foreign enterprises having advantage, which, in turn, suggests existence of the effect of displacement. In such conditions, it is difficult to determine a priori the final

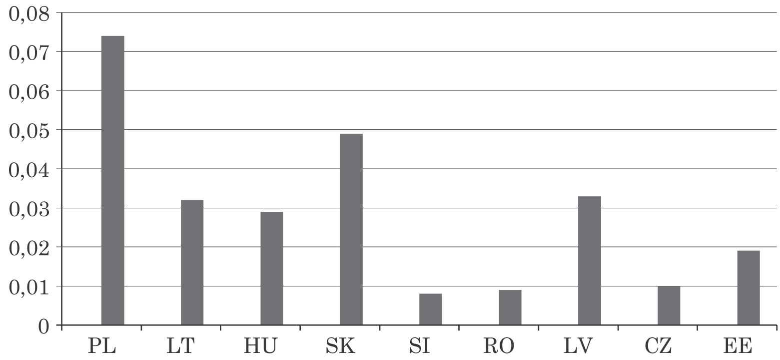

Chart 3. The FDI regulatory restrictiveness index in the region in 2014
Source: prepared by the author on the basis of OECD data

impact of FDI absorption on national investment. In addition, it cannot be excluded that along with reduction in the investment and technological gap, the direction of the net effect will be reversed.

A significant share of FDI absorption in creating bases for economic development of the countries of Central and Eastern Europe suggests that the association between two FDI countries (incoming/outgoing) in these countries is much stronger than in industrialized economies. Growing investment activity of the countries in transition on foreign markets may be a consequence not only of external factors (globalization), but also internal factors related, among other things, with the implemented before absorption of FDI and small-market push factors.

The justified character of adopting such a hypothesis is partially confirmed by findings of the survey research by M. Svetličič and A. Jaklič among five the countries of Central and Eastern Europe (new members of the EU), according to which the most important benefit of undertaken foreign investment was to extend the sales markets, which, in their opinion, influenced growth in export and national production (Svetličič, Jaklič 2007, 190–206). Thus, it seems that foreign direct investment executed by the countries of Central and Eastern Europe may stimulate national investment.

6. Investment Barriers Reported by Entrepreneurs in the Light of the Author’s Own Survey Research

Both national and foreign entrepreneurs report problems with different barriers that limit development of their enterprises and scope of investment. As a result of the selection from among 1000 enterprises, a group of 600 was selected, including the survey covered 129 enterprises. The adopted method of indirect survey (surveys were sent to enterprises by e-mail) demonstrated effectiveness reaching 21.5% (the lowest effectiveness was obtained in Slovenia, Estonia, Croatia and Romania)[2]. The surveyed sample was selected in such a way that the surveyed enterprises were arranged evenly across particular countries and were characterized by different range and profile of activities.

Service enterprises were a dominant group (96 enterprises, i.e. 74.4% of surveyed enterprises), other were production enterprises (33 enterprises, i.e. 25.6% of the surveyed enterprises). Among the surveyed enterprises, 98% were small and medium-sized enterprises according to Art. 1 of Appendix I to Commission Regulation (EC) no. 800/2008 of 6 August 2008 (and thus the ones that were employing no more than 250 employees and their annual turnover did not exceed EUR 50 million or the annual balance sheet total did not exceed EUR 43 million). During the survey, eight investment barriers in different countries of the region, most often indicated by the surveyed enterprises were chosen (see table 1).

Table 1. Main investment barriers reported by enterprises in the Central and Eastern European countries

Barriers	PL N=28	LT N=16	HU N=18	CR N=5	SK N=17	SI N=4	RO N=7	LV N=15	CZ N=14	EE N=5
Administration and bureaucracy	18	13	11	4	16	2	5	11	12	3
Labour costs	21	9	16	5	7	1	5	6	7	1
Tax system complexity	15	10	9	2	11	1	5	4	7	4
Amount of taxes	18	6	13	3	6	2	5	3	6	1
Corruption	10	12	5	1	4	0	4	2	2	0
Volatility and low quality of law	12	12	6	2	10	1	3	9	4	1
Access to financing	9	7	9	3	8	2	1	12	10	3
Inflexible labour law	13	5	5	3	4	3	1	4	5	3

Source: Prepared by the author on the basis of the survey 2016

The statistical observation covered variable characteristics for all the surveyed Central and Eastern European countries which indicated particular investment barriers found in the enterprises of particular countries. Most often (taking account of the average) the surveyed enterprises indicated, as the main obstacles in the implementation of investment in their enterprises, barriers on the part of administration and bureaucracy, labour costs, complicated tax system and amount of taxes. Usually, the median (Mx) was lower than the average which indicates the presence of a positive right-sided asymmetry. In the case of barriers such as administration

[2] The survey does not include Bulgaria, since no feedback questionnaires were received.

and bureaucracy and access to financing, the median (Mx) was higher than the average which indicates the presence of left-sided asymmetry (see table 2).

Table 3 presents the percentage of main investment barriers reported by enterprises in the Central and Eastern European countries.

Table 2. Descriptive statistics of the distribution of the surveyed enterprises in all the surveyed countries by type of barrier

Barriers	N of significant	Average	Median	Standard deviation	Min	Max	Variance	Skewness
Administration and bureaucracy	95	9,5	11,0	5,352	2	18	28,65	1,85
Labour costs	78	7,8	6,5	5,963	1	21	35,56	1,21
Tax system complexity	68	6,8	6,0	4,190	1	15	17,56	0,50
Amount of taxes	63	6,3	5,5	5,020	1	18	25,21	1,49
Corruption	40	4,0	3,0	3,872	0	10	15,00	1,13
Volatility and low quality of law	60	6,0	5,0	4,195	1	12	17,60	0,27
Access to financing	64	6,4	7,5	3,638	1	12	13,24	-0,14
Inflexible labour law	46	4,6	4,0	3,039	1	13	9,24	2,25

Source: Prepared by the author on the basis of the survey 2016

Table 3. Main investment barriers reported by enterprises in the Central and Eastern European countries (in %)

Barriers	PL	LT	HU	CR	SK	SI	RO	LV	CZ	EE
Administration and bureaucracy	64,28	81,25	61,11	80,00	94,11	50,00	71,42	73,33	85,71	60,00
Labour costs	75,00	56,25	88,88	100,00	41,17	25,00	71,42	40,00	50,00	20,00
Tax system complexity	53,57	62,50	50,00	40,00	64,70	25,00	71,42	26,66	50,00	80,00
Amount of taxes	64,28	37,50	72,22	60,00	35,29	50,00	71,42	20,00	42,85	20,00
Corruption	35,71	75,00	27,77	20,00	23,52	00,00	57,14	13,33	14,28	00,00
Volatility and low quality of law	42,85	75,00	33,33	40,00	58,82	25,00	42,85	60,00	28,57	20,00
Access to financing	32,14	43,75	50,00	60,00	47,05	50,00	14,28	80,00	71,42	60,00
Inflexible labour law	46,42	31,25	27,77	60,00	23,52	75,00	14,28	26,66	35,71	60,00

Source: Prepared by the author on the basis of the survey 2016

Barriers on the part of administration and bureaucracy (see chart 4) are reported as a significant obstacle for the implementation of investment most often by enterprises in Slovakia (94.11%), the Czech Republic (85.71%), Lithuania (81.25%), and Croatia (80.0%). The smallest percentage of enterprises of Estonia pointed out to this barrier as significant, but even in this country it was pointed out as significant (60% of the surveyed enterprises).

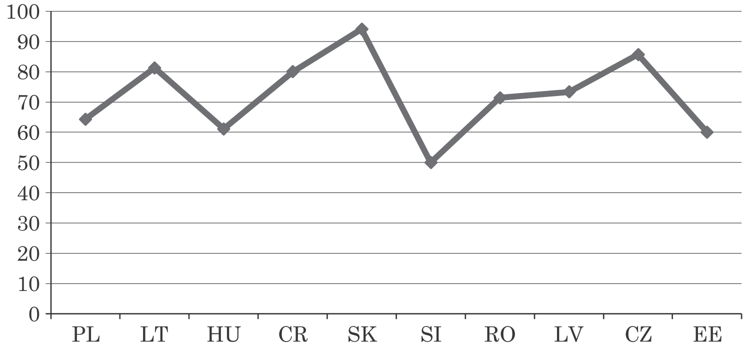

Chart 4. Investment barriers on the part of administration and bureaucracy in the Central and Eastern European countries (in %)
Source: Prepared by the author on the basis of the survey 2016

Labour costs are an obstacle for the implementation of investment to the largest extent in Croatia (all the surveyed enterprises), Hungary (88.88%), Poland (75.00%), as well as Romania (71.42%) (see chart 5). The surveyed enterprises indicate that any actions increasing labour costs with no association with increased efficiency are dangerous for stability and development of their enterprises.

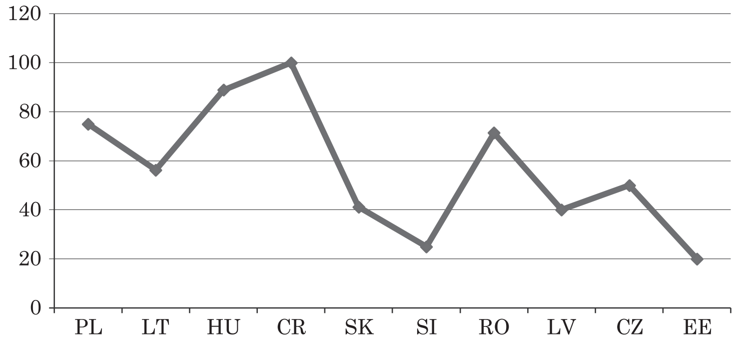

Chart 5. Investment barriers on the part of labour costs in the Central and Eastern European countries (in %)
Source: Prepared by the author on the basis of the survey 2016

The amount of taxes is most often complained about by the surveyed enterprises in Romania (71.42%), Hungary (72.22%), Poland (64.28%), and Croatia (60%). The complicated tax system is indicated most often by enterprises in Estonia (80%), Romania (71.42%), Slovakia (64.70%), Lithuania (62.50%), and Poland (53.57%). The surveyed enterprises emphasize that if regulations are constantly amended, sustaining the costs of their tracking has no end. It shows why volatility and low quality of law was classified among main barriers reported by enterprises (Lithuania – 75.00%, Latvia – 60.00%, Slovakia – 58.82%, Romania – 42.85, Poland – 42.85%).

On the other hand, if taxes were often changed, but simple, it would be possible to determine potential scenarios and prepare for each of them. When the number of parameters in the tax system subject to changes is high, the analysis of potential scenarios is getting very difficult, if at all possible. These difficulties discourage to start projects, from which it is not possible to withdraw without serious losses, namely in particular to invest in machines, especially not used in other entities. The uncertainty caused by complicated and unstable taxes is deepened in the region of Central and Eastern Europe by the prolixity of court proceedings.

The inefficiency of the judiciary system as a serious barrier for development is indicated as a matter of fact by not very high percentage of the surveyed enterprises of Central and Eastern Europe (only 11% of all the surveyed enterprises). However, it increases more than twice (to 25%) among entrepreneurs who were party of court proceedings over the past three years. Due to the inefficiency of the judiciary system, in disputable cases entrepreneurs, even if they have confidence as to their own reasons, may not count on fast recovery of receivables from the tax service. They are also exposed to serious problems with the enforcement of receivables from unreliable partners. Those factors make it difficult for them to fulfil own obligations, including tax liabilities, on time. The research indicates that confidence and ease in the enforcement of receivables significantly increase the tendency of enterprises to invest (e.g. the World Bank, 2005). The inefficiency of the judiciary in the Central and Eastern Europe does not arise from low expenses for courts. The Central and Eastern European counties that spend most on the judiciary (as% of GDP) are Slovenia, Croatia and Poland.

The largest percentage of enterprises reporting problems with corruption is identified in Lithuania 75%, Romania 57.14, and Poland 35.71%. In Slovenia and Estonia none of the surveyed enterprises did not indicate corruption as a significant barrier for their development.

Inflexible labour law is a significant barrier for the surveyed enterprises in Slovenia (75.00%), Estonia and Croatia (60%), and Poland (42.46%).

In the context of barriers in access to financing, a possibility to use support services of business environment institutions (consulting, training, aid in obtaining financing, services of networking as well as matching partners) gains in importance. The surveyed enterprises mostly positively assessed business environment institutions operating in this area (the highest percentage of such answers was obtained in Slovenia – 96%, Estonia – 91%, Poland and the Czech Republic – 89%). Data making it possible to draw conclusions about the popularity of sources of external financing are presented by the following question concerning popularity of sources of external financing: "If an enterprise would need external financing for the implementation of its development plans, which type of instrument would be preferred? The greatest interest was indicated in relation to credits and financing from non-bank sources. On this background, a larger intensification of interest in financing from non-bank

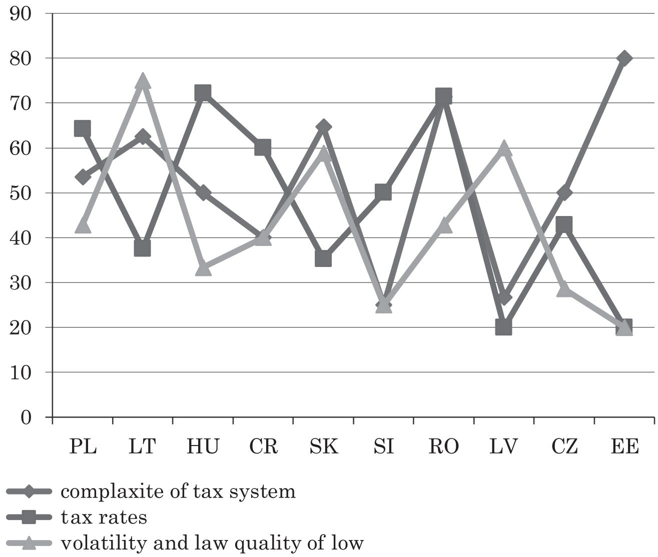

Chart 6. Investment barriers on the part of complicated tax system, amount of taxes, volatility and low quality of law in the Central and Eastern European countries (in %)
Source: Prepared by the author on the basis of the survey 2016

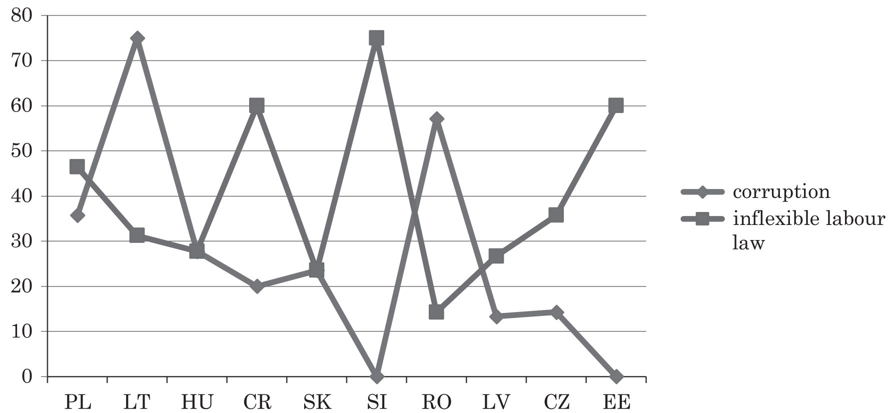

Chart 7. Investment barriers on the part of corruption and inflexible labour in the Central and Eastern European countries (in %)
Source: Prepared by the author on the basis of the survey 2016

sources is visible in Poland, Slovenia, Hungary, Croatia, Latvia and Estonia (at the expense of credit financing), and quite an interesting phenomenon (as compared to the European average) is visible: a relatively high interest in equity type financing (it applies to the whole region of Central and Eastern Europe).

At the same time, it is worth emphasizing that at the level of the whole region of Central and Eastern Europe the distribution of interest in particular sources do not differentiate substantially with regard to size of business. The surveyed enterprises of the region most often indicated barrier in access to external financing such as: too high interest / cost of obtaining financing (62% of the answers), and low ability to secure transactions, low availability of securities (47% of the surveyed).

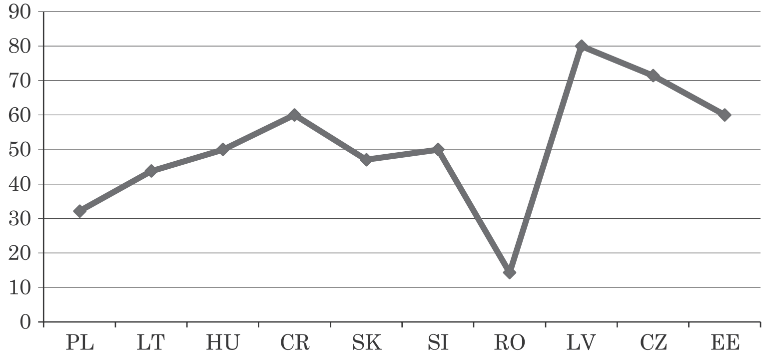

Chart 8. Investment barriers on the part of access to financing in the Central and Eastern European countries (in %)
Source: Prepared by the author on the basis of the survey 2016

7. Conclusions

The level of investment is determined first of all by potential profits, costs and uncertainty. On the basis of the surveyed enterprises of Central and Eastern European countries, attention should be paid to great uncertainty, whose main source are acts or omissions of the state. In this respect, findings for the countries of the region are similar; the best situation is in Estonia and Slovenia. In the region costs and uncertainty of investment are increased by administrative costs, bureaucracy, labour costs, uncertainty, resulting from complication, volatility of legislation and unclear practice of law application by tax authorities and administration. The regulatory uncertainty creates not only additional investment costs, associated with the necessity to adapt to regulations, but, first of all, makes it difficult to estimate investment risk. It results, above all, from excessive pace of creation of new regulations, as well as volatility, complication and vagueness with regard to the practice of using tax system, administrative burdens and the judiciary.

Large legislation inflation means a greater volatility and difficulties with keeping consistency of particular provisions. An additional problem that increases uncertainty in the analyzed countries of the region is prolixity in enforcing law by the judiciary. In particular countries it is necessary to aim at restricting uncertainty as to the interpretation of regulations and their application. The surveyed entrepreneurs indicate most often the tax system as a significant obstacle to conduct activities.

Moreover, it is necessary to restrict costs and improve transparency and predictability of the provisions concerning administrative burdens. Recommendations concerning reduction in administrative burdens can be found for instance in reports of the OECD, the European Commission and the World Bank. The greatest challenges to be faced by the economies of Central and Eastern Europe require solutions on a state level and will not replace their operations at the level of the EU. Nonetheless, operations at the EU level may be a factor strengthening positive effects of particular national reforms.

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