# BALKAN BAROMETER 2015

## Business Opinion Survey

Regional Cooperation Council

SEE2020
SOUTH EAST EUROPE 2020

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## Business Opinion Survey

Analytical report

Regional Cooperation Council Secretariat (RCC)
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BALKAN BAROMETER 2015:
Business Opinion Survey

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# CONTENT

# INTRODUCTION

The Regional Cooperation Council (RCC) Secretariat coordinated the development of the regional growth strategy titled "SEE 2020 Strategy: Jobs and Prosperity in a European Perspective". The strategy was adopted by Ministers of Economy of seven South East European economies (Albania, Bosnia and Herzegovina, Croatia, Kosovo*, Montenegro, Serbia and The Former Yugoslav Republic of Macedonia) on 21 November 2013. Inspired by the EU`s 2020 Strategy it seeks to boost prosperity and job creation and to underscore the importance of the EU perspective to the region`s future. The SEE 2020 Strategy contains eleven specific targets covering the following five pillars:

- Integrated growth - by deeper regional trade and investment linkages and policies enhancing the flow of goods, investment, services and persons.
- Smart growth - by commitment to compete on value added, promoting knowledge and innovation across the board.
- Sustainable growth - by enhancing competitiveness, entrepreneurship and a commitment to greener and more energy-efficient development.
- Inclusive growth - by skills development, employment creation and labour market participation by all, including vulnerable groups and minorities.
- Governance for growth - by improving the capacity of public administrations to strengthen the rule of law and reduce corruption so as to create a business-friendly environment.

With the intention to engage more closely the general public and the business community in the context of the SEE 2020 Strategy, the RCC has commissioned a comprehensive survey on attitudes, experiences and perceptions, which was carried out in December 2014, in all seven economies covered by the Strategy.

This report presents the results of this survey and includes two main components, which are The Public Opinion Barometer - a survey of public opinion of South East Europe (SEE) citizens, and the Business Opinion Barometer - a survey of business sentiment. The report provides data and analysis on various topics covered by five pillars of SEE 2020 Strategy, including life/business satisfaction, assessment of general trends and attitudes on EU integration and regional cooperation.

The surveys were conducted face to face with 1000 respondents per each economy,

*This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

with the total being 7000 respondents for Public Opinion Survey aged 18 and older, and for Business Opinion Survey 200 companies per each economy of different size and different business areas, which are not majority-owned by the state or government. A technical note concerning the methodology of survey is annexed to this report.*

The Balkan Barometer report is envisioned to become an integral part of the SEE 2020 monitoring system, along with the other components of Annual Implementation Report, such as the SEE 2020 Scoreboard and SEE 2020 Competitiveness Outlook. The Balkan Barometer surveys will be conducted annually in order to assess how these sentiments are changing and what progress is being made.

* Throughout the report values in percentages were calculated using the decimal rounding so there is a chance of fluctuations +/-1% in categorical variables (with 3 or more response categories).

# MAIN FINDINGS

The Business Opinion Survey has looked into the current sentiment and the expectations of the businesses in South East Europe. Besides general assessment of the situation, the main pillars of the SEE 2020 Strategy have been covered.

The findings paint a stark picture of a set of economies that have not been doing well and are not expected to do much better in the future. On top of that, they are burdened with difficult problems in all the covered areas of growth: integrated, smart, sustainable and inclusive growth, as well as governance for growth.

The Balkan Business Sentiment Index (BBSI) is about one half of the best possible score. Probably the main characteristic of the business sentiment is that it is not very optimistic i.e. expectations of the businesses are cautious and do not see much improvement in the short run. Business people signal that they would be ready to increase employment, but are facing deteriorating prospects in most economies, and certainly in Bosnia and Herzegovina, Croatia and Serbia. Demand factors do not seem to be seen as the only and perhaps not the most important ones. The supply and obstacles tend to stand in the way of investments and expansion.

Widespread problems of liquidity, financial squeeze due to high levels of non-performing loans in the banking sector, and increasing costs do not sound a very loud alarm in the business community. Also, the concern with macroeconomic issues, e.g. fiscal sustainability, does not seem to be felt as dramatic.

There is general support for regional integration among the business comunity, it is believed that trade and commerce links between SEE econimies should be improved. Business people do see differences in openness across economies, which sometimes do not coincide with the level of cross-border trade. Also, high trade deficits on the part of most CEFTA members do not seem to influence the overall positive assessment of its role. In terms of hiring foreigners, both from the region or outside of it, it can be concluded that the business community does not have a lot of experience with it. Clearly, improvement in the regional labour market would help.

In the area of smarth growth, policy needs to be ahead of the business because of widespread externalities, which certainly are present in education. Businesses, however, seem generally content with the offer of skilled labour and with the quality of the education. This is, in part, consequential to the fact that firms do not tend to be very innovative and internationalised. They also do not seem to use modern communication technologies for trade and transfer payments.

Regarding sustainable growth, business people primarily emphasize roads and their improvement, while clearly the more glaring deficiency is the lack of railways. There is a perception that a sustainable environment is needed, but there is scant indication that this is being translated into policies, regulations and the needed investments. Again, these preferences signal the existence of externalities, in infrastructure, and public goods in environmental protection. In other words, there is understanding of the need, but no mechanism to mobilise investment in satisfying it, which is typical of public goods and the problem of externalities.

Issues on inclusion indicate that businesses employ more men than women and tend to favour experience over first time job seekers. Also, they rely on personal recommendations rather than on more formal procedures of job seeking and hiring.

There is some indication that business people see the governance as too costly. There are also general complaints that the input of the business community in legislation and policies is close to non-existent.

The overall conclusion is that a comprehensive, sustained, regional and EU-oriented policy effort is needed in whole region in order to speed up growth and development.

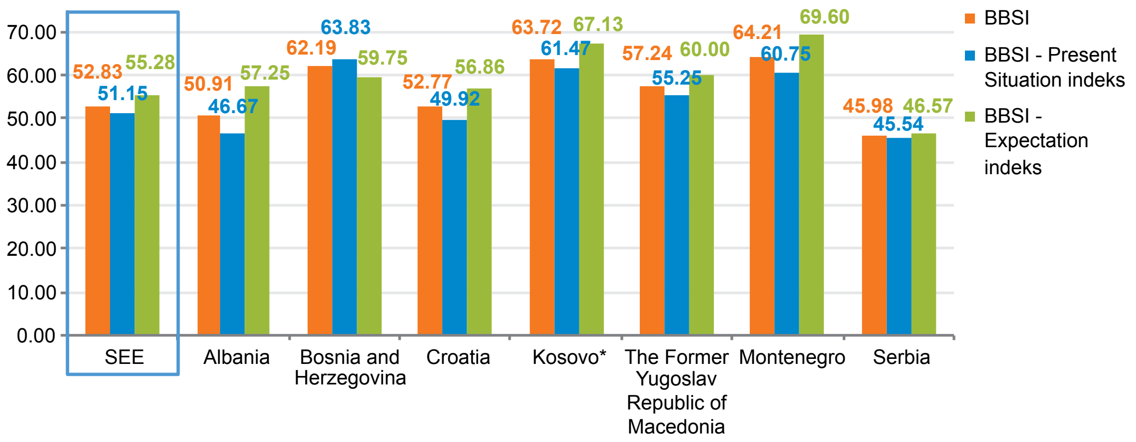
# BALKAN BAROMETER 2015
# BUSINESS OPINION SURVEY RESULTS

## BALKAN BUSINESS SENTIMENT INDEX

In order to monitor changes over time about business present sentiment and optimism, GfK has conducted Balkan Business Sentiment Index (BBSI) which is composed of the following five questions:

1. How has your business situation developed over the past 12 months? Has it deteriorated, remained unchanged or improved?
2. How has demand for your company's products/services changed over the past 12 months? Has it deteriorated, remained unchanged or improved?
3. How has the general economic situation in your place of living changed over the past 12 months? Has it deteriorated, remained unchanged or improved?
4. How do you expect the demand for your company's products/services to change over the next 12 months? Will it be decreased, mostly unchanged or increased?
5. How do you expect the general economic situation in your place of living to develop over the next 12 months? Will it be deteriorated mostly unchanged or improved?

**Figure 1: Balkan Business Sentiment Index (0 -100 scale, index):**



BBSI contains questions related to the current/recent respondents' experience on the general economic situation and on the situation in their business - regarding business development and demand for products/services. On the other hand, it also contains questions related to their predictions for the future when it comes to the demand for their products/services and general economic situation in their place of living.

Therefore, index is constructed from the answers on the above-mentioned questions. Answers are scored as follows: better – 100 points, worse – 0 points, the same – 50 points.

After responses are recoded, average value is calculated for the whole SEE region as well as for each economy separately (see Figure 1). The index values are expressed on a scale of 0 to 100.

We can divide the BBSI (Balkan Business Sentiment Index) to two sub indexes and separately monitor the present sentiment among population as well as their expectation for the future or their degree of optimism.

a) BBSI – Present Situation index
b) BBSI – Expectation Index

In order to analyze the impact of each individual pillar of the SEE 2020 Strategy on the BBSI, it is important to determine what and to what extent affects the index the most. Considering the fact that the SEE 2020 Strategy consists of five pillars and each of them covers a specific area and has own objectives, this part of the analysis needs to determine how much each of the pillars (as an independent variable) influences the BBSI (dependent variable). Besides the five defined pillars, the analysis also includes the segment called General questions.

First of all, the reliability of the chosen questions (Reliability analyses) was verified, with the help of the Cronbach's Alpha coefficient. After that, a Regression analysis was used (with the help of a Shapley value) with the aim to determine the influence of each of the chosen questions on the BBSI.

Questions that are used for each individual pillar in the analysis:

GENERAL QUESTIONS

1. How has your business situation developed over the past 12 months?

INTEGRATED GROWTH

1. To what extent do you agree with the following statements? Please rate your answer from 1 to 4, where 1 means totally disagree, 2- disagree, 3 - agree and 4 - totally agree.
   A. My company's products, goods and services can compete well with products, goods and services from other economies of the SEE region.
   B. My company's products, goods and services can compete well with products, goods and services from other EU countries.
   C. My company has benefited from the regional free trade agreement (CEFTA 2006).

SMART GROWTH

1. Would you agree that the skills thought in the educational system of your place of living meet the needs of your enterprise?
2. How would you assess the readiness of employees in your company to acquire additional qualifications in order to advance and got promoted?
3. To what extent are digital technologies in general (internet, social networks, mail and similar for promotion, communication or sales) used in your business?

SUSTAINABLE GROWTH

1. In what way the infrastructure in general (transportation and communication means, supply) impacts your business?
2. In your opinion, to what extent is your business in general organized in environmentally friendly way?

INCLUSIVE GROWTH

1. In what way active employment policies (solving "informal" employment issues, develop programmes for vulnerable groups, etc). carried out by labour market institutions in your economy, influence your business?

2. In what way healthcare system supports your business (good healthcare service, enabling manpower to solve healthcare problems fast and effective, etc).?

GOVERNANCE FOR GROWTH

1. To what degree do you agree with the following statements?
   A. Information on the laws and regulations affecting my firm is easy to obtain.
   B. Interpretations of the laws and regulations affecting my firm are consistent and predictable.
2. Thinking about officials, at what extent would you agree with the following statements?
   A. It is common for firms in my line of business to have to pay some irregular "additional payments/gifts" to get things done with regard to customs, taxes, licenses, regulations, services etc.
   B. Firms in my line of business usually know in advance about how much this "additional payment/gifts" is.

The primary conclusion derived from mentioned analysis is that the resulting reliability indicator and the pillar and index connectivity indicator are very low.

The effects of the pillars on the overall Balkan Business Sentiment Index (BBSI) are hard to detect. This is probably the result of a disconnection between the relatively positive assessment of the current business climate and the more detailed assessment of the state of affairs across individual pillars. In order to obtain information on issues that impact on overall BBSI, future surveys need to be set up in a way that provides deeper insight into areas covered by the pillars.

The very weak correlations between the assessment of the importance of the pillars and the overall business sentiment could also be the result of a disconnection between the naturally microeconomic concerns of business people and the macroeconomic character of the pillars, so the perceived influence of the latter is smaller or more distant. This is also consistent with the fact that most of the businesses are small and medium sized and they are not very internationalized and innovative. Bigger companies are usually more sensitive to macro or general influences.

This very faintly and not very reliably transpires from the greater emphases put on market conditions – for products, labour, financial and educational – than on policy oriented factors, which are harder to influence and more distant. In addition, though problems with governance, especially with changing regulation, are seen as important and detrimental to business results, this survey shows that business people do not see themselves as influential on the legislative and policy decisions. That, perhaps, accounts for the significance given to other factors as opposed to the issues of governance that are seen as exogenous.

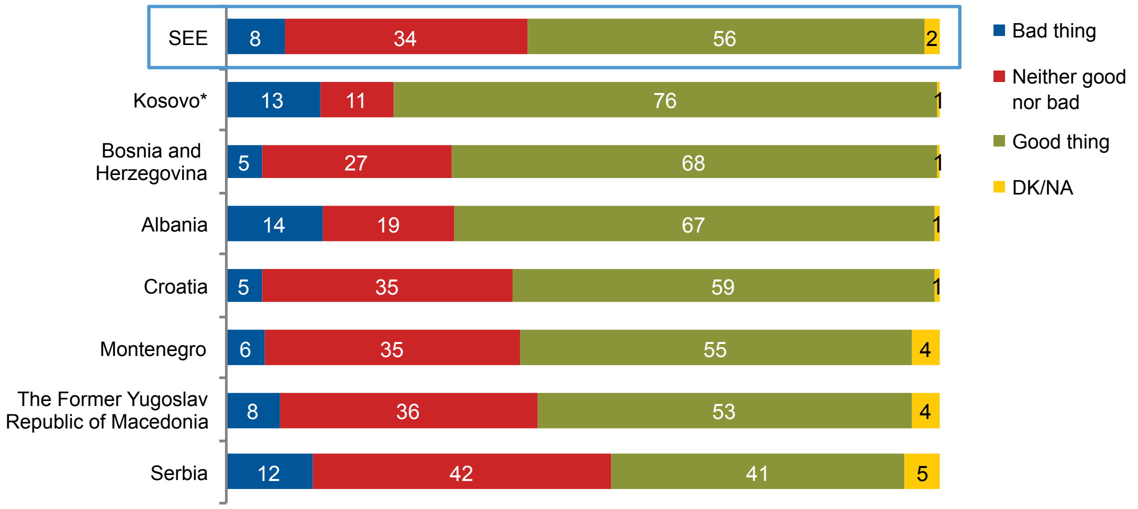
Differences across the region are suggestive, though not much can be made of them given the low level of significance. It makes sense, in the context of what is otherwise known, that governance seems to be, comparatively, a more important issue in Albania, Bosnia and Herzegovina, and Croatia, and less so in other parts of the region. Other differences are hard to interpret due to the disconnect between the individual pillars and the overall BBSI. Those could be used in future surveys and research to check more thoroughly what holds up and what doesn't.





## GENERAL QUESTIONS

**Figure 2: Do you think that EU membership would be/is a good thing, a bad thing, or neither good nor bad for your company?**



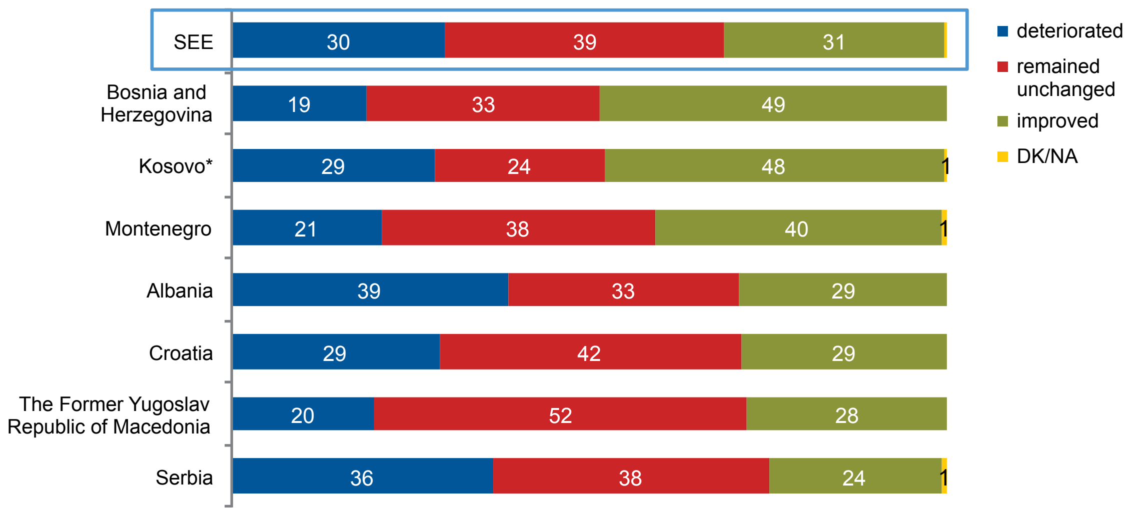

In terms of EU membership, majority of business respondents in the SEE region have positive attitude, while only 8% in average see EU membership as something bad (see Figure 2). However, situation per economy differs significantly.

In Kosovo* even three fourths of respondents think that the membership could improve their business (although with higher then average number of sceptics).

Serbia proved to have the biggest number of sceptics: it stands out by the lowest number of those who perceive membership as a good thing for their company (41%), significantly lower then in Kosovo*, Bosnia and Herzegovina, Albania and Croatia.

Detailed data are showing that companies which are active regionally (export to other parts of the region) are more positive towards EU membership.

**Figure 3: How has your business situation developed over the past 12 months? It has been...**




Bearing in mind the whole SEE region, most of the companies' leaders (39%) state that situation on their business progress has remained unchanged over the past 12 months (see Figure 3). Almost same number of respondents to this question report deterioration (30%) and improvement (31%).

Businessmen in Bosnia and Herzegovina and Kosovo* felt some positive improvements as there are much more those who improved their business comparing to those whose business deteriorated.

The only two economies with significant deterioration of business (domination over improvement) are Albania and especially Serbia.

Last 12 months were especially difficult for small sized companies in the region (about 40% say that situation deteriorated, only 11% that it improved). As company gets bigger, situation is improving. For more then half big companies (those with more then 250 employees) situation improved.

The issue of demand for products and services over the past year divided the region (see Figure 4).

Compared to other economies and total SEE, demand is significantly better in Bosnia and Herzegovina (48%), Kosovo* (46%) and Montenegro (43%).

Serbia is again at the negative end, only one fourth of companies' leaders report improved demand – number of those with decline in demand is about 10% higher than those who faced improved demand.

The companies that faced growth in demand are bigger and dealing more with agriculture, hunting, fishing and forestry, as well as those that export to the region.





**Figure 4: How has demand for your company's products/services changed over the past 12 months? It has been...**

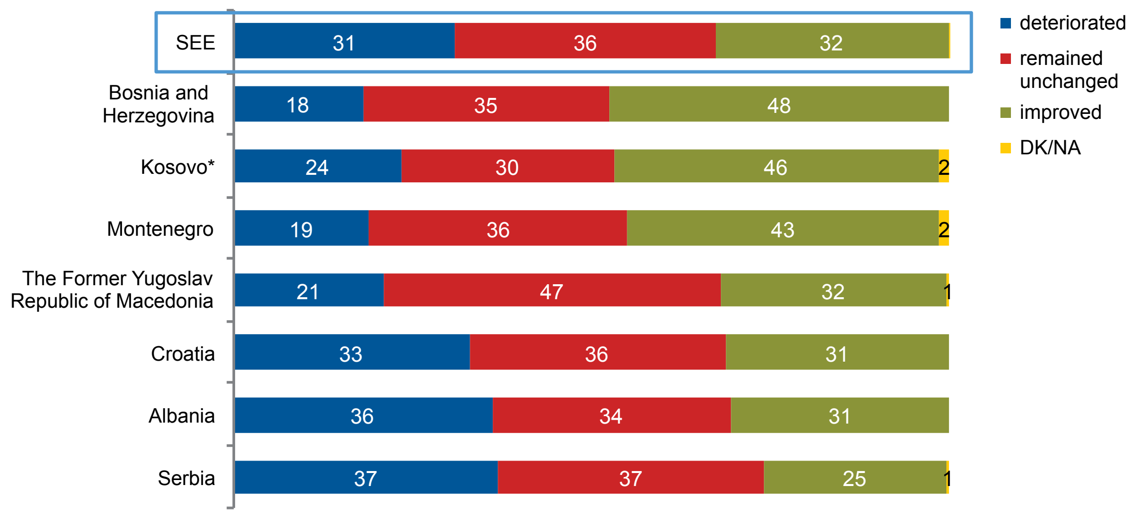
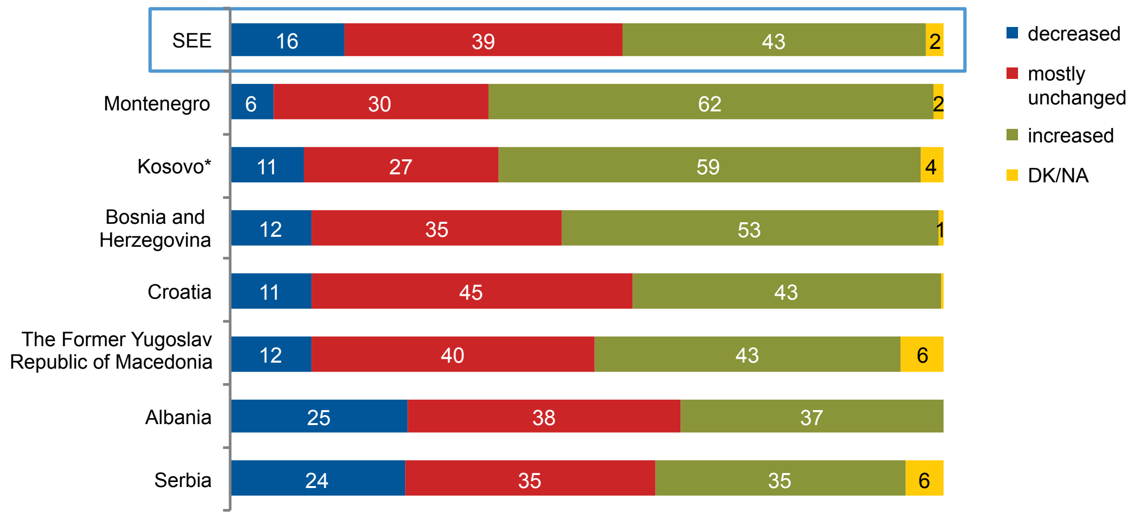



**Figure 5: How do you expect the demand for your company's products/services to change over the next 12 months? It will be...**

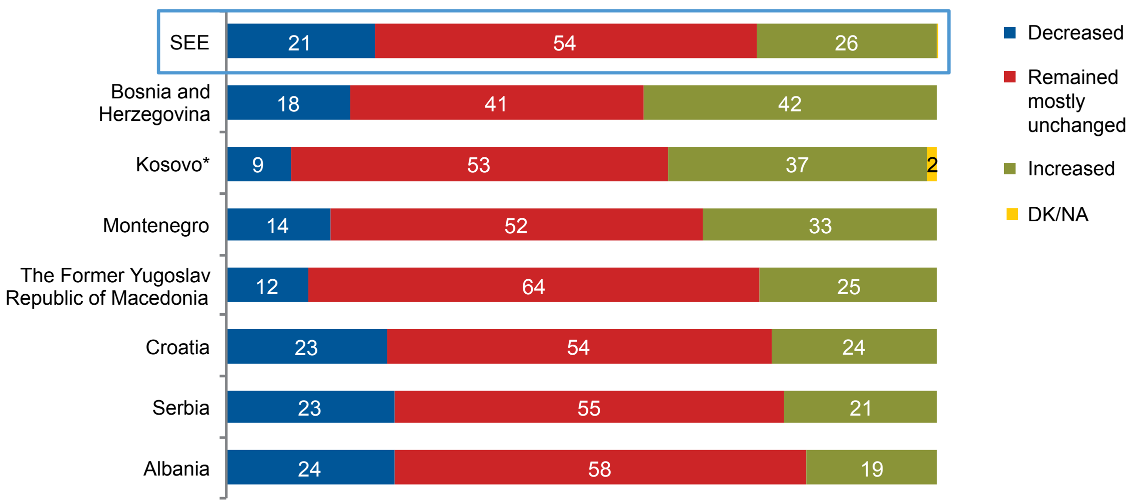



Despite difficult previous year, businessmen show some optimism. Approximately 2 out of 5 believe in future increase of demand for their products or services and they dominate over those with negative expectations (see Figure 5).

Montenegrins are most optimistic – more than 60% are convinced of demand growth, followed by managers from Kosovo* (59%) and Bosnia and Herzegovina (53%).

Compared to the rest of the region, in Albania (25%) and Serbia (24%) significantly more respondents state that demand will be decreased over the next year. However, even in these two economies those with positive expectations prevail.

**Figure 6: How has your firm's total employment changed over the past 12 months? It has been...**

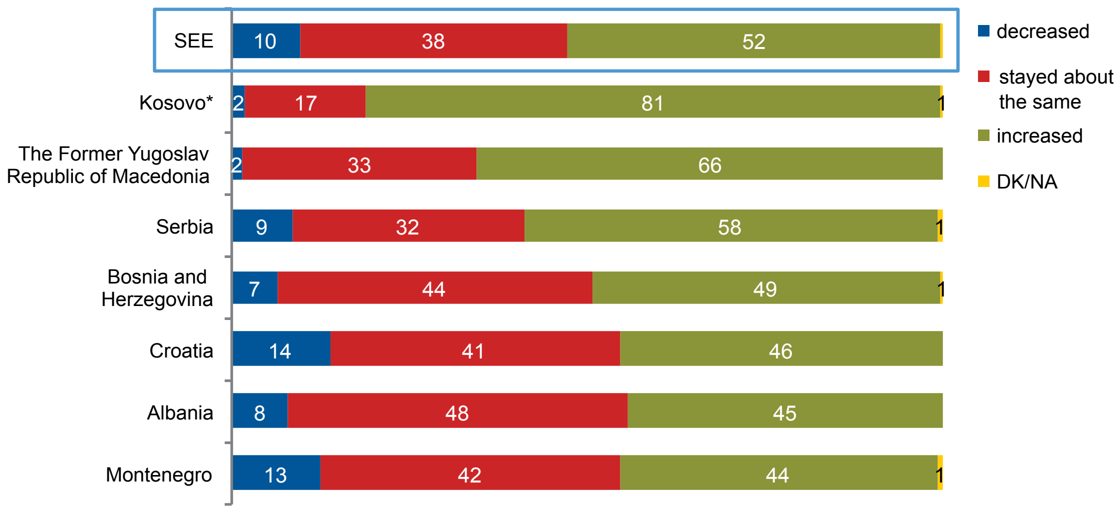



At the regional level, more than half (54%) of the companies have not changed the level of total employment over the past year (see Figure 6). One fifth of them have decreased the number of employees while one fourth have noted the opposite experience.

Bosnia and Herzegovina stands out by number of firms that have increased their total employment (42%), it being in contrast to Albania (19%), Serbia (21%) and Croatia (24%) where the number is significantly lower.

Although the biggest companies faced overall improvements more than smaller companies, one third (which is higher then average) decreased the number of employees and kept with cost containment measures.

**Figure 7: How have your labor and other costs (e.g. energy, etc). changed over the past 12 months? Costs have been...**







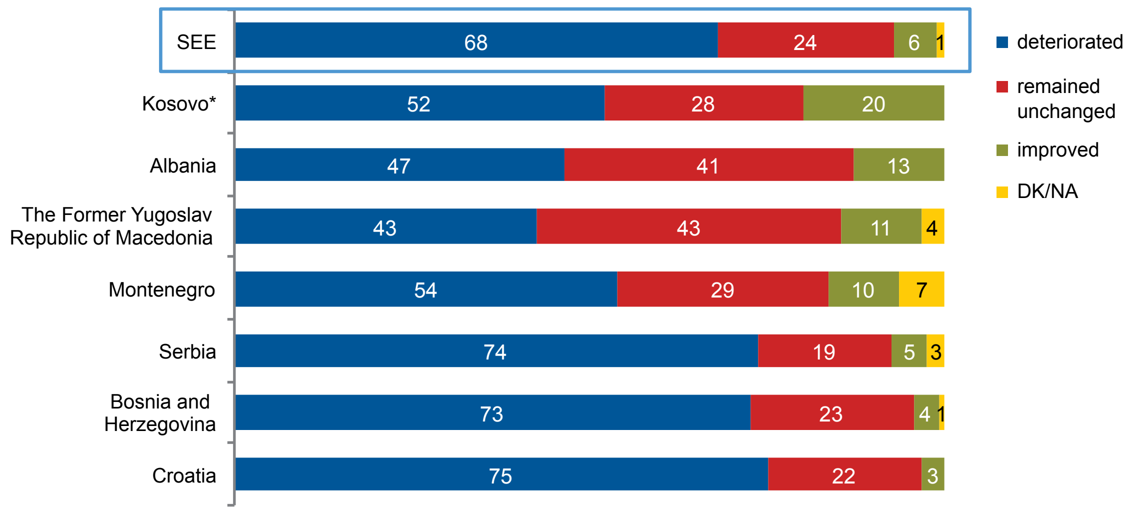

52% of SEE business leaders think that their labour and other costs have increased during previous year (see Figure 7).

That number is especially high in Kosovo* where even 4 out of 5 respondents report cost expansion.

In Croatia (14%), Montenegro (13%) and Serbia (9%) significantly more business people mention cost decreasing than in Kosovo* (2%) and The Former Yugoslav Republic of Macedonia (2%).

There is no influence of company size, industry or export activity in the region on evaluation of costs, the country of origin is much more important.

**Figure 8: How has the general economic situation changed over the past 12 months? It has been...**




Considering the whole SEE region, the vast majority (68%) of business people agree that the general economic situation in their place of living has become worse over the past 12 months (see Figure 8).

Business people from Croatia (75%), Serbia (74%) and Bosnia and Herzegovina (73%) are significantly more disappointed by current economic conditions than their colleagues from Albania (47%) and The Former Yugoslav Republic of Macedonia (43%).

Significantly more of those who feel economic improvement live in Kosovo* (20%) than in Croatia (3%), Bosnia and Herzegovina (4%) and Serbia (5%).

If we talk about the entire region, almost equal number of business respondents think that general economic situation will remain at the same level (35%) and that it will be deteriorated (34%) (see Figure 9). Slightly more than one fourth of them (28%) believe in improvement.

People from Montenegro and Kosovo* are the greatest optimists – approximately two fifths are convinced of the progress.

Compared to the rest of the region, Serbia has significantly more pessimists – even 48% of business population talk about economic deterioration over the next 12 months.

**Figure 9: How do you expect the general economic situation to develop over the next 12 months? It will be...**

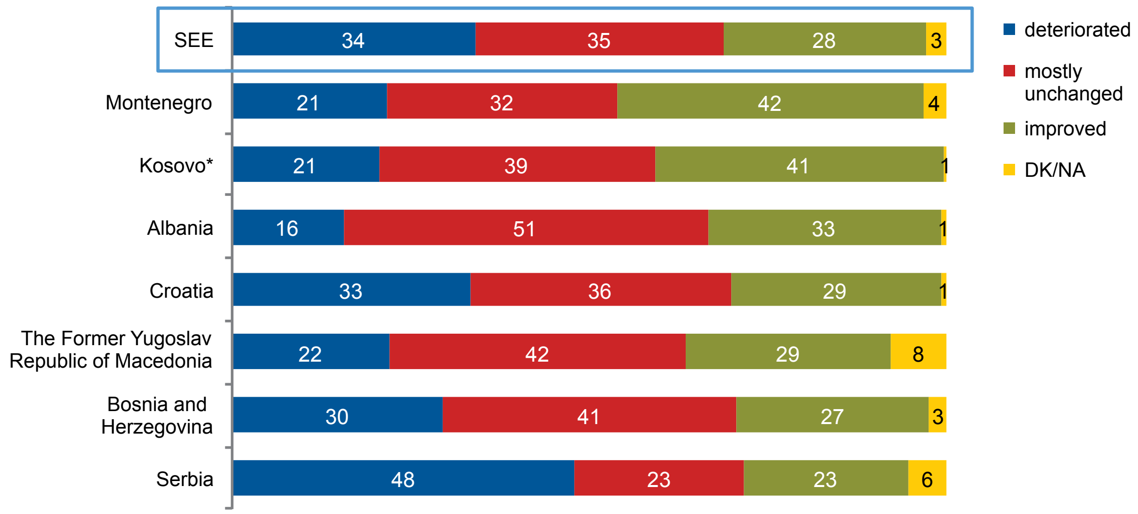
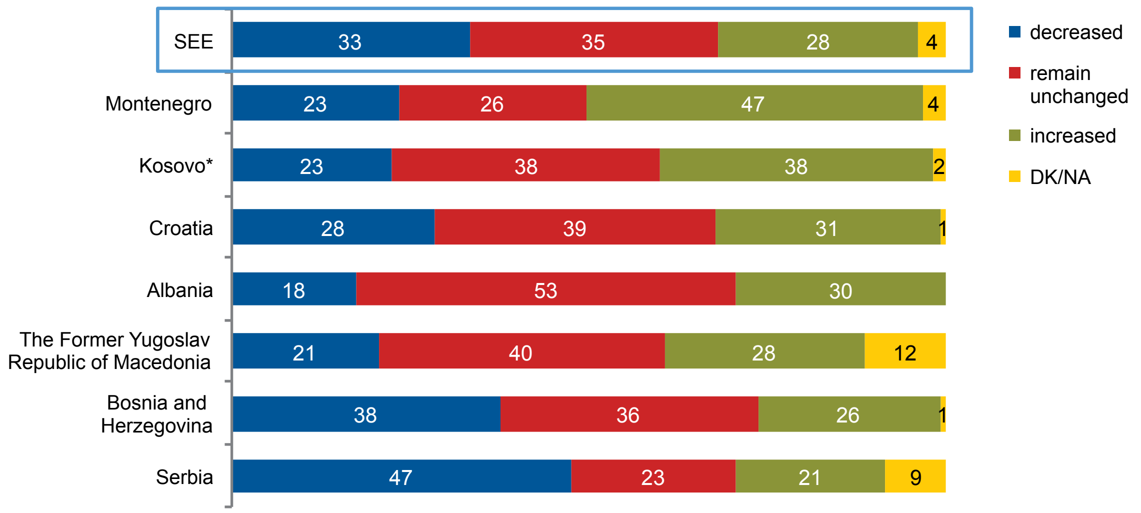



**Figure 10: How do you expect the number of people employed to change over the next 12 months? The number will be...**



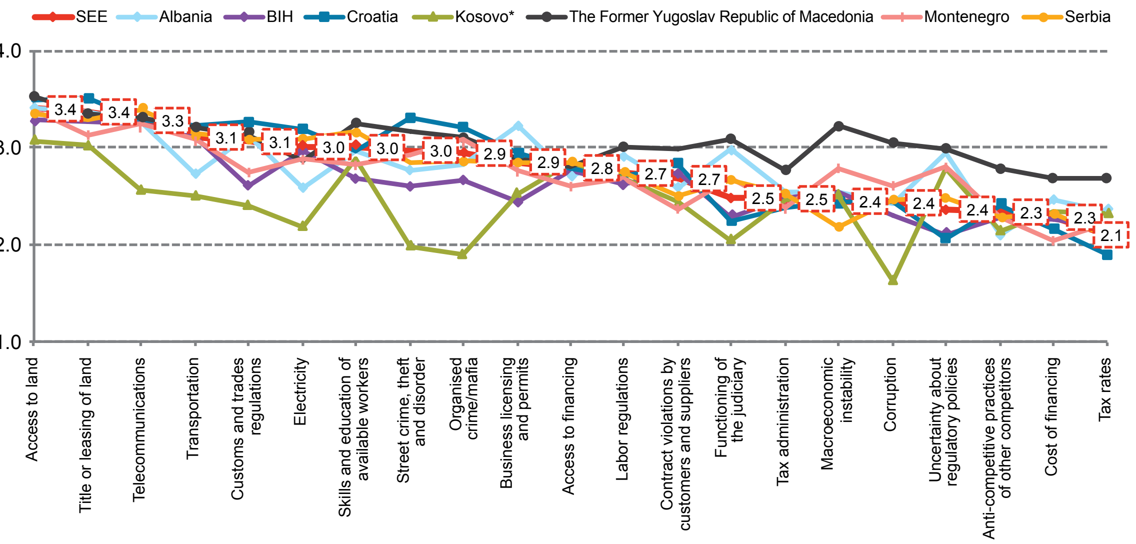

As one might expect, results at the regional level are very similar to those of previous question (see Figure 9), about general economic situation. Approximately one third of SEE business people state decreasing (33%) or unchanging (35%) number of people employed in their economy while 28% believe in increasing (see Figure 10).

Serbia is marked as economy with significantly more of those who report that the number of employees will be reduced over the next year.





**Figure 11: Can you tell me how problematic are these different factors for the operation and growth of your business? Can you please rate each? (1. Major obstacle, 2. Moderate obstacle, 3. Minor obstacle, 4. No obstacle)**




Results for the entire SEE region show that businesspeople in this region recognize tax rates as major obstacles for operation (see Figure 11) and growth of their business (mean is 2.1), followed by the financing costs and anti-competitive practice of other competitors (mean is 2.3). The least problematic are title or leasing of land and access to land (mean is 3.4).

If we compare seven economies and their perception of potentially problematic factors, we can see that companies' leaders from Kosovo* are most concerned about majority of factors – especially corruption, organised and street crime.

On the other hand, for The Former Yugoslav Republic of Macedonia the most of issues are least problematic, with exception of business licensing and permits, electricity and to some extent, title or leasing of land.

Croatians and Serbs state tax rates as major obstacle; for Bosnia and Herzegovina uncertainty of regulatory policies is the biggest problem while in Montenegro cost of financing causes most difficulties. Anti-competitive practice of competitors is the most problematic issue in Albania.

Bigger companies are more than others worried by tax rates, uncertainty about regulatory policies as well as macroeconomic stability.

## General Questions – Summary

Two groups of economies emerge, similarly as in the Public Opinion Survey. In the group doing worse tend to be Bosnia and Herzegovina, Croatia, and Serbia, while in the group doing better are Kosovo*, Albania, and The Former Yugoslav Republic of Macedonia, with Montenegro somewhat in between. This corresponds to the overall economic performance in the last few years, i.e. during the global economic crisis.

In terms of expectations, Serbia and Croatia are more pessimistic, but also The Former Yugoslav Republic of Macedonia does not seem to look for continued improvement.

Diverse factors may be in play, but the assessment of the effects of policies and growing uncertainty are probably the dominant ones.

There is hardly any indication that labour market performance will improve in the short run. Bosnia and Herzegovina is somewhat more optimistic, most probably because a recovery is expected this year due to increased investments in reconstruction of areas affected by last year's floods. Most forecasting institutions see sharp speed up of GDP growth in this economy this year.

**Table 1: Consumer prices (CPI) and producer prices (PPI)**

| | | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Average |
|---|---|---|---|---|---|---|---|---|
| Albania | CPI | 2.3 | 3.6 | 3.4 | 2.0 | 1.9 | 1.6 | 2.5 |
| | PPI | -1.6 | 0.3 | 2.6 | 1.1 | -0.5 | 0.3 | 0.4 |
| Bosnia and Herzegovina | CPI | -0.4 | 2.1 | 3.7 | 2.0 | 0.2 | -0.9 | 1.1 |
| | PPI | -3.4 | 1.0 | 5.5 | 0.3 | -1.8 | -0.7 | 0.2 |
| Croatia | CPI | 2.2 | 1.1 | 2.2 | 3.4 | 2.3 | 0.2 | 1.9 |
| | PPI | -0.4 | 4.3 | 7.0 | 5.4 | -0.2 | -2.6 | 2.2 |
| Kosovo* | CPI | -2.4 | 3.5 | 7.3 | 2.5 | 1.8 | 0.4 | 2.2 |
| | PPI | 3.8 | 4.7 | 5.7 | 1.7 | 2.5 | -0.6 | 3.0 |
| The Former Yugoslav Republic of Macedonia | CPI | -0.8 | 1.6 | 3.9 | 3.3 | 2.8 | -0.3 | 1.7 |
| | PPI | -7.2 | 8.7 | 11.9 | 1.4 | -1.4 | -2.0 | 1.9 |
| Montenegro | CPI | 3.4 | 0.5 | 3.5 | 4.1 | 2.2 | -0.7 | 2.2 |
| | PPI | -3.9 | -0.9 | 3.2 | 1.9 | 1.6 | 0.1 | 0.3 |
| Serbia | CPI | 8.6 | 6.8 | 11.0 | 7.8 | 7.8 | 2.9 | 7.5 |
| | PPI | 5.6 | 13.7 | 12.7 | 6.8 | 2.7 | 1.3 | 7.1 |



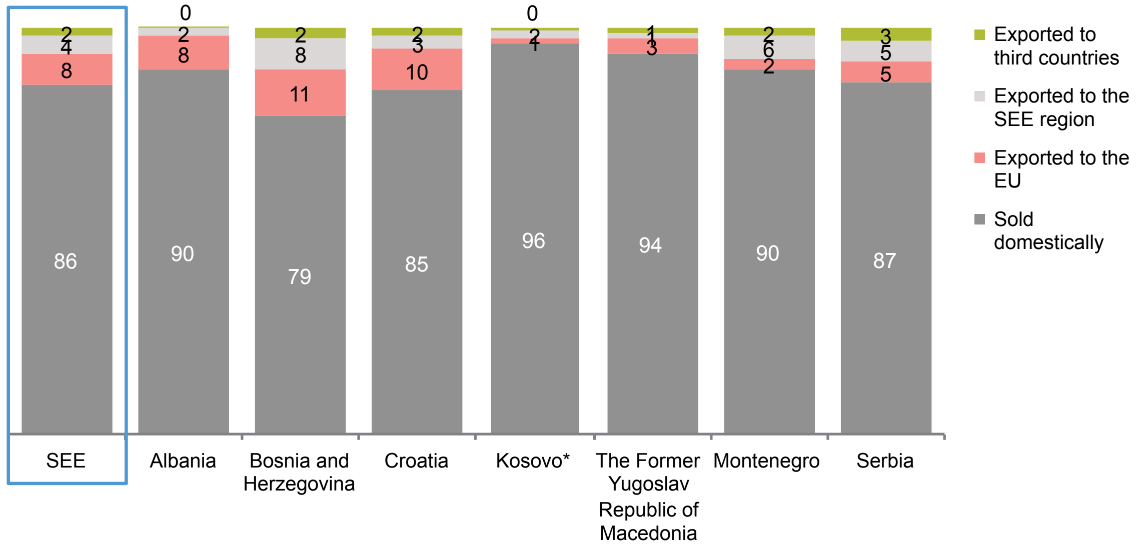


Costs tended to be seen as rising, though prices, and producer prices in particular, did not increase markedly if at all (see Table 1). Labour costs did increase, though not in Croatia and Serbia. So, this possibly reflects hikes in administrative prices and some increases in taxes.

Finally, there is little surprise when it comes to the obstacles to doing business. The Former Yugoslav Republic of Macedonia emerges as economy with least obstacles to doing business. Also, costs of financing are reported as a significant obstacle, which accords with what is known about the overall decline in lending and high interest rates.

## INTEGRATED GROWTH

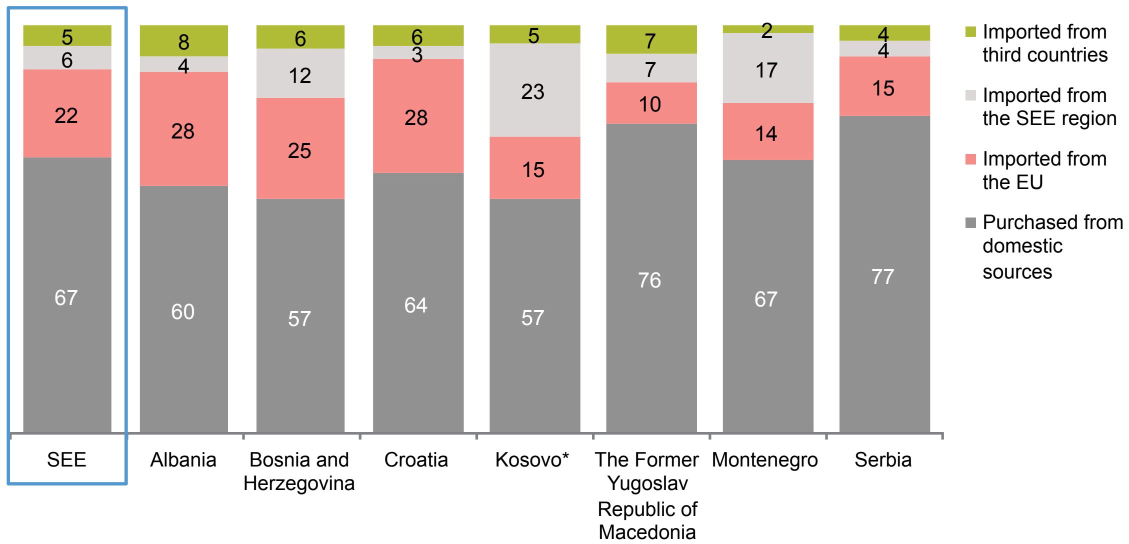
**Figure 12: What percentage of your firm's sales are sold domestically, exported to the SEE region, exported to the EU or exported to third countries?**




86% of total SEE sales are sold domestically and the export is done primarily to the European Union (8%) (see Figure 12). Only 4% are exported to the SEE region.

Kosovo* (96%) and The Former Yugoslav Republic of Macedonia (94%) lead in domestic sales, while Bosnia and Herzegovina (11%) is at first place by exporting to the EU, followed by Croatia (10%). That is significantly less in Serbia (5%).

**Figure 13: What percentage of your firm's material inputs and supplies are...**

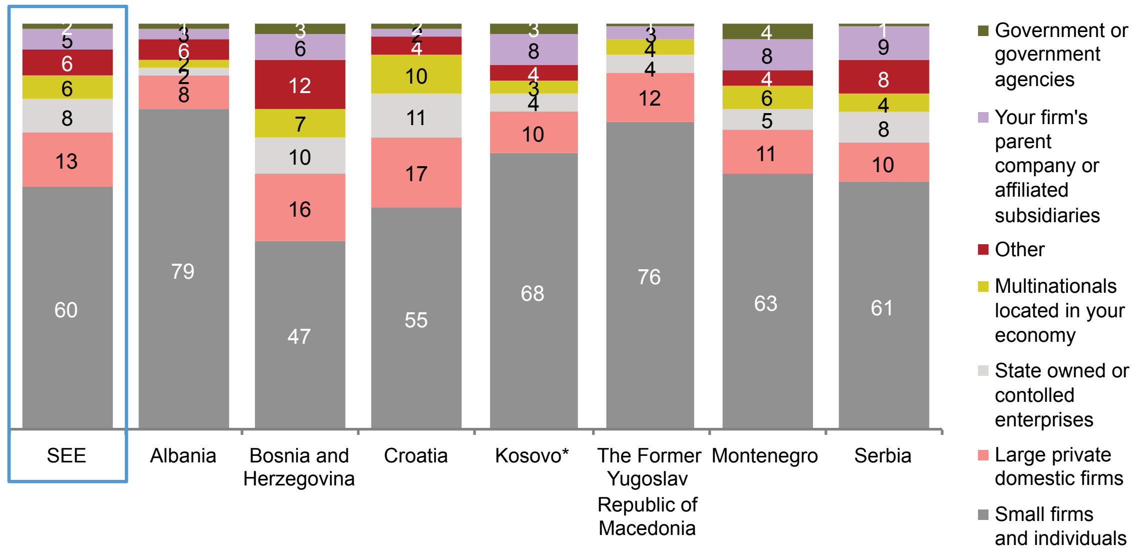



At the SEE level, about two thirds of material inputs and supplies are purchased from domestic sources (see Figure 13). This type of procurement is especially conspicuous in Serbia (77%) and The Former Yugoslav Republic of Macedonia (76%).

22% of SEE supplies are imported from European Union. Croatia (28%) has significantly larger EU import than The Former Yugoslav Republic of Macedonia (10%).

Kosovo* (23%) has a leading position regarding import from the SEE region, which is significantly more compared to all other economies, except Montenegro.

**Figure 14: What percentage of your domestic sales are to...**

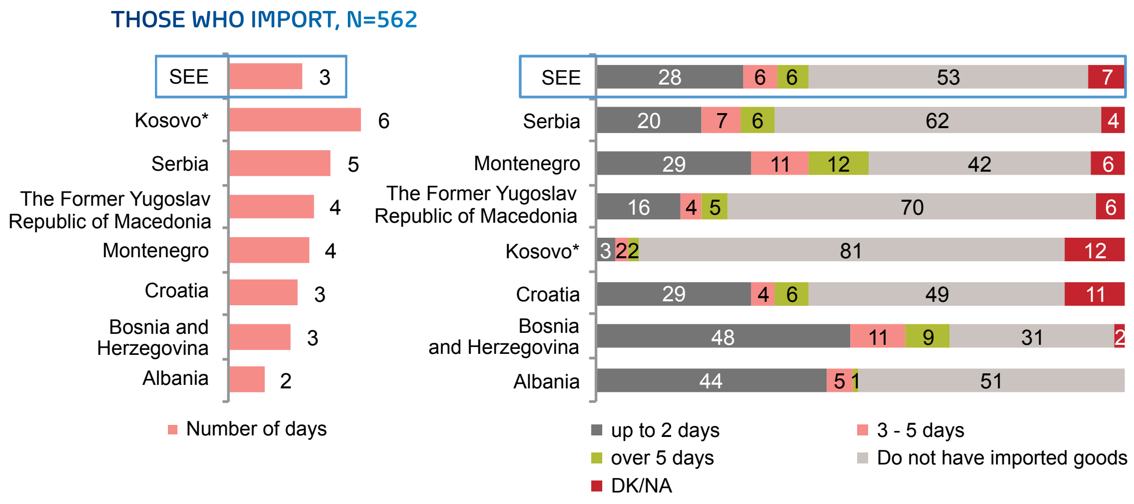



60% of domestic sales in SEE are to small firms and individuals (see Figure 14). Large private domestic firms are marked as second biggest purchaser (13%), while 8% are going to state owned or controlled enterprises and multinationals located in SEE.

Compared to Serbia (10%) and Albania (8%), Croatia has significantly more buyers among large private domestic firms (17%).

Albania (79%) and The Former Yugoslav Republic of Macedonia (76%) stand out by sales amount to small firms and individuals, especially in comparison with Bosnia and Herzegovina (47%) and Croatia (55%).

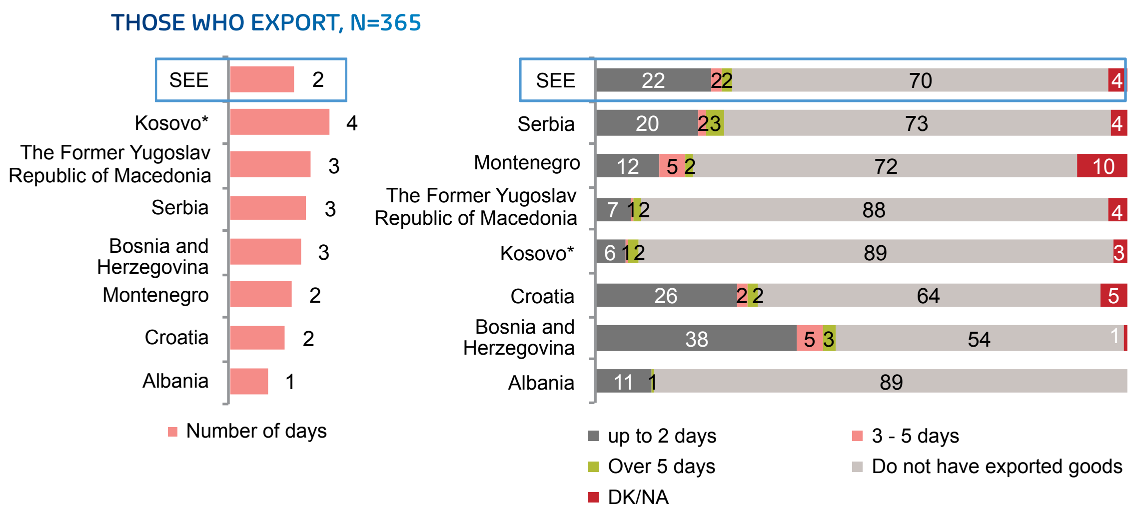
**Figure 15: If you have imported goods over the past 12 months, what is the average number of days that it takes imported goods to clear customs?**




Regarding duration of import procedures in the SEE region, it takes 3 days on average (see Figure 15 – „those who import").

Process of clearing customs lasts the longest in Kosovo* (6 days) while in Albania it required the least time (2 days).

**Figure 16: If you have exported goods over the past 12 months, what is the average number of days that it takes exported goods to clear customs?**




As in the case of import, Albania has fastest export procedures – only 1 day is needed for exported goods to clear customs (see Figure 16 – „those who export").

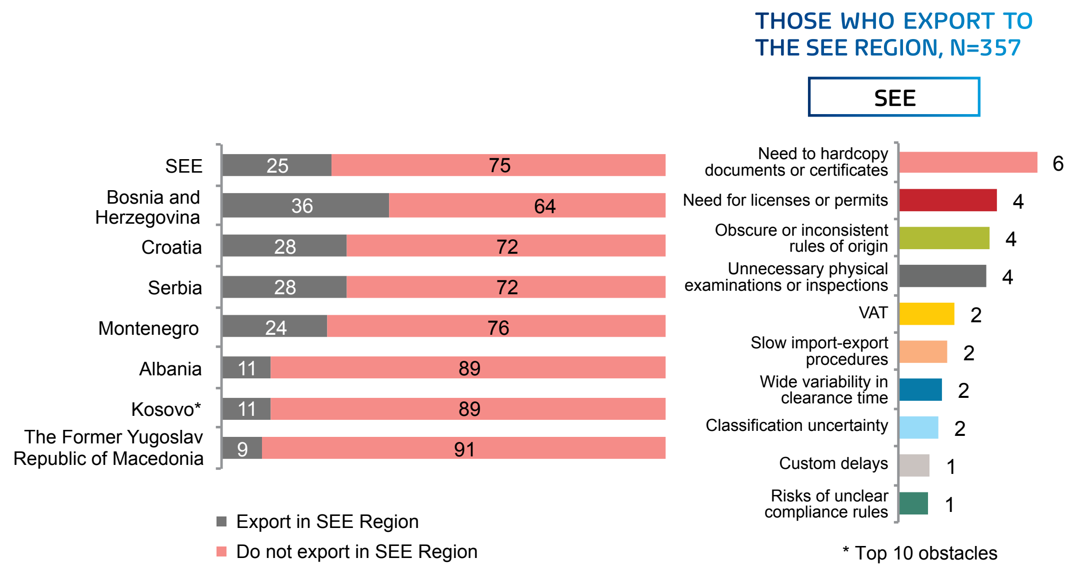
Compared to the rest of the region, time necessary for clearing customs is significantly longer in Kosovo* - 4 days.

At the regional level, average time for exported goods to clear customs is 2 days.





**Figure 17: If your company exports to the SEE region, what are the main obstacles to your exports?**




If we take into consideration the entire SEE region, one fourth of companies export to some parts of the region (see Figure 17).

Bosnia and Herzegovina (36%) is the leader in the number of firms that export to the SEE region - there are significantly more of them than in The Former Yugoslav Republic of Macedonia (9%), Albania (11%) and Kosovo* (11%). Business leaders whose companies export to the neighbouring economies recognize as main obstacles to their exports the need to hardcopy documents or certifications (6%), then the need for licenses and permits (4%), obscure of inconsistent rules of origin (4%) and unnecessary physical examinations or inspections (4%) (see Figure 17 – „Those who export to the SEE region").

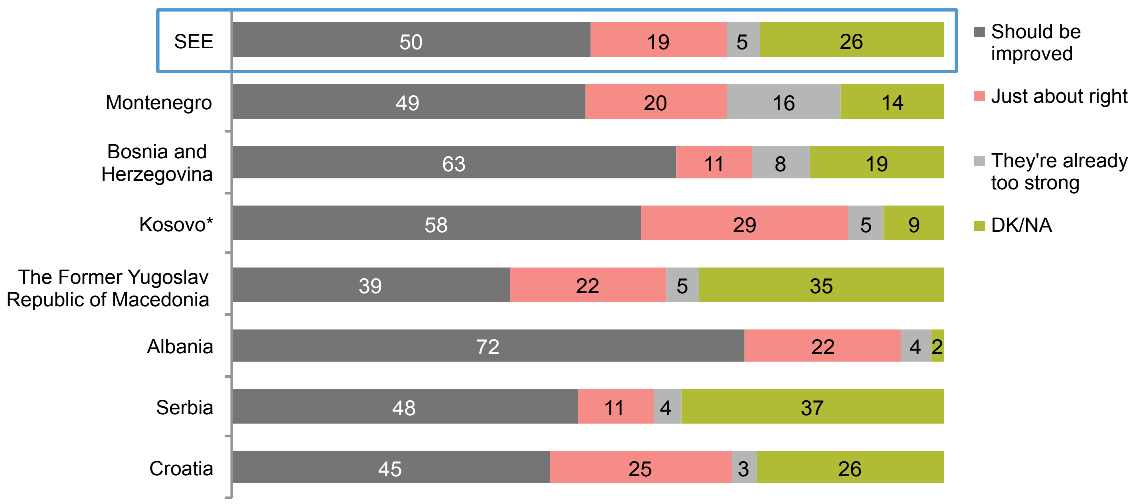
**Table 2: If your company exports to any of the economies in the SEE region, what are the main obstacles to your exports? (top 10 obstacles)**

| N | | Need for hardcopy documents or certificates | Need for licenses or permits | Obscure or inconsistent rules of origin | Unnecessary physical examinations or inspections | VAT | Slow import-export procedures | Wide variability in clearance time | Classification uncertainty | Custom delays | Risks of unclear compliance rules |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 358 | SEE | 5.66 | 4.04 | 3.74 | 3.60 | 2.29 | 2.00 | 1.78 | 1.64 | 1.27 | 1.21 |
| 13 | Albania | 0 | 1.50 | 0.50 | 1.50 | 2.50 | 1.00 | 2.00 | | 3.00 | 1.50 |
| 59 | Bosnia and Herzegovina | 2.50 | 5.50 | 7.00 | 7.00 | 2.00 | 3.00 | 2.00 | 2.50 | 0 | 1.50 |
| 146 | Croatia | 5.88 | 3.92 | 3.92 | 3.92 | 2.94 | 2.00 | 0.98 | 1.96 | 0.98 | 0.98 |
| 7 | Kosovo* | 0.50 | 1.50 | 1.00 | 1.00 | 3.50 | 2.00 | | 2.50 | 4.00 | 0.50 |
| 9 | The Former Yugoslav Republic of Macedonia | 1.00 | 1.00 | 0.50 | 1.00 | 1.50 | 1.00 | 1.00 | 0 | 0 | 1.00 |
| 9 | Montenegro | 6.50 | 3.00 | 1.50 | 3.00 | 2.50 | 2.00 | 3.00 | 2.50 | 1.50 | 1.00 |
| 115 | Serbia | 10.00 | 5.50 | 4.50 | 3.50 | 1.50 | 2.00 | 3.00 | 1.50 | 1.50 | 1.50 |

Main obstacles — Small base for valid conclusions

Serbian and Croatian businessmen find that need to hardcopy documents is the most problematic issue related to exports to the SEE region. Number of people who have this opinion is significantly higher in Serbia (10%) than in Bosnia and Herzegovina (2.5%) where the main obstacles are obscure or inconsistent rules of origin and unnecessary physical examinations or inspections.

**Figure 18: How would you describe your company's trade and commerce links with the neighboring SEE economies?**



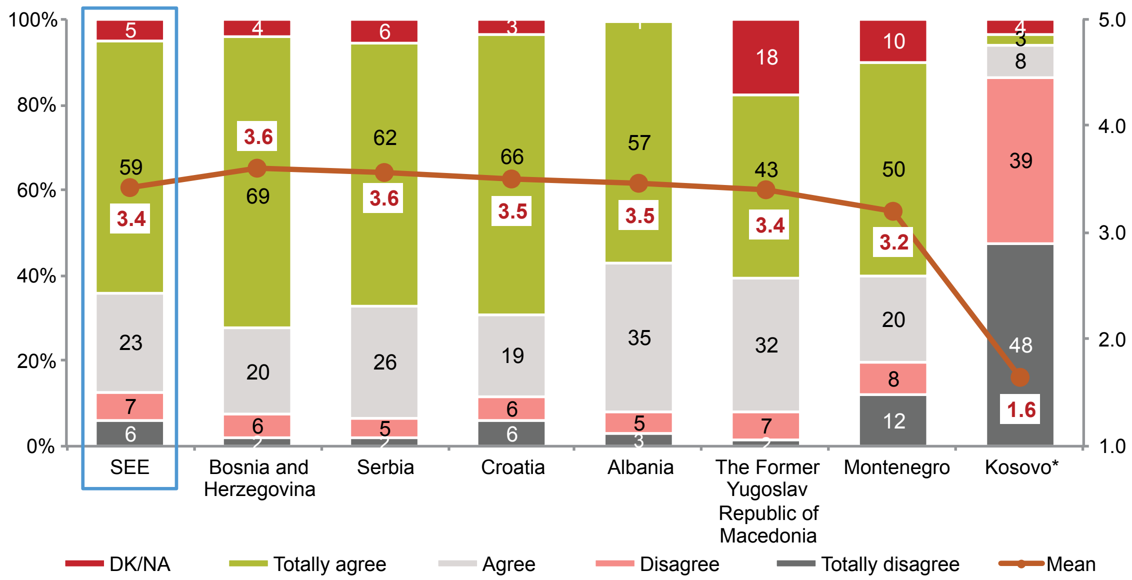



Half of the business population in the SEE region agree that their company's trade and commerce links with the neighbouring economies should be better (see Figure 18). Approximately one fifth see them as developed enough, while only 5% believe they are already too strong.

Compared to The Former Yugoslav Republic of Macedonia (39%) and Croatia (45%), significantly higher number of business leaders from Albania (72%) and Bosnia and Herzegovina (63%) think that trade links should be improved.

Montenegrins (16%) more often than Serbs (4%) and Croatians (3%) emphasize that current trading relations within the region are too strong. Improvement of business links with neighbouring economies is growing with the company size.

**Figure 19: My company's products, goods and services can compete well with products, goods and services from SEE. (Agreement level; 1-4 scale)**

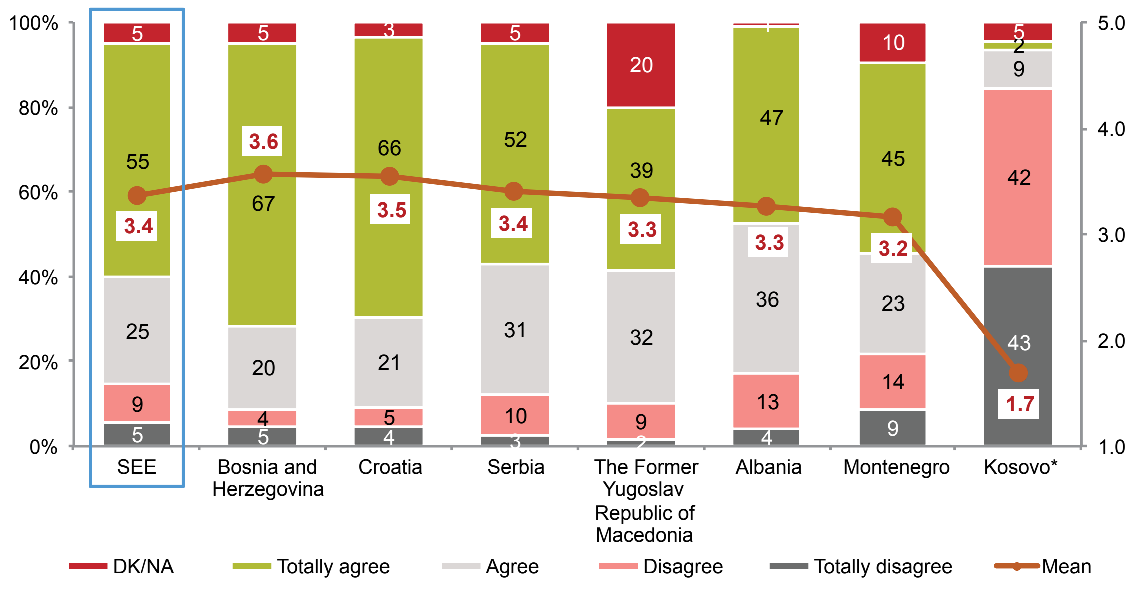



59% of businesspeople in SEE are totally convinced of competitiveness of their products comparing with products/services from other parts of the region (see Figure 19).

Respondents from Kosovo* estimate competitiveness of their products significantly lower than the rest of the region (mean is 1.6).

Business leaders from Bosnia and Herzegovina and Serbia show the most confidence regarding their own goods (mean is 3.6).

**Figure 20: My company's products, goods and services can compete well with products, goods and services from other EU countries. (Agreement level; 1-4 scale)**




Even four fifths of SEE business population believe that their goods can compete well with those from (other) EU countries (see Figure 20).

Lowest level of trust in domestic products is in Kosovo* (mean is 1.7) and that is significantly different from the rest of the region. Business leaders from Bosnia and Herzegovina are most convinced of own goods' competitiveness (mean is 3.6).

Considering the whole SEE region, business population have divided opinion in a view of CEFTA agreement – 37% of them agree that their company feels benefits from it, while slightly more – 41% have opposite experience (SEE mean is 2.4) (see Figure 21).

Serbian businessmen are least satisfied with regional free trade agreement (mean is 2.1), about one third of them say that their firms do not have advantages at all.

The highest level of satisfaction is among business people of Albania and The Former Yugoslav Republic of Macedonia (mean is 2.9), but among last ones, 45% did not answer to the question.

CEFTA agreement is more appreciated by larger companies as well as by those companies who actually export to SEE.





**Figure 21: My company has benefited from the regional free trade agreement (CEFTA 2006). (Agreement level; 1-4 scale)**

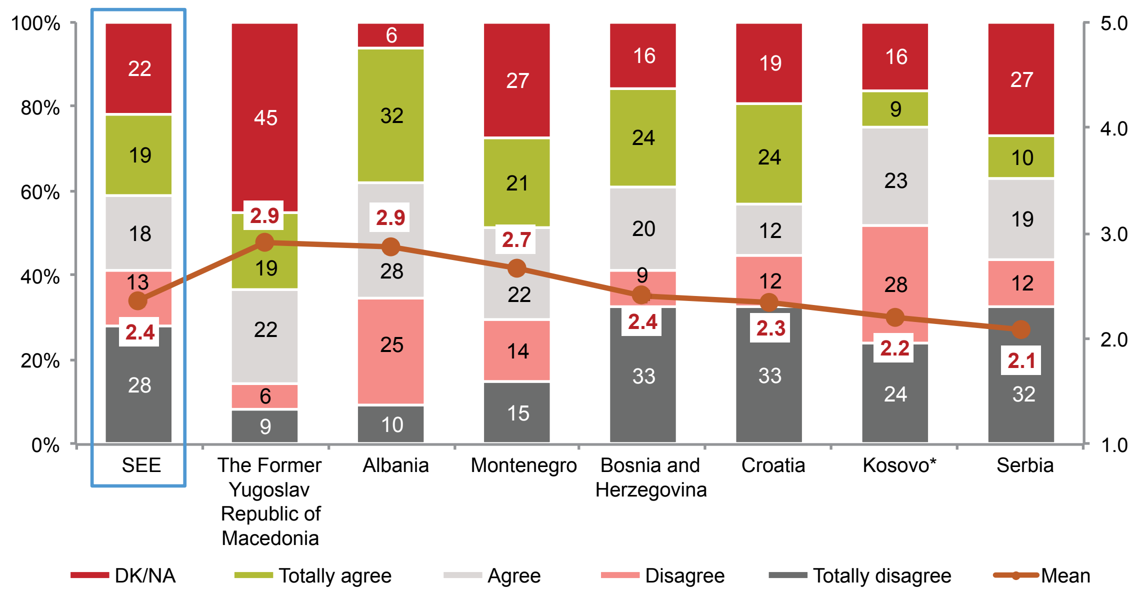
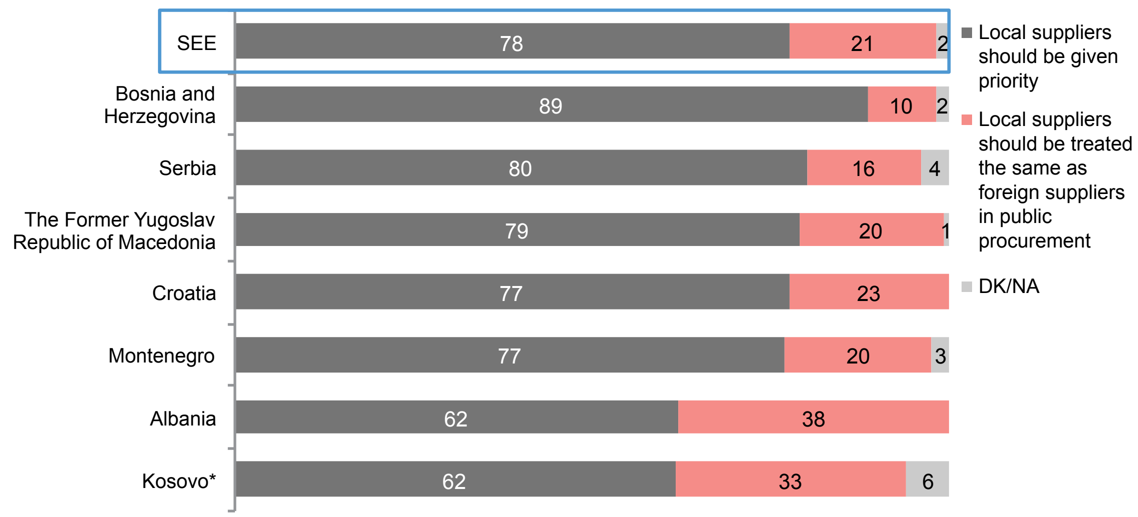


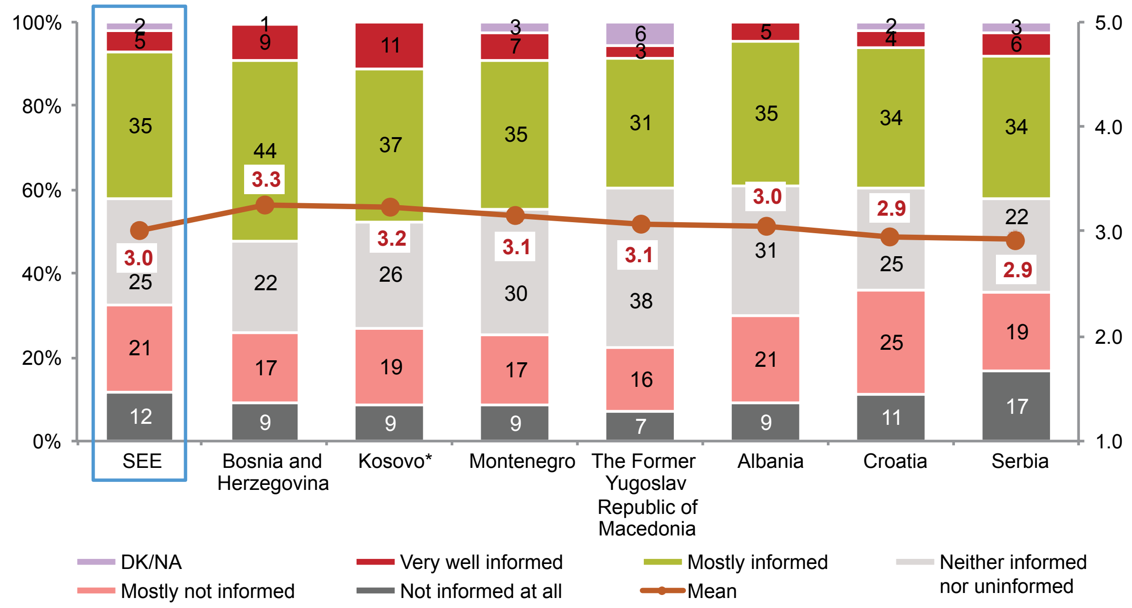

**Figure 22: In your opinion, when procuring products and services, should the governments in the region give priority to local suppliers, or should they be treated the same as all other suppliers (provided price and quality is equal)?**




Vast majority of SEE business population (78%) believe that the governments in the region should give priority to local suppliers over all others (see Figure 22). 1 out of 5 does not agree with this opinion.

Followers of the option that local suppliers should be treated the same as foreign ones are significantly more numerous in Albania (38%) and Kosovo* (33%) than in Bosnia and Herzegovina (10%) and Serbia (16%).

**Figure 23: Overall, to what extent do you think that you are informed about the business developments in SEE?**

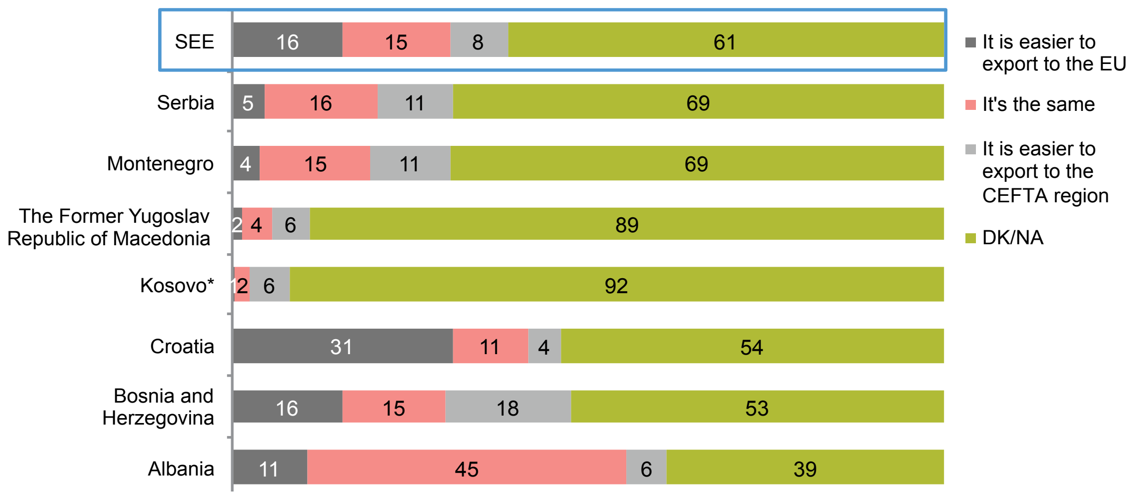



At the regional level, awareness of business developments in SEE is average (mean is 3) (see Figure 23).

Least informed are business leaders from Serbia and Croatia (mean is 2.9) while Bosnians stand out as most informed (mean is 3.3). But there is no significant differences regarding this issue across the region.

As might be expected, companies that export to the SEE are more informed about the business developments in this region.

**Figure 24: If your company is an exporter, can you tell us whether it is easier to export to the CEFTA region, or the EU?**

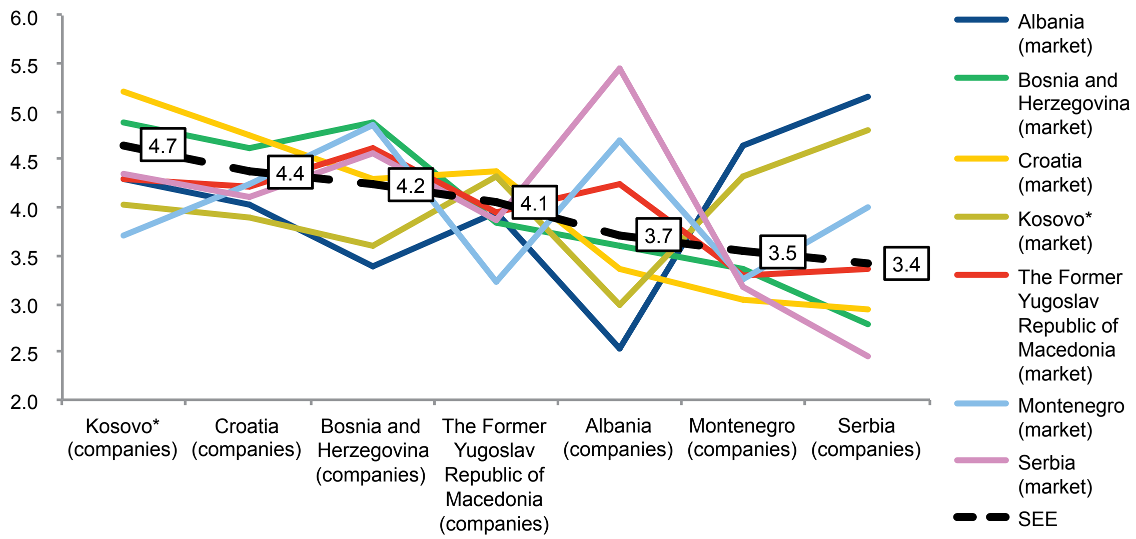





39% of SEE business population can compare exports to the CEFTA and EU (see Figure 24). 16% of the total number of respondents (N=1404) think that it is easier to export to the European Union and slightly less (15%) believe it is the same. 8% specify that it is easier to export to CEFTA region.

Compared to others, Croatia has significantly more businessmen who find that it is easier to export to the EU (31%) while Albania stands out by number of those who think it is the same (45%).

**Figure 25 (a): According to your opinion, which market in the SEE region is the most open one? Please give us your opinion no matter you/your company had direct experience with it. Rank these 7 markets from1 (most open) to 7 (least open).**




If we take into consideration the entire SEE region, Serbia is marked as the most open market (mean is 3.4) while Kosovo* is the least open (mean is 4.7) (see Figure 25a).

Serbian businesspeople state openness of Albanian market significantly less often than their colleagues from Croatia, Bosnia and Herzegovina, Kosovo* and Albania.

Reversed situation gets the similar results – business leaders from Croatia and Bosnia and Herzegovina rate Serbia as open market more often than those from Albania and Kosovo*.

Further, compared to Albanians, Serbs and Croatians emphasize openness of Montenegrin market more often.

**Figure 25 (b): According to your opinion, which market in the SEE region is the most open one? Please give us your opinion no matter you/your company had direct experience with it. Rank these 7 markets from 1 (most open) to 7 (least open).**

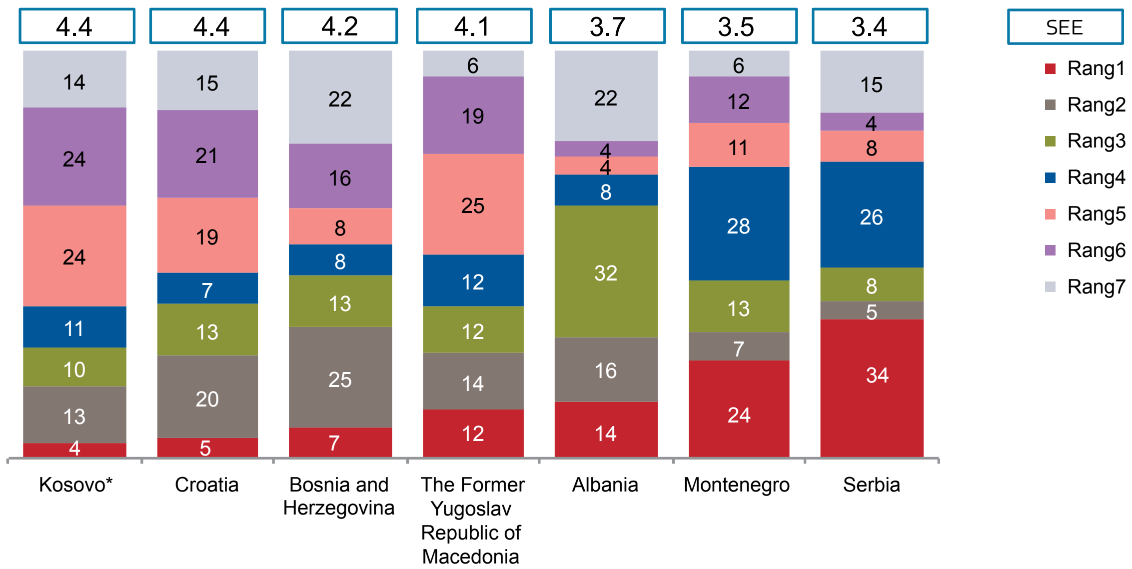
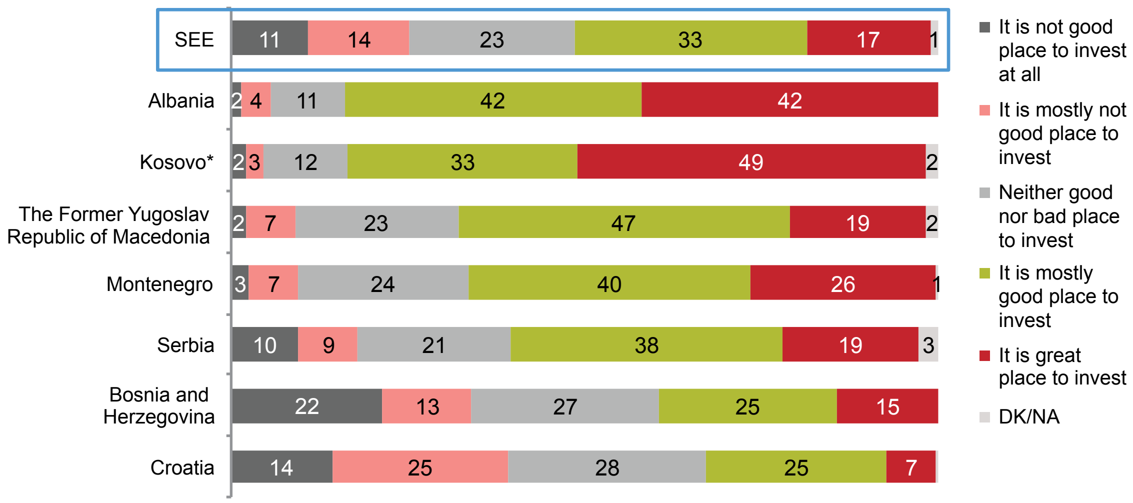



**Figure 26: Do you believe that your economy is good place to invest?**




Half of the SEE companies' leaders report that their economy is good place to invest (see Figure 26).

Those from Kosovo* (49%) and Albania (42%) believe significantly more in great potentials of their economy than businessmen from Croatia (7%), Bosnia and Herzegovina (15%) and Serbia (19%).

Compared to other economies except Bosnia and Herzegovina, Croatia has the lowest number of business people who think it is an encouraging place regarding investments.

Confidence in the potential of one's own economy increases with the company's size.





## Integrated Growth - Summary

The objective of Integrated Growth pillar is to promote regional trade and investment linkages and policies that are non-discriminatory, transparent and predictable. Goal of the SEE 2020 Strategy is to support export-led and FDI-driven type of growth in SEE.

Actions directed towards the achievement of these goals refer to removing intra-regional trade barriers, promote policies that support inward FDI, introduction of further trade-facilitating measures and enhance free movement of skilled workforce.

**Table 3: Export of goods and services/ GDP, 2014**

| | |
|---|---|
| Albania | 31.5 |
| Bosnia and Herzegovina | 33.5 |
| Croatia | 47 |
| Kosovo* | 20 |
| The Former Yugoslav Republic of Macedonia | 48 |
| Montenegro | 43 |
| Serbia | 33 |

The region is relatively closed in terms of exports of goods and even when services are included, though they play significant role in exports of Croatia and Montenegro. Thus, it is not surprising that firms sell predominantly in the domestic markets. The result for The Former Yugoslav Republic of Macedonia is somewhat surprising because it is not the most closed economy in this group, indeed quite the opposite as seen from Table 3. In any case, there are most probably few firms that target predominantly the foreign markets.

By contrast, openness in terms of imports is significant, which is reflected in the results on the origin of the suppliers.

There are also not so many firms that produce intermediate goods for large firms, with relative exception of Bosnia and Herzegovina and Croatia. This is a reflection of the fact that there are few multinational corporations operating in the area.

Clearing customs has improved and in some cases further improvement is hard to expect. It does not seem to present a major obstacle to trade. Rules of origin do, in a number of cases, as those apply to exports to the EU. Given that usually non-tariff barriers increase in free trade areas, the reported obstacles are fairly mild.

One of the indicators of fair competitiveness is perception of anticompetitive practices of other competitors. In average in the region (with similarities across economies) this factor is among top three problems of businesses.

The answers on the state of inter-SEE trade are positive as expected. There are some large numbers of respondents that do not know in some cases, which is another reflection of the fact that export sectors tend to be small.

Firms feel fairly confident that they can compete with other firms from SEE and EU, except in Kosovo*. With large imports and very low exports, that is not surprising. The protectionist and domestic bias is rather strong with some differentiation. Businesses would like to be preferred to foreigners by the authorities. Also, there are relatively more of them that think that integration in the SEE market has gone too far and significant number is not informed about the regional market.

Interesting result is that Serbia is seen as the most open regional market, even though it is the largest net exporter to the region. Also, Kosovo* market is seen as relatively closed, even though it has very large trade deficit. Truth to be told, there are some differences – for example, for Albanian companies and Kosovo*, Serbia is not perceived as open as by Croatian companies. In average, having in mind all limitations of the question, it can be concluded that there are more companies convinced it is easier to export to EU than to the region – so there is still room for improvement. CEFTA has helped local markets as it has become instrumental in securing open and accessible regional markets. However, when looking how CEFTA helped the observed companies to gain some benefits, it can be concluded that opinions are divided, more negative than positive. This does not necessarily mean that CEFTA failed to provide benefits to the companies as this opinion is highly influenced by orientation of the company towards the export or towards domestic market. If we take into account opinion of those who export to the region, opinion is much better: two thirds of them claim that they benefited from CEFTA.

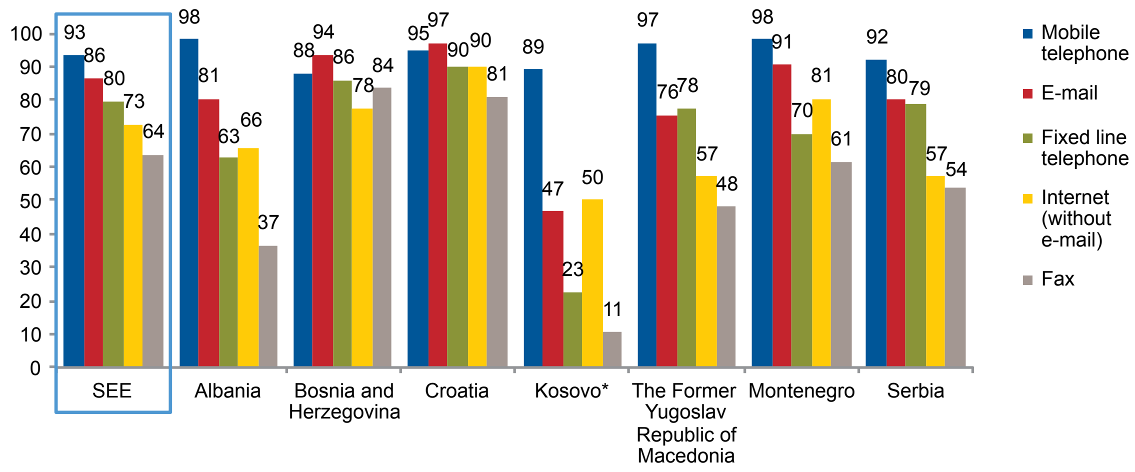
Finally, the perception in most economies is that they are a good place to invest, though notably less in Croatia and Bosnia and Herzegovina. This is in contrast with relatively low foreign investments and low shares of investments in GDP altogether. Also, most rating companies and suppliers of doing business indices do not agree.





## SMART GROWTH

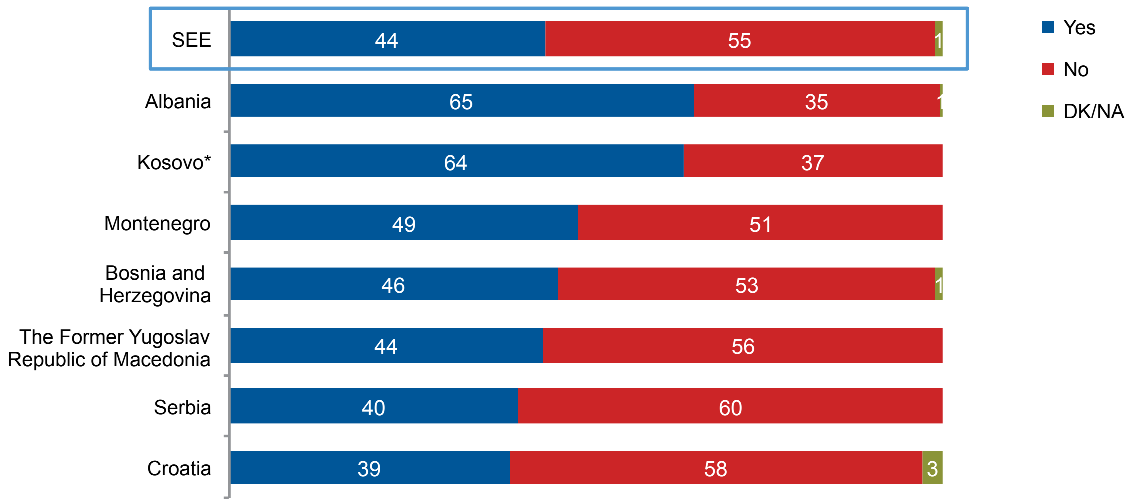
**Figure 27: What of the following does your firm regularly use in its interactions with clients and suppliers?**




Vast majority (93%) of companies in the SEE region regularly use mobile phone in their communication with clients and suppliers (see Figure 27). Second most commonly used communication tool is e-mail (86%), while companies in Kosovo* (47%) use it significantly less compared to companies in the rest of the region, except Serbia. On the other hand, companies in Bosnia and Herzegovina (94%) and in Croatia (97%) use e-mail in communication with clients/suppliers significantly more than companies in Albania (81%), Kosovo* (47%), The Former Yugoslav Republic of Macedonia (76%) and Serbia (80%).

Fixed line telephone is used in Croatia significantly more (90%), compared to the other parts of the region except Bosnia and Herzegovina (86%), while in Kosovo* significantly less (23%) compared to others. In interaction with clients, Internet (without e-mail) is used by more than two thirds of companies in the SEE region, but significantly more in Croatia (90%). Companies use fax machine the least (64% - SEE), but in Bosnia and Herzegovina (84%) and Croatia (81%) that percentage is significantly higher compared to the rest of the region.

**Figure 28: Does your company use virtual social networks (Facebook, Twitter, LinkedIn, etc). for communication?**

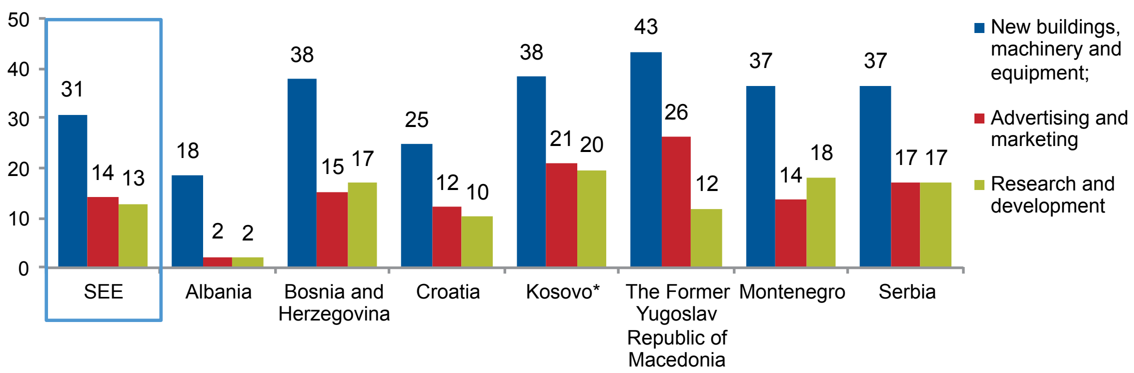



More than half of the companies in SEE do not use social networks, such as Facebook, Twitter or LinkedIn, for communication (see Figure 28).

Albania (65%) and Kosovo* (64%) use virtual social networks significantly more compared to Serbia (40%) and Croatia (39%). Albania also uses these networks in significantly larger extent than Bosnia and Herzegovina (46%).

Companies within service industry, as well as those from the fields of science, culture, education and health protection use virtual social networks for communication in their economy more than others.

**Figure 29: Could you please tell me what percentage (%) of your total firm spending in 2014 went on each of the following:**



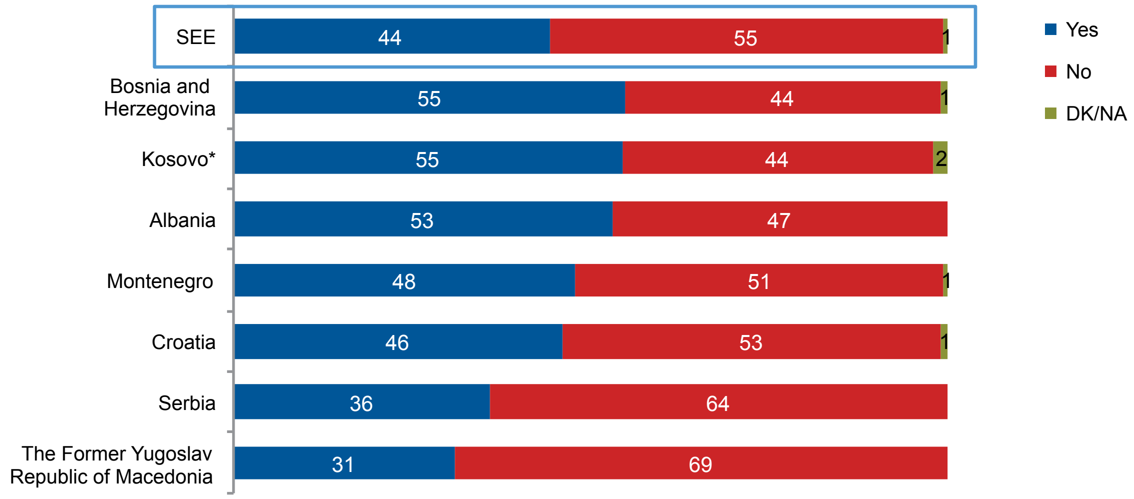

At the SEE level, almost one third of total firm spending went to new buildings, machinery and equipment (see Figure 29). This is significantly lower in Albania (18%), compared to Bosnia and Herzegovina (38%), Kosovo* (38%), The Former Yugoslav Republic of Macedonia (43%) and Serbia (37%). In addition, Serbia spent more in 2014 on this equipment, compared to Croatia (25%) and Albania (18%). Again, total expenditure for advertising and marketing was significantly lower in Albania (2%) than in Bosnia and Herzegovina (15%), Kosovo* (21%), The Former Yugoslav Republic of Macedonia (26%) and Serbia (17%).

Albania is also spending significantly less on research and development compared to all other SEE economies, except Croatia and The Former Yugoslav Republic of Macedonia.

Companies in Serbia spent significantly more for R&D (17%) than companies in Croatia (10%) and Albania (2%). The Former Yugoslav Republic of Macedonia spent more on advertising (26%) than Croatia (10%) as well.

Companies in the area of education, science, culture, information and health protection invest in R&D above average, while firms dealing with service activities recognize importance of advertising and marketing more often than others.

**Figure 30: Has your firm acquired new production technology over the last 36 months?**

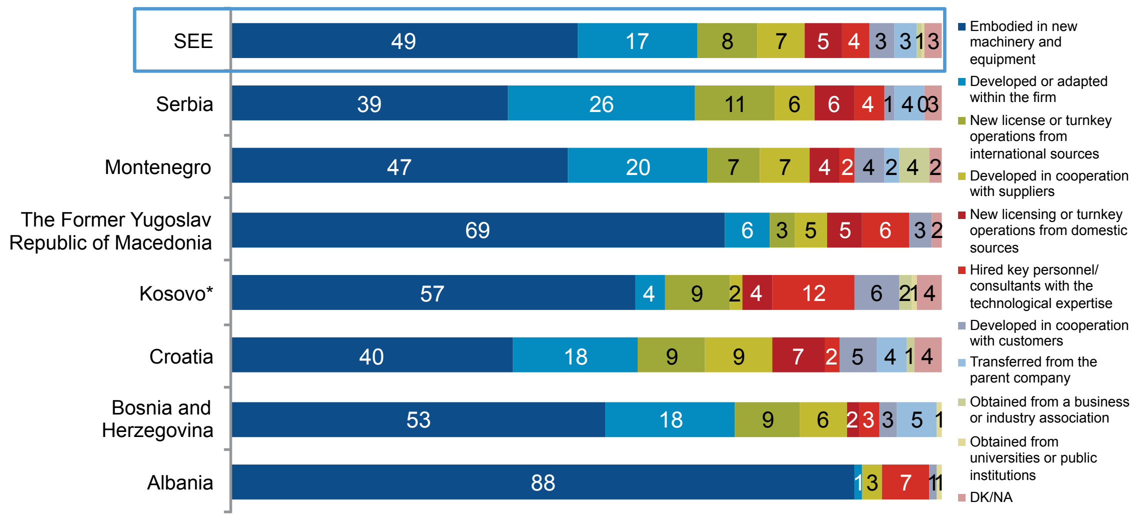



55% of the SEE region did not acquire new production technology over the last 36 months (see Figure 30).

Companies from Bosnia and Herzegovina (55%) and Albania (53%) claim that they acquired new production technology significantly more compared to The Former Yugoslav Republic of Macedonia (31%) and Serbia (36%).

Companies with highest number of employees (over 250) and those that export to the SEE region acquire new product technology more often than others.

**Figure 31: What was the most important way your firm acquired this new technology, choosing from the list below?**

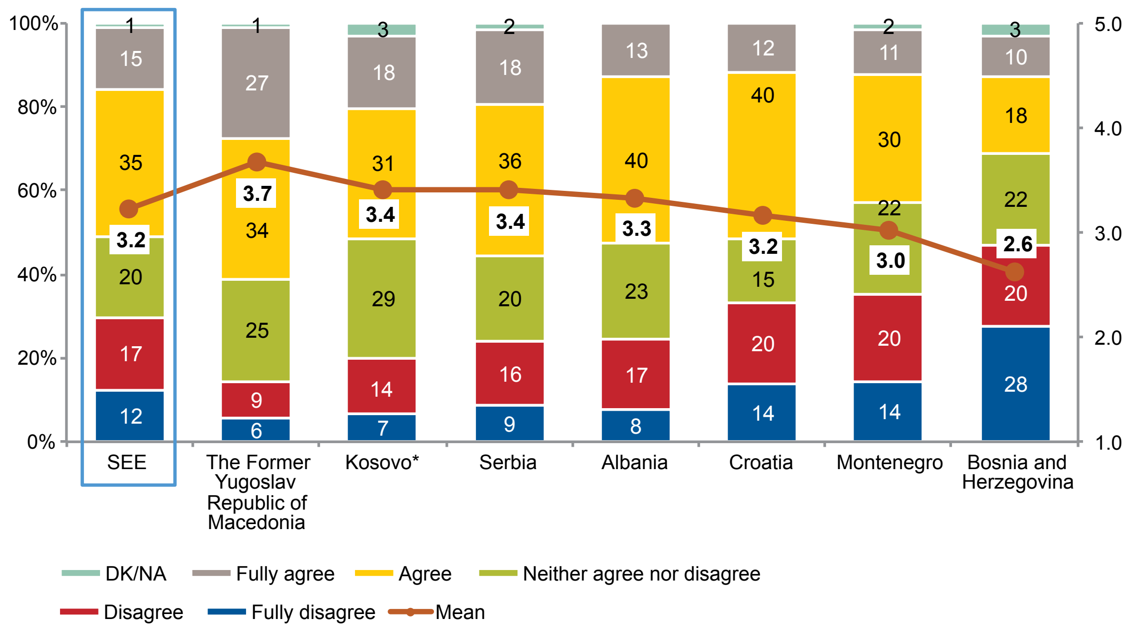



Generally, the most important way that firms in the SEE region acquired new technologies is embodied in new machinery and equipment, and this particularly refers to Albania (88%), where this way is significantly higher than in all other SEE economies, except The Former Yugoslav Republic of Macedonia (see Figure 31). All other forms of acquiring of new technology are almost not used in Albania. Contrary to that, companies in Serbia and Croatia use wider scope of ways to acquire new technology. Firms in the fields of agriculture and similar areas (although the base is smaller) and those dealing with industry, mining and construction acquire new technologies through new machinery and equipment more than others.





**Figure 32: Would you agree that the skills taught in the educational system meet the needs of your enterprise? Please rate your answer from 1 to 5, where 1 means fully disagree, 2- disagree, 3 – neither agree nor disagree , 4 – agree and 5 means fully agree.**




SEE business population in average neither agree nor disagree with the statement that taught skills through education meet the needs in their enterprises (average rate is 3.2) (see Figure 32). However, there are differences among economies.

Significantly lower rate is in Bosnia and Herzegovina (2.6), compared to The Former Yugoslav Republic of Macedonia (3.7), Serbia (3.4), Albania (3.3), and Croatia (3.2).

Largest companies, those with more than 250 employees, are the least satisfied with current educational system in their economy (2.9).

Companies in SEE review the skills and training needs of individual employees mostly regularly or partly (see Figure 33).

Companies from Albania and Serbia do not review the employees' skills and training needs to a significantly larger extent (45% and 40%), compared to Bosnia and Herzegovina (16%), Croatia (17%) and Kosovo*(18%).

Also, in Kosovo* (58%), Bosnia and Herzegovina (57%) and Croatia (54%) companies review the skills and training needs of individual employees to a significantly larger extent compared to The Former Yugoslav Republic of Macedonia and Serbia (28% each).

Reviewing employees' skill and training needs is growing with the company's size.

**Figure 33: Thinking about skills requirements in your company, does your company regularly review the skill and training needs of individual employees?**

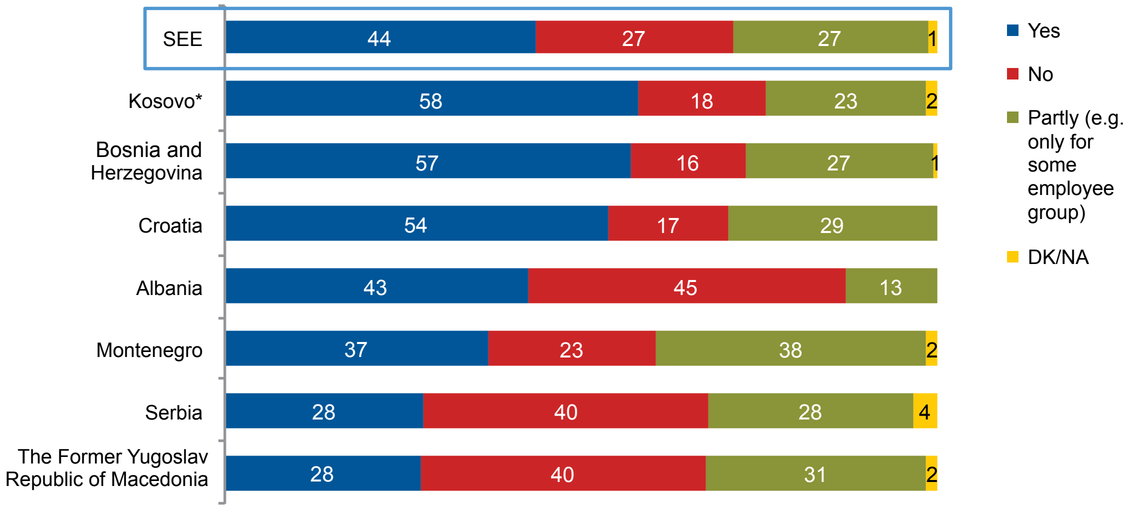
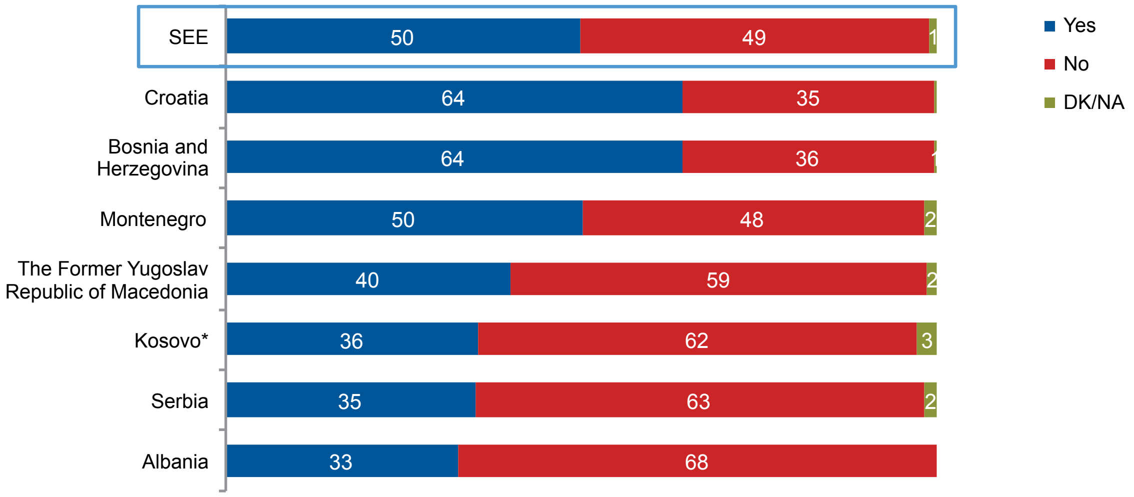



**Figure 34: In the previous 12 months, did your employees participate in any external or internal training courses that were wholly or partly paid by your company, except any training obliged by law?**




During the previous 12 month, half of the companies in the SEE have organized or paid training courses for their employees (see Figure 34).

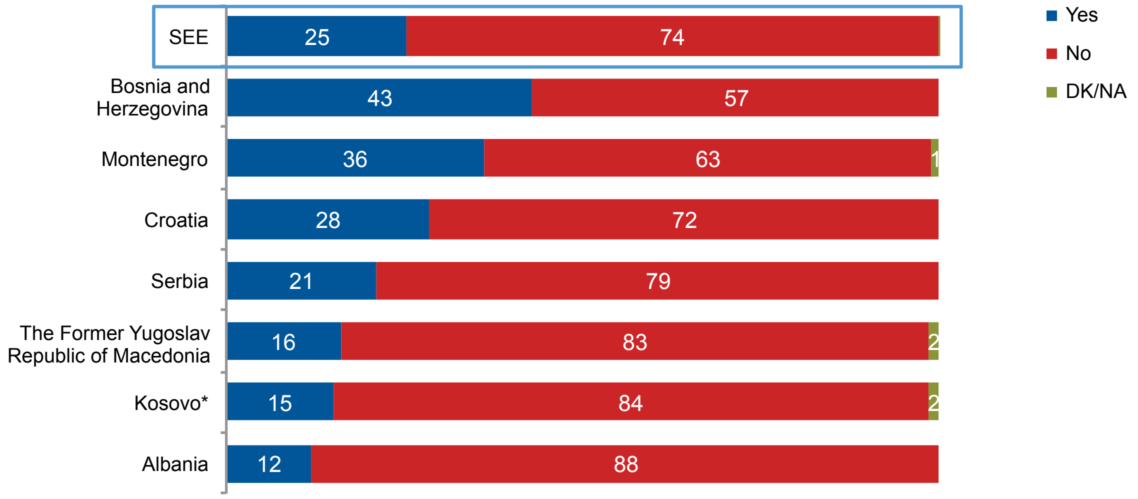
Employees in Bosnia and Herzegovina and Croatia have significantly more trainings (both 64%), compared to employees in Albania (33%), Serbia (35%), Kosovo* (36%) and The Former Yugoslav Republic of Macedonia (40%).

Investment into educational courses depends on the company's size – larger ones more often organize or pay trainings for their employees.





**Figure 35: Did you have vacancies over the past 12 months that have proved hard to fill?**

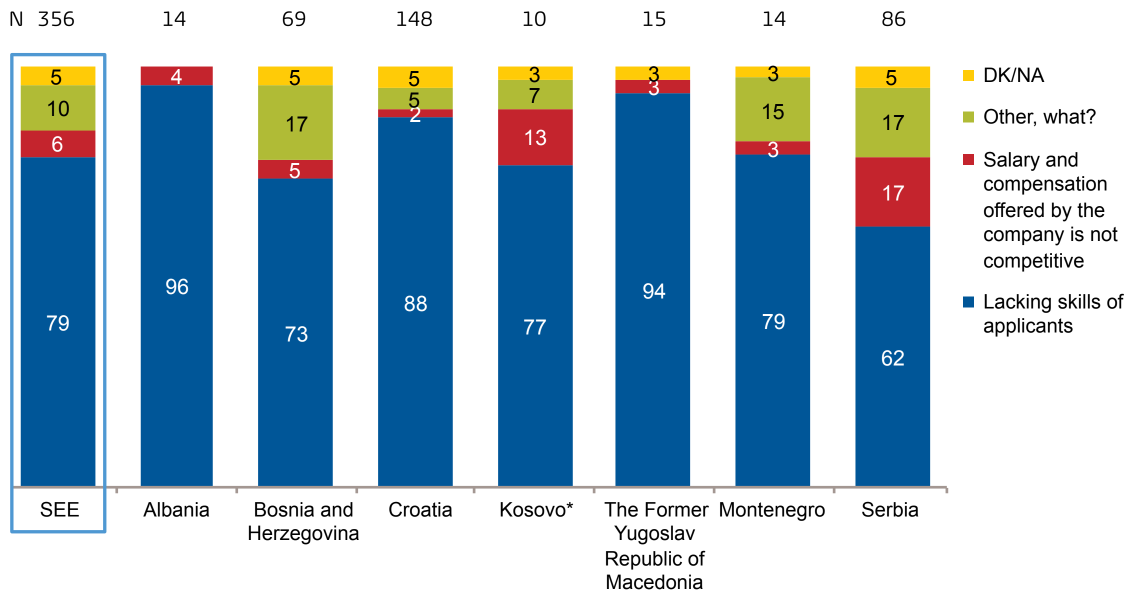



Generally, one fourth of vacancies in the SEE region were hard to fill during previous year (see Figure 35). This is especially the case in Bosnia and Herzegovina where 43% vacancies were hard to fill, what is significantly higher compared to the rest of the region, except Montenegro. The most common reason for this was the lack of the applicants' skills (in almost 4 out of 5 cases), especially in Albania (96%) and The Former Yugoslav Republic of Macedonia (94%), compared to Serbia (62%) (see Figure 36). Second most common reason is - not competitive salary that was offered – that reason is significantly more frequent in Serbia (17%) than in Croatia (2%).

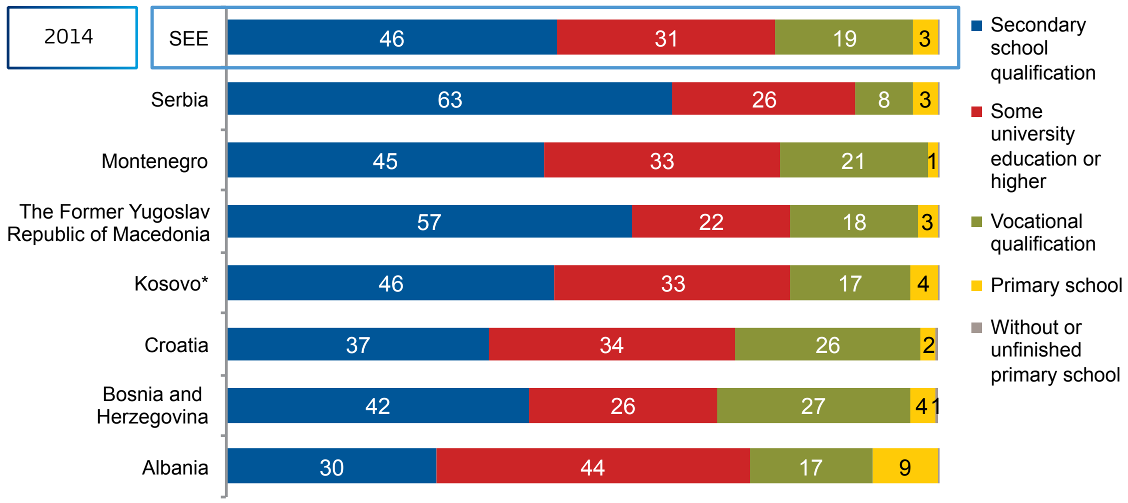
Companies in Albania have significantly less difficulties with filling the vacancies (12%), compared to Bosnia and Herzegovina (43%), Montenegro (36%), and Croatia (28%).

Bigger enterprises have faced more difficulties to fill vacancies over the past 12 months, but smaller ones are more disappointed by skills of applicants.

**Figure 36: If yes, why do you think this is the case? (Those who have difficulty in filling vacancies)**



### Figure 37: What percentage of the workforce at your firm has following education levels?

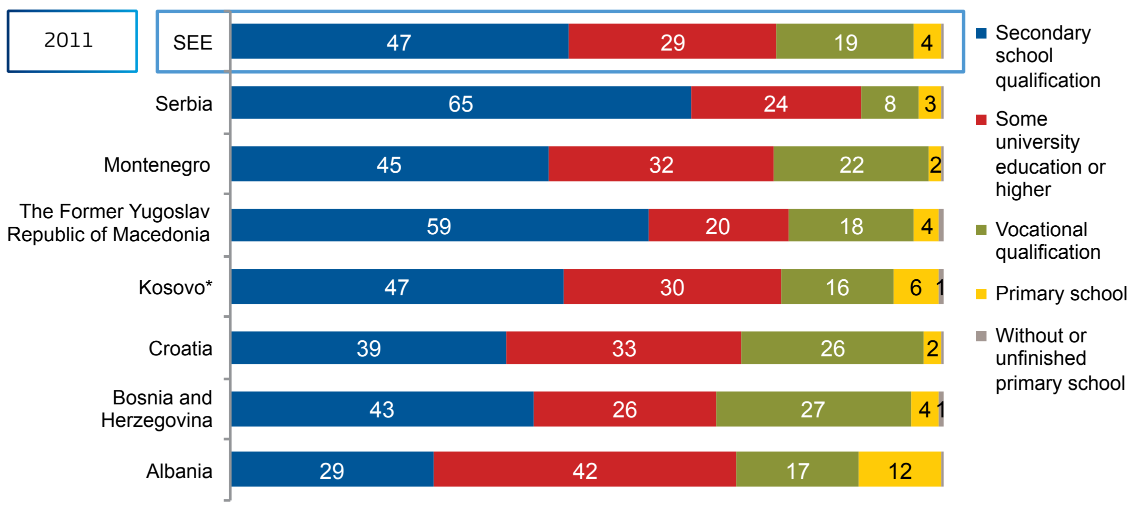



In 2014, Albania has significantly higher percent of workforce with primary school (9%) compared to the other parts of the region (see Figure 37) and situation was the same three years ago (when it was 12%, but this drop is not significant) (see Figure 38). At the same time, companies in Albania have significantly more university educated workforce (44%), compared to Serbia and Bosnia and Herzegovina (both 26%) and The Former Yugoslav Republic of Macedonia (22%).

Additionally, enterprises in Serbia have significantly more employees with secondary school qualification (63%), compared to Albania (30%), Bosnia and Herzegovina (42%), Croatia (37%) and Kosovo* (46%). Workforce structure, in general, is pretty much similar as three years ago.

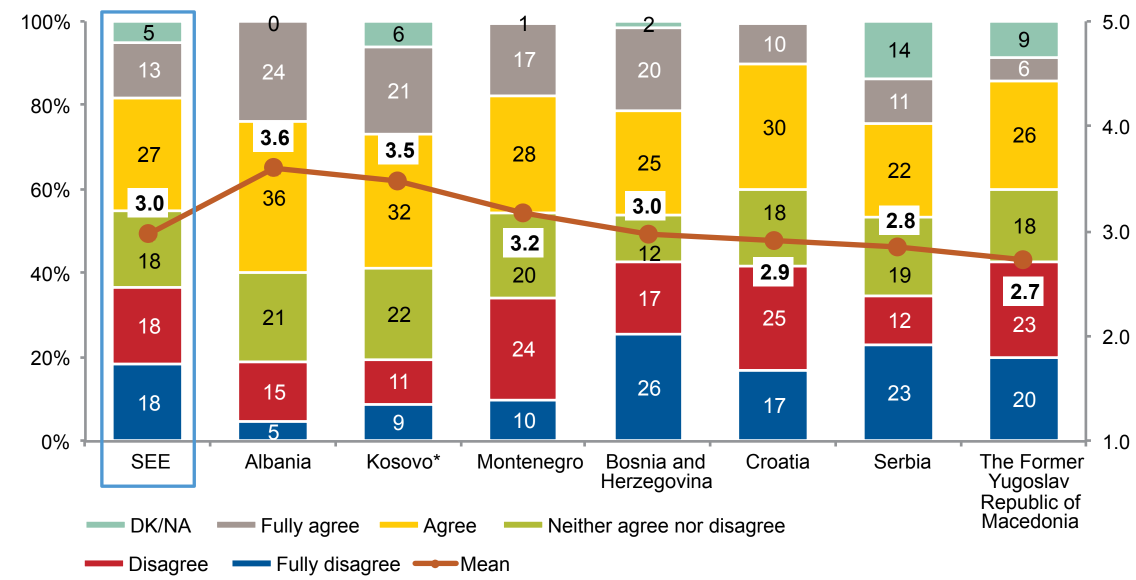
When we talk about company's size, number of highly educated staff decreases with the company growth.

### Figure 38: And what was the percentage 3 years ago?






### Figure 39: What do you think about hiring skilled and educated labor from abroad for a work in local companies? How likely would you employ such labor?



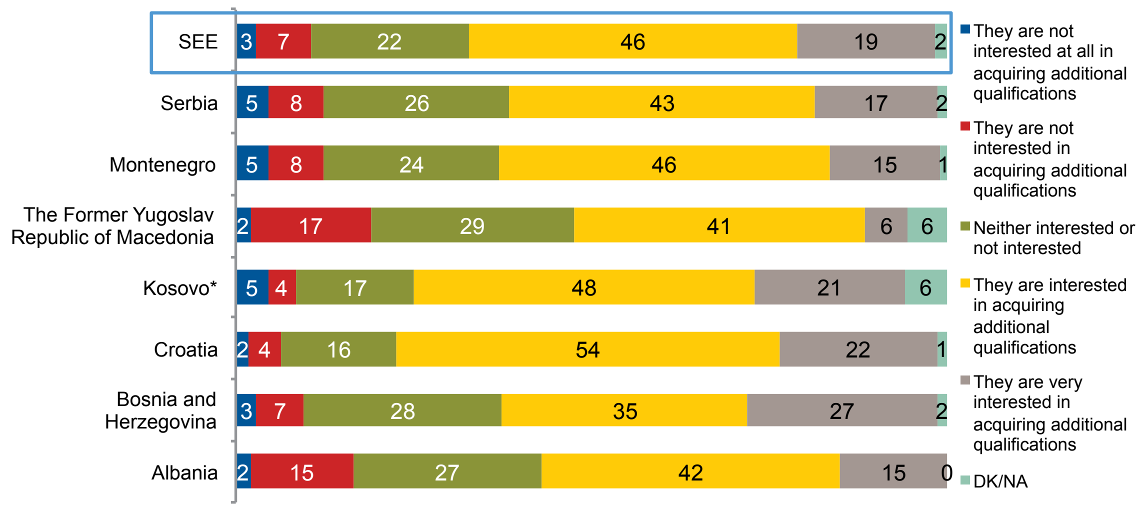

Companies in SEE are moderately (3.0) open for hiring skilled and educated labour from abroad (see Figure 39).

Albania (3.6) is most likely to hire this workforce, which is significantly higher, compared to Serbia (2.8), Croatia (2.9), The Former Yugoslav Republic of Macedonia (2.7) and Bosnia and Herzegovina (3.0).

Medium firms (between 50 and 249 employees) are inclined to engage educated and skilled foreigners more than others (3.5).

However, high unemployment rates across the region certainly influence reply to this question.

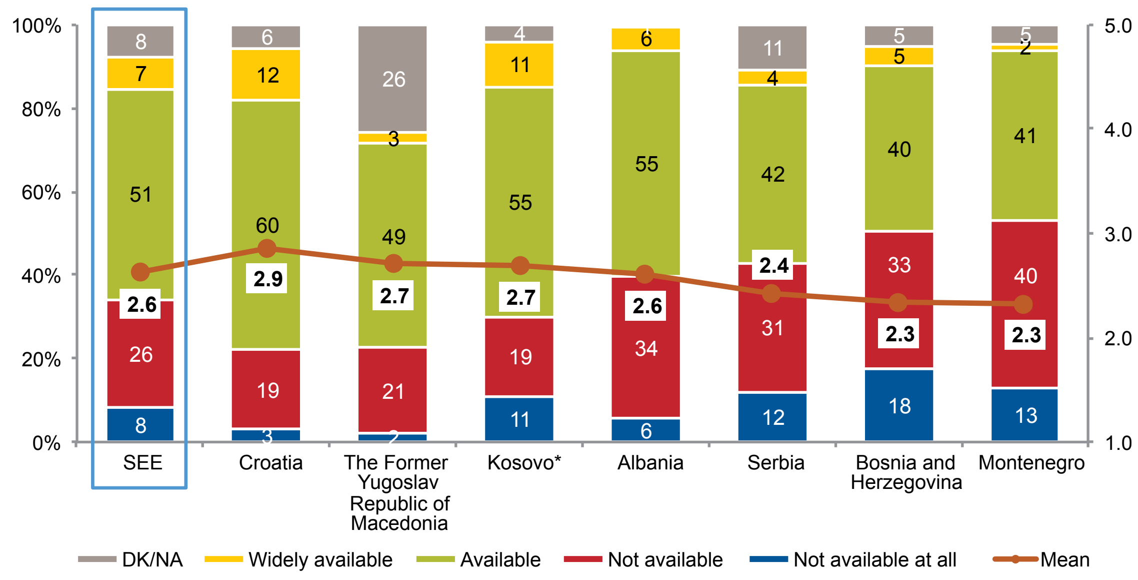
### Figure 40: How would you assess the readiness of employees in your company to acquire additional qualifications in order to advance and got promoted?



At the SEE level, employees are glad to acquire additional qualifications in order to get promoted (65%) (see Figure 40).

Employees in Croatia are more ready to acquire additional qualifications than those from Albania, Serbia and The Former Yugoslav Republic of Macedonia.

**Figure 41: To what extent are high-quality, specialized training services available in your economy?**




Generally, specialized training services are moderately available in the SEE region (see Figure 41). They are available above average in Croatia (2.9) that is significantly higher compared to Bosnia and Herzegovina (2.3), Montenegro (2.3) and Serbia (2.4).

Leaders of the largest companies (>250 employees) assess availability of specialized trainings in their economy lower than others .

4 out of 5 companies in the SEE did not have cooperation with any of the universities on R&D or technology projects for new product development (see Figure 42).

Companies in Bosnia and Herzegovina have this type of cooperation significantly more (29%) compared to Albania (11%), The Former Yugoslav Republic of Macedonia (11%) and Serbia (15%).

Furtheron, cooperation with universities is proportional to the size of the company – even half of the biggest firms made this type of collaboration in the past 3 years.





**Figure 42: In the past 3 years, did you have cooperation with any of the universities on research and development (R&D) or technology development projects to help develop new products or services?**

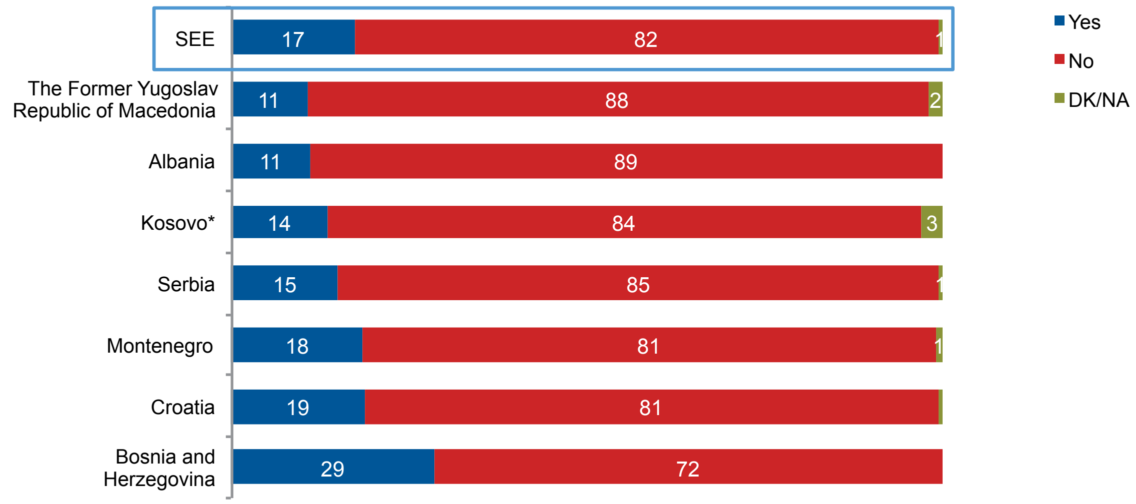
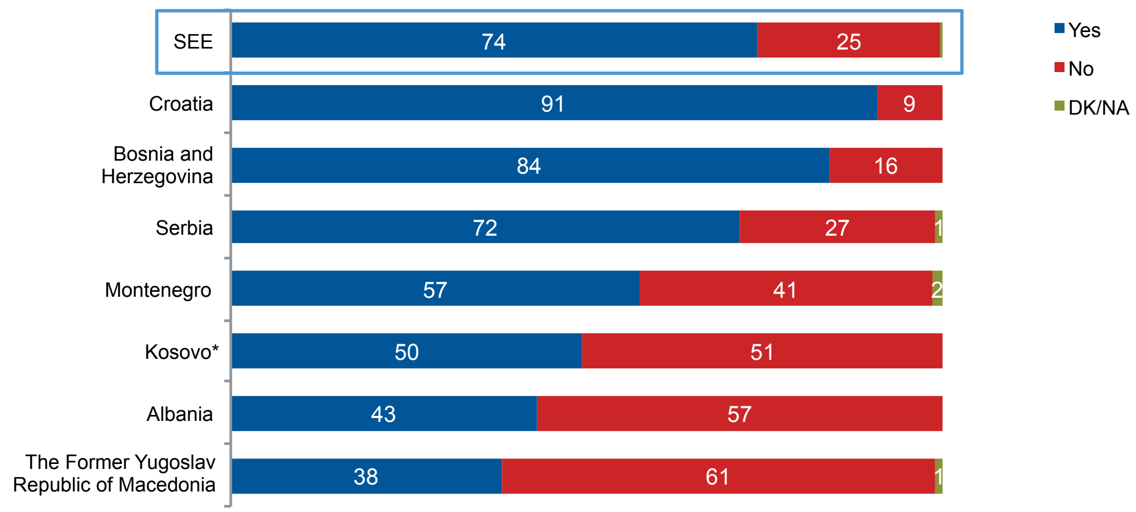


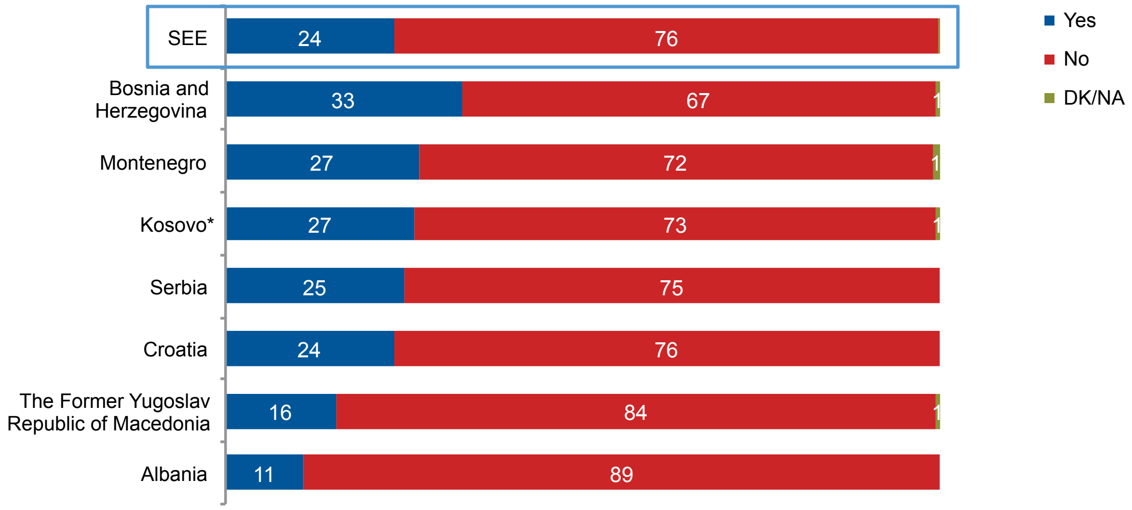

**Figure 43: Do you have a website that presents your company and/or products or services and provides customer services?**




3 out of 4 companies in the SEE region have website with company presentation (see Figure 43). Companies in Croatia (91%) and Bosnia and Herzegovina (84%) have company's website to a significantly larger extent compared to others. Serbian companies (72%) also have websites to a larger extent compared to Albania (43%), Kosovo* (50%) and The Former Yugoslav Republic of Macedonia (%38).

Companies that are active within the SEE region use the presentation of their products or services on the website significantly more than others.

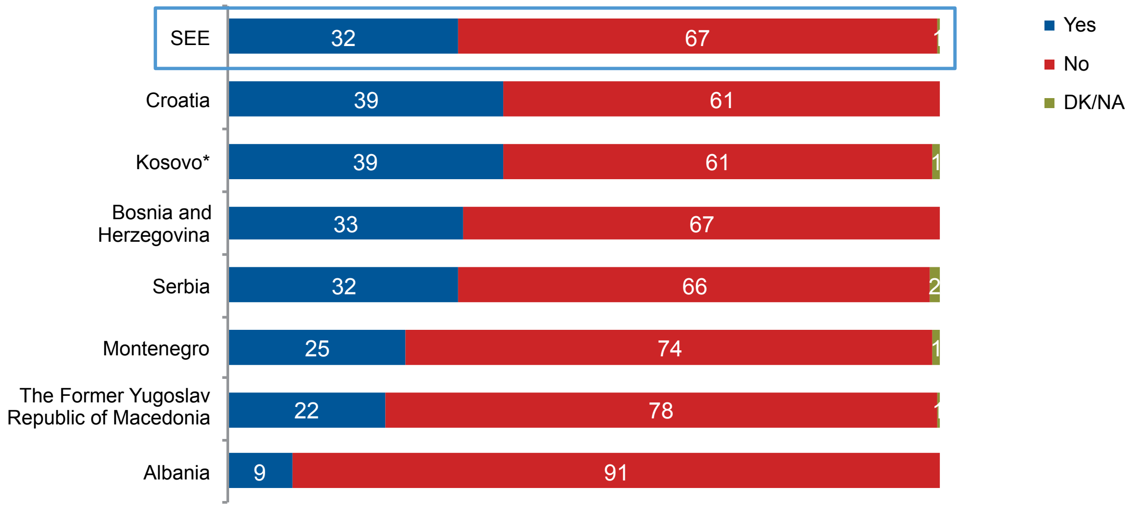
**Figure 44: Do you sell any of your products/services via the internet (e-commerce)?**




About one fourth of companies in the region sell their products/services via Internet (see Figure 44). Companies in Bosnia and Herzegovina (33%), Montenegro (27%) and Kosovo*(27%) use e-commerce for selling significantly more compared to to Albania (11%).

Exporters to the region sell their products and services via the Internet more often.

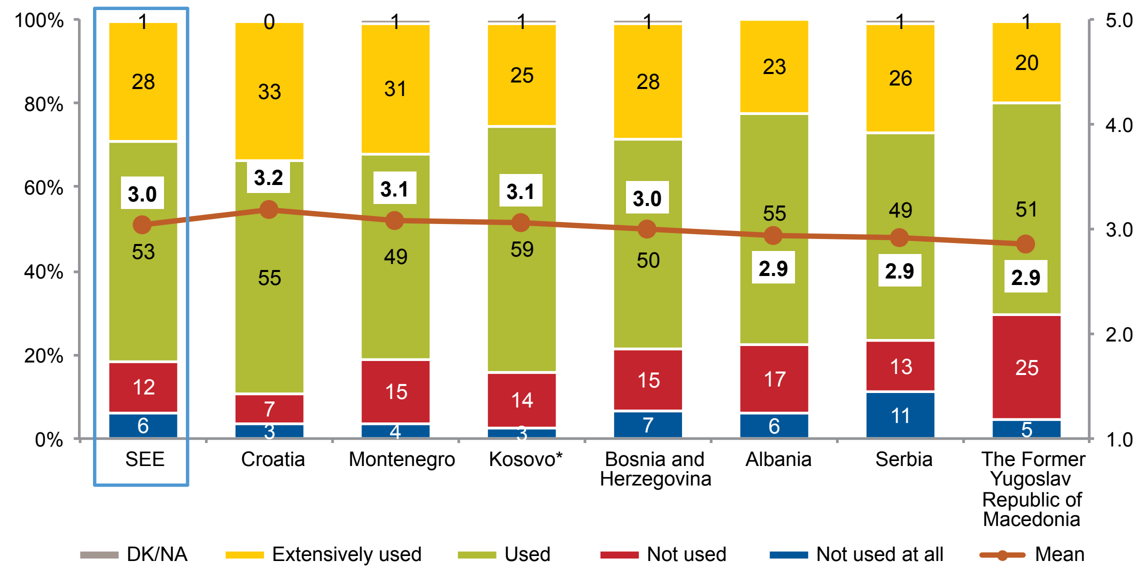
**Figure 45: Do you buy any of your inputs via the internet (e-commerce)?**




Approximately one third of the firms in the region buy inputs via Internet (see Figure 45). Again, Albanian companies buy inputs via internet significantly less (9%) than those from Croatia (39%), Kosovo* (39%), Bosnia and Herzegovina (33%), and Serbia (32%).

Internet purchase is growing with an increase of the company's size.

**Figure 46: To what extent digital technologies in general (internet, social networks, mail and similar for promotion, communication or sales) are used in your business?**




Digital technologies are moderately in usage in business within the SEE region (3.0 on average) (see Figure 46). Enterprises in Croatia use digital technologies significantly more (3.2), compared to Serbia and The Former Yugoslav Republic of Macedonia (both with 2.9).

In a view of the company's size, larger firms use digital technologies more extensively than smaller ones.

## Smart Growth - Summary

Smart growth refers to the greater commitment to innovation and competitiveness in terms of added value, not higher labour costs. The main goal of this pillar of the SEE 2020 Strategy is to stimulate the development of growth based on knowledge in the region. Innovation and knowledge are considered to be the main competitive advantages.

Actions aimed at realization of these objectives are investment in research and innovation, knowledge and information infrastructures, education, training, support to creative industries and new managerial work structures crucial in encouraging smart growth.

We know from various other sources, that firms in these economies are not very innovative (e.g. from EU's SME Performance Index). The reason is in part that they are not very internationalised, i.e. do not export, as they sell mostly on domestic or local markets. This is born out in this survey. One thing that comes clearly out is the realisation of the importance of skills and skills acquisition. The stress is more on education and on-job training rather than on research and development. This goes together with investment decisions because the acquisition of new machinery is the dominant item. Clearly, imitation rather than innovation is the way to technological advancement.

The education system seems adequate to the existing levels of innovation, though with some variations across the region. In general, skills, technology and education are consistent with the improvement in human capital that is characterised as learning by doing: on job training and education, and transfer of skills through the education system.

Similarly, modern means of communications are used more to exchange information than for commercial transactions. This also reflects the fact that markets are rather local and transactions are done face to face.

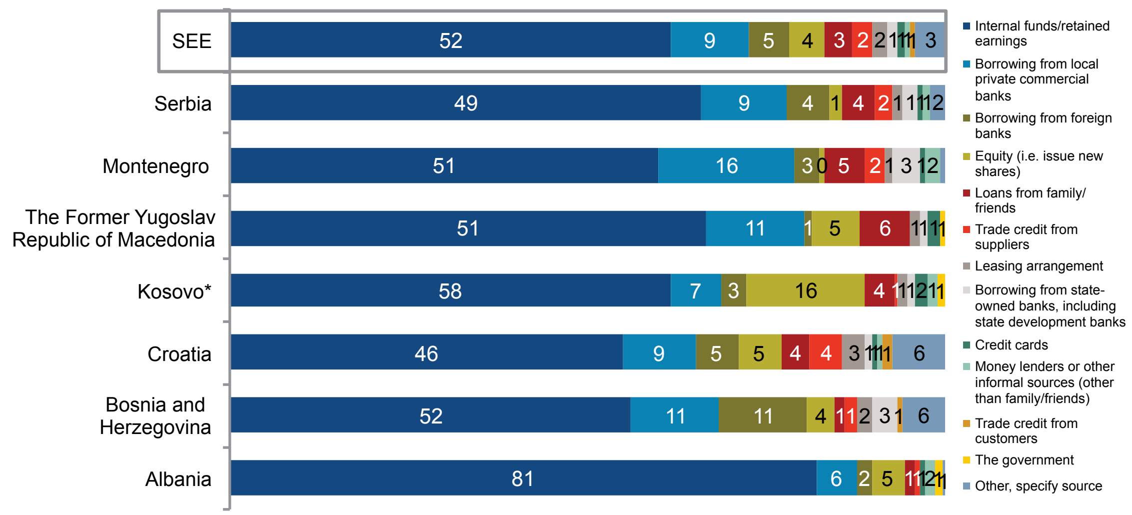
The variations across the region pretty much correlate along most indicators covered by this group of questions with the GDP per capita. That essentially indicates that human capital development adjusts to GDP, rather than investment in human capital being the driver of the GDP growth. This is characteristic of businesses in the economies that experience decline or longer term stagnation or both, as is certainly the case in the SEE region.





## SUSTAINABLE GROWTH

**Figure 47: What proportion of your firm's working capital and new fixed investment has been financed from each of the following sources, over the past 12 months?**



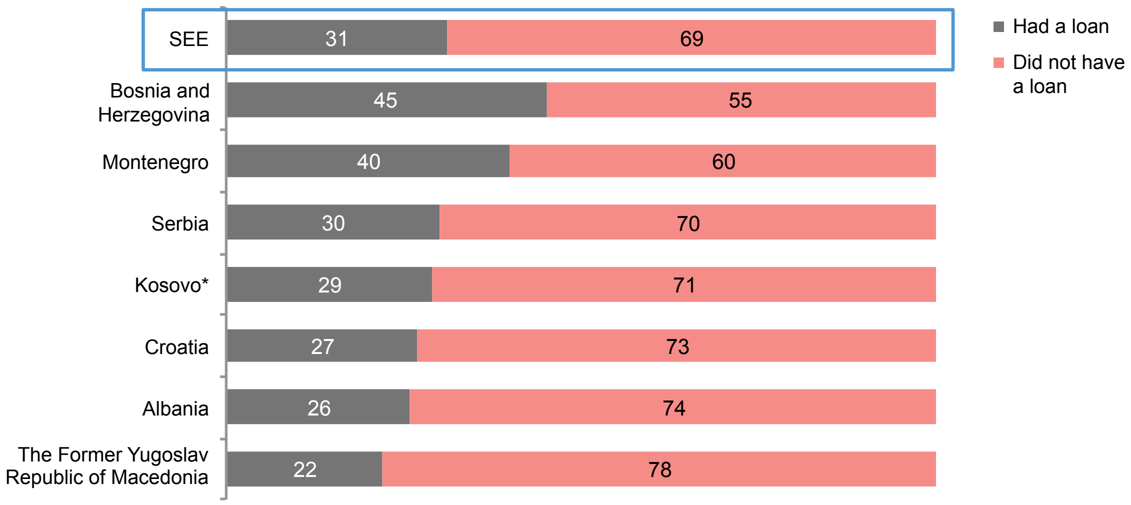

Having in mind the entire SEE region, over the past 12 months, 52% of working capital and new fixed investments have been financed from companies' internal funds or retained earnings (see Figure 47). This source is followed by borrowing from local private commercial banks (9%) or foreign ones (5%).

When we talk about mentioned main source, in Albania as much as four fifths working capital is provided from internal funds/retained earnings, which is significantly more than in the rest of the region. It seems that Albanian companies are under biggest pressure to provide capital to finance their activities as they have to rely on their own funds.

Companies from Bosnia and Herzegovina more often borrow from foreign banks than others.

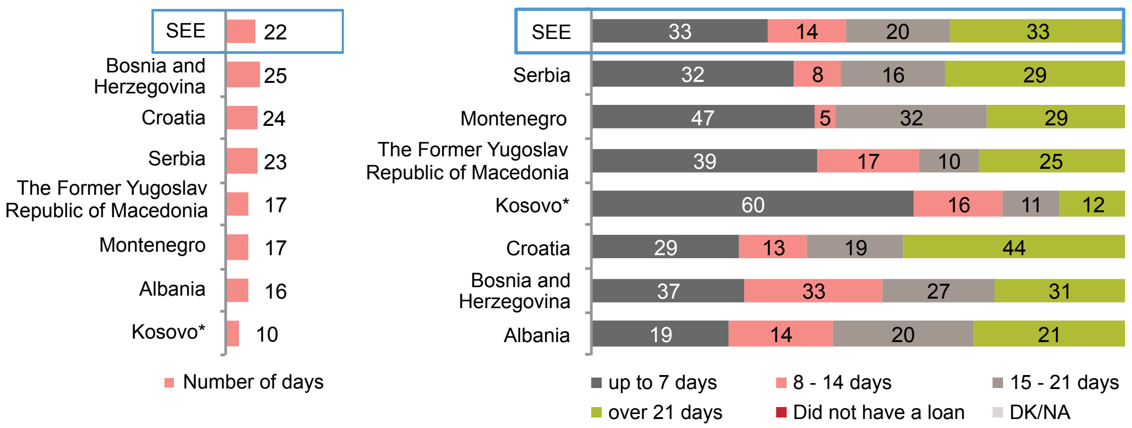
Slightly less than one third of companies in the SEE region have had the bank loan in the past 12 months (see Figure 48). In Bosnia and Herzegovina number of bank loans is significantly higher (45%) compared to SEE average (31%).

## Figure 48: Percentage of companies with bank loan.




Loan approval procedure takes 22 days on the average (see Figure 49). That process lasts the longest in Bosnia and Herzegovina (25 days) and minimum time is required in Kosovo* (10 days). Smaller sized companies (more then three fourths) did not use a loan from the bank in past 12 months.

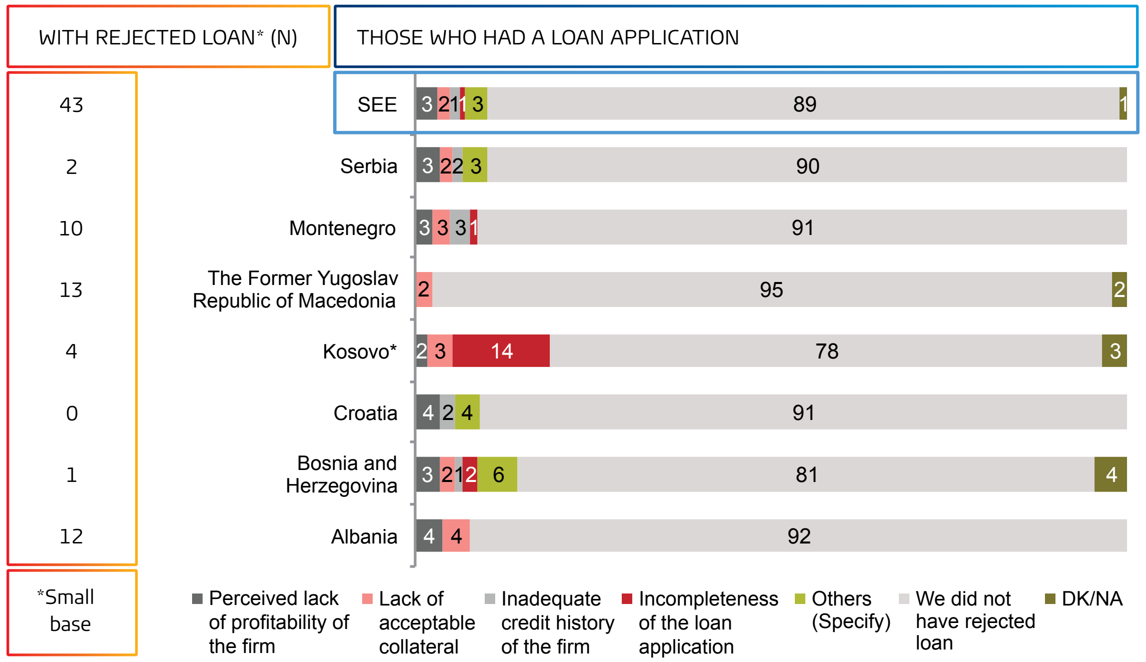
## Figure 49: If you've had a loan from the bank in the past 12 months, how many days did it take to agree the loan with the bank from the date of application?





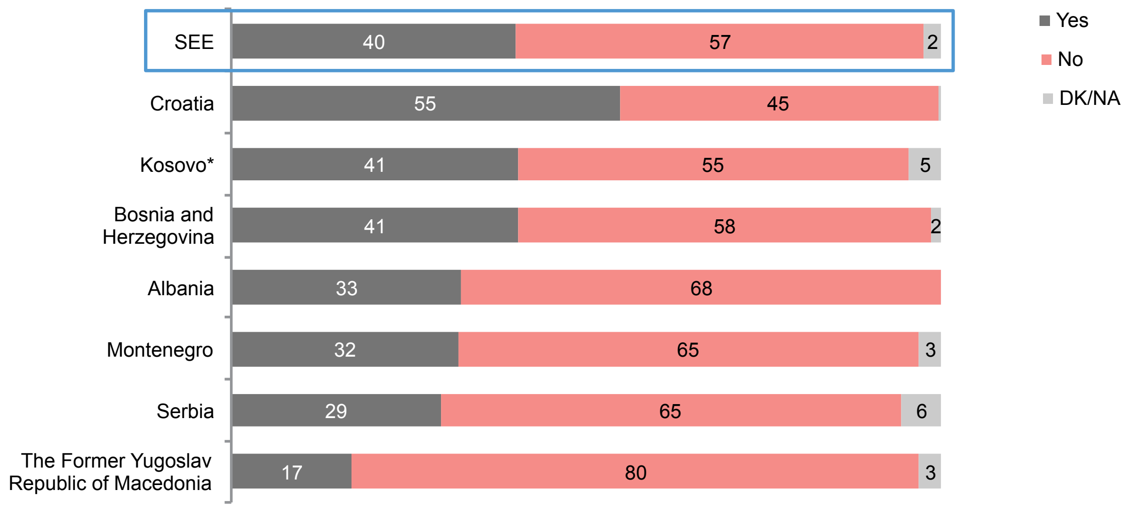



## Figure 50: If the loan application of your firm was rejected, what were the main reasons?




Vast majority (89%) of the SEE companies which have applied for a loan over previous year, obtain it. 10% of applications were rejected (see Figure 50). Perceived lack of firm profitability and lack of acceptable collateral are stated as main reasons for loan rejection.

## Figure 51: Have you had to resolve any overdue payments in the last 12 months (either as a result of your or other company responsibility)?

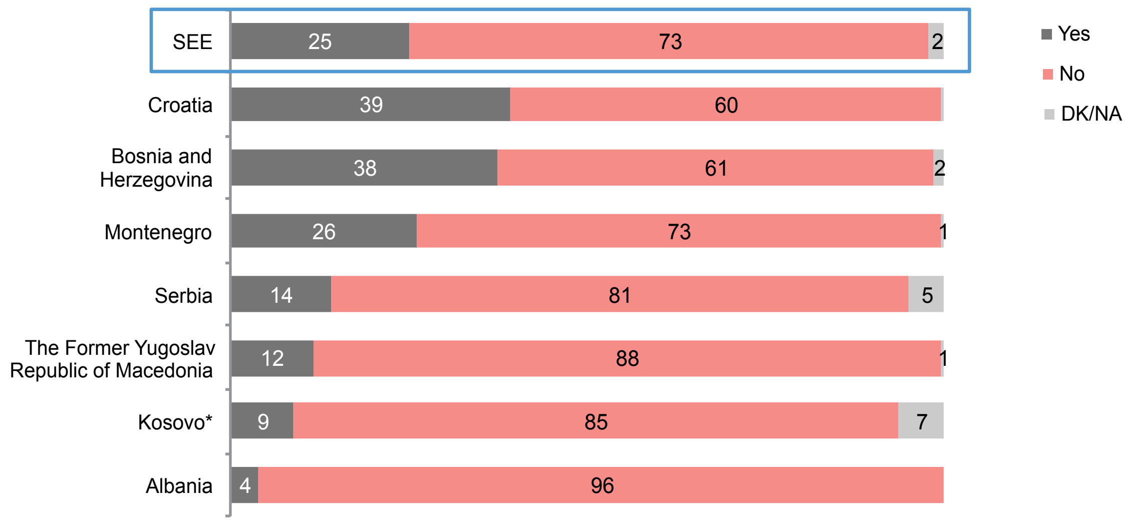


2 out of 5 firms in the SEE region had to resolve some overdue payments in the last 12 months (see Figure 51).

Number of overdue payments cases is significantly larger in Croatia (55%) than in the rest of the region (except Kosovo* and Bosnia and Herzegovina). The lowest percentage of those cases is recorded in The Former Yugoslav Republic of Macedonia (17%).

Problems regarding overdue payment is growing with the company's size.

**Figure 52: Have you had to launch a court action to resolve an overdue payment (either as a result of your or other company responsibility)?**




At the regional level, one fourth of firms have resolved cases of overdue payment through the court (see Figure 52). Legal cases regarding overdue payment are more frequent in Croatia (39%) and Bosnia and Herzegovina (38%) than in other economies with the exception of Montenegro.

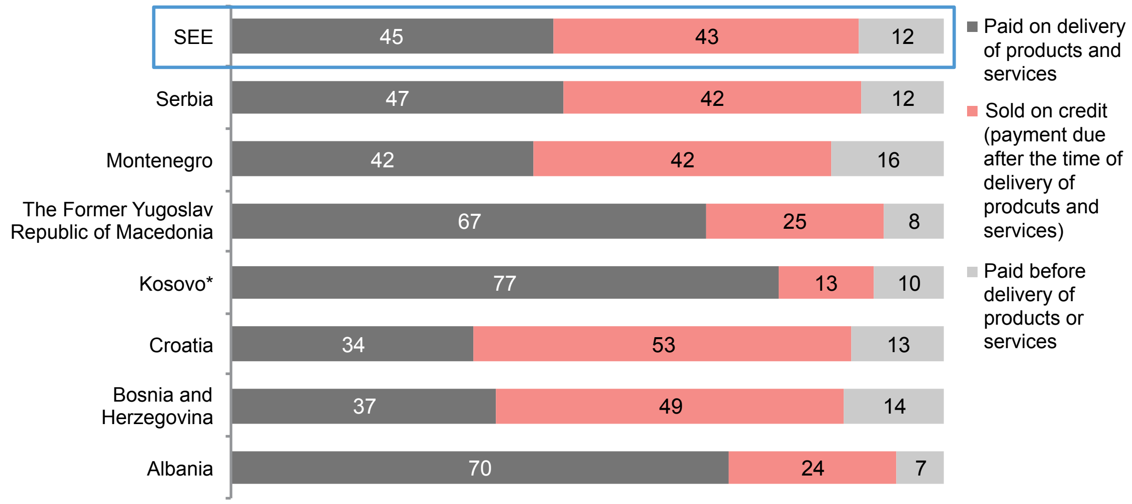
Albania is marked as the economy with minimum court actions caused by overdue payment (4%).

In comparison with companies that do not cooperate with neighbouring economies, exporters to the SEE region more often seek court assistance in resolving an overdue payment.





**Figure 53: What percentage of your firm's sales' to customers in value terms in the previous 12 months were...?**



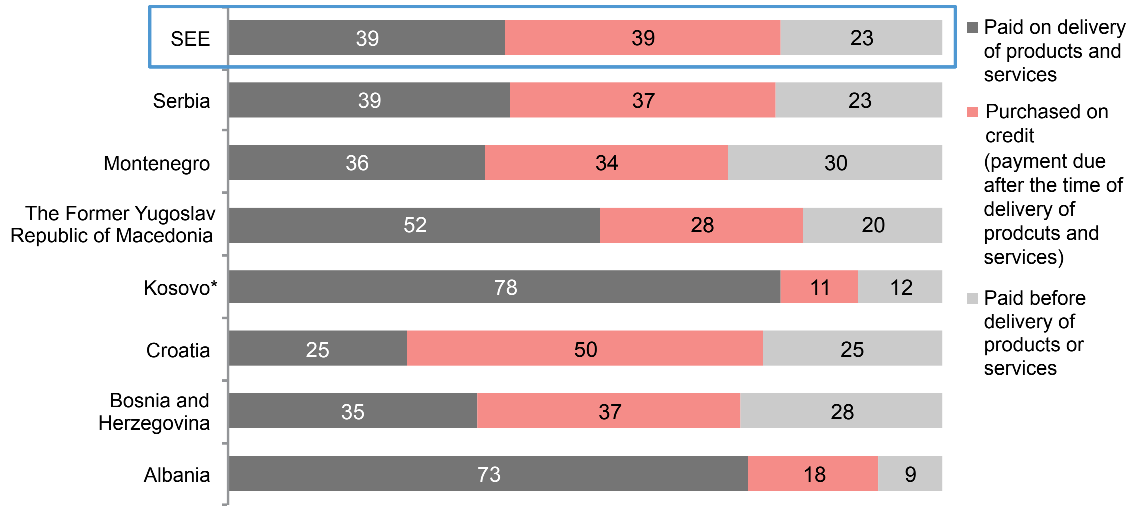

45% of SEE sales to customers are paid on delivery of products and services (see Figure 53)., while slightly less – 43% are sold on credit. Lowest percentage of sales is paid before delivery – 12%.

Paid on delivery is significantly more frequent in Kosovo* (77%) and Albania (70%) than in rest of the region except The Former Yugoslav Republic of Macedonia (67%).

At the same time, sales on credit is much more specific for Croatia (53%) than for Albania (24%), Kosovo* (13%) and The Former Yugoslav Republic of Macedonia (25%).

Advance payment is above average common among SEE exporters.

**Figure 54: What percentage of your firm's purchases of material inputs or services in value terms in the previous 12 months were...?**



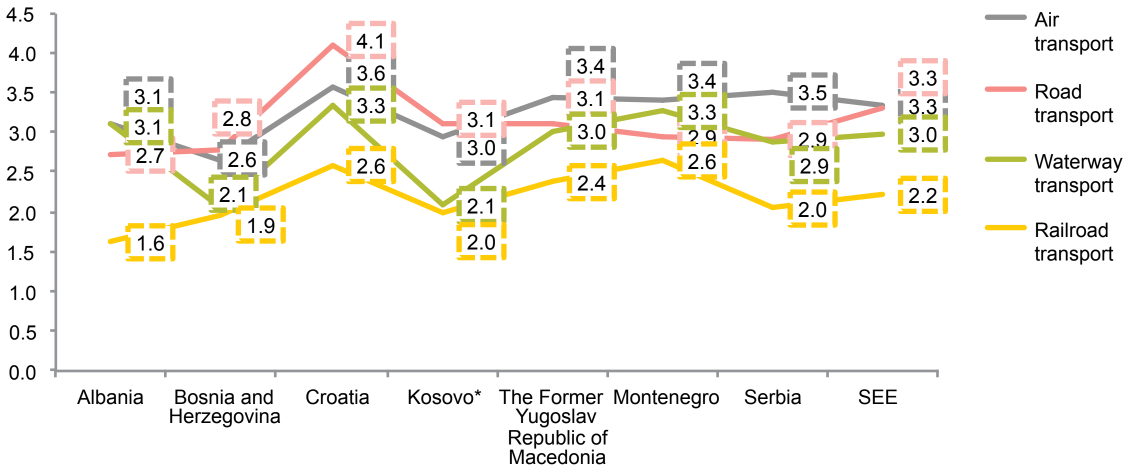
At the SEE level, equal number (39%) of companies' purchases is paid on delivery and on credit while 23% of procurement is paid in advance (see Figure 54). First mentioned payment type is significantly more practiced in Albania (73%) and Kosovo* (78%) compared to the rest of the region.

It can be concluded that companies generally accept less favourable payment terms when they buy inputs than when they sell. Croatian companies (50%) use to pay their material inputs and services on credit significantly more often than those from the rest of the the region. Also, purchases on credit is more frequent in Serbia and Bosnia and Herzegovina (each 37%) than in Albania (18%) and Kosovo* (11%).

The rarest payment method of companies' purchases within the SEE region is advance payment (23%) and it is used in Albania significantly less (9%) than in Croatia (25%), Bosnia and Herzegovina (28%), Montenegro (30%) and Serbia (23%).

As in the case of sales, firms that export to the SEE region pay their purchase before its delivery more frequently than average.

**Figure 55: For your business purposes, how would you rate the combination of availability, quality and affordability of road, railroad, waterway and air transport in your economy? (1-5 scale; 5 means "excellent"; 1 means "very poor")**




If we talk about the whole SEE region, companies' leaders are most satisfied with air and road transport (mean is 3.3) (see Figure 55). Waterway transport has been marked as average (considering the scale from 1 to 5) – mean is 3.0, while railroad transport got the lowest score – mean is 2.2.

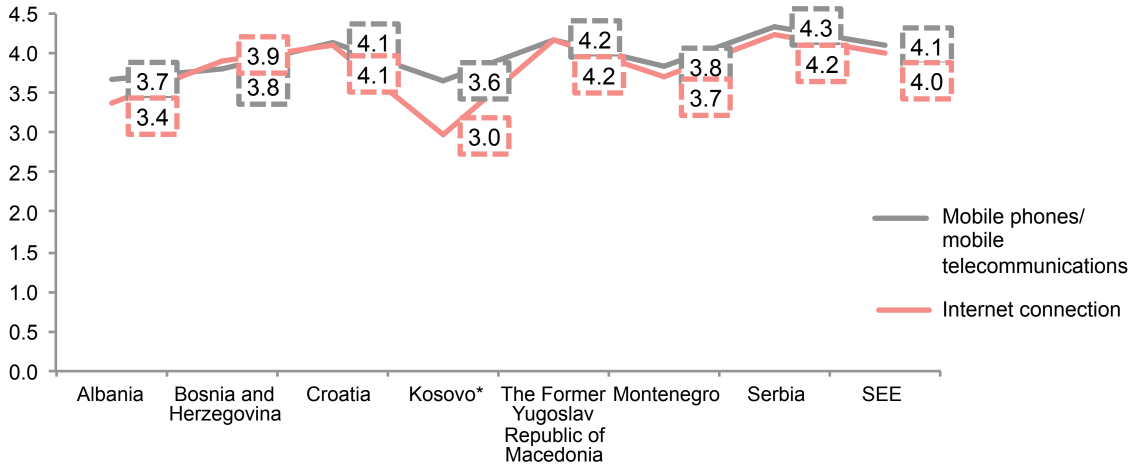
Generally, among all seven economies, Croatia shows the highest level of satisfaction with all modes of transport. This especially applies to road transport where businesspeople from Croatia are significantly more content (mean is 4.1) than their colleagues from all other economies.

In a view of air transport, businesspeople from Bosnia and Herzegovina (mean is 2.6) are significantly less content than others. Besides Kosovo*, they are also less satisfied with waterway transport (mean is 2.1). At the regional level, largest companies (>250 employees) are satisfied with all mentioned transport modes significantly below average. To conclude – there is significant space for improvement.





**Figure 56: For your business purposes, how would you rate the combination of availability, quality and affordability of mobile phones/mobile telecommunications and internet connection in your economy? (1-5 scale; 5 means "excellent"; 1 means "very poor")**



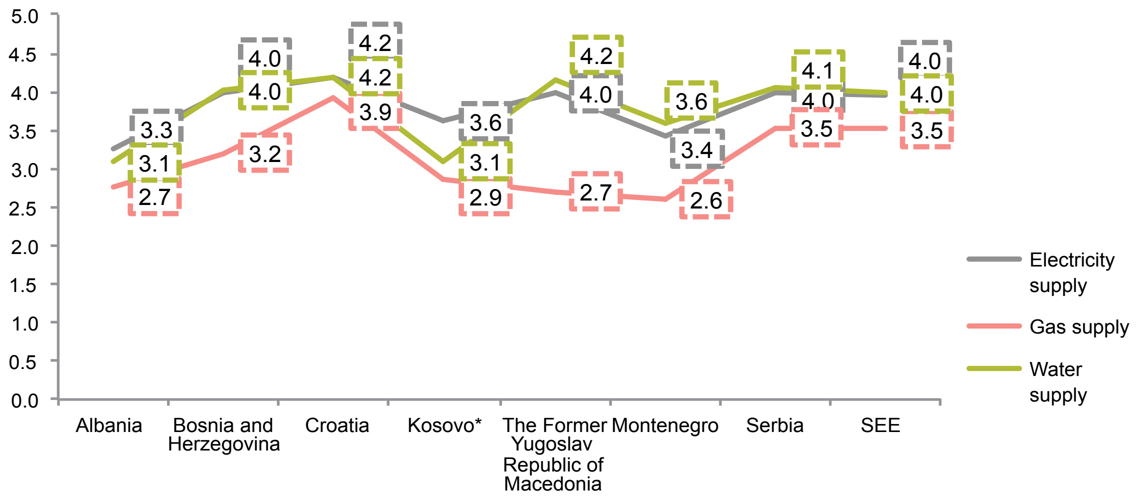

Both – mobile telecommunications (mean is 4.1) and internet connection (4.0) have got pretty high marks from SEE businessmen (see Figure 56).

Quality, availability and affordability of mobile communications are significantly better in Serbia (mean is 4.3), The Former Yugoslav Republic of Macedonia (4.2) and Croatia (4.1) than in Albania (mean is 3.7) and Kosovo* (3.6).

Compared to others, Kosovo* also shows significantly less satisfaction regarding internet connection (mean is 3.0), followed by Albania (3.4) which does not significantly differ only from Montenegro (3.7).

If we compare SEE companies by size, we will see that largest ones are the least satisfied with mobile telecommunications.

**Figure 57: For your business purposes, how would you rate the combination of availability, quality and affordability of electricity, gas and water supply in your economy? (1-5 scale; 5 means "excellent" ; 1 means "very poor")**



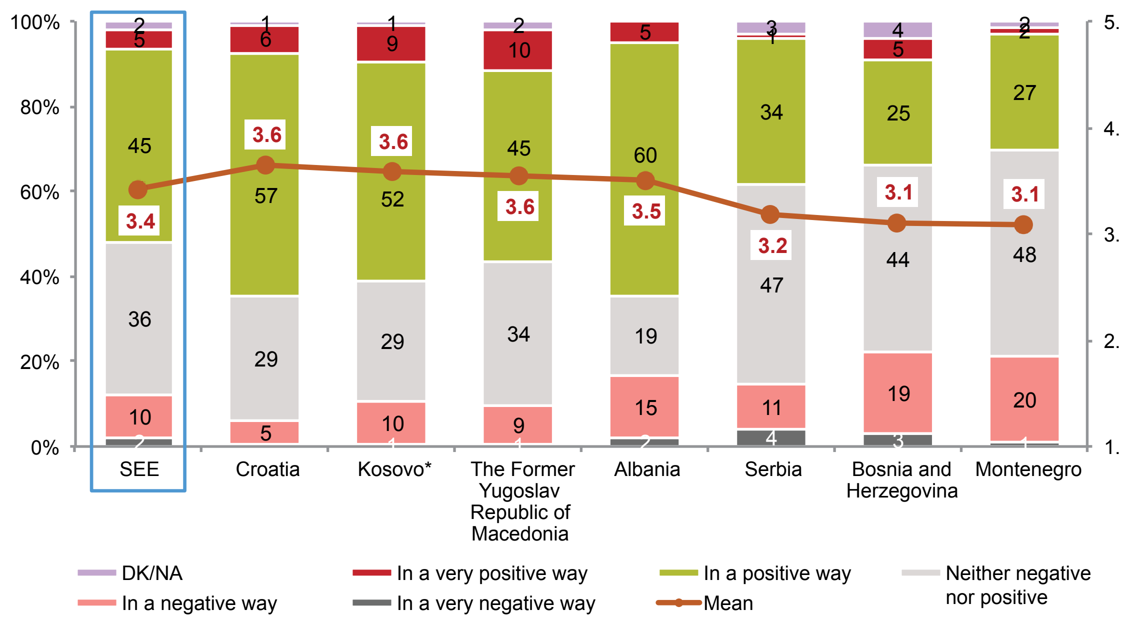
Bearing in mind the entire SEE and the scale (from 1 to 5) used for assessment of satisfaction, we can conclude that all three aspects – electricity supply (mean is 4.0), gas (3.5) and water supply (4.0) have been estimated above average (see Figure 57).

Firms from Albania (mean is 3.3) and Montenegro (3.4) are significantly less satisfied with electricity supply compared to the rest of the SEE region except Kosovo* (3.6). Businessmen from Croatia (3.9) show significantly higher level of satisfaction with gas supply than all others, while those from Serbia (3.5) are more satisfied than their colleagues from Albania (2.7), Kosovo* (2.9), The Former Yugoslav Republic of Macedonia (2.7) and Montenegro (2.6).

According to the results, Albania (mean is 3.1) and Kosovo* (3.1) have significantly more troubles with water supply than others, apart from Montenegro (3.6).

In general, gas supply is especially low rated by the biggest companies while water supply is the most problematic for those in the field of agriculture, hunting, fishing and forestry.

**Figure 58: In what way the infrastructure in general (transportation and communication means, supply) impact your business?**

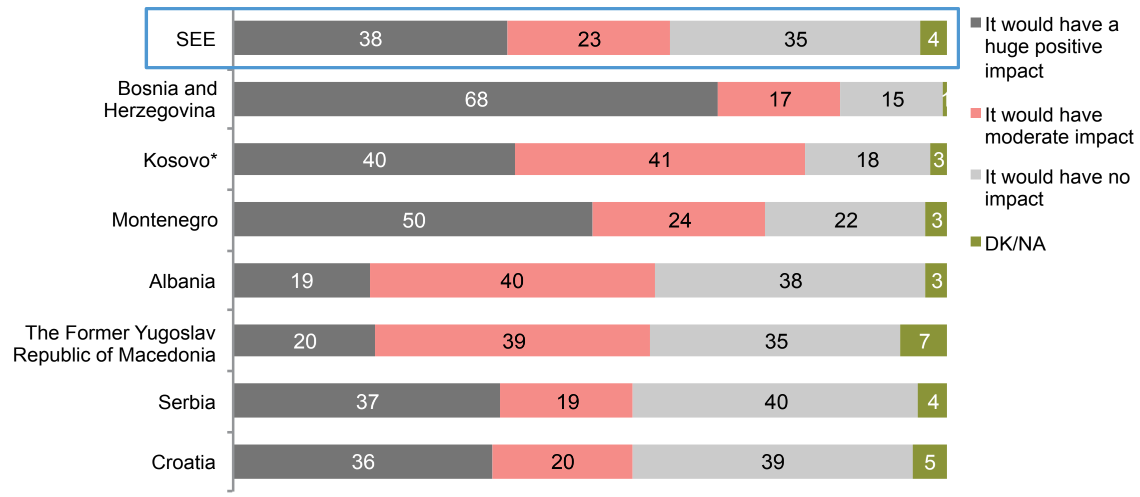



At the SEE level, infrastructure in general, have more positive than negative impacts on business (mean is 3.4) (see Figure 58).

Companies' leaders from Bosnia and Herzegovina (mean is 3.1) and Serbia (3.2) significantly less frequently emphasize positive impacts of infrastructure on their business than businesspeople from Croatia (3.6), Kosovo* (3.6), The Former Yugoslav Republic of Macedonia (3,6) and Albania (3.5).



**Figure 59: Would the removal of mobile phone roaming charges when travelling to SEE have a positive impact on your business?**



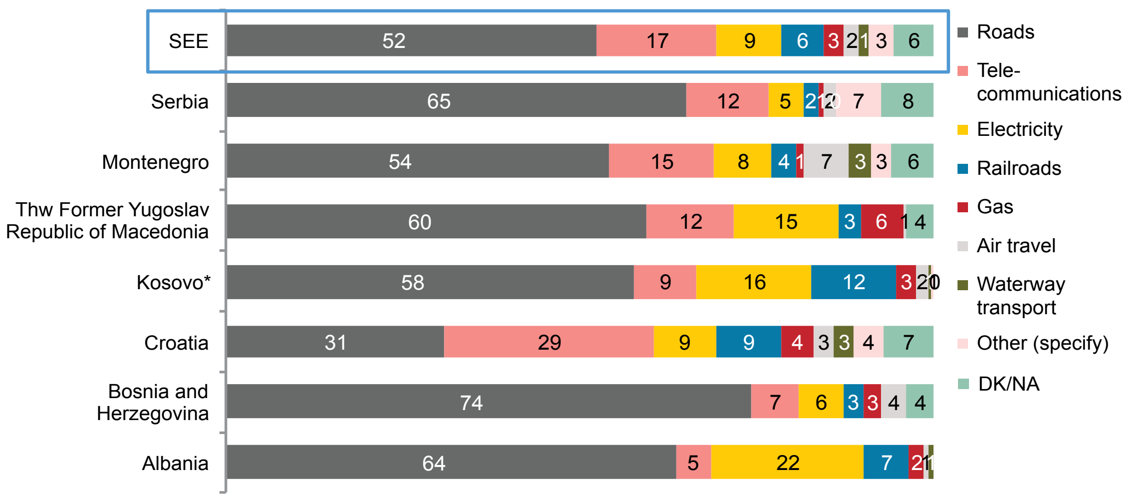

38% of SEE business leaders agree that removal of mobile phone roaming charges within the region would have a huge positive impact. This opinion is significantly more frequent among businesspeople from Bosnia and Herzegovina (68%) than among others, except Montenegrins (50%) (see Figure 59).

Almost one fourth of respondents claim that the impact would be moderate, more often in Albania (40%), The Former Yugoslav Republic of Macedonia (39%) and Kosovo* (41%) than in Bosnia and Herzegovina (17%), Serbia (19%) and Croatia (20%).

About one third of SEE business respondents think that removal roaming charges would have no impact. Largest number of business leaders from Serbia (40%) and Croatia (39%) share this opinion.

As expected, exporters to the SEE region state benefits of roaming costs removal most often.

**Figure 60: According to your opinion, which infrastructure upgrades would have the highest positive impact on your business?**

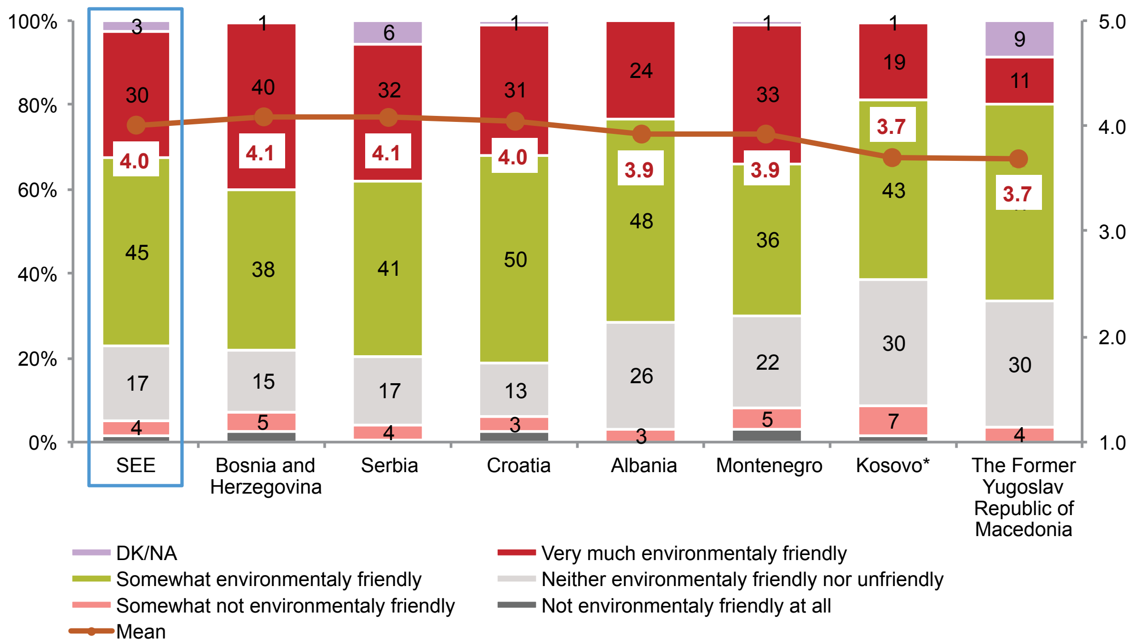


About half of the companies' managers from the SEE region believe that roads upgrades would have the most positive impact on their business (see Figure 60). 17% of them would be most satisfied with telecommunications improvement, while 9% report electricity as the infrastructure area whose improvement would be of key importance for their business.

Compared to rest of the region except Montenegro, businesspeople from Croatia less often (31%) state roads upgrades (because they are already satisfied), but more often - telecommunications improvement (29%).

Importance of roads improvement is growing with the company's size.

**Figure 61: In your opinion, to what extent your business in general is organized in environmentally friendly way?**




The SEE managers believe that their business is pretty high environmentally organized – mean is 4.0 (see Figure 61).

Those from Serbia and Bosnia and Herzegovina (each 4.1) are significantly more convinced of ecological way of their work compared to their counterparts from The Former Yugoslav Republic of Macedonia and Kosovo* (each 3.7).

Further, largest companies especially believe in ecological way of their business.





## Sustainable Growth - Summary

Goal of the whole region is not only to grow, but to have growth that is sustainable and to grow on sustainable way. As said in the SEE 2020 Strategy, sustainable growth demands adequate transport and energy infrastructure, competitive economic base and resource efficient economy. Dimensions of this pillar (needed to achieve main targets) are energy, transport, environment and competitiveness.

Most firms rely on retained profits rather than on loans (just one third of companies used a loan from a bank in past 12 months) and only marginally on the capital markets. Transactions are done in cash as often as by delayed payments. Overdue payments are also influencing short term sustainability – Croatia is under strongest pressure – more than half companies face with this problem. Liquidity problems are still settled by extension rather than settled in court. This confirms that there is much space for further financial development.

Electricity, gas and water supply are in general evaluated better then transport infrastructure, although gas supply has significant space for improvement in Montenegro, The Former Yugoslav Republic of Macedonia, Kosovo* and Albania.

Transport infrastructure is not evaluated as good as energy – there is significant space for improvement. Road transport (with significant differences across the region) is most developed (although majority of businesses would appreciate improvements in roads, as they expect this would have positive influence on their business) and the least satisfying is railway transport. At the regional level, largest companies (>250 employees) are satisfied with all mentioned transport modes significantly below average.

All in all, infrastructure is correlated with development, which suggests that there should be significant gains from investment in them. However, as is often the case, there is preference for the improvement of the existing infrastructural needs rather than for investments in the underdeveloped ones. This is especially the case with reliance on roads as opposed to railways. As already mentioned, the latter are the least developed and could come with large positive externalities, but there is little pressure for investing in them.

Also, there is still space for improvement in telecommunications and Internet connection (especially in Kosovo*), although overall satisfaction is above average.

Self-evaluation shows the perception of compliance with environmentally friendly way of doing business. Consequence is that some next environmental policies and activities should firstly start with raising awareness of what environmentally friendly way of doing business means. Companies can not change if they are not aware that change is needed and what the real change means. Therefore, approach to environment is one of interest and concern, though there is little evidence that there is effort to stop its deterioration.

The differentiation across the region, again, is correlated with the indicators of development in particular with GDP per capita (see Table 4).

**Table 4: GDP per capita, Euro current, 2014, and in purchasing power parity, PPP Euro, 2013**

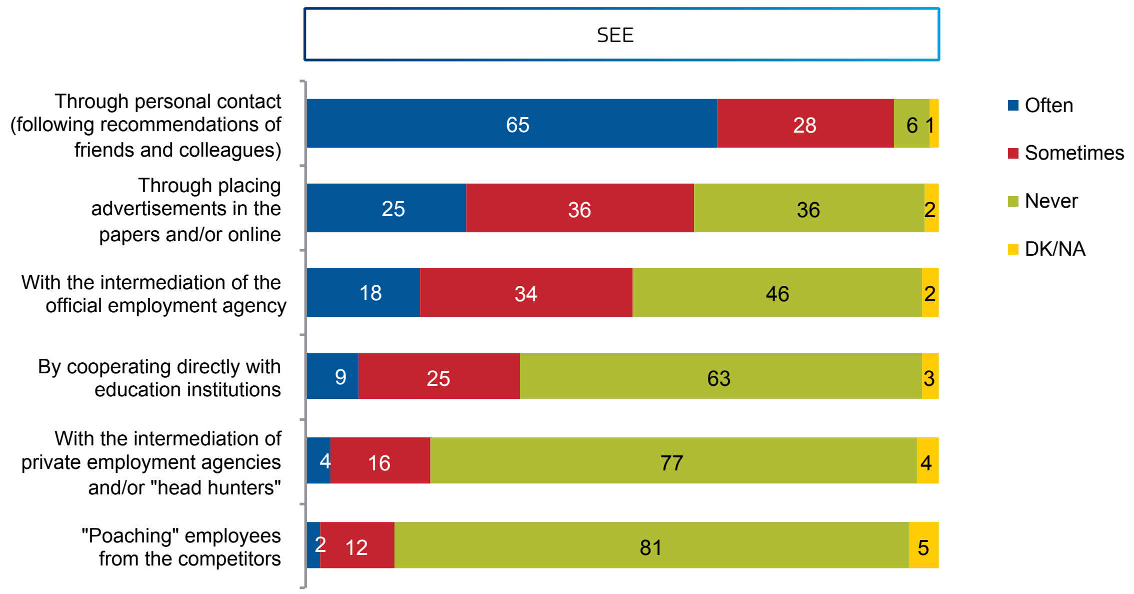
| | EURO | PPT |
|---|---|---|
| Albania | 3500 | 7600 |
| Bosnia and Herzegovina | 3500 | 7200 |
| Croatia | 10100 | 15800 |
| Kosovo* | 3000 | 5800 |
| The Former Yugoslav Republic of Macedonia | 4000 | 9500 |
| Montenegro | 5500 | 10700 |
| Serbia | 4700 | 9900 |





## INCLUSIVE GROWTH

**Figure 62(a): How often do you use the following when hiring new employees? (At regional level, 1-3 scale; 1 means often, 2- sometimes, 3 – never and 4 – DK/NA)**




The most common way of hiring new employees among the SEE region is personal contact i.e. following recommendations of friends and colleagues – 65% of companies often use this method (see Figure 62a). It is followed by placing advertisements in the papers or/and internet. SEE companies most rarely deal with "poaching" employees from the competitors – 81% of them never do that.

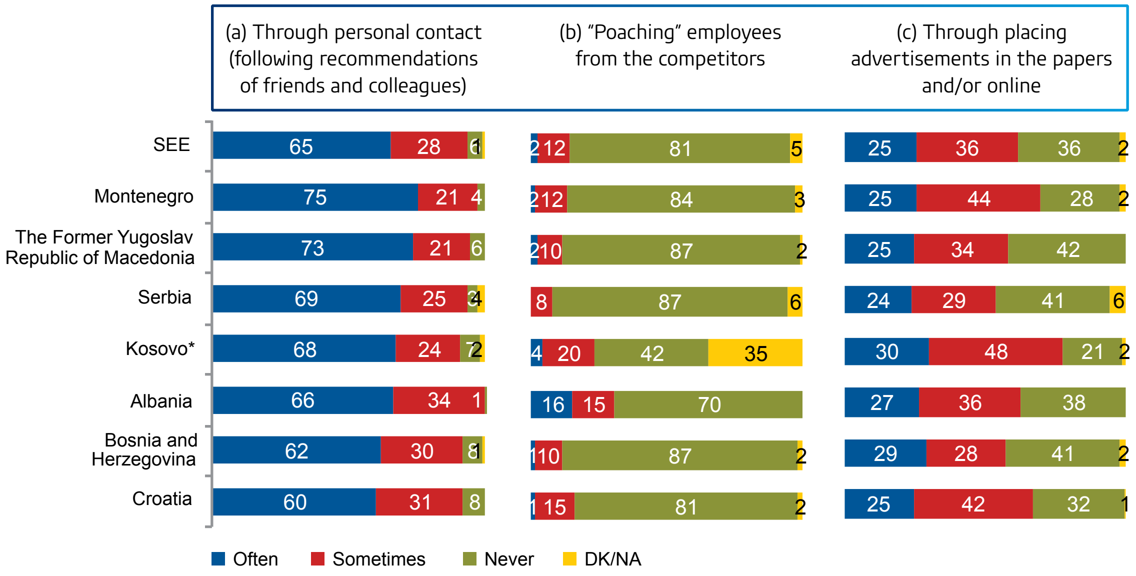
Company's size to some extent determines the ways of engaging new people – more often than smaller ones, larger firms post advertisements and cooperate with official employment agency.

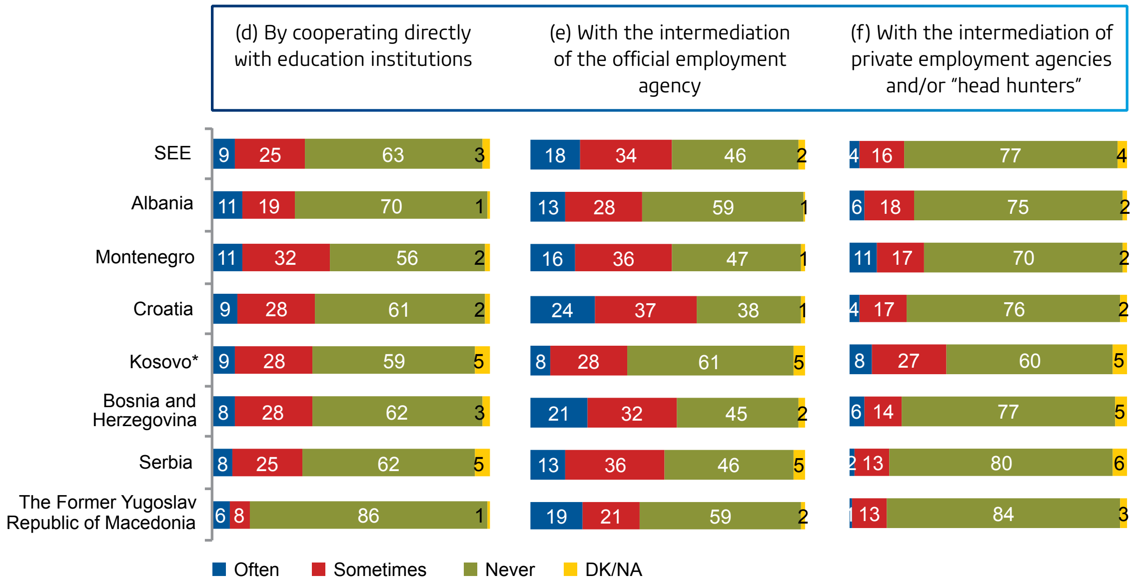
Method of "poaching" employees from the competitors is used in Albania significantly more often than in Bosnia and Herzegovina, The Former Yugoslav Republic of Macedonia, Montenegro and Croatia (see Figure 62b).

Business community from Kosovo* and Montenegro practice to select new employees through advertisements placed in the papers and/or online more frequently than companies from Bosnia and Herzegovina and Serbia.

Vast majority (86%) of companies from The Former Yugoslav Republic of Macedonia never hire new people through direct co-operation with education institutions (see Figue 62b) and that is significantly different than in rest of the SEE region, with exception of Albania.

**Figure 62(b): How often do you use the following when hiring new employees? (At national level 1-3 scale; 1 means often, 2- sometimes, 3 – never and 4 – DK/NA)**



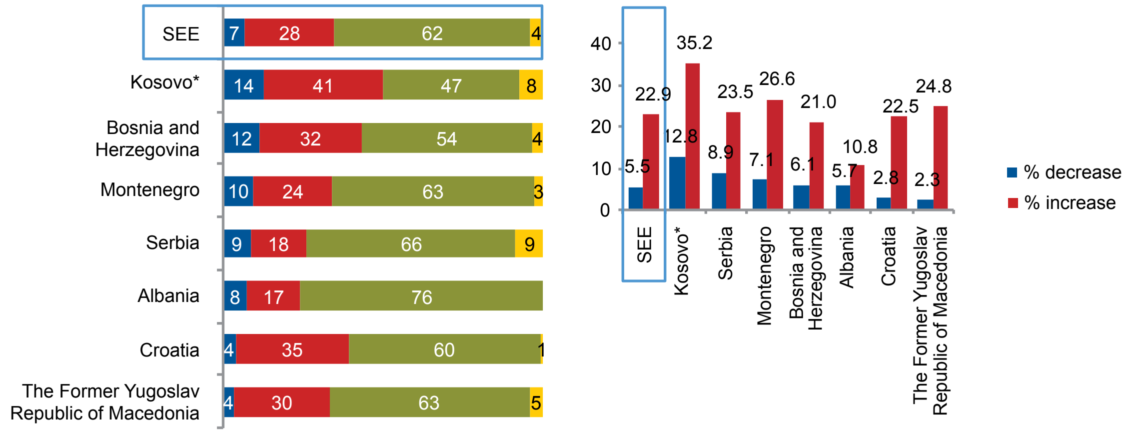

When engaging new employees, Croatia collaborates with the official employment agency more often than Kosovo*, Albania and The Former Yugoslav Republic of Macedonia.

Intermediation of private employment agencies and/or "head hunters" is more frequent in Kosovo* than in Serbia and The Former Yugoslav Republic of Macedonia.





**Figure 63: If you could change the number of regular full-time workers your firm currently employs without any restrictions, what would be your optimal level of employment as a percent of your existing workforce? Would you decrease, increase or remain the same level of employees?**

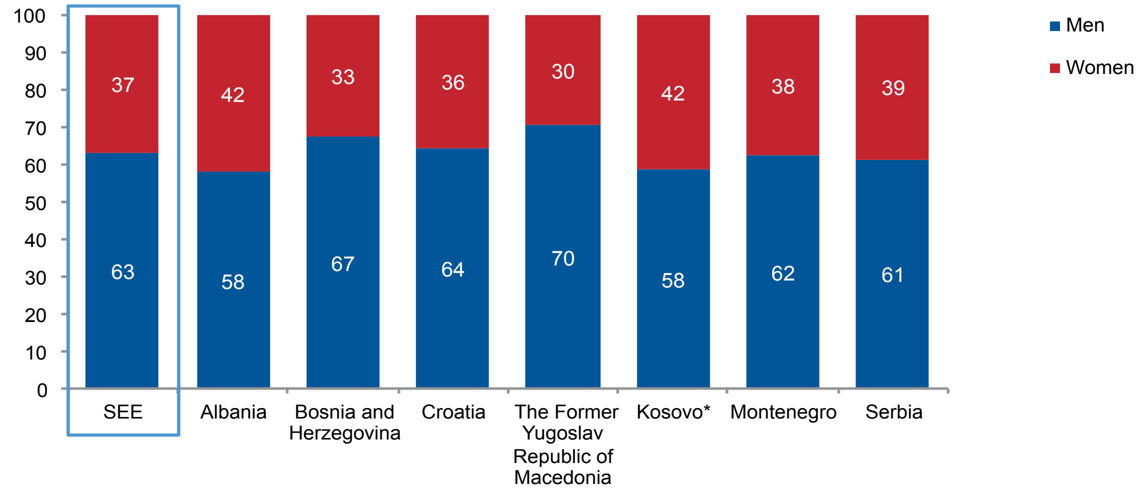



* Small base for Kosovo*, Montenegro, Albania and The Former Yugoslav Republic of Macedonia

62% of firms in the SEE region would not change current number of employees, 28% would consider to hire more people while 7% claim that they would think about staff reduction (see Figure 63). Potential explanation for the bigger number of those who would increase number of employees (in case there is no restriction) is that companies, due to the crises, severally reduced number of employees and redistributed tasks to the existing number of employees. Workers that remained might be under heavier burden.

Considering the whole SEE region, average percentage of preferred decreasing in employees' level is 5.5%. That is significantly higher in Serbia (8.9%) than in Croatia (2.8%). Regional average of increasing the staff number is 22.9%.

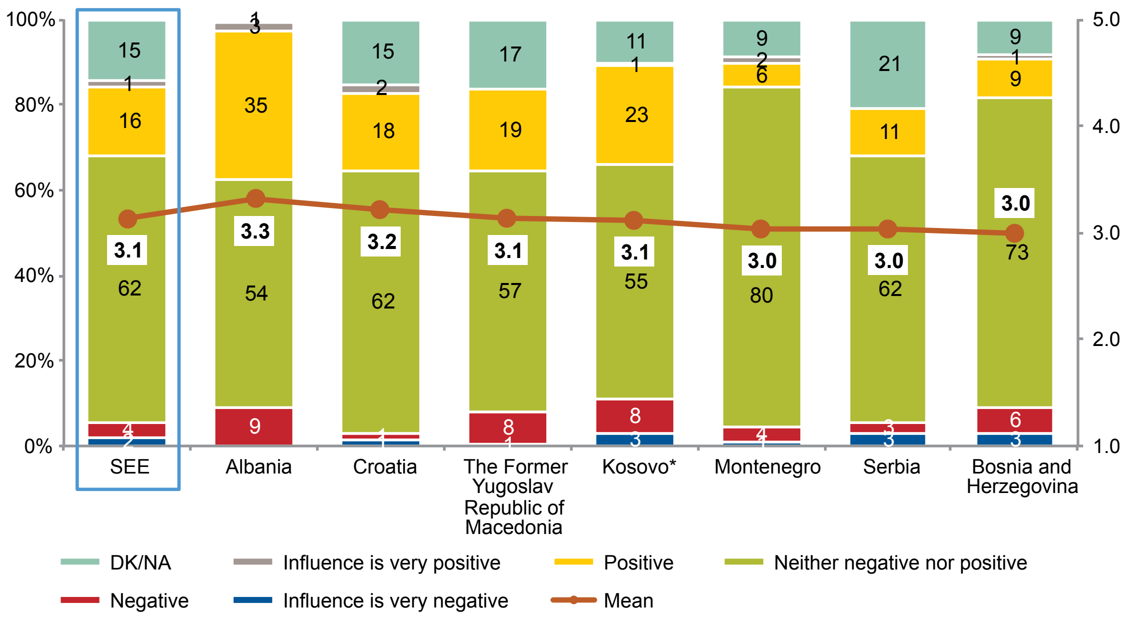
**Figure 64: Of the total number, how many of your employees are men and how many women?**



At the regional level, 63% of employed people are men and 37% are women. Regarding this issue, there are no significant differences in the region. (see Figure 64).

On the other hand, if we take into consideration company's size, we will see that number of employed women is significantly higher among largest companies - 46%.

**Figure 65: In what way active employment policies, carried out by labor market institutions in your economy, influence your business?**




Considering the entire SEE region as well the scale from 1 to 5, active employment policies are moderately estimated – 3.1. (see Figure 65). That means their influence on business is neither negative nor positive.

In comparison with their colleagues from Serbia (3.0), Montenegro (3.0) and Bosnia and Herzegovina (3.0), businessmen from Albania (mean is 3.3) and Croatia (3.2) assess the efforts of labour market institutions in their economies significantly more positively.

Compared to their colleagues who are at the head of the smaller firms (3.1), leaders of the largest companies are more content with active employment policies (3.4).

Generally, opinion of business leaders from the SEE region is that healthcare system in their economies makes their business neither harder nor easier (mean is 3.1) (see Figure 66).

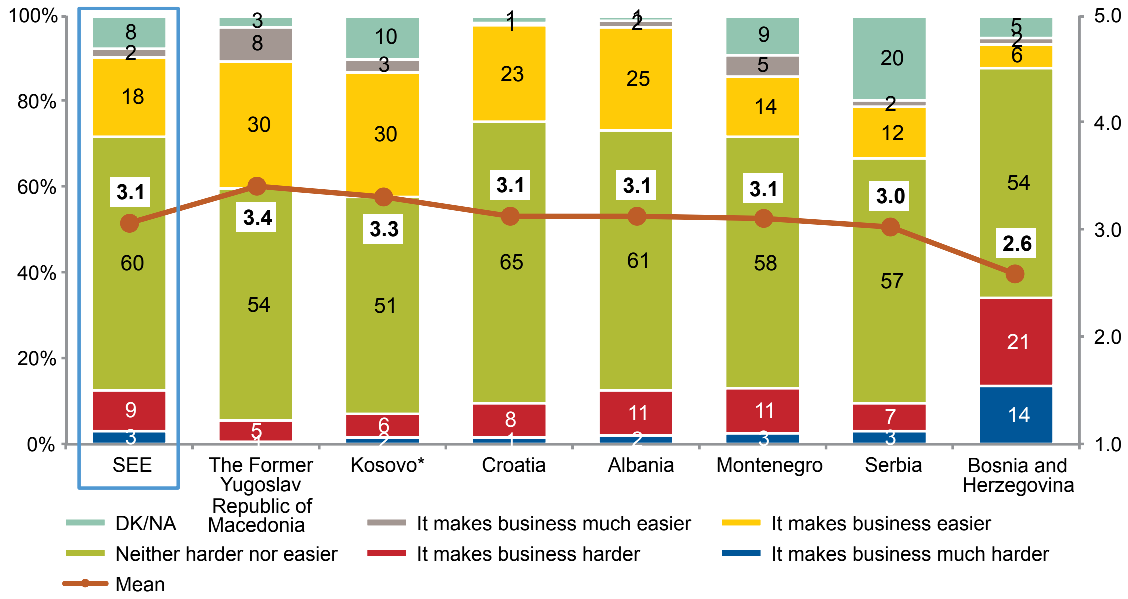
Business representatives from Bosnia and Herzegovina assess support of their healthcare system significantly lower (mean is 2.6) than all others.

Further, citizens of The Former Yugoslav Republic of Macedonia (3.4) are convinced of that system's benefits more than citizens of Serbia (3.0).





**Figure 66: In what way healthcare system support your business (good healthcare service, enabling manpower to solve healthcare problems fast and effective, etc.)?**




## Inclusive Growth - Summary

The aims of Inclusive Growth pillar is to increase overall employment rate, promote employment strategy in SEE through regional actions, enhance labour market governance for employment, stimulate social economy initiatives and improve health and wellbeing of all inhabitants.

Hiring is done mostly through personal recommendations. This confirms the widespread anecdotal evidence. There are various inefficiencies in this type of hiring, so the performance of the labour markets could be significantly improved either by public intermediation, i.e. active labour policies, or through a private one.

Men are preferred to women, which is in conformity with the statistics on employment and unemployment.

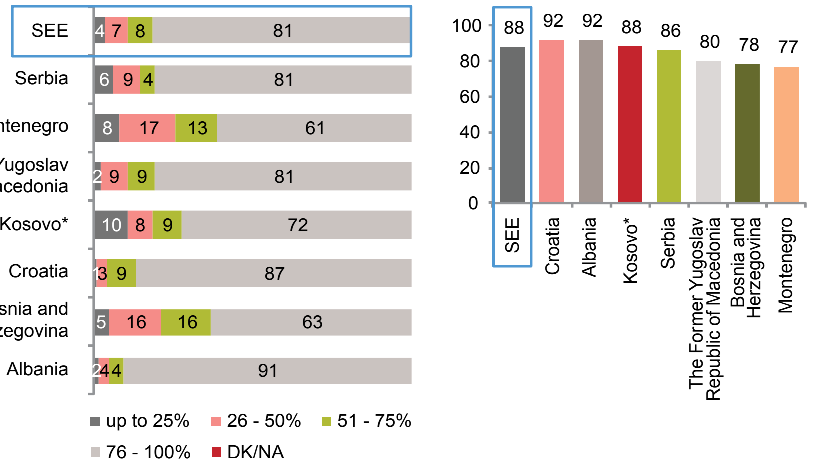
Apparently, firms are either demand or financially constrained as they would increase their working force if they could. Both confirm to what is known from macroeconomic studies and overviews.

Regarding the current healthcare system, results show that it does not affect the business i.e. its impact is neither negative nor positive.

Overall, there is significant scope for improvement in active labour market policies. Though some firms report that they use government services, they clearly lose out to more informal types of labour markets.

## GOVERNENCE FOR GROWTH

**Figure 67: What percentage of total annual sales would you estimate the typical firm in your area of business reports for tax purposes?**




If we talk about the whole SEE region, companies' managers assess that typical firm reports 88% of total annual sales for tax purposes (see Figure 67).

Compared to firms from Bosnia and Herzegovina (78%), those from Croatia (92%) and Albania (92%) claim that higher percentage of annual sales are reported.

Regarding actual wage bill, SEE business leaders believe that 86% of it is reported for tax purposes (see Figure 68). That number is significantly larger in Albania (92%) and Croatia (90%) than in Bosnia and Herzegovina (73%) and Montenegro (71%).

**Figure 68: What percentage of the actual wage bill would you estimate the typical firm in your area of business reports for tax purposes?**

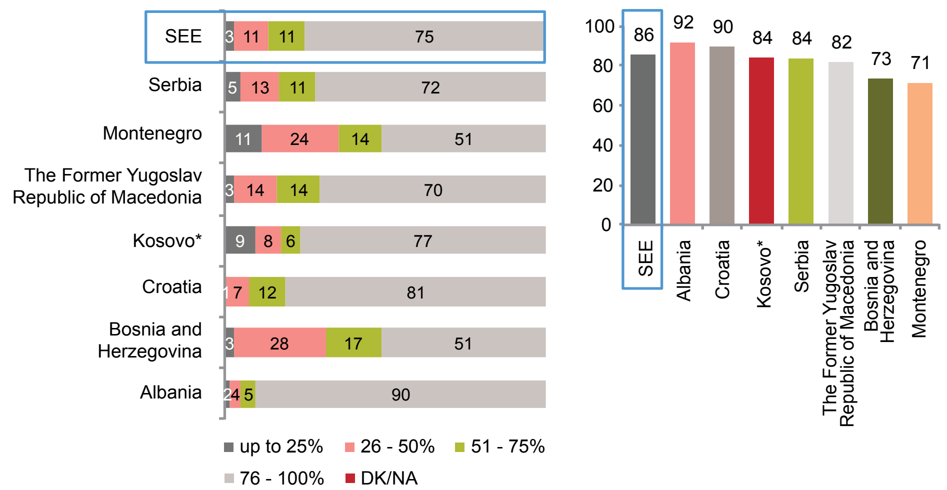





**Figure 69 (a): Information on the laws and regulations affecting my firm is easy to obtain. (1-5 scale; 1 means completely disagree, 2- tend to disagree, 3 – neither agree nor disagree, 4 – tend to agree and 5-strongly agree)**

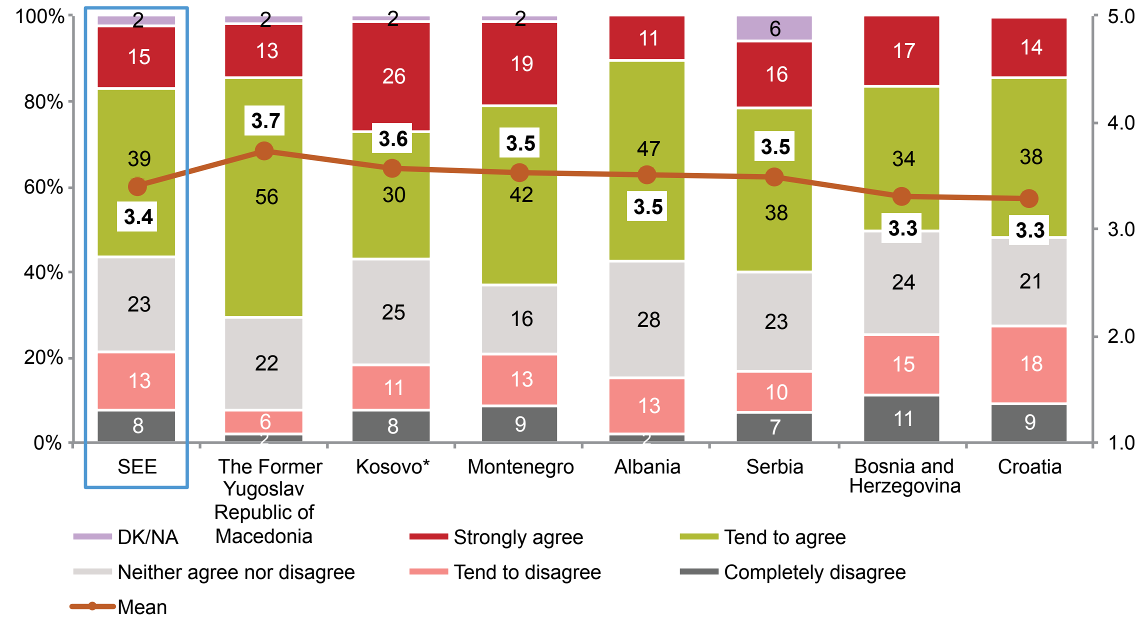
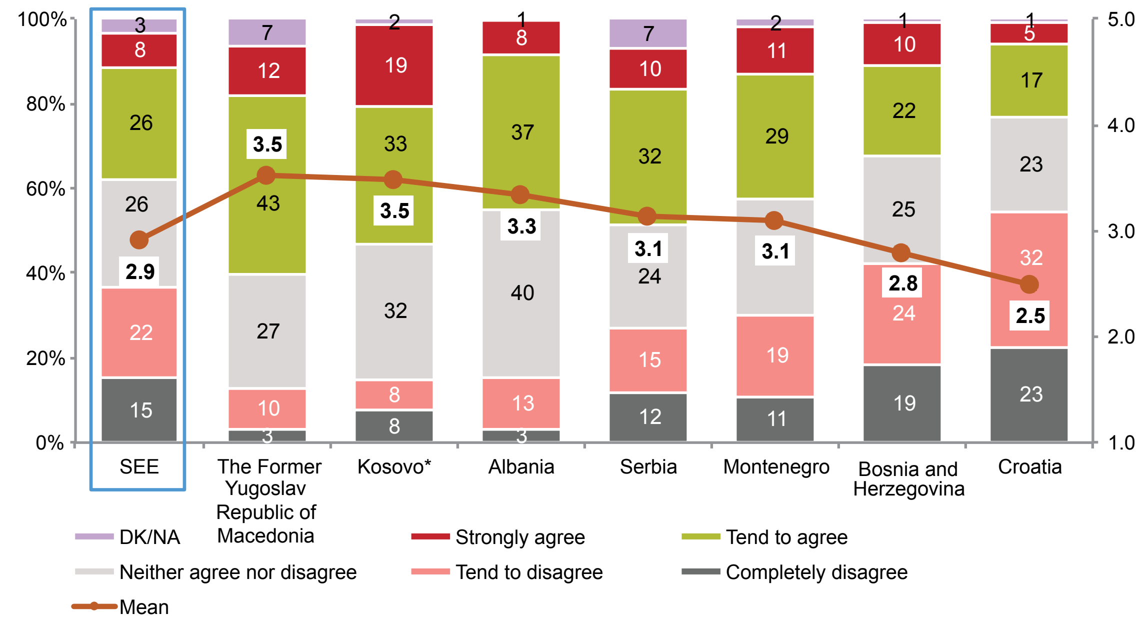



**Figure 69 (b): Interpretations of the laws and regulations affecting my firm are consistent and predictable. (1-5 scale; 1 means completely disagree, 2- tend to disagree, 3 – neither agree nor disagree, 4 – tend to agree and 5-strongly agree)**



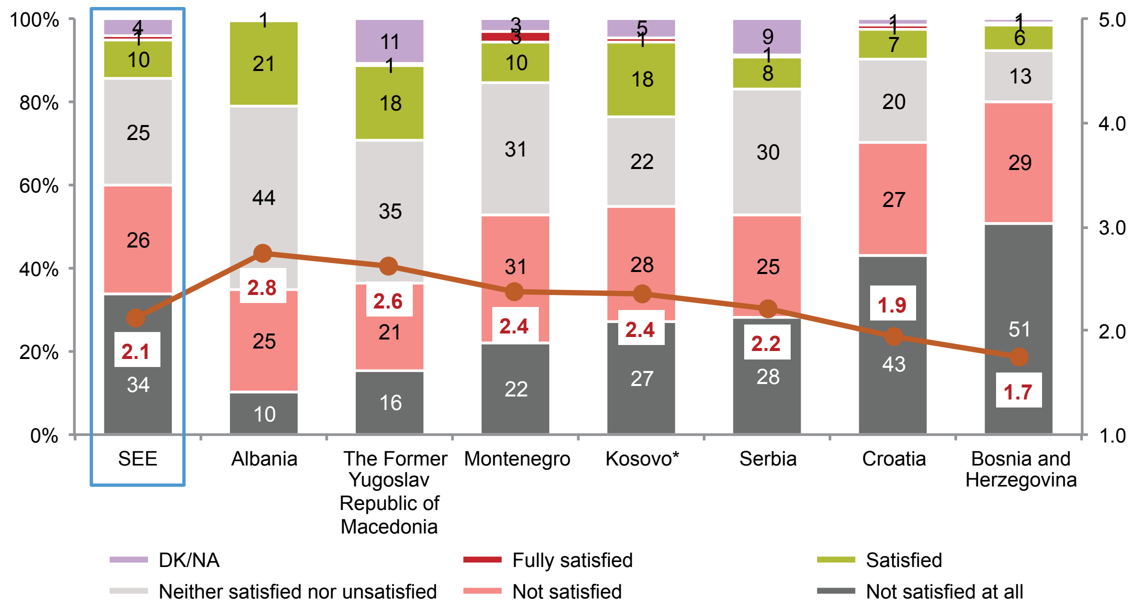
Having in mind the entire SEE region, businesspeople agree that information on the laws and regulations affecting their companies is easy to obtain (mean is 3.4) (see Figure 69a). This opinion is especially spread in The Former Yugoslav Republic of Macedonia (3.7).

Availability of relevant information depends on the company's size - bigger enterprises obtain them more easily.

SEE managers are not sure that interpretations of the laws and regulations affecting their firms are consistent and predictable (mean is 2.9) (see Figure 69b).

Croatians (2.5) are convinced of that significantly less than the rest of the region, except Bosnia and Herzegovina (2.8).

**Figure 70: To what extent you are satisfied with how the government consults and involves private sector in the process of drafting new laws and regulations relevant for doing business? (1-5 scale; 1 means not satisfied at all, 2- not satisfied, 3 – neither satisfied nor unsatisfied, 4 – satisfied and 5 - fully satisfied)**



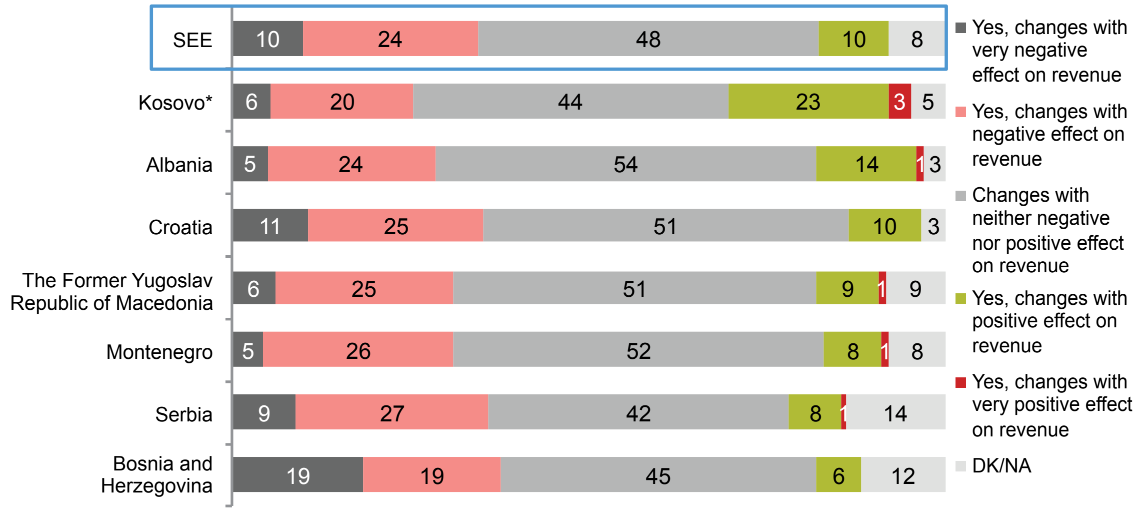

In general, companies from the SEE region do not agree that government adequately consults and involves private sector in the process of drafting new laws and regulations relevant for business – mean is 2.1. (see Figure 70).

Firms from Bosnia and Herzegovina (1.7) are much more dissatisfied with mentioned issue than enterprises from Albania (2.8), The Former Yugoslav Republic of Macedonia (2.6), Kosovo* (2.4), Montenegro (2.4) and Serbia (2.2).

Also, representatives of smaller companies are less content with this issue than those of larger ones.



**Figure 71: Have there been any changes (in practice or in the laws and regulations) that have affected your revenues in the last 12 months?**




In the last 12 months most of the SEE business leaders (48%) have noticed changes (in practice or in the laws) with neither positive nor negative effect on their revenues (see Figure 71).

One third of them report changes with negative reactions, while only 10% state positive impacts of changes (nobody marked impacts as very positive).

Businesspeople from Kosovo* more frequently recognize positive effect of changes than their colleagues from Bosnia and Herzegovina.

**Figure 72: Percentage of those who had cases in arbitration courts.**

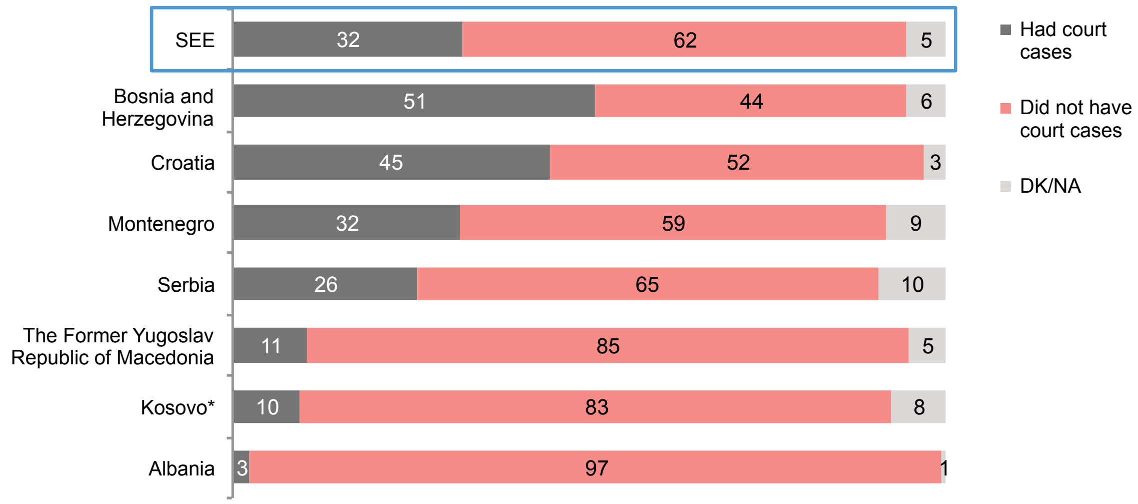
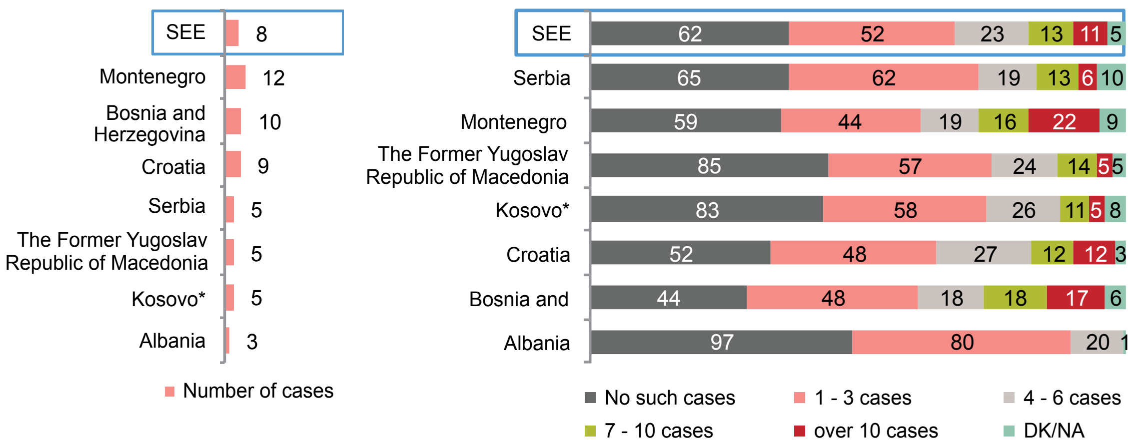


**Figure 73: How many cases in civil or commercial arbitration courts have involved your firm either as a plaintiff or defendant in the last 36 months? (those who had cases in arbitration courts)**

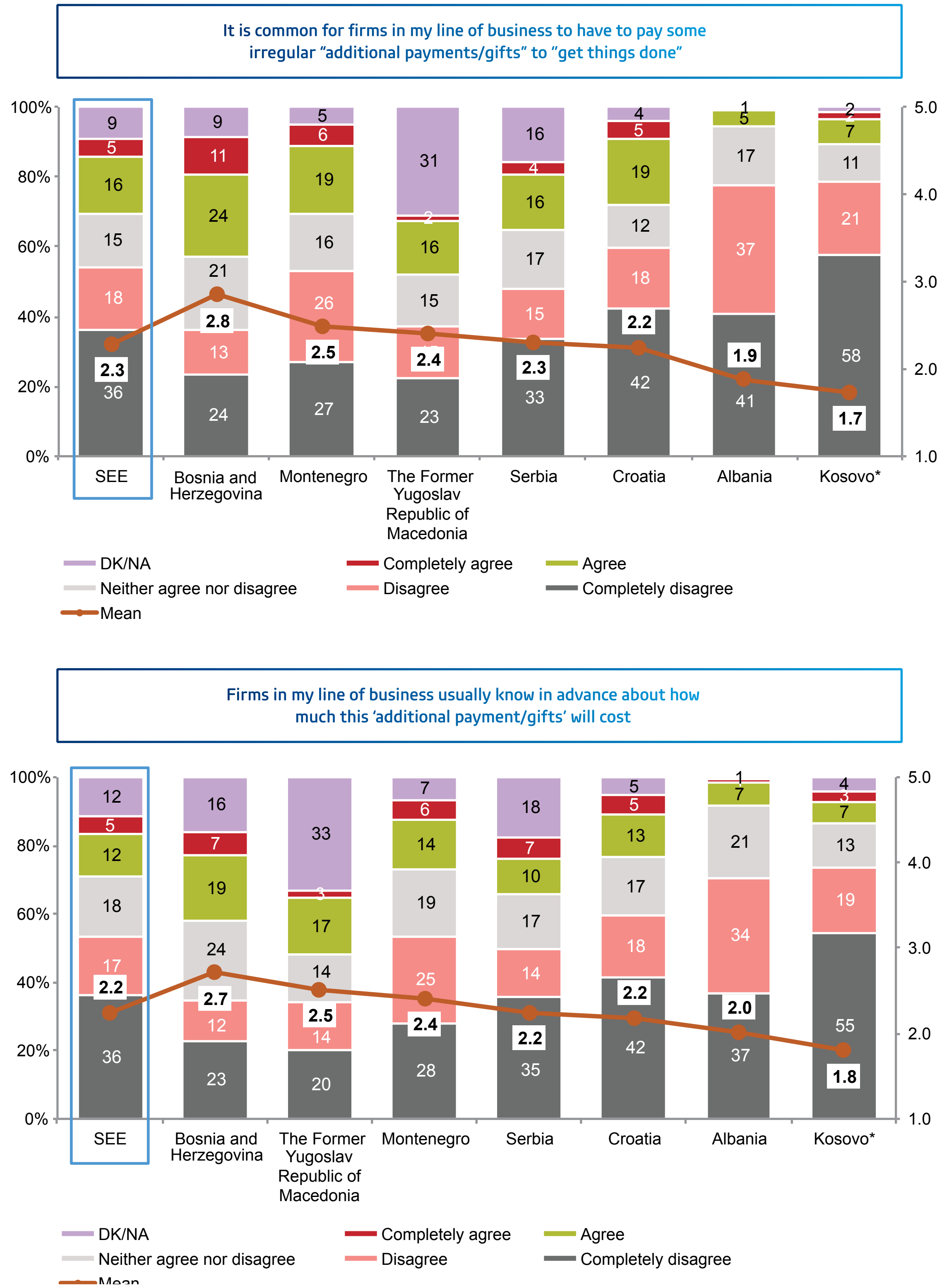



One third of the companies in the SEE region have had experience in civil or commercial arbitration courts over the last 3 years (see Figure 72). In Bosnia and Herzegovina even half of the firms had court cases, which is significantly more compared to rest of the region.

At the regional level, 8 cases (on average) have been arbitrated in civil or commercial courts in the last 36 months (see Figure 73). The largest number of the cases are recorded in Montenegro (12 on average) while Albania had the least (in average 3 cases).

Companies that export to the SEE have been involved in court cases more often than those which are not active within the region.

**Figure 74: Thinking about officials, at what extent would you agree with the following statements?**



Businessmen from SEE region think that practice of "additional payments or gifts" for "getting things done" is not common (mean is 2.3) (see Figure 74, first part).

Those from Bosnia and Herzegovina (2.8) are more convinced of that type of payment than managers from Kosovo* (1.7), Albania (1.9), Croatia (2.2) and Serbia (2.3).

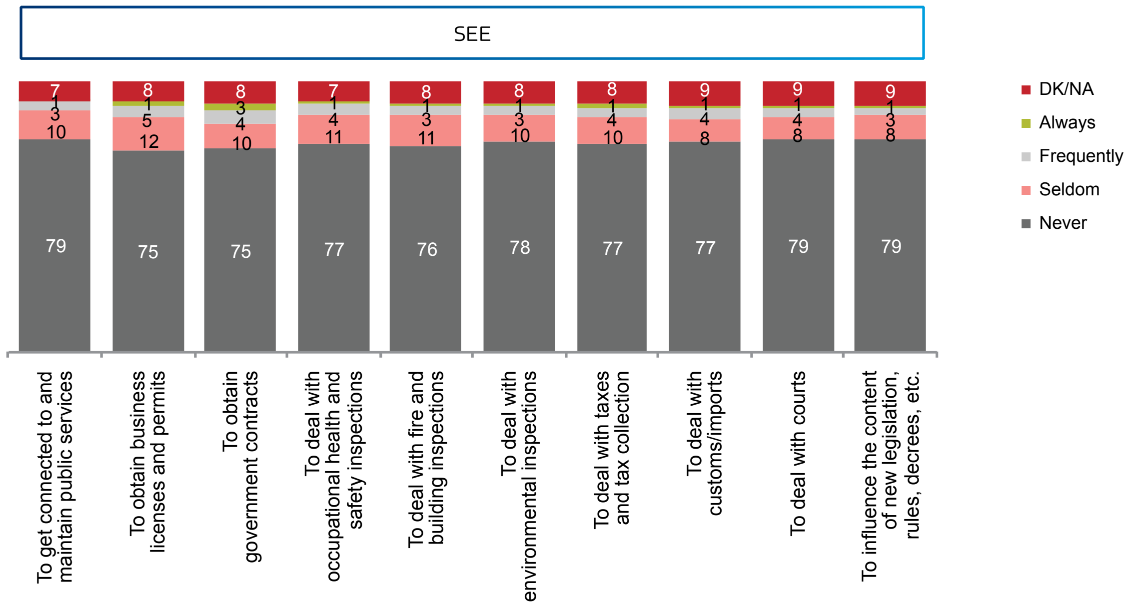
Unofficial payments become more frequent with company size i.e. it is more common among larger firms. Also, exporters to the SEE region more often practice additional payments or gifts.

At the first glance, Kosovo* and Albania might look as a place with the lowest corruption level, however, if we look other views (shown in following pages) conclusion is opposite.

Considering the entire region and the estimation scale (from 1 to 5), we can say that companies' leaders do not agree that amount of "additional payment or gifts" is known in advance (mean is 2.2) (see Figure 74, second part).

Compared to Kosovo* (1.8), Albania (2.0), Croatia (2.2) and Serbia (2.2), Bosnia and Herzegovina (2.7) again stand out by more belief in the accuracy of the above statement.

**Figure 75: Thinking now of unofficial payments/gifts that a firm like yours would make in a given year, could you please tell me how often would they make payments/gifts for the following purposes...? Please rate your answer from 1 to 4, where 1 means never, 2 - seldom, 3 – frequently and 4 - always.**




Vast majority (from 75% to 79%) of businesspeople in SEE region believe that companies never make some unofficial payments or gifts for any of listed purposes (see Figure 75).

Approximately 10% of them claim that "additional payments" are made rarely, while only 4% think they are frequent.





Croatians (86%) think that unofficial payments for public services are never made significantly more than rest of the region (except Bosnia and Herzegovina and Montenegro) (see Figure 75a).

Opinion on occasional extra payment for business licenses and permits is much more frequent in Albania (30%) than in Croatia (9%) and Bosnia and Herzegovina (11%) (see Figure 75b).

**Figure 75 (a): To get connected to and maintain public services (electricity and telephone)**

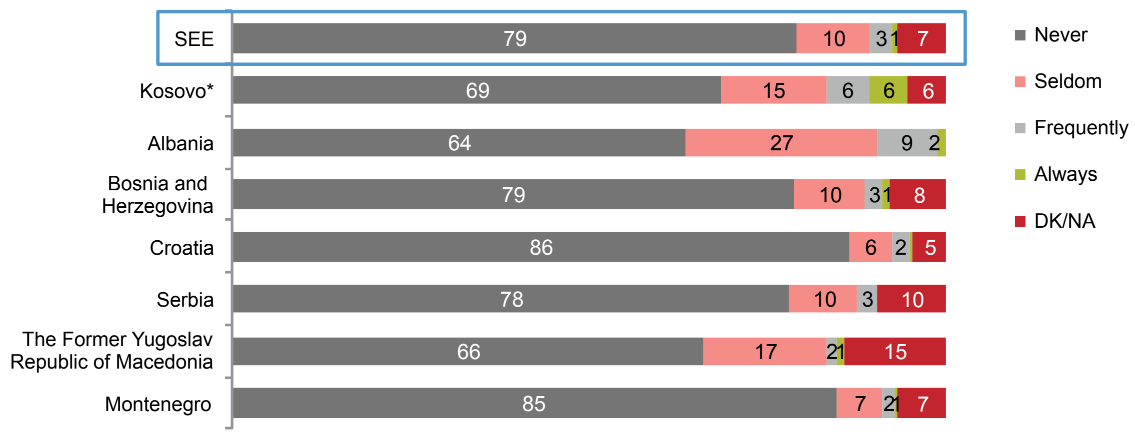
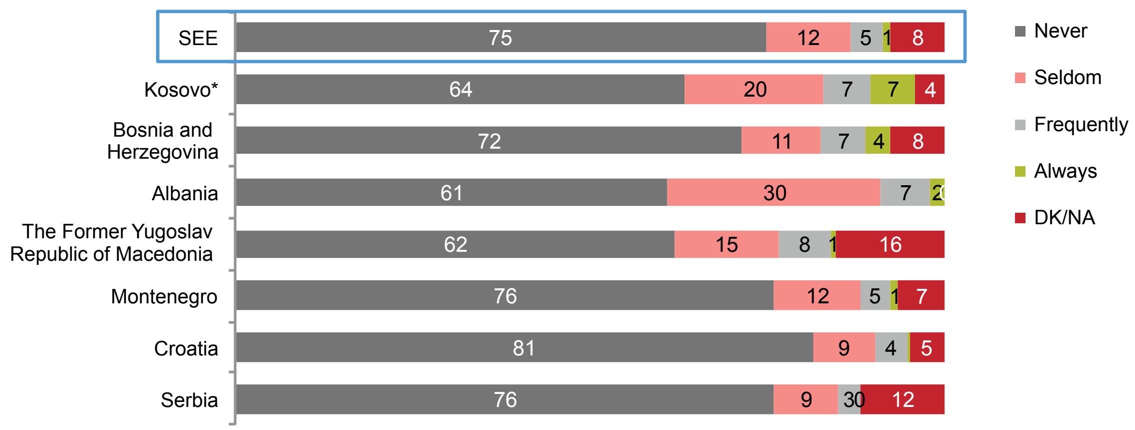


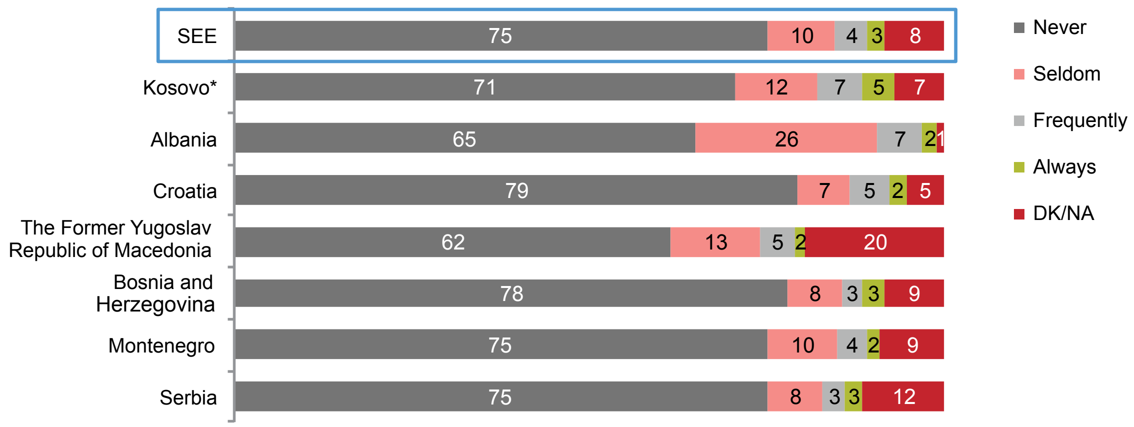

**Figure 75 (b): To obtain business licenses and permits**



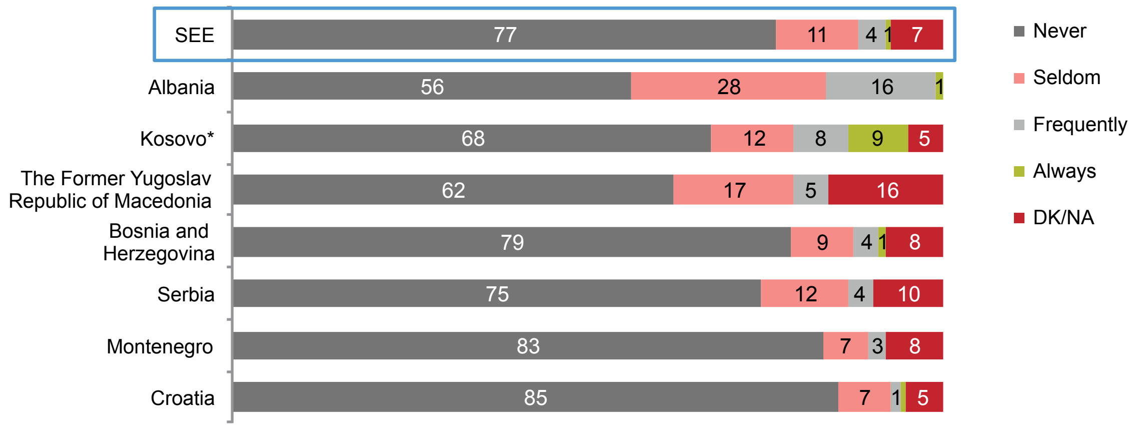

Albanians (26%) think that firms sometimes need to pay unofficially to obtain government contracts significantly more often than Croatians (7%), Serbs (8%) and businesspeople from Bosnia and Herzegovina (8%) (see Figure 75c).

Business leaders from Croatia (85%) are convinced of incorruptibility of health and safety inspections more than those from Albania (56%), Kosovo* (68%), The Former Yugoslav Republic of Macedonia (62%) and Serbia (75%) (see Figure 75d).

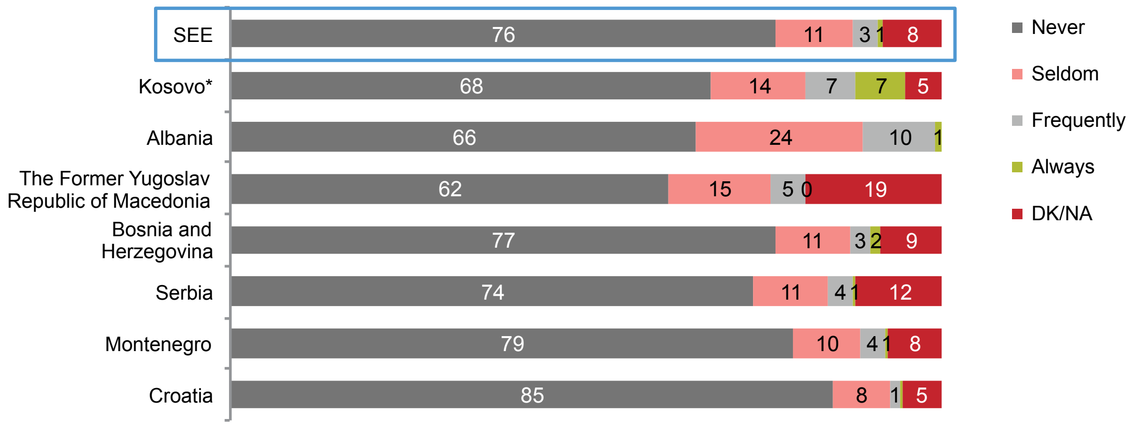
### Figure 75 (c): To obtain government contracts




### Figure 75 (d): To deal with occupational health and safety inspections




### Figure 75 (e): To deal with fire and building inspections



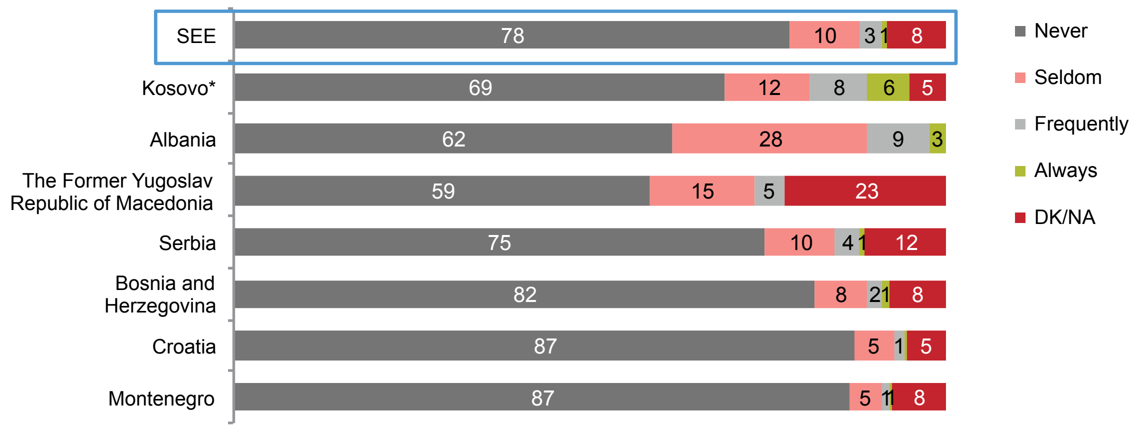

In terms of fire, building (see Figure 75e) and environmental (see Figure 75f) inspections, companies from Croatia state that they never expect additional payments significantly more often than others (except Bosnia and Herzegovina and Montenegro).

On the other hand, business representatives from Kosovo* consider that additional charges for mentioned inspections are made more frequently.

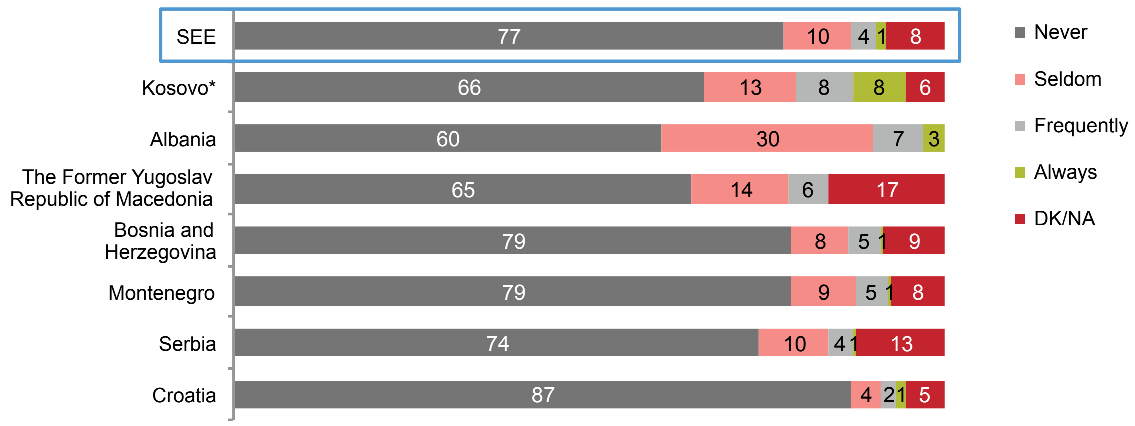




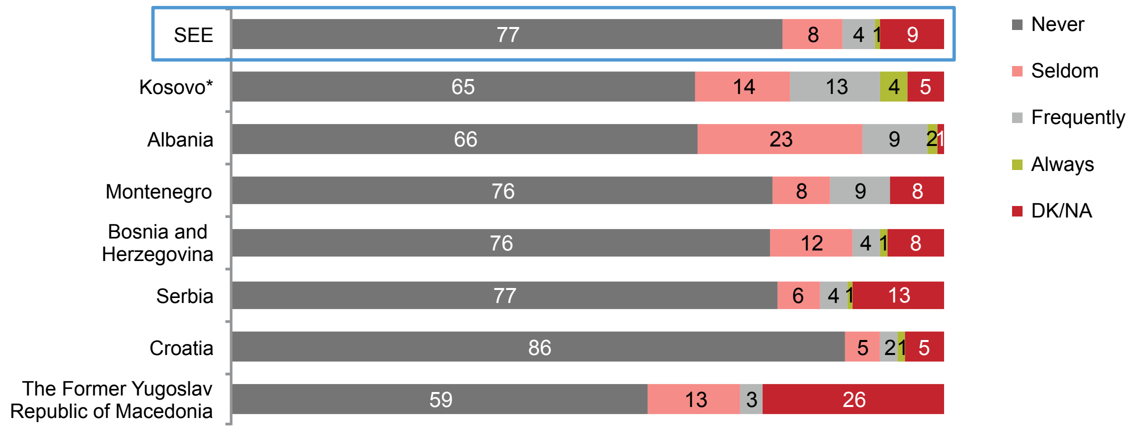
### Figure 75 (f): To deal with environmental inspections




### Figure 75 (g): To deal with taxes and tax collection




### Figure 75 (h): To deal with customs/imports




As with the previous questions, Croatians are the most convinced in the absence of unofficial payments regarding taxes and customs, while Albanians claim that informal charges are made occasionally, more often than others. (see Figures 75g and 75h).

Figure 75 (i): To deal with courts

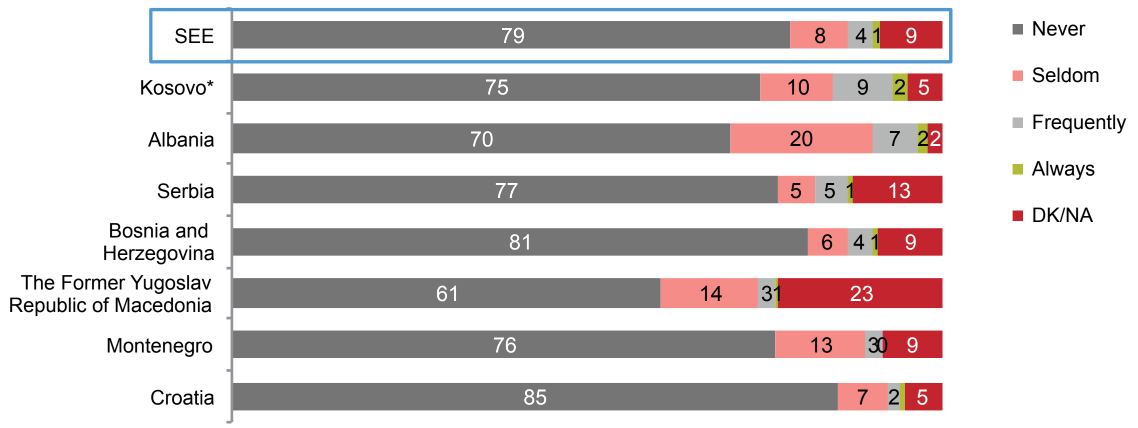
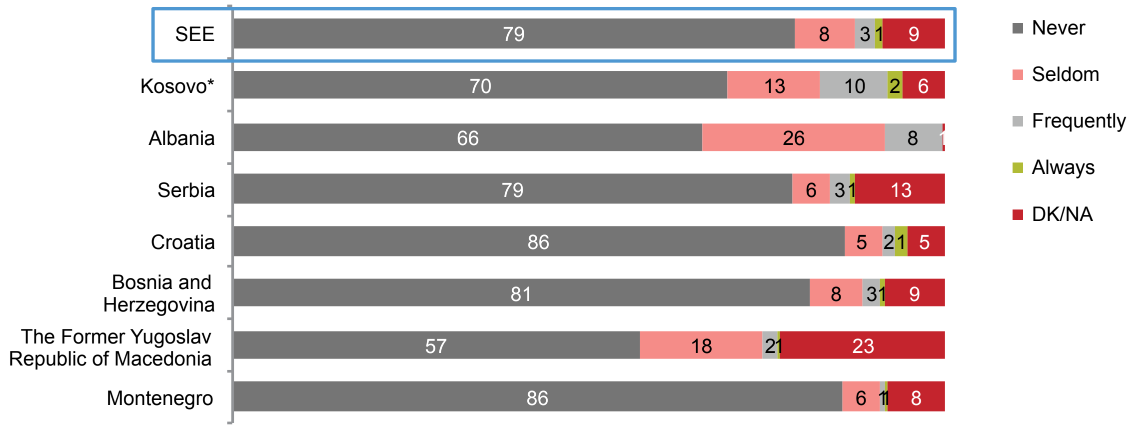



Figure 75 (j): To influence the content of new legislation, rules, decrees, etc.




Compared to Croatia, Serbia and Bosnia and Herzegovina, Albania reports occasional informal payments concerning courts and impacts on new legislation and rules significantly more often (see Figures 75i and 75j).





## Governence for Growth - Summary

Governance for Growth pillar is about increasing the capacity of the administration to strengthen the rule of law and combat corruption, in order to create relevant business environment and public services essential for economic development. This pillar could be interpreted as all-pervading component and a precondition for the effective achievement of the objectives of the SEE 2020 Strategy.

The answers on tax evasion and corruption are more difficult to interpret because they tend to be less informative. Usually, they are under reported in surveys.

Having that in mind, there is indication that tax evasion is not insignificant. This conforms to what is known from other sources. This goes for both profits and wages. Still, the numbers and the distribution across the region do not square with what is known from other sources of information - they are smaller.

Similarly, the information on various types of corruption is more benign than is generally reported in other sources. Assuming that actual numbers are higher, it comes out that gifts and bribes are rather widespread. This does not correlate with the level of development in the expected way. That may also be due to different perceptions of these practices, which is not unusual in these kinds of surveys.

Finally, the use of courts and arbitration could be improved upon, which again confirms what is otherwise known.

# CONCLUSIONS AND RECOMMEN-DATIONS

Overall assessment of the business environment is critical, though not as starkly as the economic development would warrant.

Crucially, growth drivers are seen in further improvement in technology, in investment in human capital, and in infrastructure.

In addition to that, improvements in governance are seen as needed to support investment and growth.

Finally, regional and EU integration is welcomed, though there is some variation in that which reflects deep preference for domestic goods, production, and markets. That reflects the fact that these are rather closed economies when it comes to exports to overall production.

The region basically needs development policies. Those are characterised by the leadership role of the policy makers and of the economic measures. In most areas, the views of the business community reflect the current state of affairs and their recommendation go in the direction of their improvement.

However, these policies need to address growth and market needs that would increase investment and change the structure of production. The policies demanded by the business executives do not differ substantially from those identified by the larger public. More specifically, public investments, institutional reforms, and improved governance would support business activity. The following broad sets of measures are seen as a priority:

- Investment in infrastructure, mostly in that which is almost non-existent (railroads and water transport).
- Investment in education and science to address skill mismatches and spur innovation.
- Ambitious active labour market policies to reform the market institutions and decrease inefficiencies in currently mostly informal search for jobs and hiring.
- Increased regional investment opportunities in order to exploit economies of scale; there is conspicuous absence of large, multinational, manufacturing firms .
- A boot to total factor productivity through the improvement in governance; this may be the main obstacle, though it is not necessarily perceived as such.

# METHODOLOGY

Methodology used in Business Opinion Survey is CAPI (Computer-Assisted Personal Interviewing). The survey was conducted via personal interviews in selected companies by trained interviewers from GfK. Some adjustments and preparations were necessary for the successful implementation of the survey:

## QUESTIONNAIRE

The questionnaire was provided by the RCC. It contained 85 questions divided into six categories (general questions and five pillars according to the SEE 2020 Strategy). The questionnaire was originally written in English. It was subsequently translated into seven local languages, with the exception of Kosovo* where both Albanian and Serbian versions of the questionnaire were used, and The Former Yugoslav Republic of Macedonia, where questionnaires in two different languages were also used. The RCC reviewed and approved the translations of the questionnaire.

Since the CAPI software was used in the research, all questionnaires were converted to a digital form and installed on interviewers' laptops. The programmes were reviewed by a competent person in each economy.

## INTERVIEWERS

The survey was conducted by the GfK in all economies, except Montenegro where De Facto Consultancy was hired as a sub-contractor. All interviewers were given written instructions containing general description of the questionnaire, of the method of selecting addresses for the interviews and of the respondent selection process. In addition to providing written instructions, GfK have organized training for interviewers which explained research goals. Moreover, project coordinators examined the entire digital questionnaire jointly with the examiners and emphasised some important elements (especially the need to read individual answers where one or more answers were possible, etc).

## SAMPLE

Business Opinion Survey was conducted on the N=200 companies for each economy, with the total of 1400 companies for the SEE region.

The survey encompassed:

- companies of various sizes – micro (1 – 9 employees)*, small (10 - 49 employees), medium (50 - 249 employees) and large (more than 250 employees),

*Upon to Client's request, sample included firms with 4 and more employees

- various business (21 business fields according to NACE classification),
- companies which are not majority-owned by the state or the government,
- companies established earlier than 2013.

It is important to note that the data were weighted on the basis of GDP. The GfK used official data provided by the World Bank Group as a source.

## INTERVIEWING PROCEDURE

Before the main part of the fieldwork, i.e. interviews with business respondents, GfK conducted two preparatory phases: Company selection and Telephone recruitment.

**a) Company selection**

The selection of the companies was performed randomly within various regions, sectors, sizes and ownerships. Official data provided by national statistical offices of the seven economies were used as data source. The selection was completed before the first phase of fieldwork, enabling interviewers to receive lists of companies to be contacted.

**b) Telephone recruitment**

The target group in the Business Opinion Survey were members of companies' managing boards. Considering the fact that persons in leadership positions have a lot of responsibility and are probably very busy, telephone recruitment was organized. This was the first step of fieldwork which increased the response rate and therefore led to a successful implementation of interviewing process.

In telephone conversations the interviewer presented the idea and the objectives of the survey to respondent and then attempted to arrange a face-to-face interview. The interviewer needed to be very familiar with the project, but also to be eloquent, persuasive, polite and persistent. The described lists contained the company's name, address and telephone number and, in some cases, the name of contact person. In cases in which a person from the list believed they are not qualified to discuss the topics mentioned, the interviewer asked to be referred to a person who is more competent. A similar request was made when no contact person was indicated on the list.

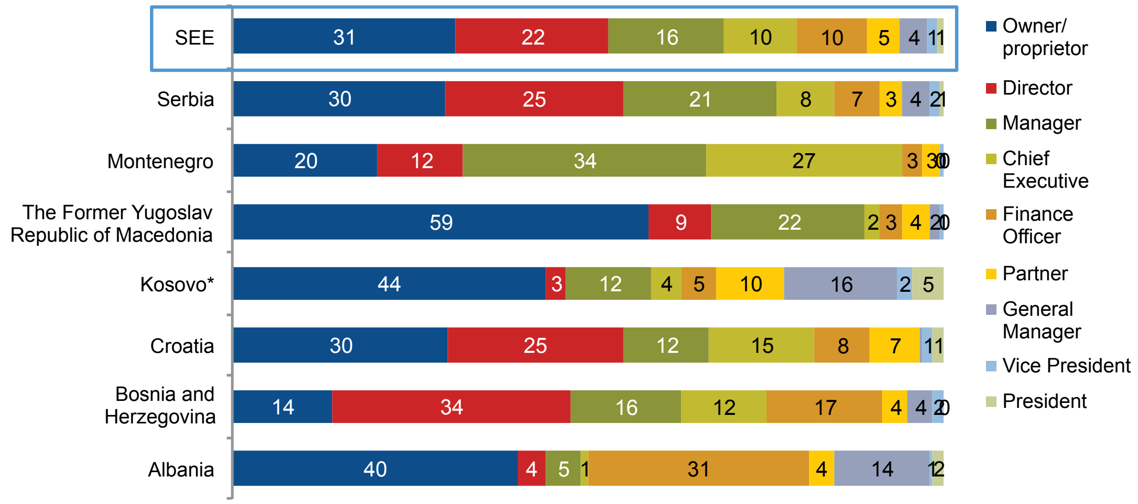
Every telephone interviewer was obliged to contact a potential respondent at least three times and arrange an appointment (except in cases when a person categorically refused to participate in the survey). They needed to note down the scheduled date and time clearly. Thus the contact lists contained only relevant information; they were filtered and ready for face-to-face interviews.





## SAMPLE STRUCTURE

### Figure 76: Sample structure by respondent's position




### Figure 77: Sample structure by largest shareholder

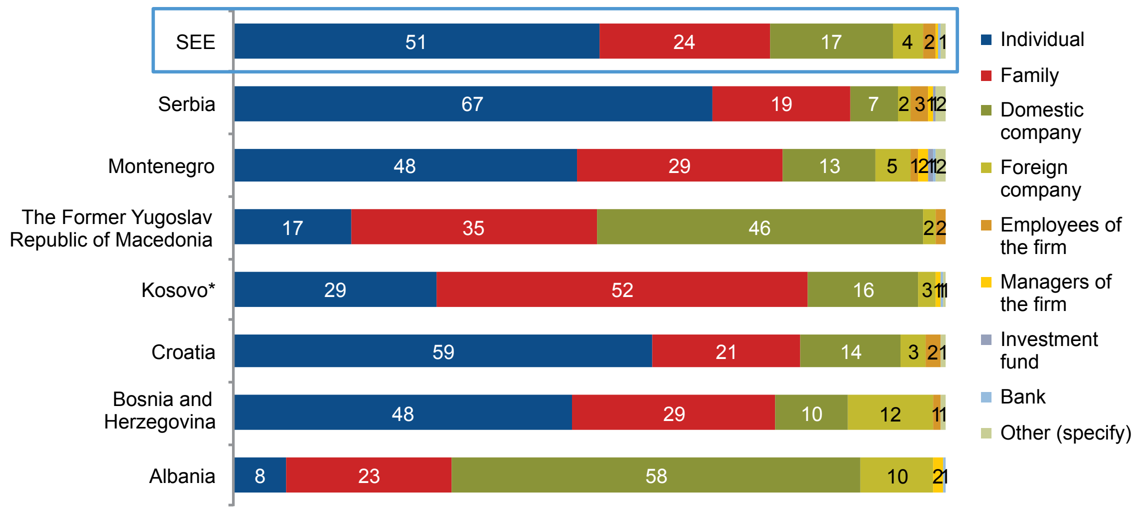


Figure 78: Sample structure by No. of employees

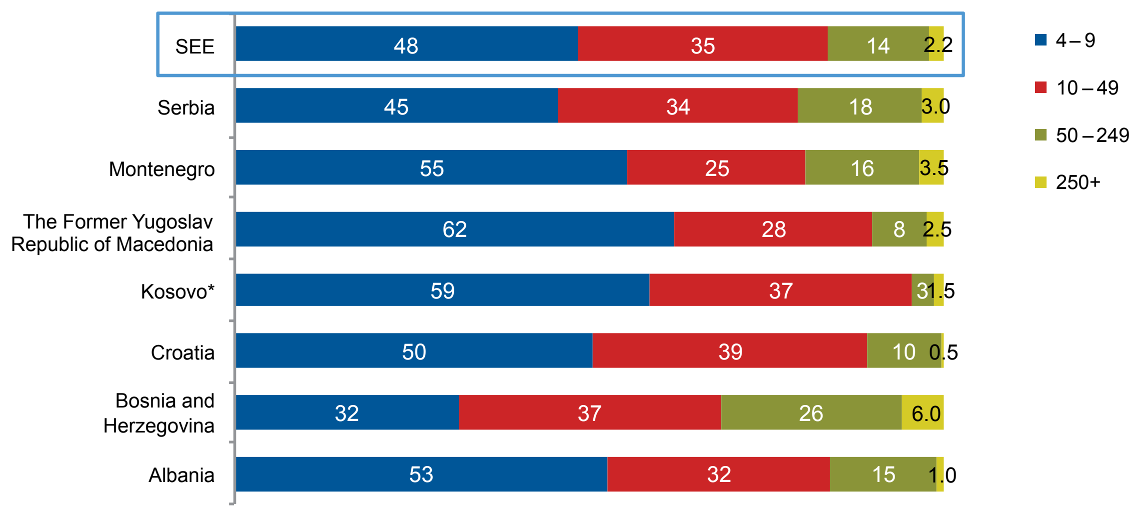



Figure 79: Sample structure by business areas

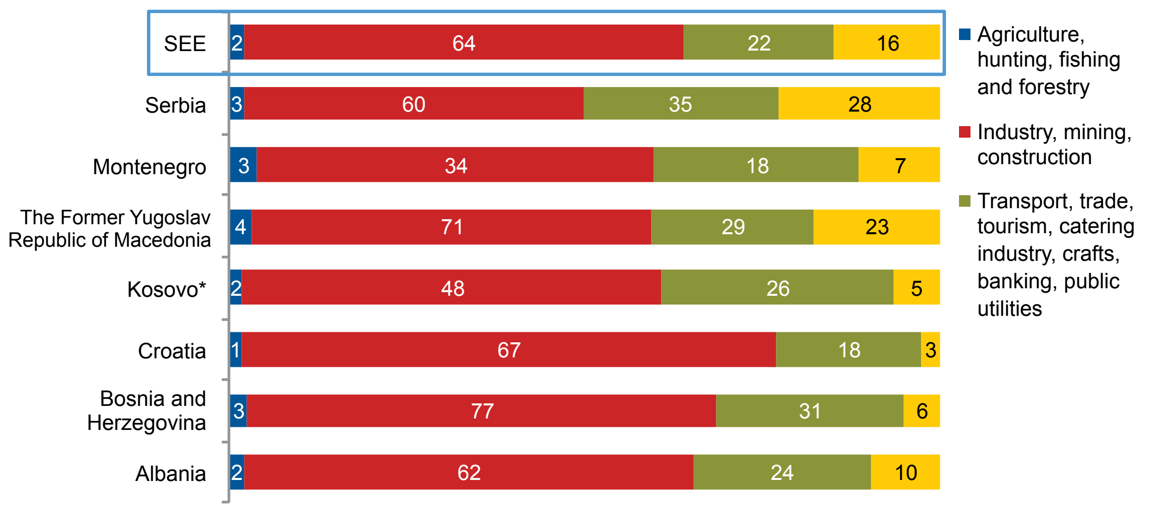
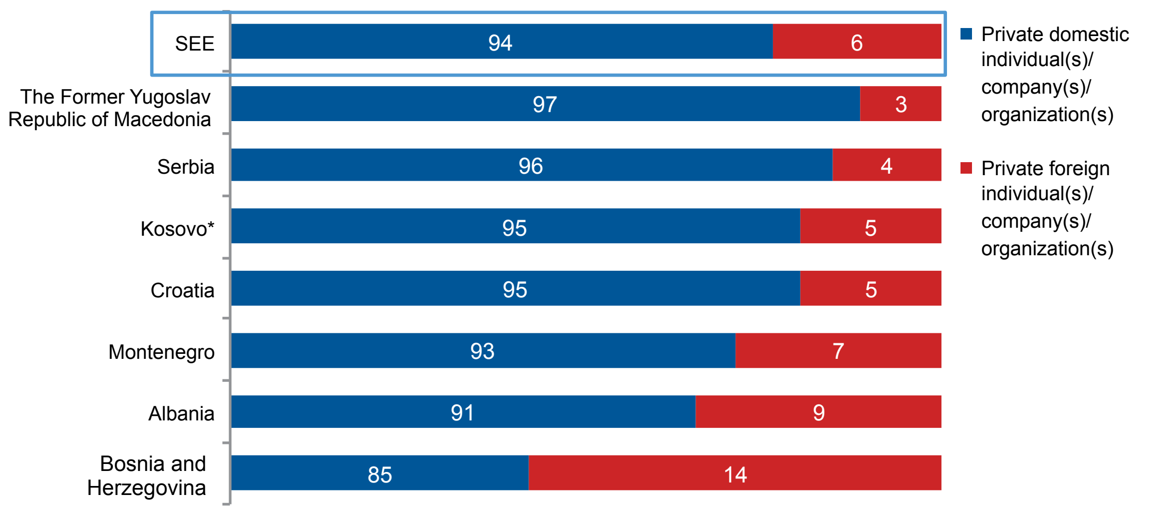



Figure 80: Sample structure by ownership



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