

BALKAN BAROMETER 2020

BUSINESS OPINION

Analytical report



RegionalCooperationCouncil



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FOREWORD

Before you lies the 2020 edition of the Balkan Barometer, an annual survey of Western Balkans citizen and business perceptions produced by the Regional Cooperation Council. For the sixth time, we have attempted to present and analyse the attitudes of thousands of region's citizens and businesses across a wide array of socio-economic topics impacting everyday lives.

However, there's a stark difference between this year's Barometer edition and all those that preceded it. While the results that we present here - gathered over late 2019 and early 2020 - are ones of continued, if steady, progress, the time of its release coincides with the biggest public health and economic crisis that the region, and indeed the world, has seen in recent history. The novel coronavirus (COVID-19) pandemic has brought the world to a standstill while the governments and public health officials battle the virus spread with tools that were never seen before at this scale and magnitude. More than 3 billion people across the world are in lockdown at the time this report is released, with all of the region's citizens, apart from those providing health and essential services, sharing their fate.

While the focus at the moment is on preserving health and lives of citizens, a general consensus is forming that the region, and the world, will emerge looking differently once the immediate threat is over. Large sections of the economy have grinded to a halt during the period, creating immense pressure on businesses, particularly the SME segment which accounts for more than 90% of our economies. Unemployment is on the rise again, and the governments in the region have already hurriedly deployed initial economic stimulus programmes to alleviate the immediate negative impacts. While a lot remains unclear at this time, it is safe to assume that the period of protracted and increased volatility is upon us.

However, regardless of the immense change that COVID-19 pandemic will inflict on all of our economies when we come out on the other end, many of the issues presented in this report will still be immensely relevant, perhaps even more so than before. There is a clear need for a greater substantive engagement by the region's governments **to improve the public's severely shaken confidence in their institutions.** The COVID-19 crisis could present an opportunity for the governments to begin changing the attitudes of the region's population, overwhelmingly unhappy with the performance of their public officials across virtually all critical performance indicators. Account-

able and responsible politics, better governance, and stronger rule of law are foundational principles that the citizens and businesses had come to expect from the region's governments.

Employment and education are areas whose importance will grow over the next period. The success in finding **gainful employment is currently viewed by citizens as a result of personal contacts rather than merit.** With expectations of higher unemployment, confidence in the job market needs to be rebuilt in order to rehire employees that have lost jobs during the COVID-19 outbreak, as well as to mobilise the large but dormant contingent of prospective job seekers. Fewer than two-thirds of the region's graduates secured employment within three years of leaving school, while only a quarter were employed in the first 12 months following graduation, a sobering fact that needs addressing through an ever increasing dialogue between employers, governments and educational institutions. Businesses are finding it more difficult to fill vacancies with qualified workers, and almost 80% of managers in the region stresses that digital skills are important for conducting their businesses. **Finally, the need to develop better social infrastructure, such as hospitals, has risen to a number one priority** for government investment in the minds of citizens, even before the COVID-19 outbreak.

The 2020 Balkan Barometer has recorded the highest positive sentiments by both businesses and citizens since we've started off on this endeavour. Thus, the most fitting title for this year's Barometer should perhaps be - the future is not what it used to be. Hopefully, we will build a new, better future in its stead.

INTRODUCTION

The 2020 edition of the Balkan Barometer represents the next chapter in the steady evolution of the region's foremost survey of public and business opinion. Launched as an attempt to measure impact of regional actions implemented under the South East Europe (SEE) 2020 Strategy, the Barometer is now firmly established as a reliable source of regional data widely employed and referenced by media, business, civil society and decision makers alike.

The 2020 Balkan Barometer surveys were conducted between November 2019 and January 2020 in Albania, Bosnia and Herzegovina, Kosovo^{*} [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.], Montenegro, Republic of North Macedonia and Serbia. The Public Barometer survey posed 116 questions to 6,020 citizens and the Business Opinion survey presented 95 questions to 1,215 business owners, managers or executives. Answers by survey respondents have been systemised, analysed and presented in the two reports – Public Opinion Survey and Business Opinion Survey.

This edition of the Barometer has seen some changes in terms of questions and topics covered in an attempt to remain up-to-date and relevant in a rapidly changing regional landscape. The regular emergence of social and economic challenges and topics, whether global or local, has seldom been unaccompanied by regional ripples and the Barometer has always recorded their effects on the SEE community. In particular, the Barometer remains a valuable guide to frequently shifting attitudes towards cooperation and integration, both at regional and EU levels, helping inform the work of policy makers and other interested regional stakeholders.

While originally introduced to help track progress in meeting the SEE 2020 Strategy, Barometer has outgrown its role, and with the SEE 2020 Strategy coming to a full stop this year, the Balkan Barometer is expected to serve a much broader range of purposes in the future. One of those roles would be to support crafting a post-2020 agenda that will be more in tune with the SEE community's immediate needs and in-

terests based on six years' worth of data and a clear need to act quickly to stem the negative effects of COVID-19 outbreak.

^{*} 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.

MAIN FINDINGS

The Balkan Business Opinion Barometer for 2020 brings the highest values of Balkan Business Sentiment Index (BBSI) for the region so far. In 2019 BBSI has reached a historical high of 65 points, continuing its increasing trajectory that was shortly interrupted in 2018. It is again driven by bright future expectations (71) more than by the present situation (62). All economies have seen their scores increase (Kosovo^{*} considerably so), except Albania that has suffered a substantial decline.

The Western Balkans are generally satisfied with the outcome of 2019. Economic growth in 2019, although not as strong as in 2018, was primarily driven by consumption, which reflected in 45% of businesses reporting an increase in demand for their products. Consequentially, a similar share reported having a good business year (43%), and having met the demand, around a third reported an increase in the number of employees. However, as it has been the case in the past, business leaders perceive their businesses as better performing than their respective economies in total.

High expectations stemming from satisfactory business performance will hardly be met amid the outbreak of COVID-19. Lockdown of the economies of the region and their trade partners will certainly have a profound effect on businesses, while governments' actions and unity of the region could do a lot to mitigate the consequences.

Although the region has seen small popularity growth in loan applications, internal funds became even more dominant source of financing. Part of the explanation could be found in the fact that the majority of the companies reported a good business year, which has probably meant more operating surplus that could be used instead of borrowing.

Political turmoil is quick to reflect on perception and trust towards the governments and regulatory framework. The political crisis, lack of democratic procedures and pronounced uncertainty in Montenegro caused an across the board drop in satisfaction with the government's conduct, stability, and predictability of laws and an increased sense of corruption. On the other hand, the commitment of the government of the Republic of North Macedonia has helped the scores to rebound.

Unresolved disputes hamper a sense of regional cooperation. The share of businesses in support of regional cooperation has shrunk, mainly due to the backward trends in Serbia, but also Bosnia and Herzegovina and Montenegro, as the former two have

had unresolved trade disputes with Kosovo^{*}. The similar stands for satisfaction with CEFTA, as there is a clear polarisation between economies that consider exporting to CEFTA more difficult than exporting to the EU and vice versa.

Approaching EU prospects in the Republic of North Macedonia and Albania has had a positive effect on the perception of businesses. The pool of pro-EU businesses expanded in Albania and the Republic of North Macedonia by 20 and 15 percentage points, respectively.

Business environment has not seen much of the progress. Macroeconomic instability, the rule of law in its broadest sense, including ethics, transparency and efficiency trouble businesses with an equal or somewhat higher intensity as in the past. On a more positive note, infrastructural projects that are being completed are starting to reflect on businesses' perceptions. Also, Regional Roaming Agreement was welcomed by more than 40% of the executives.

Especially the labour market conditions may pose a serious challenge in the future. More than a quarter of the Western Balkans companies have reported struggling to fill in job vacancies, while the most commonly cited reason being lack of skill of the applicant. One of the positive consequences is that the companies of the region are more open towards youth.

Economies of the region remain concentrated on the domestic markets. Even though 80% of the businesses claim that their products can match those from the EU, only three out of ten are engaged in exports. Non-exporters usually cite a lack of plans, interests or capacities to export, while exporters complain about the need to hardcopy documents, acquire licenses and slow import-export procedures.

Only one in ten companies decide to invest abroad, and an even smaller share of these investments ends up in the region. Moreover, there is a trend of increasing investments in the EU, rather than in the region. As companies consider and value a lot of different factors when making an investment decision, political stability and quality of regulatory environment among others, it does not come as a surprise that the region is not becoming a preferable option for investing, as not a lot of progress has been done.

Implementation of "Mini Schengen" could change the state of play. It could encourage more cross-border investments across the region and shorten export procedures while economies from the region would also benefit from the free movement of labour.

Generally, companies see positively on intra-regional worker mobility, especially within particular economy pairs like Bosnia and Herzegovina and Serbia, and Kosovo* and Albania.

Strong gender preference and prejudice towards the Roma population persist. Moreover, the trend of preferring men to women when finding a new candidate for the job has become even more pronounced. This practice in the past has yielded the current gender structure of employment in which only a third are women. Furthermore, in spite of a slight decline, still, 15% of the executives believe that employing a Roma worker would negatively impact the working environment of their company.

There is little evidence that foreign direct investments (FDIs) coming to the region are becoming integrated into domestic economies, as only 6% of sales of regional companies are made to multinational companies located in their countries.

Western Balkans companies have still used the Internet in traditional fashion, mostly for communication and advertising. One of the "more modern" features, e-banking has seen its popularity grow over the past year, as now around half of companies rely on this method for executing financial transactions. In spite of global trends, **the number of online sellers has remained relatively unchanged.** However, **companies that do sell over the Internet, have in fact increased the volume of sales.**

Innovative dynamism has not seen much of a change, as businesses continue to rely on their own strengths, in terms of both capacity and financing.

REGIONAL OVERVIEW

The release of the 6th edition of the Balkan Barometer could hardly come at a more uncertain time for the Western Balkans, and indeed the world. The coronavirus (COVID-19) outbreak has already led to a major health crisis across the region and immense disruptions of the global and regional economies. The situation is likely to become even more complex in the coming months, and the economic fallout from the pandemic could represent one of the biggest shocks of recent decades.

The loss of output resulting from COVID-19 health crisis and the related measures to contain the spread is unprecedented. The uncertainty relating to the duration of the crisis and the unorthodox position of the governments, where instead of stimulating the aggregate demand, the governments are forced to contain the economic activity so as to slow the spread of the virus, makes the crisis response extremely difficult. This economic trajectory will almost certainly pull all of the economies in the region into a recession, and a much more pronounced one than experienced during the Great Recession of 2008/2009.

According to the latest forecasts (IMF WEO, April 2020), the Western Balkans economies are expect-

ed to contract on average by -4% during 2020, with the negative growth in individual economies expected to range between -9% in Montenegro and -3% in Serbia. The regional economies are being affected through several channels including the lower tourism and transport revenues, cuts in manufacturing outputs, lower remittances, decelerating exports growth and lower FDI and investment overall. The mobility restrictions in the Western Balkans economies are putting enormous pressure on the businesses, particularly in the MSME segment, which accounts for more than 90% of the region's economies, cutting the firms off from buyers, suppliers, and, in some cases, employees.

To save lives, but also livelihoods, and preserve gains made over the past years, a rapid and decisive government response is needed. The governments in the region are already putting forward fiscal and other measures to alleviate the shocks, particularly in hardest hit economic sectors and households. The immediate measures will help maintain economic relationships throughout the shutdown and are essential to enable activity to gradually normalise once the pandemic abates and containment measures are lifted.

Figure 1: Real GDP Growth in the Western Balkans 2008-2021
(Source: WB Central Banks (2008-2019), IMF World Economic Outlook 2020 (2020-21), WB GDP weighted average growth rate)

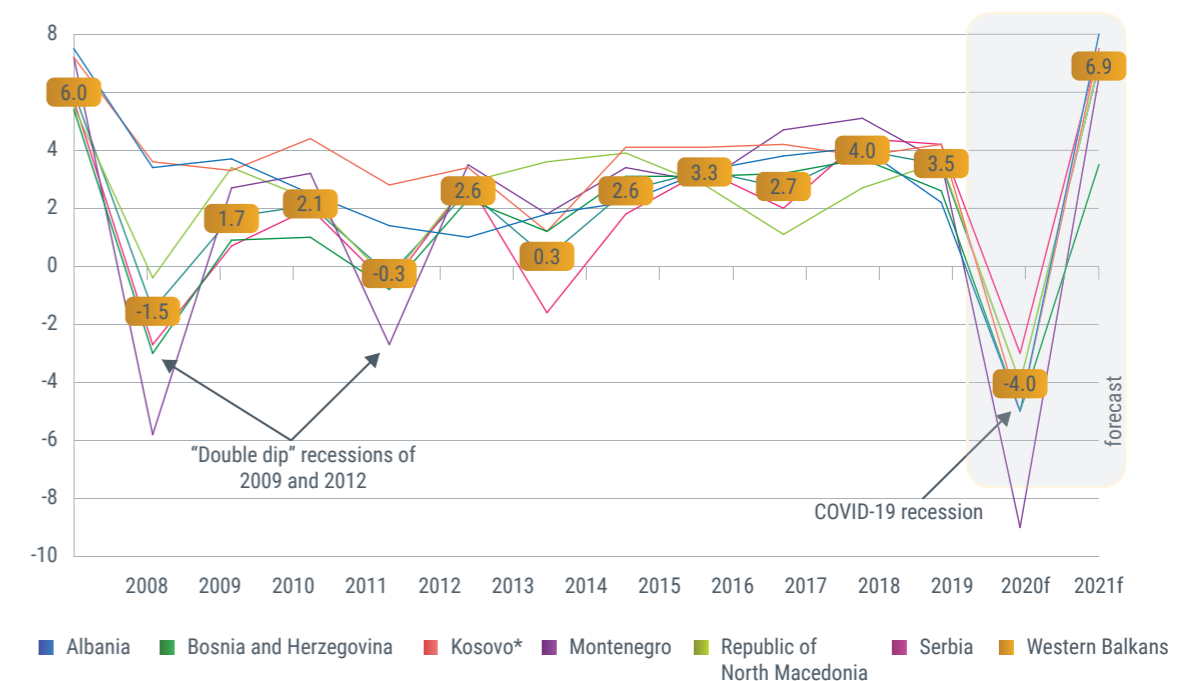
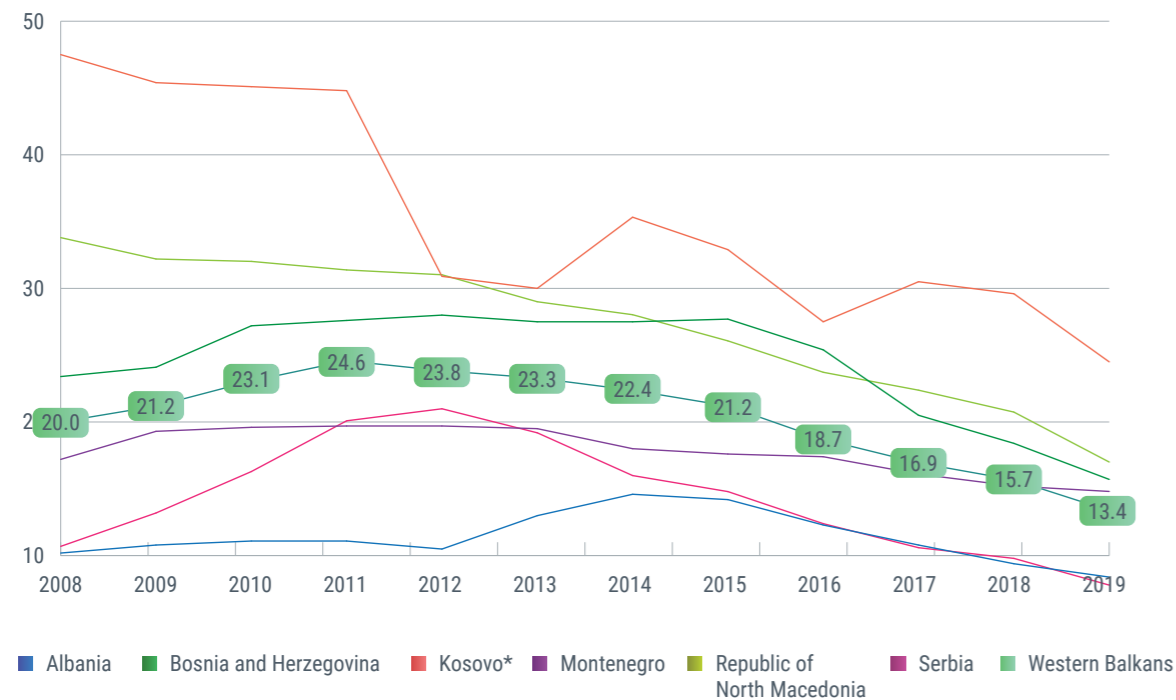


Figure 2: Unemployment rates in the Western Balkans, 2009 - 2019
% of labour force, 2009-2019; LFS



However, economic stimulus will need scaling up in the following months and most Western Balkans economies will likely require external support. Albania, Bosnia and Herzegovina, Kosovo* and the Republic of North Macedonia have already received IMF financial assistance under the Rapid Financing Instrument in the amount of €732.13 million. The EU is also mobilising a package of over €410 million in reallocated bilateral financial assistance to support the Western Balkans during the coronavirus emergency.

During 2019, the region has made some important gains. The unemployment rates were at their lowest in decades and some of the unemployment concerns were finally starting to abate, as recorded by this iteration of Barometer. In 2019, the average regional unemployment rate reached 13.4% and more than 160,000 people found employment.

Foreign direct investment (FDI) inflows were maintained at a similar level to 2018. According to estimates, FDI inflows reached close to EUR 6.5 billion during the year, a new regional high, with Serbia reaping most of the windfall. The FDI inflows displayed a similar structure to the previous year, with a larger share of inflows going into tradable sectors, such as manufacturing (particularly metal processing and motor vehicles), as well as real estate. A slightly more diversified structure of FDI originating countries is emerging in the past several years, with some less traditional partners growing in prominence, par-

ticularly China (including Hong Kong), Russia and the Gulf states.

The region's trade with the rest of the world has also grown in the past year, although at a slower rate than in the past several years. Trade has expanded by 5.8% in 2019, reaching EUR 88.6 billion, or roughly 87% of the region's GDP. Imports have grown slightly faster (6.3%) than exports (5.1%), reflecting a combination of subdued demand in the key export markets, observable during 2018 as well, and increased domestic consumption which was again the main driver of GDP growth in 2019.

The political and socio-economic developments in the region were marked by substantial volatility and uncertainty during 2019. Albania was struck with a devastating earthquake that took a large toll in human life and destroyed thousands of homes and infrastructure. A total of 51 people were killed in the earthquake, more than 3,000 were injured, with damages estimated to exceed EUR 1 billion. In a welcome show of solidarity, all of the economies in the region reacted swiftly to support Albania, sending aid, search and rescue teams, and support in material, equipment and supplies. Bosnia and Herzegovina has succeeded in forming the Council of Ministers in December 2019, 14 months following the elections, but the political situation throughout the period has been one marked by increased polarisation and political antagonism. After a protracted period of political negotiations that followed the October 2019

snap elections, Kosovo* has also managed to form a government, albeit a short-lived one, and Kosovo* is again facing difficult political negotiations. Montenegro has seen considerable upheaval surrounding the adoption of its Law on Religious Freedom, with mass protests and increased societal polarisation, which also reflected on some bilateral relations within the region. The situation in the Republic of North Macedonia has for the most part remained stable during the year, interrupted only by the presidential elections. In Serbia, the citizens have been taking to the streets in anti-government protests against the alleged monopolistic position of the party in power and perceived lack of transparency, corruption and freedom of media.

Important developments have also occurred in the sphere of regional cooperation. During 2019, another high-level initiative, dubbed "Mini Schengen", was launched by the leaders of Albania, Serbia and the Republic of North Macedonia. With its intended purpose of lifting barriers on the free movement of goods, people, services and capital among the Western Balkans economies, the initiative was met with a mixed reception by other WB6 economies, and it remains to be seen whether the initiative will receive the political support by others and be strengthened with a clear operational framework.

The Regional Roaming Agreement entered into force in July 2019, substantially bringing down mobile network charges in the Western Balkans. By July 2021, the Agreement's implementation foresees the removal of all tariffs and is the first step towards introducing 'roam like at home' principle – an EU principle that practically removes all roaming charges between the member states. Moreover, that promise continues to hold, as roaming prices decreased again on January the 1st 2020.

In a welcome development, Kosovo* abolished import taxes on goods from Bosnia and Herzegovina and Serbia, imposed during 2018, following the breakdown of Belgrade-Pristina dialogue. While the dialogue has not re-started in the meantime, the decision by the Kosovo* government to remove import taxes will hopefully pave the way for closer and more fruitful engagement during 2020.

The Western Balkans EU integration process has also seen important developments during the year. After the initial disappointment in Albania and the Republic of North Macedonia on the EU's decision to postpone opening of negotiations during 2019, the European Council finally decided to open negotiations with the two economies during March 2020, and the process is expected to start following the approval of the EU's negotiating framework. The negotiating framework will need to take into account the recently released policy paper by the European

Commission on "Enhancing the accession process - A credible EU perspective for the Western Balkans", which should also be reflected into the existing negotiations with Montenegro and Serbia that have opened 32 and 18 negotiation chapters, respectively. Bosnia and Herzegovina and Kosovo* have made very limited progress during the year in attaining the candidate status.

The region's outlook will be largely dependent on the outcome of COVID-19. The ongoing crisis will test the resilience of the economies of the region and the abilities of governments to respond quickly and effectively to the situation, protect the health of population and mitigate the economic consequences. Keeping the economy function to the extent possible throughout the pandemic and in its aftermath should be one of the governments' primary concerns. Thus, other immediate concerns and pending structural reforms may fall into the background.

BALKAN BUSINESS SENTIMENT INDEX

In order to monitor the present business sentiment and optimism changes over time, Ipsos conducted the Balkan Business Sentiment Index (BBSI), which consists 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 decline, remain mostly unchanged or increase?
5. How do you expect the general economic situation in your place of living to develop over the next 12 months? Will it mostly deteriorate, remain unchanged or improved?

opment and demand for products or services over the past 12 months. Simultaneously, the index contains questions related to the respondents' expectations for the coming 12 months, again in terms of anticipated and the general economic situation in their place of living.

Simultaneously, the index contains questions related to the respondents' expectations for the coming 12 months, again in terms of anticipated and the general economic situation in their place of living.

The index is scored as follows: better – 100 points, worse – 0 points, no change – 50 points.

After responses are recoded, the average value is calculated for the whole SEE region as well as for each economy separately (see Figure 4). The index values are expressed on a scale of 0 to 100. The index can be broken down into two sub-indices and separately monitor prevalent sentiment within the business community, as well as their expectations for the future.

a) BBSI – Present Situation Index

b) BBSI – Expectation Index

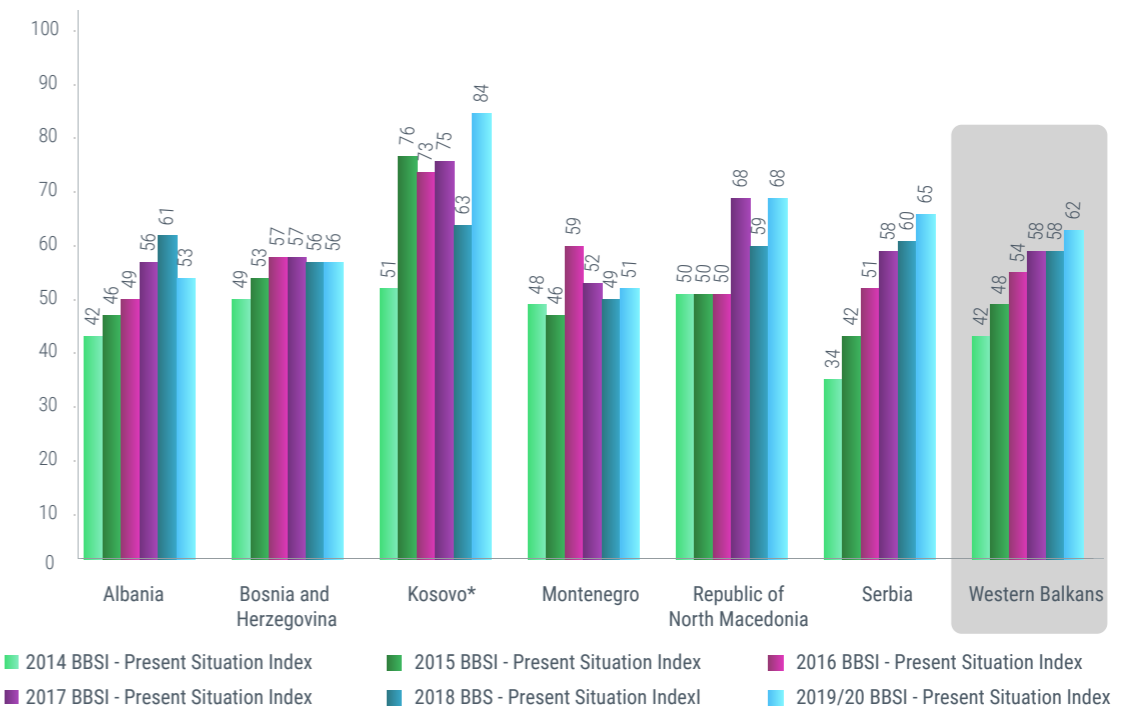
Businesses in the region are happy with both their current situation as well as prospects for the future. In fact, this year's survey records the highest satisfaction ratings since the Barometer's inception

BBSI contains questions related to the respondents' experience of the general economic situation and the situation in their business with regards to devel-

Figure 4: Balkan Business Sentiment Index (BBSI)
(Comparison 2014/2015/2016/2017/2018/2019-2020)



Figure 5: Balkan Business Sentiment Index (BBSI) – Present Situation Index
(Comparison 2014/2015/2016/2017/2018/2019-2020)



(65), with record highs posted for both the Present Situation Index (62 points), as well as the Future Expectations Index (71 points).

All Western Balkans economies record scores above 50 points. For the fifth year in a row, Kosovo* is the region's flagbearer (85 points), reporting high scores for both the current situation (84 points) and

the future prospects (86 points). Montenegro and Serbia are the other two economies with above-average scores (70 and 69, respectively), with the former reporting a slightly better appraisal of its present situation compared to the latter. Meanwhile, sentiment across the remaining three Western Balkans economies sits below the regional average. Bosnia and Herzegovina fares better than the other two with

Figure 3: Figure Balkan Business Sentiment Index (BBSI) – 2019/20
(Scores are on a scale of 0 to 100)

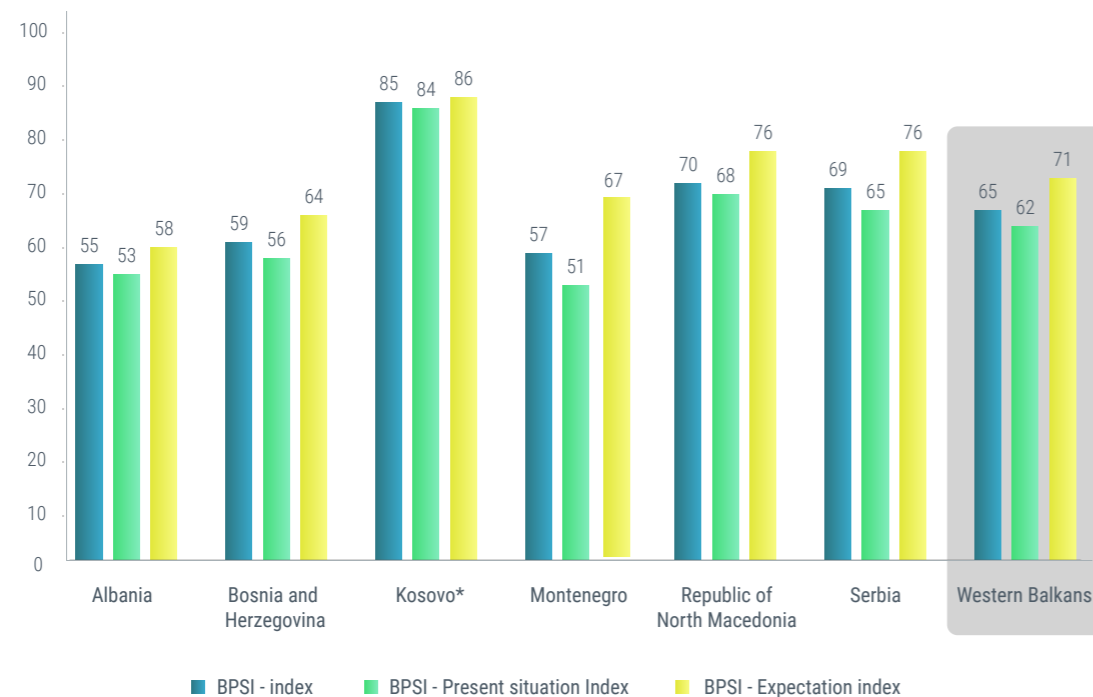
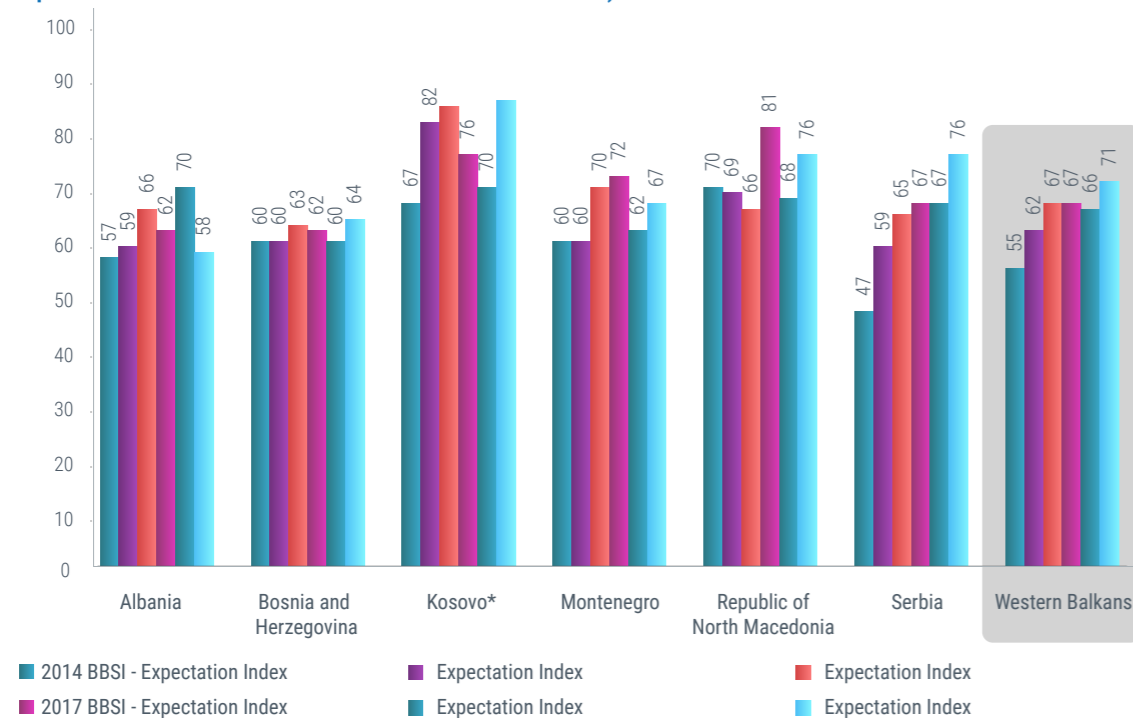


Figure 6: Balkan Business Sentiment Index (BBSI) – Expectation Index (Comparison 2014/2015/2016/2017/2018/2019-2020)



59 points, while Albania records the lowest regional score of 55; businesses from this economy also tend to be least optimistic about their future (58). Meanwhile, the Republic of North Macedonia (overall score 57) is home to businesses least satisfied with their present situation (51).

The trend of increase in BBSI scores continues. After a short-lived dip in 2018, business sentiment in the region has rebounded, with BBSI scores on the rise once more. Significantly, the business leaders' improved perception is borne out by objective macroeconomic indicators.

Although improvements are evident across nearly all Western Balkans economies, they are most prominent in Kosovo* (+19 points), and Montenegro and Serbia (+7 points each). On the flip side, Albania has suffered a significant decrease (-10 points) in sentiment, being the only such economy in the region. While the three most improved regional performers report growth spurred by a combination of macroeconomic stability, investments in infrastructure, and a growingly confident business community, albeit against a backdrop of political instability, Albania's economy has faced sluggish growth compounded by a devastating earthquake.

The past year was one of the most successful on record for Western Balkans businesses since the Barometer's inception. The 2019 Present Situation Index, gauging business performance in the context of market demand for their products and the overall economic situation in their place of living, shows

that 2019 was the most successful across all survey instalments (62 points). With a select few exceptions, these findings hold true across the individual economies as well.

There is a general positive trend evident across a majority of the region's economies. Between 2014 and 2019, the regional score improved by as much as 20 points, with progress in Serbia (34% in 2014) and Kosovo* (84% in 2019 vs. 51% in 2014) especially evident, if not dramatic. At the same time, Montenegro has seen a trend of more incremental improvement, same as Albania, although the latter's multi-year growth curve has now been interrupted.

While the business sentiment in the Republic of North Macedonia has been largely stagnant, recent progress on the political front is likely to translate into economic gains. Finally, Bosnia and Herzegovina has seen little, if any, change in business sentiment over the past four instalments of the Barometer, making it the region's least mobile economy.

Expectations for the future are on the rise. The BBSI Expectation Index measures anticipated changes in the market conditions for businesses surveyed. Positive performance in the market continues to fuel expectations, with a record-high score of 71. Kosovo* leads the region with 86 and Serbia and Montenegro in close pursuit with 76. Albania is home to the region's least optimistic business leaders with 58, having recorded a remarkable 12 point drop since last year.

PERCEPTIONS OF THE BUSINESS ENVIRONMENT AND ECONOMIC TRENDS

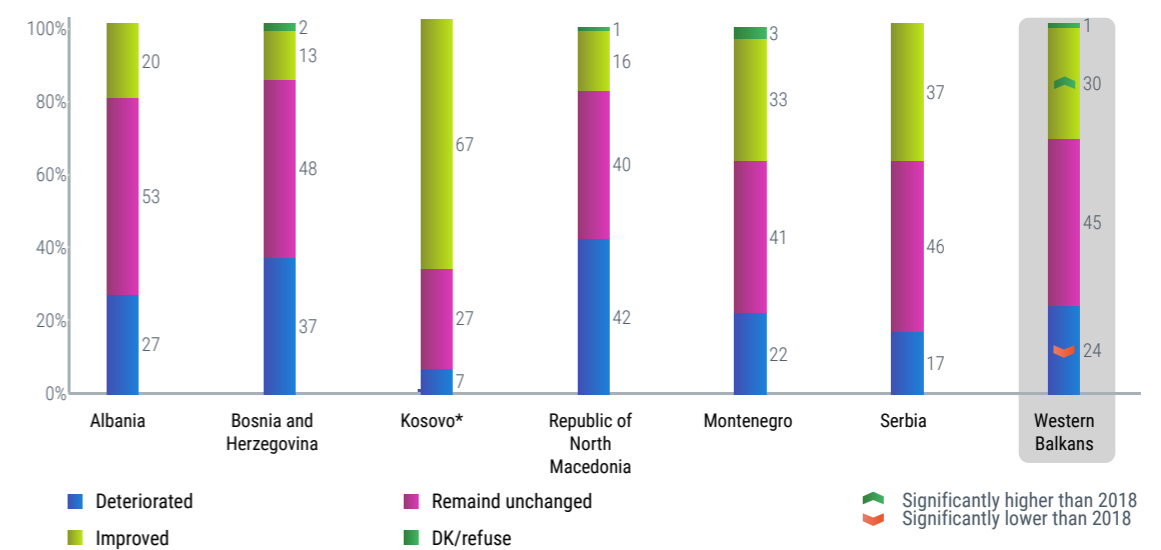
Western Balkans business leaders are generally satisfied with 2019. As has become customary, business leaders see their companies performing better than their respective economies (43% notice an improvement in their business situation vs. 30% for the economy at large). Even though the respondents' perception of the general economic situation is, for the most part, neutral, they do see progress compared to 2018, a fact reflected in the perception of their economies as a good place to invest (more than half recommend investing in the Western Balkans). Furthermore, sentiment about the future is especially positive, as a majority expect the general economic situation to improve in the future. Consequently, almost 40% of executives surveyed expect to increase the number of employees in their businesses.

Kosovo* is the region's flagbearer when it comes to both past performance and future expectations. A large majority of respondents in Kosovo* report seeing an improvement in the performance of their businesses, as well as in their economy. Meanwhile,

as many as 70% describe their businesses as understaffed, with no lay-offs expected. Kosovo* is closely followed by Serbia and Montenegro where the current situation and future trends are described as generally positive. At the other end of the spectrum, businesses from Bosnia and Herzegovina and the Republic of North Macedonia are less satisfied with their present situation although they hold high hopes for the future. Interestingly, business leaders from Albania, traditionally the most optimistic survey respondents, alongside their counterparts from Kosovo*, are much less satisfied or optimistic compared to last year. It is noteworthy, however, that they tend to be more neutral rather than outwardly negative, or pessimistic.

Regional cooperation, although still important for more than half of all respondents, has suffered a considerable loss of support in the past year. The share of business leaders that support regional cooperation has shrunk from 67% to 57% in the space of a year, largely due to a decline in backing by respondents in Serbia (the share of managers who

Figure 7: How has the general economic situation in your economy changed over the past 12 months? Has it deteriorated, remained unchanged or improved?* (All respondents – N=1215, share of total)



**The figures might not add to 100% due to rounding.

consider it unimportant has increased by 20 points since 2018), and to a lesser extent, Montenegro (+8 points) and Bosnia and Herzegovina (+5 points).

Kosovo* (76%) and Albania (71%) are the region's leading advocates of cooperation, with the latter the only economy to have recorded an increase in support for Western Balkans cooperation since 2018. Meanwhile, in Serbia and Bosnia and Herzegovina, regional cooperation is supported by 50% and 56% of respondents, respectively.

Some 60% of survey respondents back EU accession. There is no noticeable change in attitudes towards EU accession by the region as a whole. Viewed by individual economy, however, there are some near-dramatic shifts in Serbia, where the pool of accession advocates has shrunk by 15 points, and Albania and the Republic of North Macedonia, where support for the economy's integration into the EU grew by 20 and 15 points, respectively.

The overall perception of the general economic situation in the region shows major signs of improvement. Although a majority of all surveyed Western Balkans business leaders perceive the economic situation as unchanged (45%), respondents who feel it has improved outnumber those who describe it as worsened (30% vs. 24%). Compared to last year's results, a notably larger number of respondents notice progress (+7 points), alongside a declining number of survey participants who report economic decline (-6 points). This is borne out by a generally positive

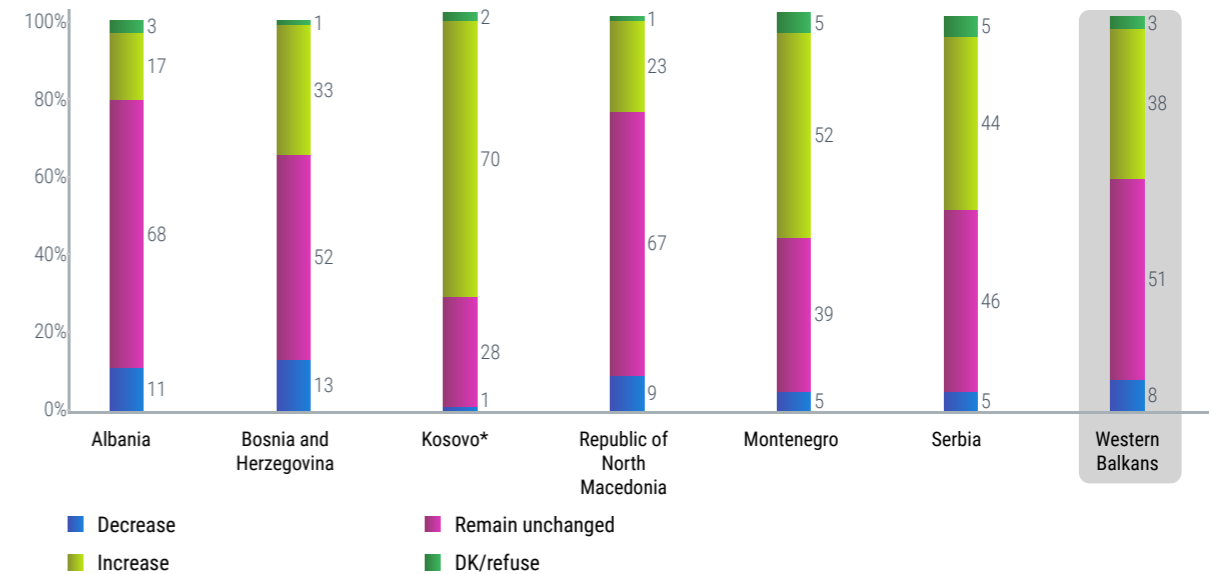
macroeconomic situation that is further reflected in the rebound of economic optimism across the region. Nevertheless, it should be noted that the overall result for the region is somewhat skewed by markedly above-average scores from Kosovo*.

Executives from Kosovo* are by far the most satisfied in the region. As many as two thirds of Kosovo's* corporate leaders notice improvement, a regional high, while only 7% perceive deterioration, a regional low. Executives from Serbia and Montenegro exhibit above-average rates of satisfaction, with 37% and 33% of managers reporting improvement, while only 17% and 22% reporting deterioration, respectively. At the same time, the rest of the Western Balkans economies perceive last year's developments as significantly less favourable. Namely, the proportion of negative respondents from Albania, Bosnia and Herzegovina and the Republic of North Macedonia outnumber their positive counterparts – most notably in Bosnia and Herzegovina where the ratio is almost three-to-one (37% vs. 13%). Meanwhile, the Republic of North Macedonia is the only regional economy where negative respondents are in the majority (42% perceive deterioration).

The upturn in perception for the region is primarily driven by improvements in Kosovo*, Montenegro, and Serbia. Kosovo* has seen the highest upturn in the number of satisfied executives compared to last year (67% from 34% in 2018), while the number of dissatisfied respondents has shrunk substantial-

Figure 9: How do you expect the number of people employed in your company to change over the next 12 months?*

(All respondents – N=1215, share of total)



ly (7% from 25% in 2018). Montenegro and Serbia have likewise seen a significant spike in the number of respondents reporting improvement (from 21% to 33%, and from 28% to 37%, respectively). At the same time, the number of unhappy respondents has dropped by 5 points in Montenegro, and 7 points in Serbia. On the flip side, the share of dissatisfied survey participants in the Republic of North Macedonia grew by a significant margin (up to 42% from 33% in 2018), alongside a large drop in the number of happy respondents in Albania (down to 20% from 32% in 2018).

Kosovo* respondents' optimistic outlook in 2018 was justified, as 44% rightly predicted an upturn in economic fortunes. The opposite happened in Albania, where 41% had originally expected the situation to improve, against only 20% that eventually reported seeing any progress

Business leaders in the Western Balkans are positive about the future. The share of optimistic respondents has grown significantly compared to last year (up to 43% from 35% in 2018). In the same time period, the share of pessimistic managers has significantly contracted (down to 12% from 18% in 2018). It is encouraging that considerable satisfaction with the present is accompanied by high expectations for the future.

Respondents from Kosovo* are the region's runaway optimists with as many as 72% confident that

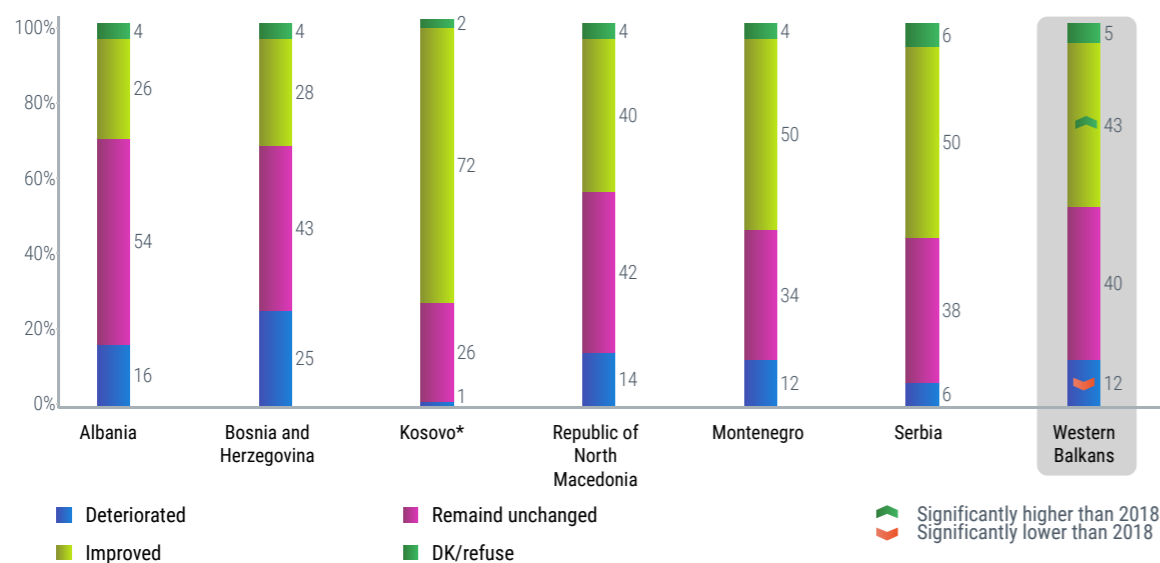
the general economic situation will improve in 2020; meanwhile, the share of pessimists has shrunk to a level below the statistical margin of error. Economies of Serbia and Montenegro are also expected to grow – half of the economies' business leaders expect the general economic situation to improve, with only 6% and 12%, respectively, expect the situation to deteriorate. Business leaders from Albania and Bosnia and Herzegovina are less positive but even in those two economies the optimists outnumber the pessimists; the majority, however, belongs to the respondents who expect to see no change in the overall economic situation.

Positive outlook for the region is driven largely by respondents from Kosovo*, Serbia and Montenegro. With Kosovo* being the region's fastest growing economy since 2015, optimism is surging in the economy (72% from 44% in 2018). Serbia, where economic growth has also picked up, records a notable increase in enthusiasm (50% from 35% in 2018), with Montenegro recording an identical increase in the share of optimists. Meanwhile, the number of optimists has shrunk in Albania (down to 26% from 41% in 2018) - somewhat encouragingly, however, the majority of "converts" have adopted a neutral rather than a negative outlook.

Employment in the region is expected to grow further. Almost identical to last year, 38% of executives surveyed expect the number of employees in their companies to grow, while lay-offs are expected in

Figure 8: How do you expect the general economic situation in your place of living to develop over the next 12 months? Will it mostly deteriorate, remain unchanged or improve?*

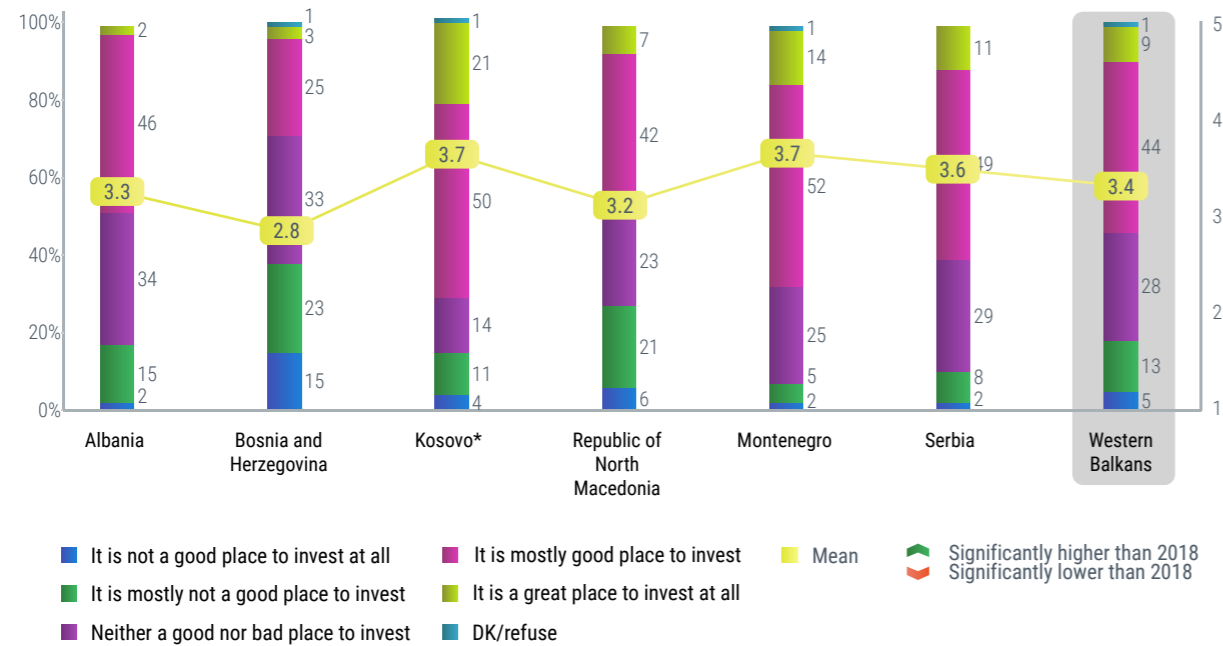
(All respondents – N=1215, share of total)



**The figures might not add to 100% due to rounding.

**The figures might not add to 100% due to rounding.

Figure 10: Do you believe that (ECONOMY) is a good place to invest?*
(All respondents - N=1215, share of total, %, mean)



only 8% of companies polled. These findings are a source of encouragement as unemployment in the region, although in decline, remains at a relatively high level compared to new EU member states (15% against 5%, respectively).

Expectations about employment are in line with the future outlook. In Kosovo*, where the sentiment about the future is most optimistic, 70% expect to see an increase in the number of employees, while the share of those planning layoffs is statistically insignificant. Employment is also expected to grow significantly in Montenegro and Serbia, with 52% and 44% of surveyed executives describing their companies as understaffed. In Bosnia and Herzegovina, the Republic of North Macedonia and Albania prospects for new employment appear positive, as the share of companies expecting to hire is considerably larger than the share of those expecting to fire.

Medium and large enterprises are most likely to be understaffed, with 50% and 60% expecting an increase in the number of employees, respectively. Foreign-owned companies are also significantly more likely to bring in new workers than their domestically-owned counterparts (63% vs. 36%, respectively). Lastly, exporters are much more likely to be understaffed than companies catering to domestic markets only (50% vs. 32%). Encouragingly, employment is not expected to decrease to a significant degree across any of the categories surveyed.

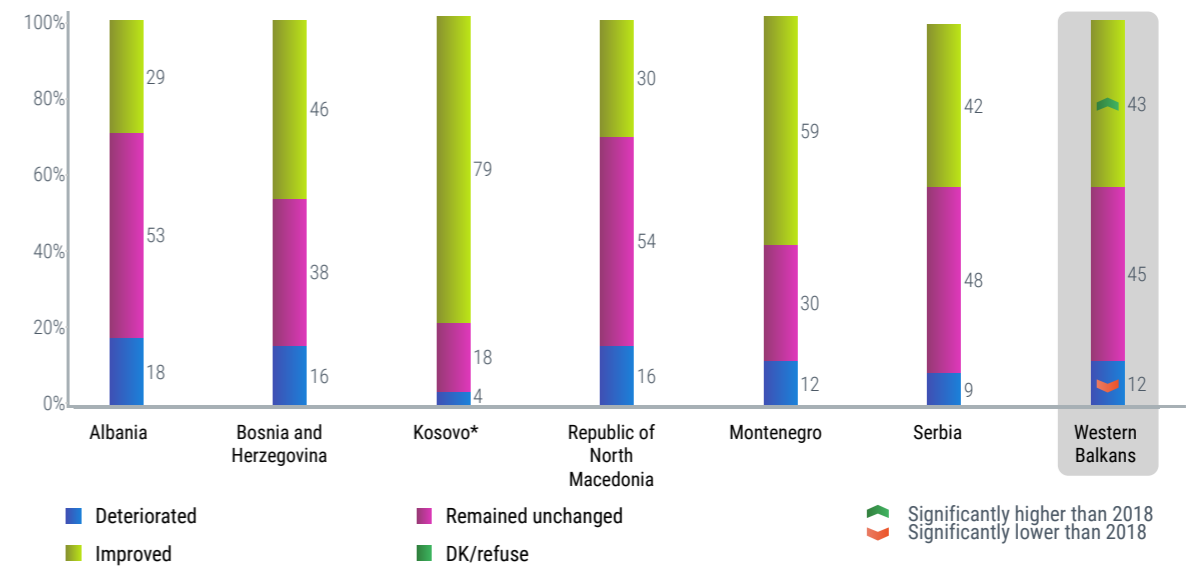
An increase in corporate employment is especially important for the Western Balkans, with some economies reporting high unemployment rates. In Kosovo*, almost a quarter are unemployed, with Bosnia and Herzegovina and Montenegro reporting unemployment at 15%. Serbia, meanwhile, is expected to hit a single-digit unemployment rate if the forecasts for 2020 are borne out. Unemployment, or employment, rates alone should not be the sole focus of labour market policies in the region; rather, an increased emphasis should be placed on creating decent jobs with the corporate sector, which is expected to be a major generator of such jobs.

The Western Balkans are a good place to invest, say more than half of the region's executives (53%), while only 18% disagree. This year's results represent a long-awaited improvement coming on the heels of several years of stagnation (up to 3.4% from 3.2% in 2018).

Executives from Montenegro, Kosovo* and Serbia are most confident about their economies as investment destinations. Kosovo* is once more the regional leader with 71% of managers confident about investing in their economy, with only 15% inclined otherwise (3.7). The respondents' views are near-identical in Montenegro (3.7), and only slightly less effusive in Serbia (3.6). Although both Albania and the Republic of North Macedonia boast considerably less confident investment attitudes, nearly half of all business leaders surveyed consider their

**The figures might not add to 100% due to rounding.

Figure 11: How has your business situation developed over the past 12 months? Has it deteriorated, remained unchanged or improved?*
(All respondents - N=1215, share of total)



economies a favourable place to do business (3.3 and 3.2, respectively). Corporate leaders from Bosnia and Herzegovina are by far the least confident, as only 28% believe that their economy is a good investment destination, while 38% disagree (2.8).

The Republic of North Macedonia, Kosovo* and Montenegro have made considerable progress compared to last year. All three economies have seen a significant, and positive, shift in attitudes towards investing at home in the course of a single year, ranging from .3 in Kosovo* to .2 in the Republic of North Macedonia and Montenegro. Serbia and Albania have likewise made progress, if at a slightly more modest rate. Meanwhile, Bosnia and Herzegovina reports no change in status with another stagnant year. These outcomes likely reflect actions, or the lack thereof, undertaken by the region's governments on a path towards creating a more favourable business climate.

Foreign-owned companies are, interestingly, much more likely to support investing in the economies where they are settled (3.8); the same is true for large companies (3.8%).

A large majority of Western Balkans businesses either prospered or remained stable over the past 12 months. Namely, 45% of executives surveyed reported their business situation as stable, while as many as 43% reported improvement in corporate performance. This represents a significant improvement on last year, as the share of respondents reporting

improved performance expanded by 6 points (43% from 37% in 2018). Meanwhile, the share of corporate leaders reporting a poor business year has shrunk (down to 12% from 15% in 2018).

Businesses from Kosovo* have had a particularly good year. In 2019, close to 80% of Kosovo*'s corporate leaders saw their businesses improve, while only 4% reported a decline in performance. At the same time, a majority of surveyed companies from Montenegro and Bosnia and Herzegovina recorded growth, with 59% and 46% of their executives describing themselves satisfied, respectively. In Serbia, the shares of respondents reporting unchanged and improved circumstances are relatively similar (48% vs. 42%).

Meanwhile, the gap between happy and unhappy business leaders is not as dramatic in Albania and the Republic of North Macedonia (29% to 18% in the former, and 30% to 16% in the latter) and is considerably below the regional average (43% to 12%).

Compared to 2018, 2019 has been a much better business year for businesses from Kosovo* and Montenegro. The share of satisfied corporate leaders in Kosovo* has increased by a remarkable 44 points in the space of a single year (79% from 35% in 2018), with Montenegro also recording an incredible 26-point hike (59% from 33% in 2018). Meanwhile, Albania has seen its share of satisfied business leaders shrink by 16 points in 2019.

**The figures might not add to 100% due to rounding.

Business area, export orientation, company size, and ownership structure were important determinants of success; namely, large companies, those that are foreign-owned, cater to export markets, and are doing business in transport, trade, tourism, catering industry, crafts, banking, public utilities have reported more successful business years than the rest of the pack.

The majority of business leaders continue to consider cooperation with neighbouring economies as useful to their business (57%). However, this group has shrunk significantly over the past year (-10 points). This development can, at least in part, be attributed to the still unresolved trade, and political, dispute over tariffs Kosovo* imposed on goods from Serbia and Bosnia and Herzegovina in 2018.

Businesses from Kosovo* and Albania are the biggest cheerleaders of regional cooperation. As many as 77% of Kosovo* managers describe regional cooperation as important (34% consider it very important). Albania and Montenegro are also overwhelmingly supportive of cooperation within the region, with 71% and 69% of business leaders in favour of stronger regional ties. At the same time, businesses from Serbia are significantly less supportive, with respondents from this economy divided in the middle between those that favour regional ties and those that do not. The situation is similar in Bosnia and Herzegovina and the Republic of North Macedonia, where only a slight majority favour regional cooperation.

The number of businesses that find regional cooperation unimportant has grown significantly in Serbia (up to 48% from 29% in 2018) and to a lesser extent in Bosnia and Herzegovina (up from 38% in 2018 to 43% in 2018). Meanwhile, in Albania, the number of respondents who find regional cooperation important has increased substantially (up to 71% from 51% in 2018).

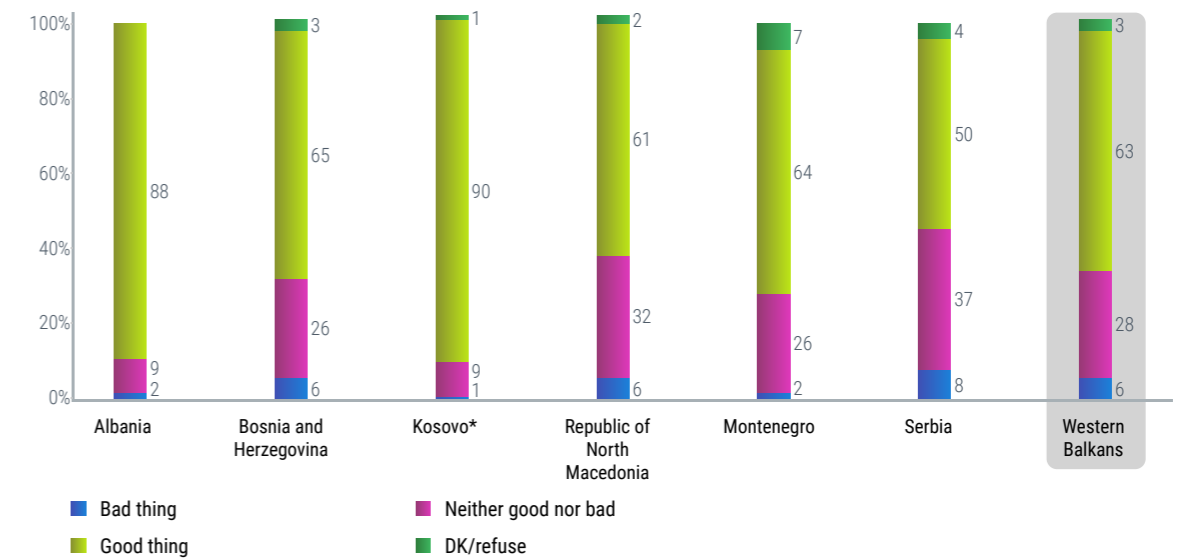
Large and export-oriented companies tend to be in favour of regional cooperation, with 84% and 79% supportive corporate leaders, respectively. On the other hand, non-exporters and micro-companies are significantly less open, with only 46% and 51% supportive of regional ties.

There is consensus on the EU membership across all Western Balkans economies. In a finding almost identical to last year's, close to two-thirds of all companies surveyed find EU membership to be a good thing, while only 6% disagree.

Kosovo* and Albania are the most pro-European economies, with as many as 90% and 88% of businesses, respectively, describing EU accession as a good thing. Alongside Montenegro, these two economies boast the lowest negative respondent rates in the region when it comes to EU membership (1-2%). Meanwhile, EU accession has the fewest supporters within the Serbian business community (50%).

Albania and the Republic of North Macedonia have seen the greatest rise in pro-EU sentiment, likely driven by optimism over improved accession pros-

Figure 13: Do you think that your economy's EU membership would be a good thing, a bad thing, or neither good nor bad for your company?*
(All respondents – N=1215, share of total)

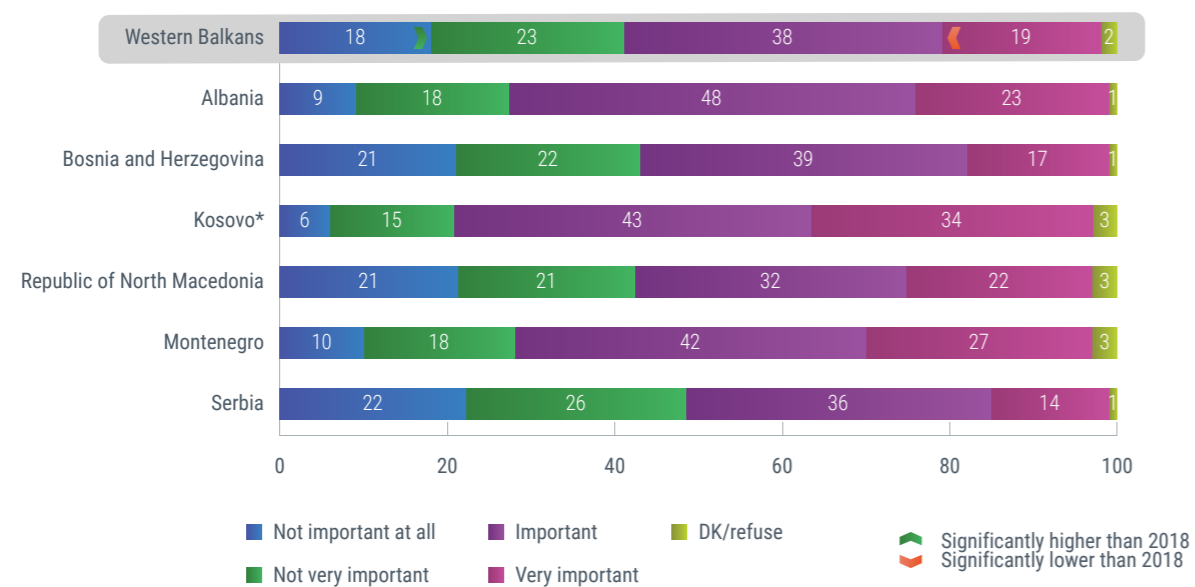


pects for the two economies (+20 for the former and +15 for the latter). At the same time, Serbia has witnessed a significant drop in support for EU integration by the economy's business community (-15 points).

The regional business community tends to support accession for the Western Balkans economies, regardless of economic activity, company size, or ownership status. Overall, and across all categories, the

share of supportive businesses is higher than 50%, reaching 89% and 88% in foreign-owned and large companies, respectively. As expected, exporters (75%) consider EU accession good for their economies to an extent far greater than their non-exporting counterparts (56%), with the former eager to exploit easy access to the EU market, while the latter mindful of the potential threat of increased competition.

Figure 12: How important is the quality of regional cooperation in SEE to your business? Please use the scale from 1 to 4, where 1 means - not important at all**
(All respondents – N=1215, share of total)



**The figures might not add to 100% due to rounding.

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BUSINESS TRENDS IN THE WESTERN BALKANS

Improvements in the general economic situation have translated into higher demand for a significant part of the Western Balkans business community. Almost half of the region's companies faced increased demand for their products in the past year and an even higher share expect it to accelerate even further. To meet this growing demand, 32% of companies increased the number of their staff and invested 60% of their available capital in property, plants, and equipment. At the same time, an equal share (60%) have reported an increase in operating costs, probably driven by growing wages and other labour costs.

While 2019 was a good year for all Western Balkans economies, companies from Kosovo* had the best business year, as around 70% reported increases in demand and workforce.

Western Balkans businesses are working to reduce their environmental footprint to a greater extent than in previous years, with almost three quarters report undertaking some form of mitigation action.

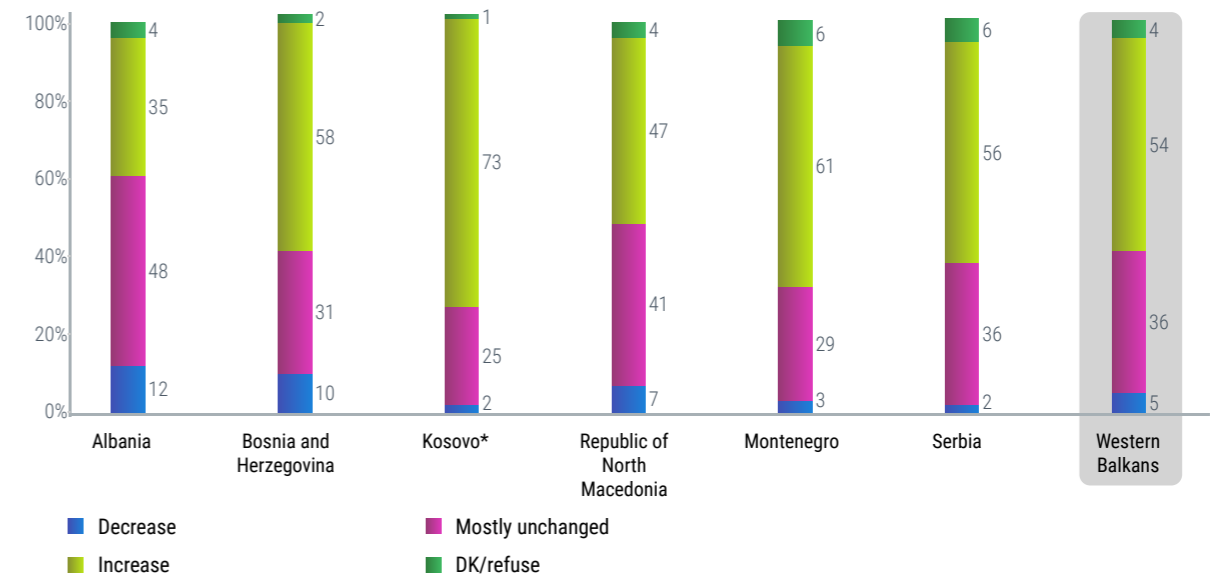
The majority of the Western Balkans business community have good reason to be satisfied with surging demand for their products, as only 9% of

corporations surveyed reported their market shrinking. Businesses who reported growing demand and those that say orders for their products remained stable are split down the middle with 45% each. Compared to last year, the situation has largely remained unchanged.

Kosovo* businesses report the greatest increase in demand, as 74% record positive changes in the market, an almost 30-point increase on last year. At the same time, survey participants from Albania and the Republic of North Macedonia report the lowest proportion of companies reporting growth in demand (32% each). With Serbia and Bosnia and Herzegovina at, or around, the regional average, Montenegro boasts a somewhat higher share of companies reporting improved demand.

Large and medium-sized enterprises, exporters and foreign businesses are most likely to benefit from growing demand - large and foreign-owned companies, in particular, have provided positive feedback in more than 70% of cases. At the same time, micro- enterprises have much less reason to be satisfied on average, as only 34% have reported increased demand.

Figure 15: How do you expect the demand for your company's products/services to change over the next 12 months? Will it decline, remain mostly unchanged or increase?***
(All respondents - N=1215, share of total)



Building on last year's surge in demand, more than half of businesses surveyed expect it to grow even further. Similar to the results of last year's survey, only 5% expect demand to decline, while 36% expect it to remain stable. As is often the case, expectations for the future are optimistic to an extent not borne out by past performance.

Companies in Kosovo* are most optimistic about future demand, as 73% expect it to increase, while only 2% expect to see it decline. Meanwhile, Albania has the lowest share of optimistic managers (35%) and the highest share of pessimistic ones (12%). The rest of the Western Balkans economies are at, or around, the regional average, with Montenegro slightly ahead, and the Republic of North Macedonia slightly behind.

Compared to last year, Kosovo* records the greatest increase in projected demand, with a 22-point hike in expectations compared to 2018; Montenegro is close behind with a 16-point increase. Meanwhile, the projected demand for Albanian businesses has shrunk by 22 points, with most respondents moving into the neutral rather than negative category.

Again, large companies, exporters and foreign corporations harbour a more optimistic outlook than the other types of companies surveyed.

While a third of the region's companies report an increase in the number of employees, a large majority report no change in staffing. Encouragingly,

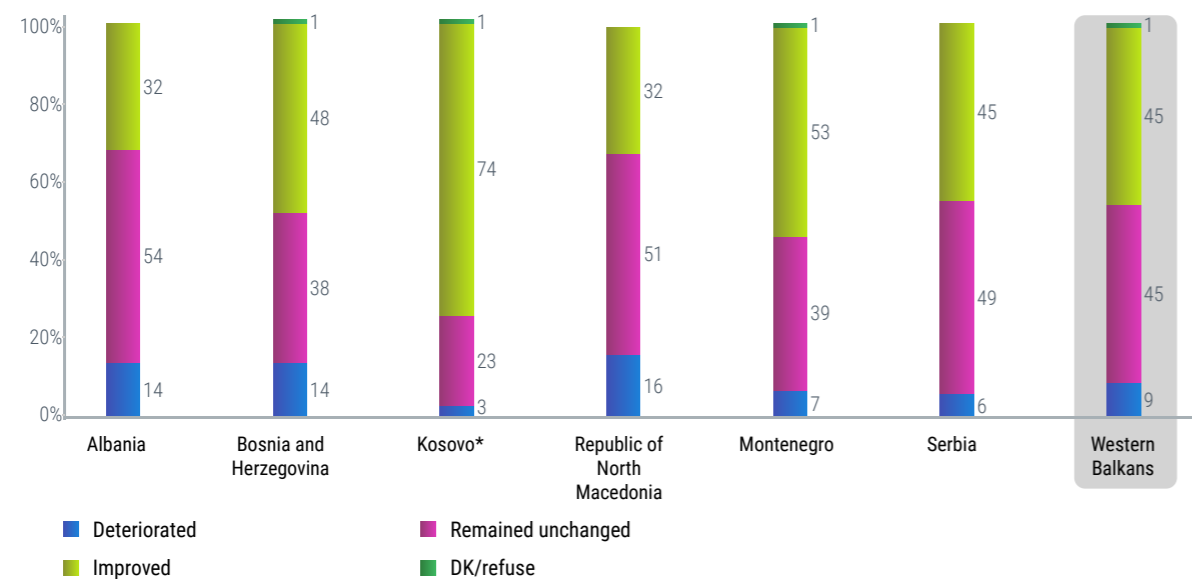
companies reporting an increase in the number of employees outnumber those who say they have downsized by 3-to-1, closely mirroring last year's results. Again, survey results are consistent with the decline in the statistical unemployment rate. Coupled with optimistic expectations about the demand over the forthcoming period, those changes could signal greater prosperity and an even better outlook for next year.

Kosovo* is home to the largest share of companies to have increased staffing in the region. In line with changes in demand for their products, close to 70% of companies in Kosovo* have increased their workforce, against a near-negligible proportion of those reporting a drop in employment, with Montenegro closely following suit. At the same time, in Albania and the Republic of North Macedonia, fewer than a fifth of all companies surveyed report an increase in staffing with the vast majority of employers retaining previous numbers. Meanwhile, Serbia and Bosnia and Herzegovina are at, or around, the regional average with around a third of all companies adding new employees.

Foreign-owned companies and exporters were more likely to generate new employment, with 56% and 40% increasing staffing, respectively. Interestingly, and somewhat predictably, the share of companies generating new jobs increases commensurate to the size of firm.

***The figures might not add to 100% due to rounding.

Figure 14: How has the demand for your company's products/services changed over the past 12 months? Has it deteriorated, remained unchanged or improved?***
(All respondents - N=1215, share of total)

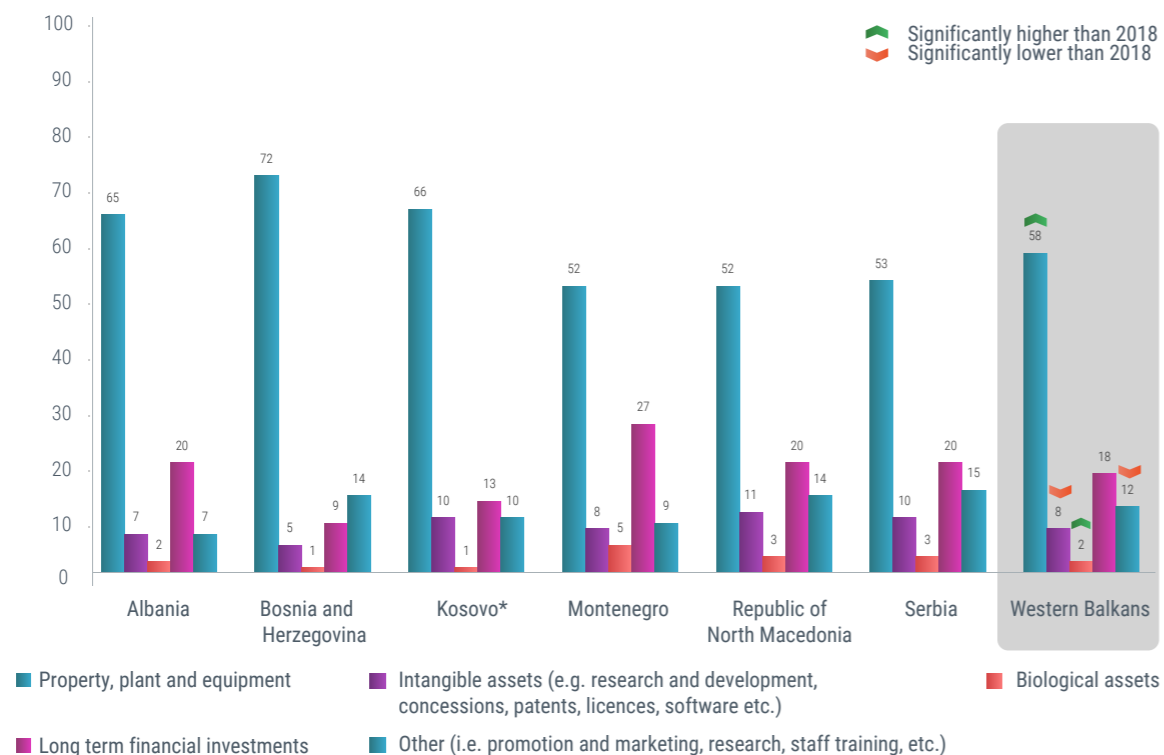


***The figures might not add to 100% due to rounding.

Figure 16: How has your company's total employment changed over the past 12 months?*
(All respondents – N=1215, share of total)



Figure 17: Could you please tell me what percentage (%) of your company's total investment in 2019 went to each of the following?*
(Comparison 2014/2015/2016/2017/2018/2019-2020)



**The figures might not add to 100% due to rounding.

Fixed assets – property, plant, and equipment - still take up most of the companies' investment costs. This year's results see a 12-point hike in the number of companies who prioritise investment in fixed assets, up from 46% in 2018 and 42% in 2017. More companies are also choosing to invest in long-term financial instruments, as well as intangible assets. Biological assets are yet again the least popular investment area for Western Balkans companies, with only 2%, the same as last year.

Businesses from Bosnia and Herzegovina invest in fixed assets the most (72%). This finding represents something of a conundrum as business leaders from Bosnia and Herzegovina are also the least likely to recommend their economy as an investment destination (2.8% vs. the regional score of 3.4%). It is possible that growing demand is forcing the business leaders' hand with 60% of companies in the economy expecting to see positive market developments. Kosovo* and Albania are also among the region's biggest investors in fixed assets (66% and 65%, respectively); the remaining Western Balkans economies are around, or slightly below, the average.

Long-term financial assets are most popular in the Republic of North Macedonia, accounting for 27% of all investment. Financial assets are also more prevalent in Albania, Serbia, and Montenegro (20%), while less so in Bosnia and Herzegovina (9%) and Kosovo* (13%).

Operating costs are on the rise in the region. As many as 60% of Western Balkans corporate leaders reported an increase in labour, energy, and other costs in 2019 (on average by 5 points). Meanwhile, 37% has reported no changes in operating cost structure and only 2% benefited from cost reduction.

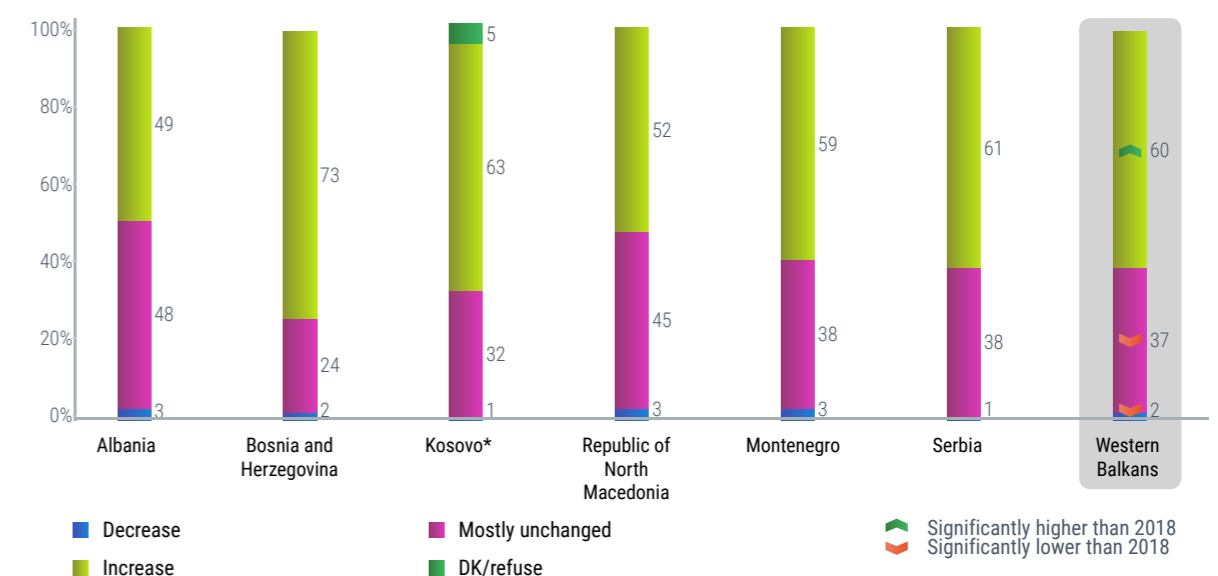
Businesses in Bosnia and Herzegovina are the most likely to face mounting operational costs, as 73% of surveyed managers report increases. Meanwhile, results from Kosovo*, Serbia and Montenegro are largely in keeping with regional trends, while there is no clear consensus among businesses from Albania whether the operating costs are increasing or, indeed, decreasing.

Kosovo* and Serbia report ballooning operational costs with annual increases of 19 and 12 points, respectively.

Medium (71%) and large (68%) companies are more likely to report increases in operating costs than their smaller counterparts. Industry, mining and construction seem to be more affected by the increase in costs, as reported by 72% of companies surveyed.

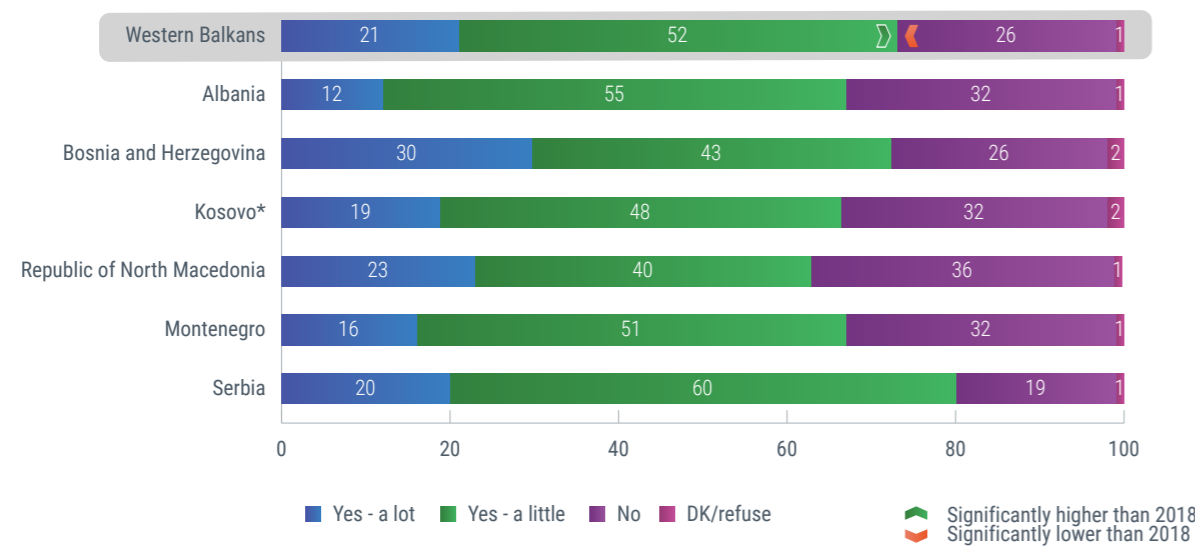
Western Balkans companies are becoming more environmentally aware. The share of businesses that have taken mitigation measures has expanded significantly in the course of a year – from 64% in 2018 to 73% in 2019.

Figure 18: How have your labour and other costs (e.g. energy, etc.) changed over the past 12 months?*
(All respondents – N=1215, share of total)



**The figures might not add to 100% due to rounding.

Figure 19: Has your business taken any steps to reduce the environmental impact it makes, such as reducing energy consumption, waste reduction or switching to recycled/sustainable materials etc.?**
(All respondents – N=1215, share of total)



Companies from Serbia and Bosnia and Herzegovina are reportedly making the biggest effort to reduce their environmental footprint. While Serbia boasts the highest share of companies that have taken some steps to reduce their environmental footprint (80%), Bosnia and Herzegovina is home to the largest share of corporations who describe their mitigation measures as "significant" (30%). As for the rest of the region, on average, two-thirds of companies report taking some action to minimise their harmful environmental impact.

Kosovo* and Albania have recorded the greatest increase in environmental awareness by the private sector, as a significant number of companies across both economies report undertaking mitigation efforts (+13 points since 2018). There is growing awareness across most of the region as well, albeit to a lesser degree; Bosnia and Herzegovina is the only exception with a 3-point drop in the share of companies that practice environmental responsibility.

The larger the company, the bigger the effort in reducing environmental impact, with as many as 96% of large company executives report taking steps to mitigate environmental impact; 50% say they made some effort, while 45% report undertaking a major effort towards footprint reduction, as part of their corporate social and environmental agenda. At the same time, foreign-owned companies do more in this regard than their domestic counterparts. None of the other variables, meanwhile - to include core business activity or export orientation - seem to play a role.

Low energy prices provide little incentive to improve energy efficiency. With energy prices 2-3 times lower than in leading EU economies, there is little incentive for companies (and households) to use more environmentally friendly technologies. Practice elsewhere has shown that economic incentives in the form of higher energy prices, or mechanisms like stricter regulations and state aid, may be needed in the Western Balkans.

**The figures might not add to 100% due to rounding.

BUSINESS ENVIRONMENT IN THE WESTERN BALKANS

By and large, Western Balkans businesses remain lumbered with the same problems as in previous years. Concerns over the rule of law and business ethics, government transparency, accountability, and conduct, as well as availability of labour, taxation and licensing procedures, show that doing business in the region is still very much plagued by uncertainty. Yet, even against that backdrop, businesses in the region are reporting growth, with calls for better business-enabling policies growing louder. Western Balkans governments must then invest additional effort into clearing the many obstacles, structural and otherwise, that prevent the region's businesses from attaining their full potential; this is a must for any economy interested in moving further along on its path to accession.

Political (in)stability affects all aspects of doing business, as shown by the contrasting examples of Montenegro and the Republic of North Macedonia. While the Republic of North Macedonia rebounded in 2019, after suffering a political crisis of confidence that caused a decline in business performance in

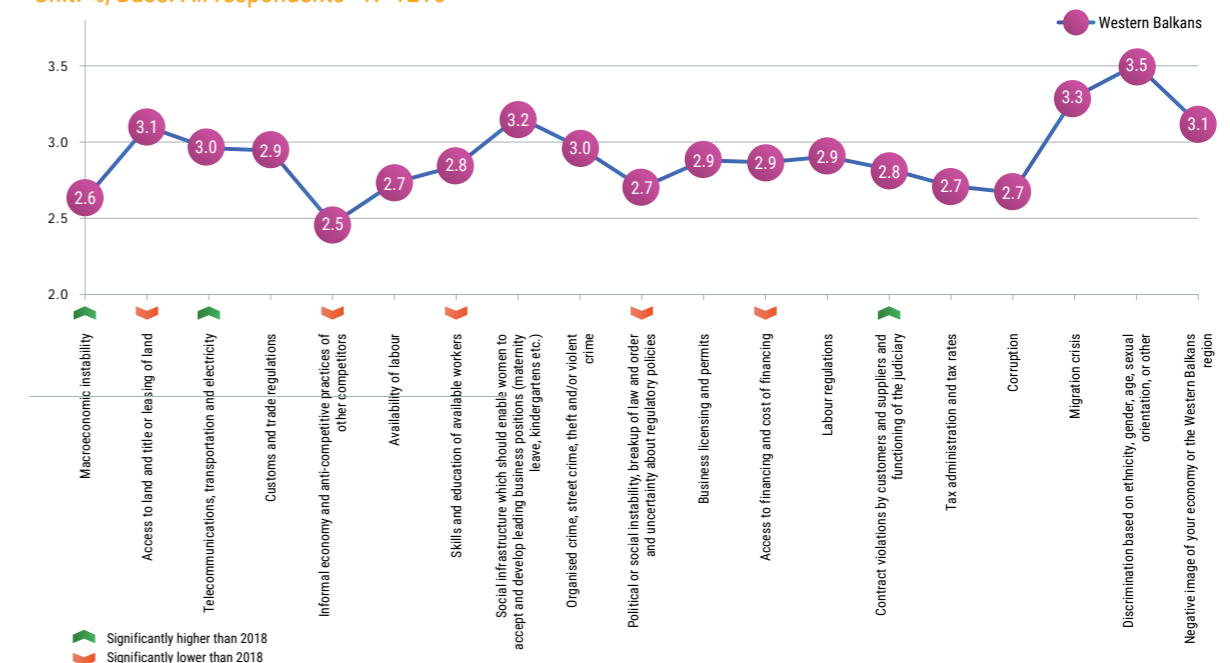
2018, the recent upheaval in Montenegro has seen its scores plummet across this section.

Availability of labour represents a serious challenge across the region. Around 40% of all managers consider the availability of labour a limiting factor to their business' growth. Moreover, 36% report that the situation in this regard worsened in 2019, with recruiting especially difficult in Bosnia and Herzegovina, and companies in Montenegro and Kosovo* also struggling.

The benefits of large infrastructural projects, or the lack thereof, are gradually becoming clearer. Perceptions of transportation infrastructure are changing for the better in Kosovo* and Republic of Macedonia, at least in part due to the opening of a new highway connecting the two economies. A slight uptake in satisfaction is also evident in Serbia, which has undertaken several large projects now nearing completion. At the same time, a lack of infrastructural investment in Albania and Bosnia and Herzegovina has led to business leaders feeling left behind, a sentiment clearly expressed through declining satisfaction scores.

Figure 20: Can you tell how problematic are these different factors for the operation and growth of your business? Can you please rate each?*

(All respondents - N=1215, scores are on a scale of 1 to 4 where 1 means major obstacle, 2 moderate obstacle, 3 minor obstacle and 4 no obstacle, mean)
Unit: %; Base: All respondents - N=1215



**The figures might not add to 100% due to rounding.

Table 1: Can you tell how problematic are these different factors for the operation and growth of your business? Can you please rate each?

(All respondents - N=1215, scores are on a scale of 1 to 4 where 1 means major obstacle, 2 moderate obstacle, 3 minor obstacle and 4 no obstacle, mean)

	Western Balkans	Albania	Bosnia and Herzegovina	Kosovo *	Republic of North Macedonia	Montenegro	Serbia
Macroeconomic instability	2.6	2.0	2.7	2.8	2.8	2.7	2.7
Access to land and title or leasing of land	3.1	3.0	3.3	3.0	3.3	3.0	3.0
Telecommunications, transportation and electricity	3.0	2.8	3.1	2.8	3.3	2.7	3.0
Customs and trade regulations	2.9	2.8	3.0	2.8	3.1	2.8	3.0
Informal economy and anti-competitive practices of other competitors	2.5	2.4	2.3	2.7	2.5	2.5	2.5
Availability of labour	2.7	3.0	2.2	2.8	2.7	2.6	2.9
Skills and education of available workers	2.8	2.9	2.3	2.8	3.0	2.6	3.0
Social infrastructure which should enable women to accept and develop leading business positions (maternity leave, kindergartens etc.)	3.2	3.3	3.1	2.9	3.3	3.1	3.2
Organised crime, street crime, theft and/or violent crime	3.0	2.3	3.1	2.8	2.7	3.0	3.2
Political or social instability, breakup of law and order and uncertainty about regulatory policies	2.7	2.3	2.5	2.8	2.6	2.8	2.9
Business licensing and permits	2.9	3.1	2.8	2.8	3.0	2.7	2.9
Access to financing and cost of financing	2.9	2.5	3.0	2.8	2.9	2.7	2.9
Labour regulations	2.9	3.0	2.8	2.8	3.2	2.6	2.9
Contract violations by customers and suppliers and functioning of the judiciary	2.8	2.7	2.9	2.9	2.9	2.7	2.8
Tax administration and tax rates	2.7	2.4	2.6	2.8	2.9	2.5	2.8
Corruption	2.7	2.1	2.6	2.5	2.8	2.7	2.9
Migration crisis	3.3	2.5	3.4	2.6	3.6	3.4	3.5
Discrimination based on ethnicity, gender, age, sexual orientation, or other	3.5	3.6	3.5	3.1	3.6	3.5	3.5
Negative image of your economy or the Western Balkans region	3.1	3.0	2.9	3.0	2.9	3.2	3.3

major obstacles

The adoption of the Regional Roaming Agreement was welcomed by the region's business leaders. More than 40% believe that reductions in roaming prices have had a positive impact on their businesses, especially in Montenegro (54%) and Albania (53%).

Concerns over the rule of law, macroeconomics instability, taxation, and availability of labour remain key barriers to growth and a more favourable business environment. Last year's runner up, anti-competitive practices and informal economy (2.5), now tops the rankings, with macroeconomic instability coming in a close second (2.6). Issues like corruption, tax administration and tax rates, risk of social and political instability and availability of labour are also viewed as considerably problematic (2.7). The rule of law, in its broadest sense, remains an issue that Western Balkans economies need to tackle more decisively on their European path. At the same time, ethnicity, gender, age and sexual orientation discrimination is perceived as the least problematic factor for business growth (3.5); this may be interpreted as a positive sign, but is more likely a result of low interest by the business leaders in the issues of

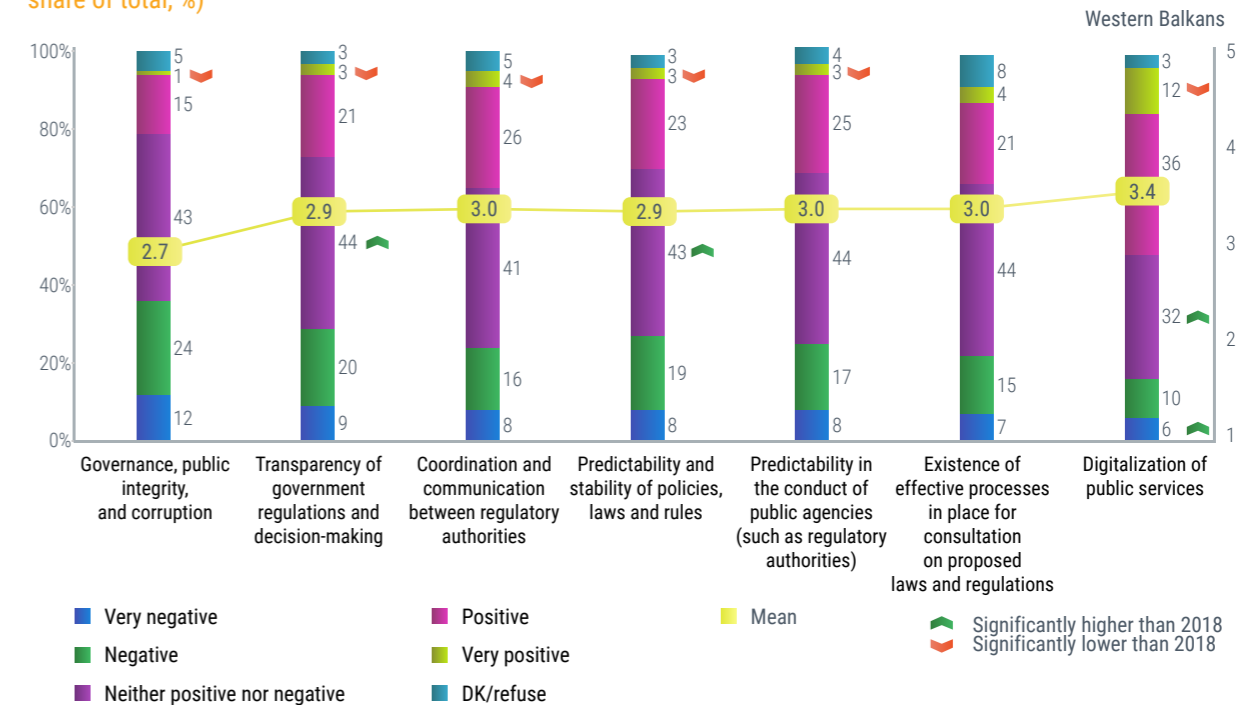
equality as they pertain to their businesses. Similarly, the migration crisis (3.3) and social infrastructure for women (3.2) are not perceived as particularly problematic. A new addition to the Barometer survey, negative image of their respective economy or the Western Balkans region, has not been perceived as especially challenging (3.1).

By and large, the issues faced by businesses in the region have remained largely unchanged since last year. Most year-on-year changes are classed as minor (ranging between -0.1 and +0.1), going in both directions, positive and negative. The most significant change was recorded with regards to labour regulations, as perceptions of the issue deteriorated from 3.1 in 2018 to 2.9 in 2019.

However, significant changes have happened across individual economies. The Republic of North Macedonia, previously bottom of the regional rankings (average score was 2.7 in 2018), is now joint top alongside Serbia, with an overall score of 3.0. The Republic of North Macedonia has seen a remarkable level of fluctuation over the past three survey instalments, going from top in 2017 to bottom in 2018 and then again topping rankings this past year – a clear

Figure 21: How do you perceive the following factors related to government conduct, based on your experience or of other investors that you have heard of?*

(All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means very negative and 5 very positive, share of total, %)



indicator of the impact of political circumstances on the economy.

Last year's leader, Montenegro, is now level with Bosnia and Herzegovina and Kosovo*, with all three reporting average scores of 2.8; this comes on the heels of a significant drop in scores for Montenegro since 2018 (0.4). Albania is in the last place with a 0.2 drop in average score from 2018.

Anti-competitive practices of other competitors and informal economy are a shared, and near-equal, concern of every Western Balkans economy. The Republic of North Macedonia is the only economy to have recorded an improvement in this regard (0.6), while all the other economies saw their scores deteriorate in this area (most notably in Bosnia and Herzegovina, with -0.5). Macroeconomic instability is the most problematic for businesses in Albania (2.0), while all the other economies report scores slightly above average (2.6). Significantly, Serbia and the Republic of North Macedonia have improved considerably with an increase in scores of 0.4 and 0.5 respectively, while Montenegro deteriorated by 0.3. Corruption and tax administration trouble businesses in Albania to the greatest extent, with scores of 2.1 and 2.4, respectively. Also, businesses from Albania are most concerned about potential social and political instability (score of 2.3 vs. the regional average of 2.7). Another frequently cited issue, availability of labour, seems to be affecting most of the Western Balkans

businesses equally, with the exception of Bosnia and Herzegovina where the situation is noticeably more difficult (score 2.2).

Regional governments must do more if their stated goal of creating a predictable and transparent business environment is to be achieved. While the share of satisfied respondents (28%) is on average slightly higher than that of their unhappy counterparts (26%), a majority of business leaders remain neutral when it comes to government performance in this area. Moreover, this year's results show a slight deterioration, mostly in terms of satisfaction with the digitalisation of public services (mean score lower by 0.2). Governance, public integrity, and corruption (2.7) continue to be the most negatively perceived aspect of government performance with only 16% of content business leaders (respondents are particularly unhappy in Bosnia and Herzegovina, Albania and the Republic of North Macedonia, with 2.4). Practices on law preparation, adoption and implementation should be more transparent, coordinated and predictable, as the survey suggests (particularly in Bosnia and Herzegovina). Finally, business leaders tend to be most satisfied with governments' efforts in terms of the digitalisation of public services (3.4), regardless of a slight drop in satisfaction compared to last year.

Business leaders from Kosovo* are the most satisfied, with an overall average score of 3.2. Kosovo

**The figures might not add to 100% due to rounding.

vo* also holds the highest scores across nearly all individual categories under review, with the sole exception of digitalisation. Montenegro and Serbia are in a close second, each scoring 3.1. However, both their scores have deteriorated compared to last year, slightly in Serbia (-0.1) and significantly in Montenegro (-0.3). **Results for Montenegro have dropped across the board but are especially dramatic for predictability and stability of policies and rules (-0.5) and stability and predictability of laws (-0.4).** This outcome is a clear message to Montenegrin policymakers to invest more effort in designing a better policy-making system when it comes to legislation affecting businesses. Albania likewise reports

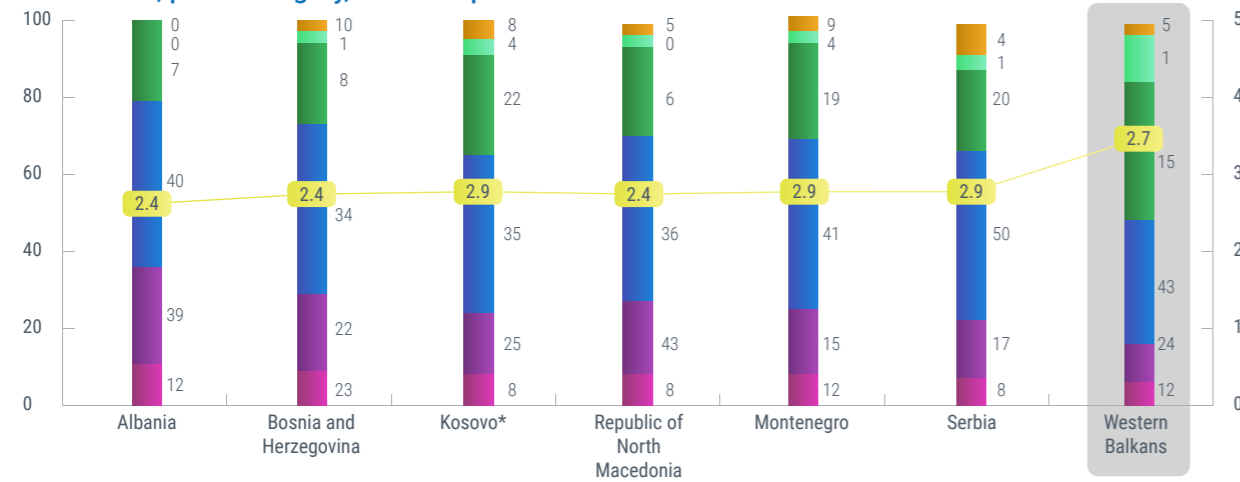
a decline in scores across the board, although to a lesser extent (from 3.2 in 2018 to 3.0 in 2019). **The Republic of North Macedonia rebounded from last year's drop in rankings with a 0.2 increase in average score (from 2.7 in 2018 to 2.9 in 2019),** mostly thorough improved feedback on digitalisation and predictability in the conduct of public agencies. Meanwhile, businesses in Bosnia and Herzegovina remain the region's leading critics, with a relatively low level of satisfaction across all parameters and an unchanged score of just 2.6.

Interestingly, companies operating with foreign capital tend to be considerably more satisfied with the governments' performance in terms of transparen-

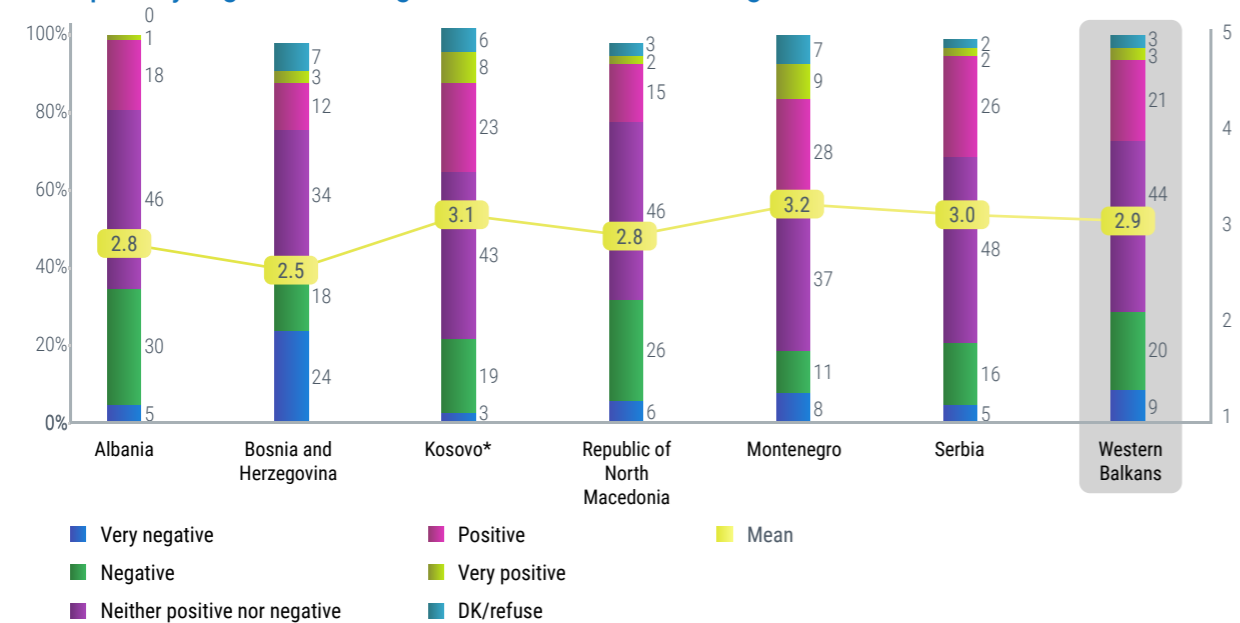
Figure 22: How do you perceive the following factors related to government conduct, based on your experience or of other investors that you have heard of?*

(All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means very negative and 5 very positive, share of total, %)

Governance, public integrity, and corruption

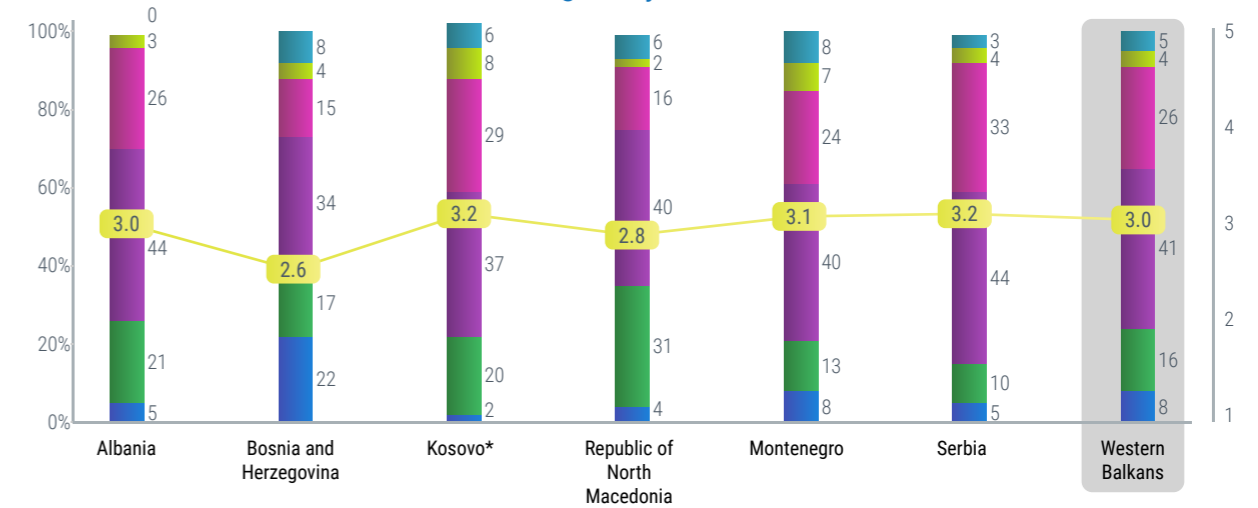


Transparency of government regulations and decision-making

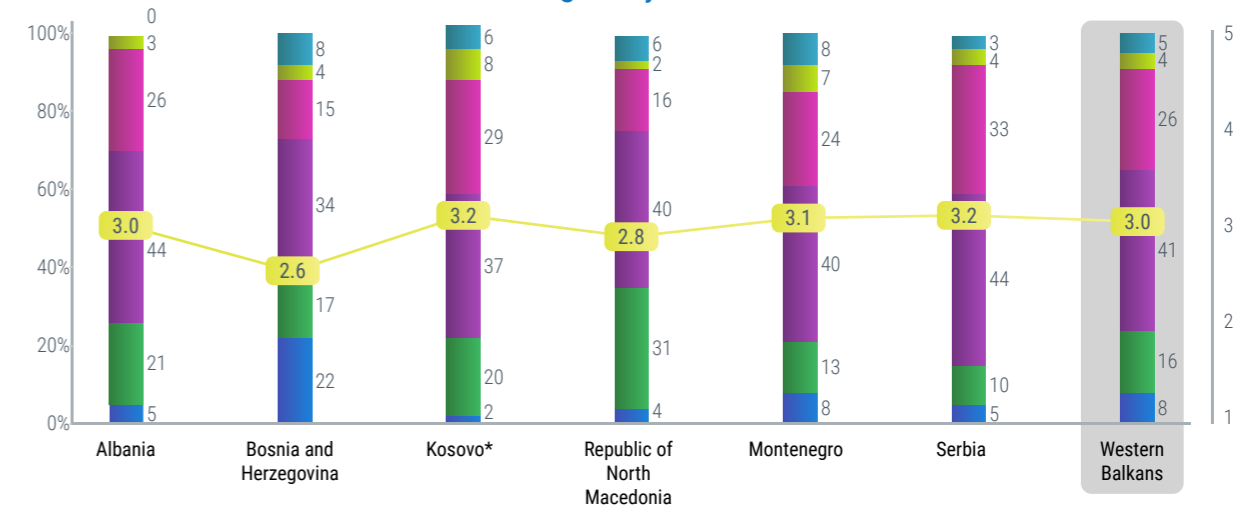


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Coordination and communication between regulatory authorities



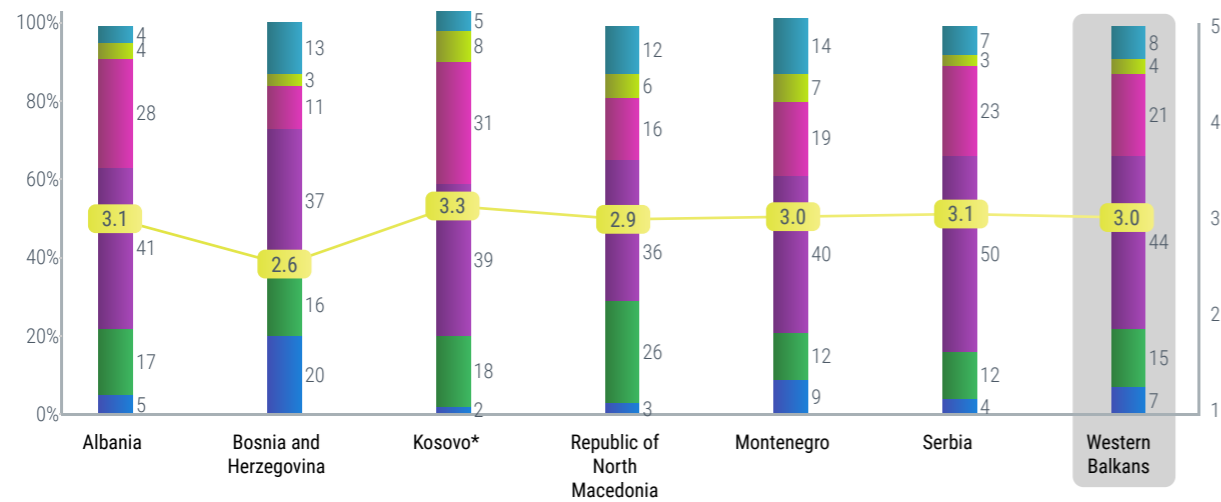
Coordination and communication between regulatory authorities



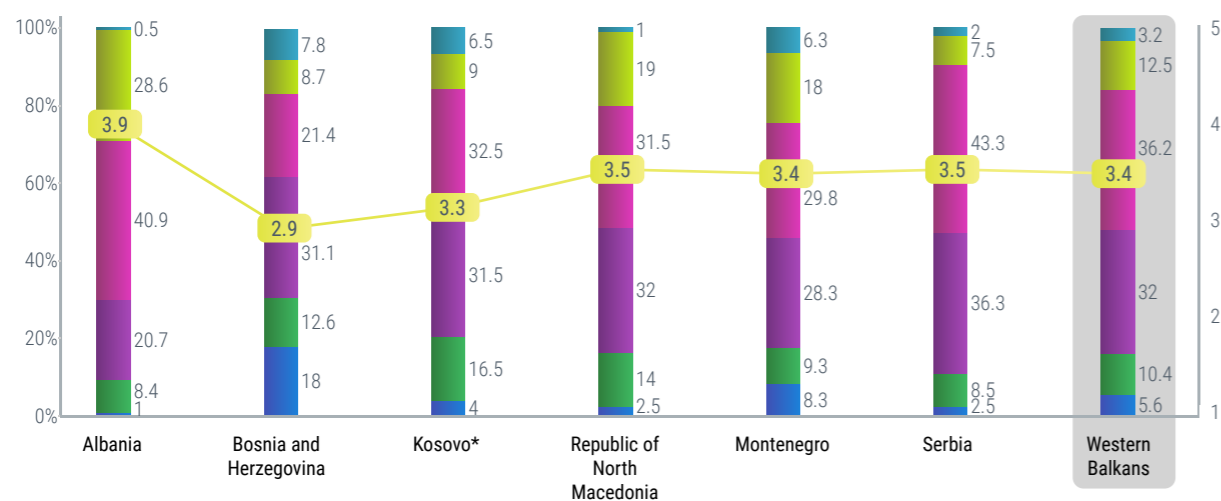
Predictability and stability of policies and rules



Existence of effective processes in place for consultation of proposed laws and regulations



Digitalization of public services



Very negative, Negative, Neither positive nor negative, Positive, Very positive, Mean, DK/refuse

cy and predictability when compared to their locally-owned counterparts (+0.3). It is unclear whether this is down to preferential treatment afforded to foreign investors or simply greater expectations on the part of domestically-owned corporations.

Obtaining a business licence remains a barrier across the Western Balkans. On average, more than half of business leaders in the region feel that obtaining a licence represents an unnecessarily cumbersome obstacle to doing business. There is no indication of improvement either with scores across all categories surveyed on the decline, especially in the case of fully digitalised process of application and approval (-0.3) and the need to rely on personal connections (-0.2). Unwarranted bureaucracy again stands out as the most significant obstacle for Western Balkans businesses, as cited by two-thirds of managers surveyed. Overall, declining scores across

the board have led to a decrease in average scores from 3.4 in 2018 to 3.3 in 2019.

Obtaining a business licence is easiest in Kosovo* (average score of 3.5). Meanwhile, bribes and excessive discretionary power of government officials (3.6 each) are reportedly least prevalent in this economy as well, while burdensome procedures and lack of availability and accessibility of relevant information are least prominent in second-ranked Albania (3.5 and 3.6, respectively). Bosnia and Herzegovina, the region's leading critic (score 3.0), records lowest scores across nearly all categories surveyed, scoring especially poorly on procedures, requirements, and paperwork (2.6).

The Republic of North Macedonia is the only economy to have seen improvement since 2018, with Montenegro in severe decline. After a short-lived

blip in 2018, the Republic of North Macedonia has rebounded to its 2017 level (3.2). Meanwhile, political turmoil in Montenegro has created uncertainty and likely brought about a plunge in scores across the board (down to 3.1 from 3.8 in 2018).

Figure 23: In the process of obtaining licenses for your business, how much of an obstacle were the following factors?*
(All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means very big obstacle and 5 it's not an obstacle at all, share of total, %)

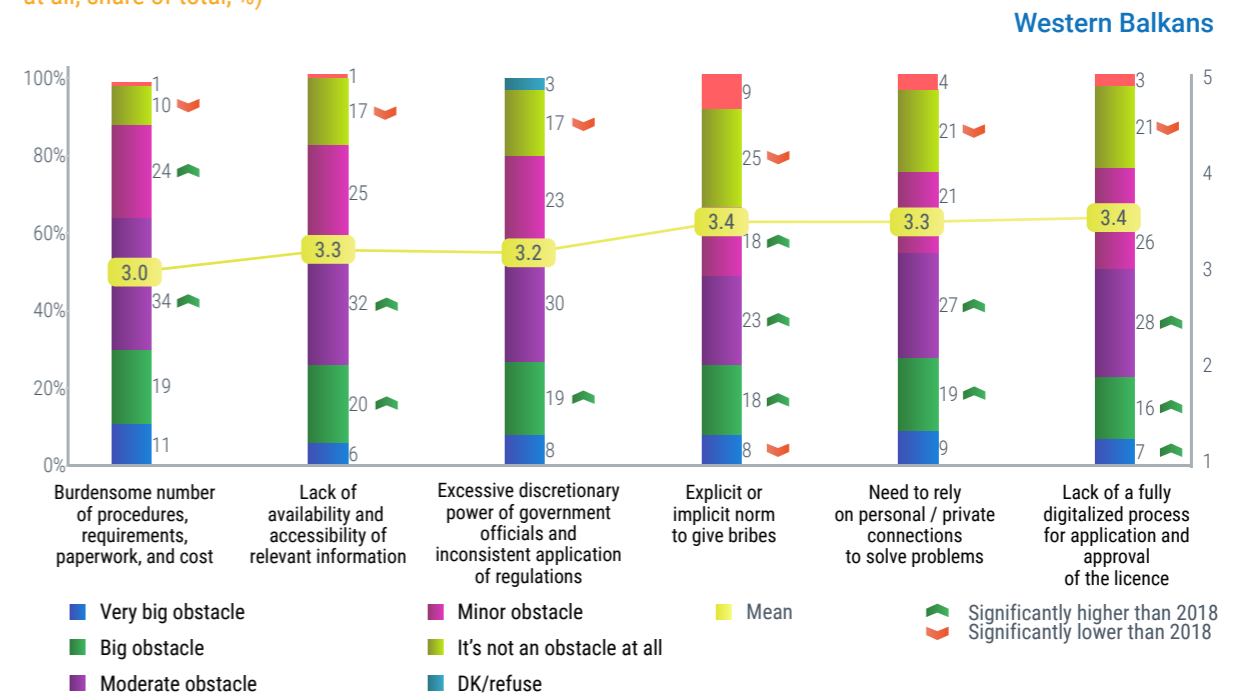
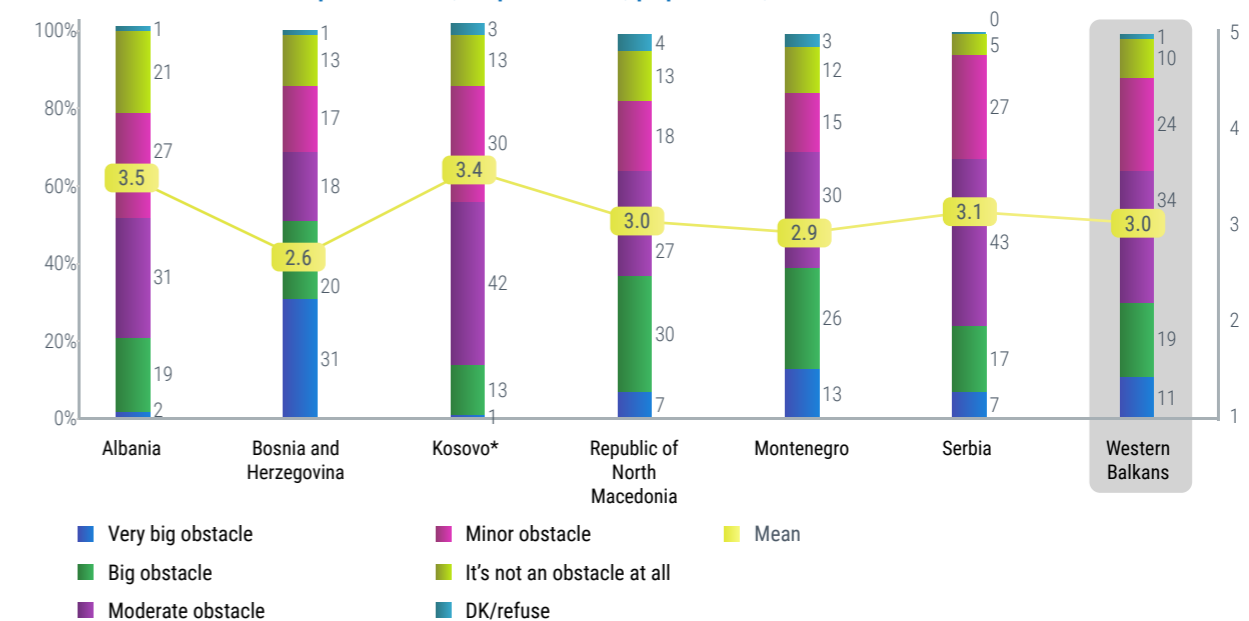


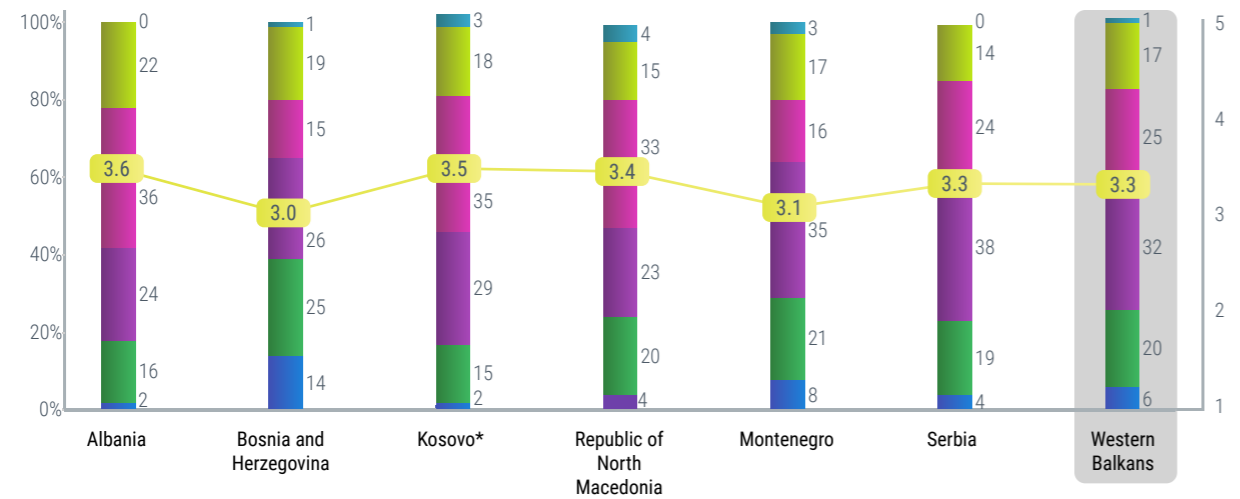
Figure 24: In the process of obtaining licenses for your business, how much of an obstacle were the following factors?*
(All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means very big obstacle and 5 it's not an obstacle at all, share of total, %, mean)

Burdensome number of procedures, requirements, paperwork, and cost

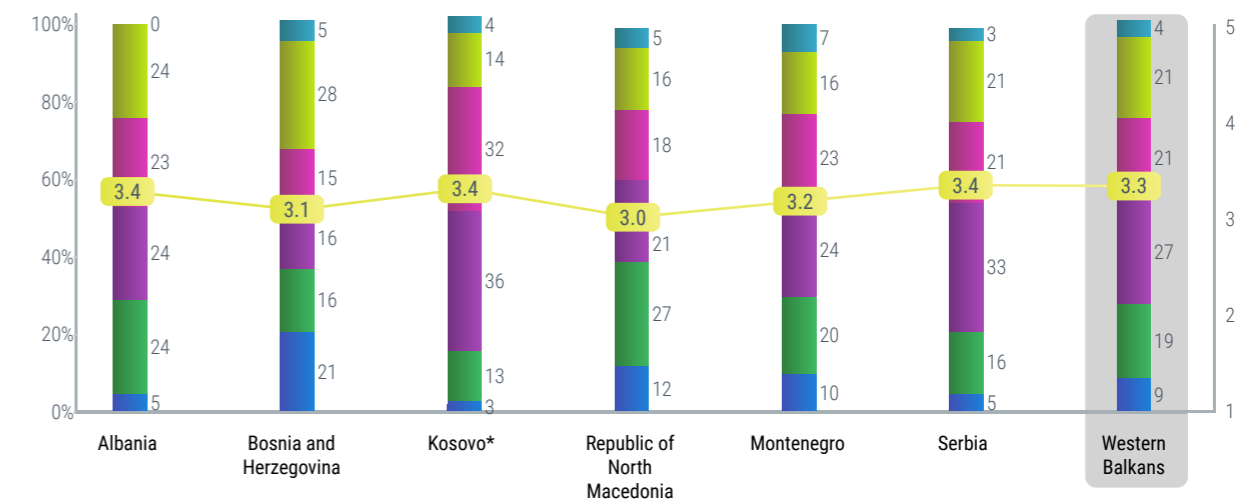


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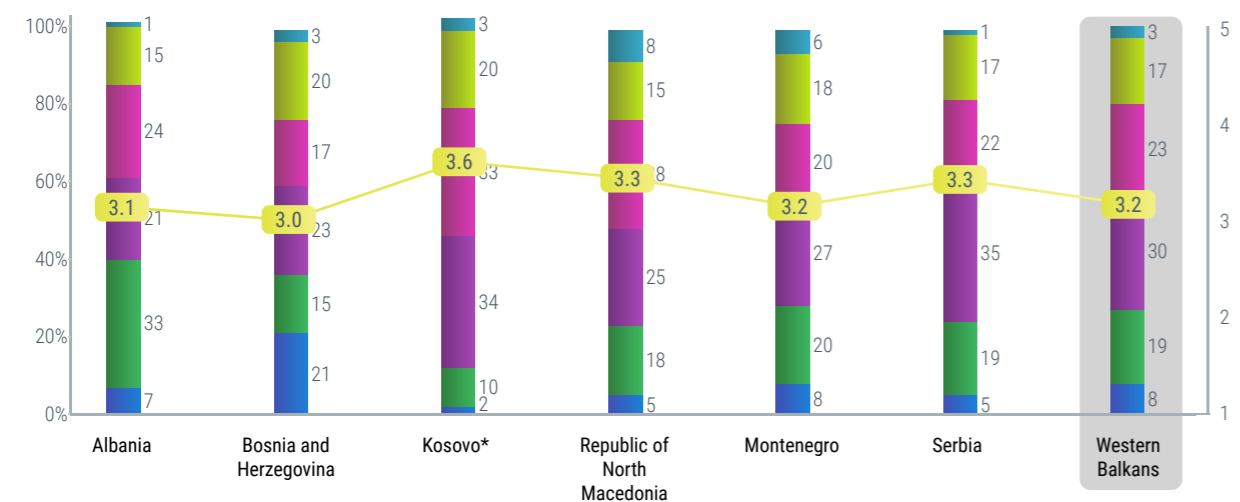
Lack of availability and accessibility of relevant information



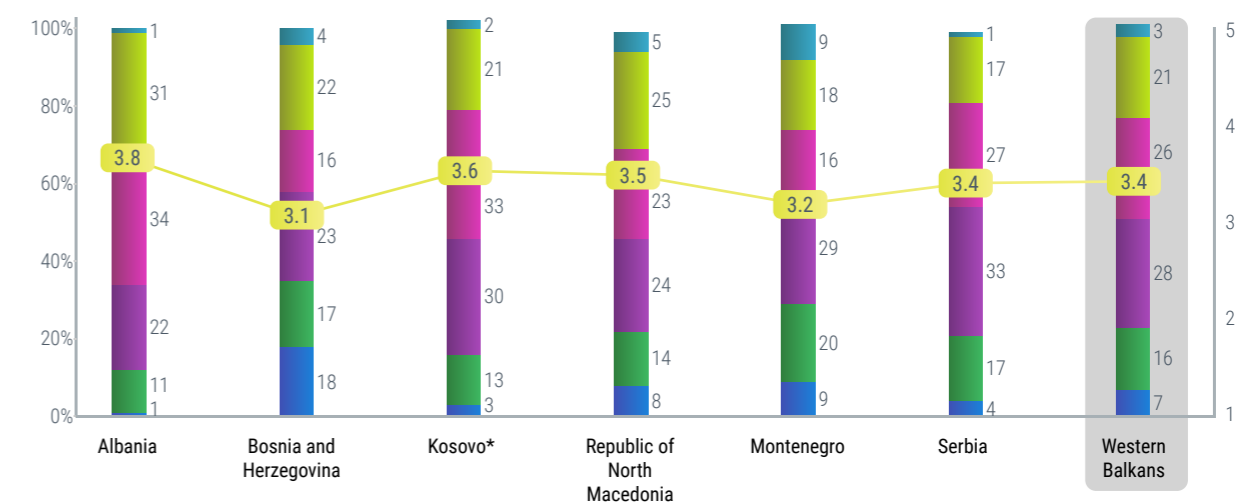
Need to rely on personal/ private connections to solve problems



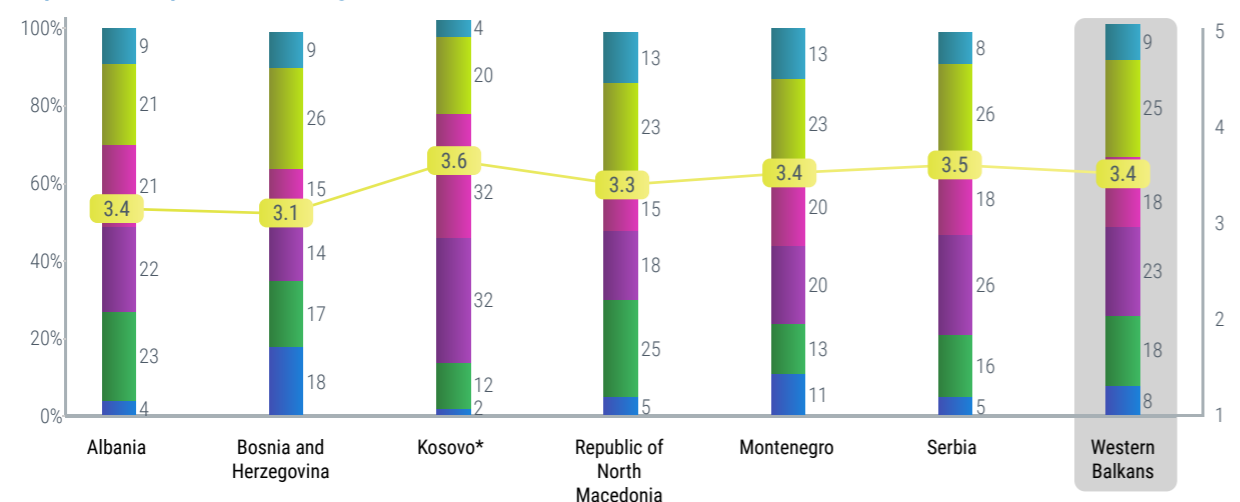
Excessive discretionary power of government officials and inconsistent application of regulations



Lack of a fully digitalized process for application and approval of the license



Explicit or implicit norm to give bribes



■ Very big obstacle ■ Minor obstacle ■ Mean
■ Big obstacle ■ It's not an obstacle at all
■ Moderate obstacle ■ DK/refuse

Results tend to be largely consistent for groups of companies of different sizes, market orientation, and industry membership. The only notable difference is between foreign- and domestic-owned companies, as the former tend to express fewer concerns over obstacles faced in doing business.

Approximately half of all business leaders from the region have seen no major change in their business environment over the past 12 months. A slight increase in the overall regional score is almost exclusively down to a significant rebound in perceptions in the Republic of North Macedonia (an increase of 0.4 on average).

The general consensus among Western Balkans executives is that the business environment has remained largely unchanged since 2018. Nevertheless, any changes, however minor, are considerably more likely to be positive than negative. This is illustrated by the fact that on average 27% of executives surveyed describe the environment as improving, compared to 22% that say it has worsened.

Business environments in Serbia and Kosovo* show the most promise in 2019 (scores 3.3) with some 40% of managers surveyed reporting improvements, against some 12% who say the environment has deteriorated. At the same time, the business environment in Bosnia and Herzegovina is bottom of the rankings with an average score of 2.9.

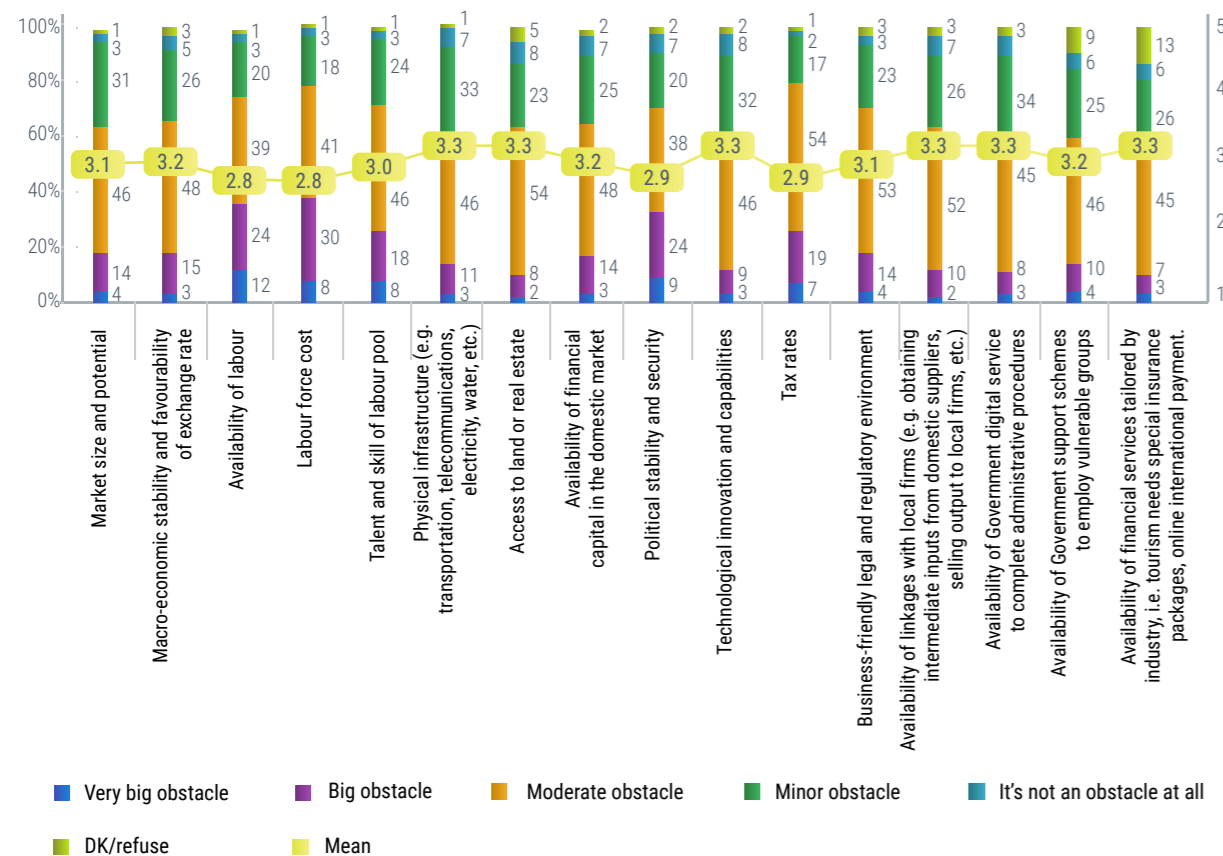
When it comes to individual factors, companies are most likely to be troubled by the shrinking labour pool (2.8), as well as growing labour costs (2.8). Political stability and tax rates also leave much to be desired (2.9 each), while improvements have been noted in the availability of government digital services, physical infrastructure and innovation capabilities, and availability of linkages with local firms (3.3 for all).

Future availability of labour and labour force costs are the most frequently cited concerns of the business community. By and large, all Western Balkans economies cite labour-related concerns as having grown more prominent over the course of 2019. The situation in Bosnia and Herzegovina is especially problematic as two-thirds of managers have witnessed the shrinking of the labour pool, while slightly more than half have reported a rise in labour costs (scores 2.1 and 2.6, respectively). Even in the region's most positive economy, Kosovo*, labour concerns are most prominent.

Figure 25: How have the following characteristics of the business environment in (economy) changed over the last 12 months?*

((All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %)

Western Balkans

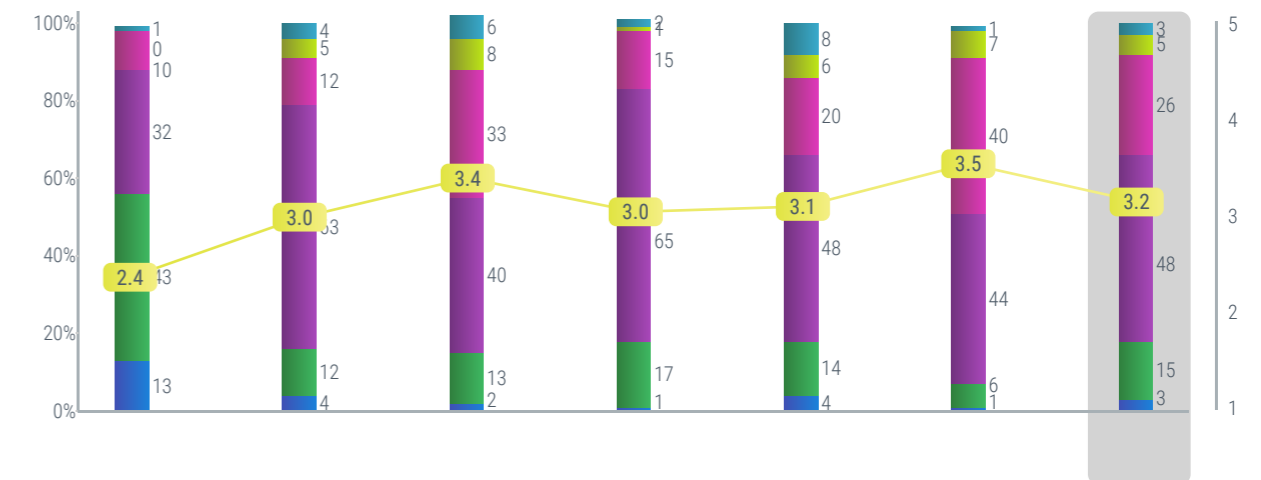


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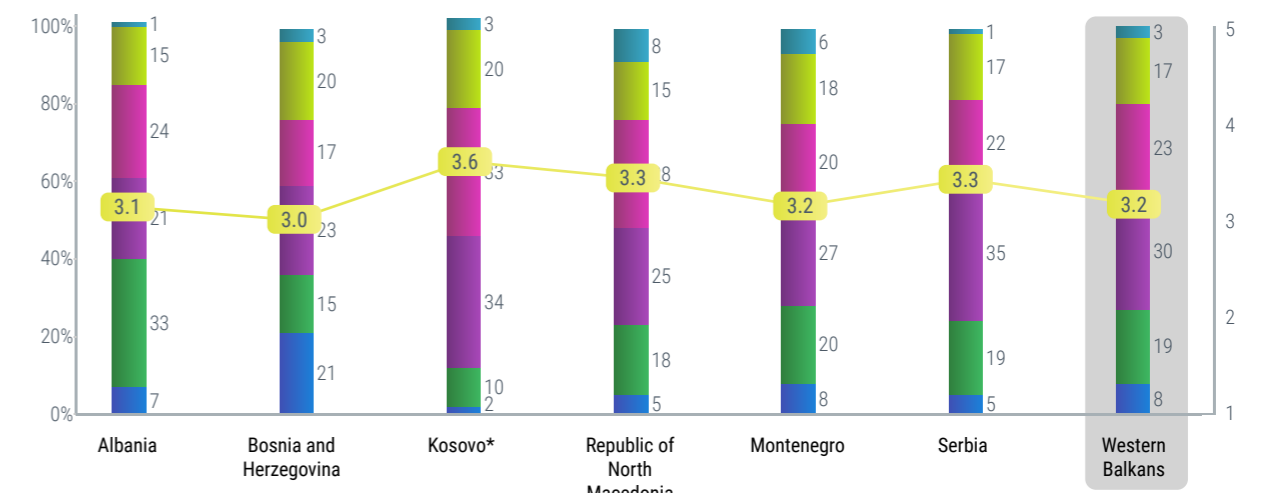
Figure 26: How have the following characteristics of the business environment in your economy changed over the last 12 months?*

(All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %, mean)

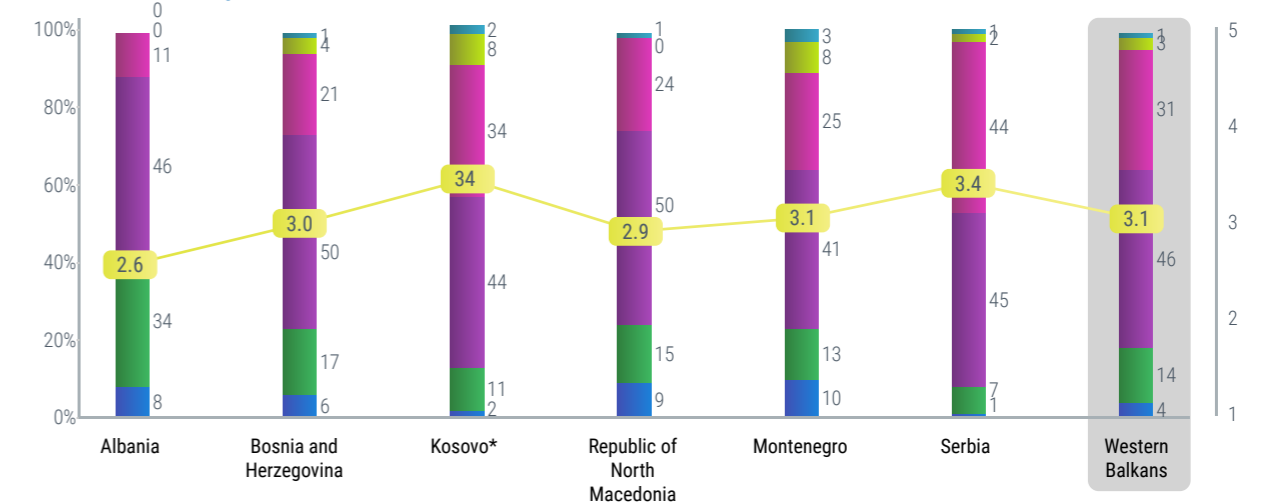
Macro-economic stability and favorability of exchange rate



Excessive discretionary power of government officials and inconsistent application of regulations

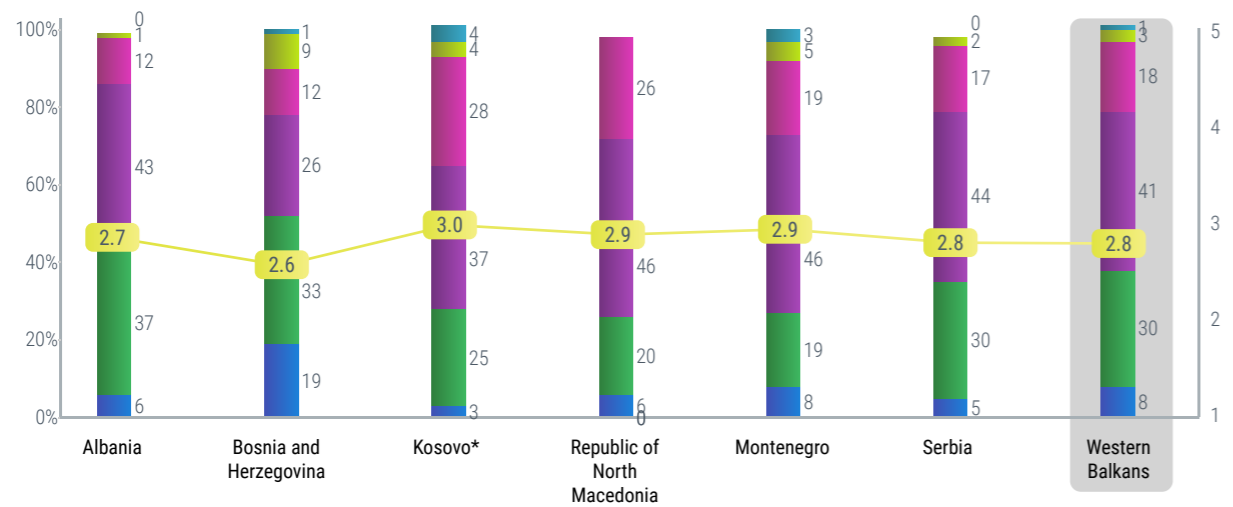


Market size and potential

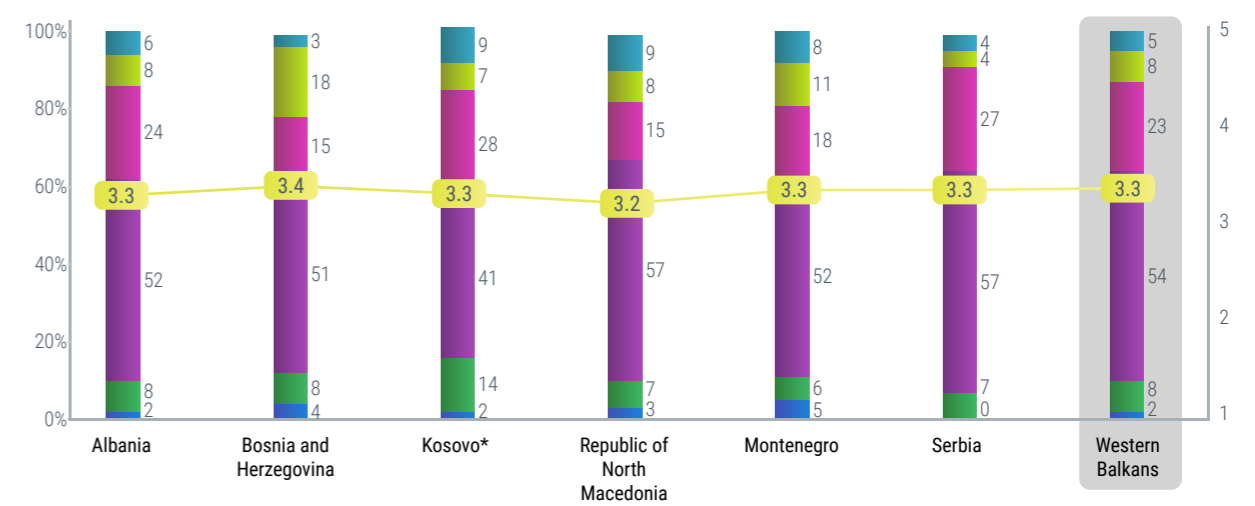


**The figures might not add to 100% due to rounding.

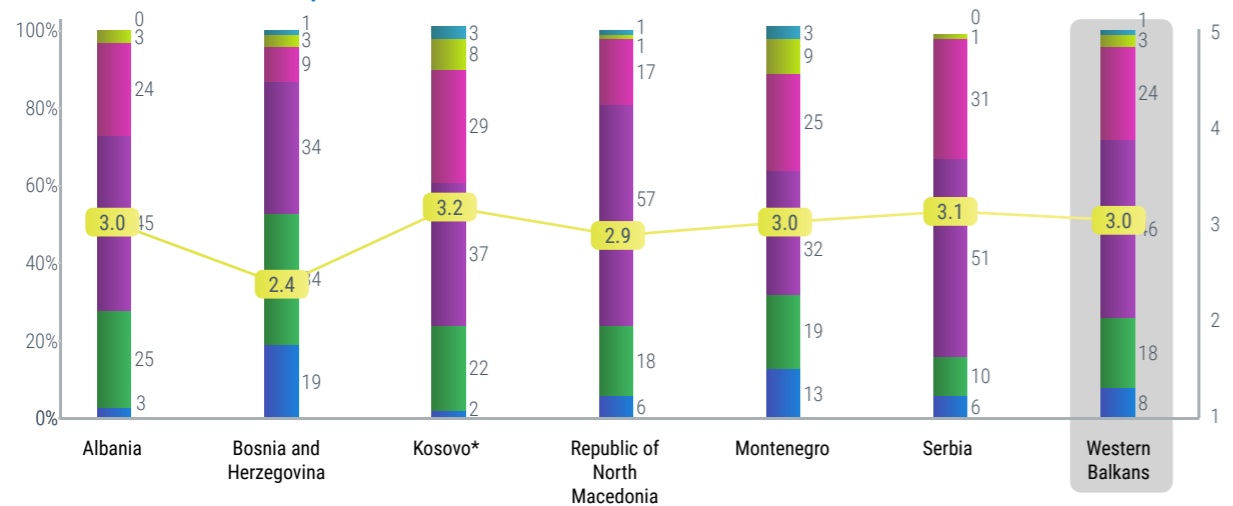
Labor force cost



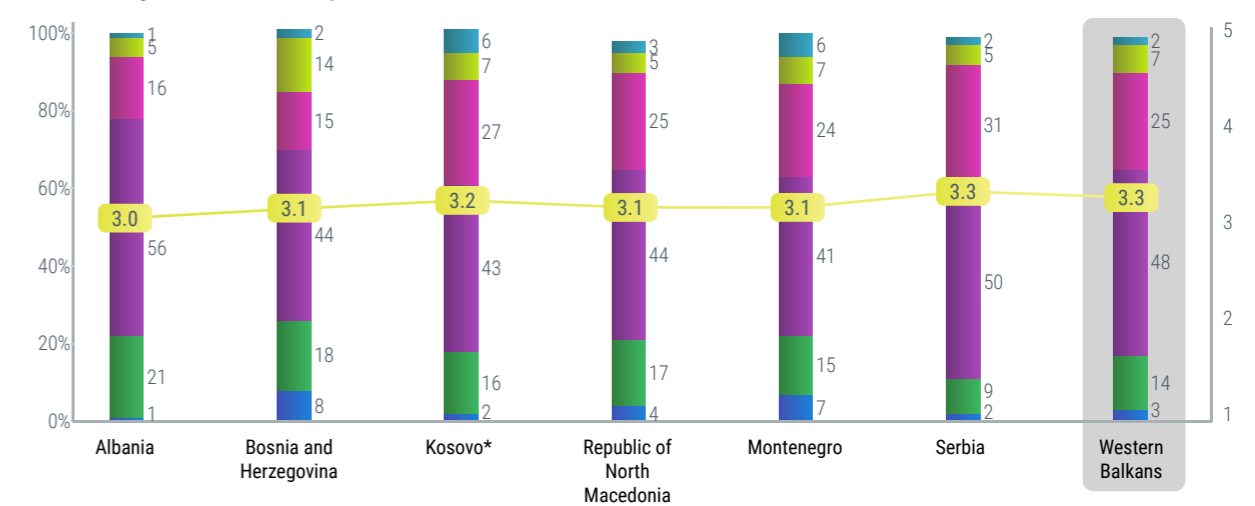
Access to land or real estate



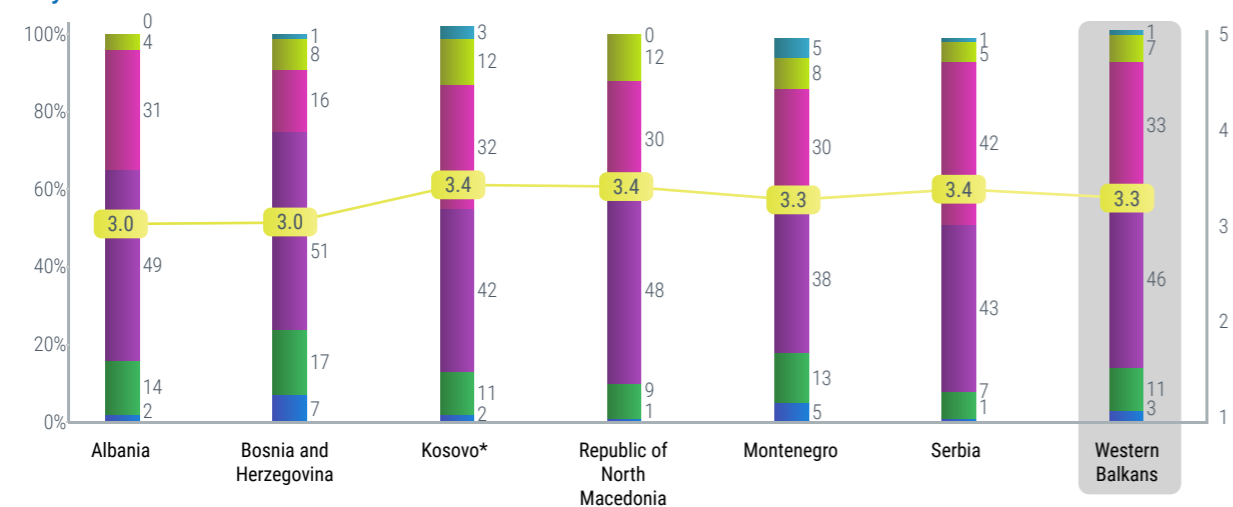
Talent and skill of labour pool



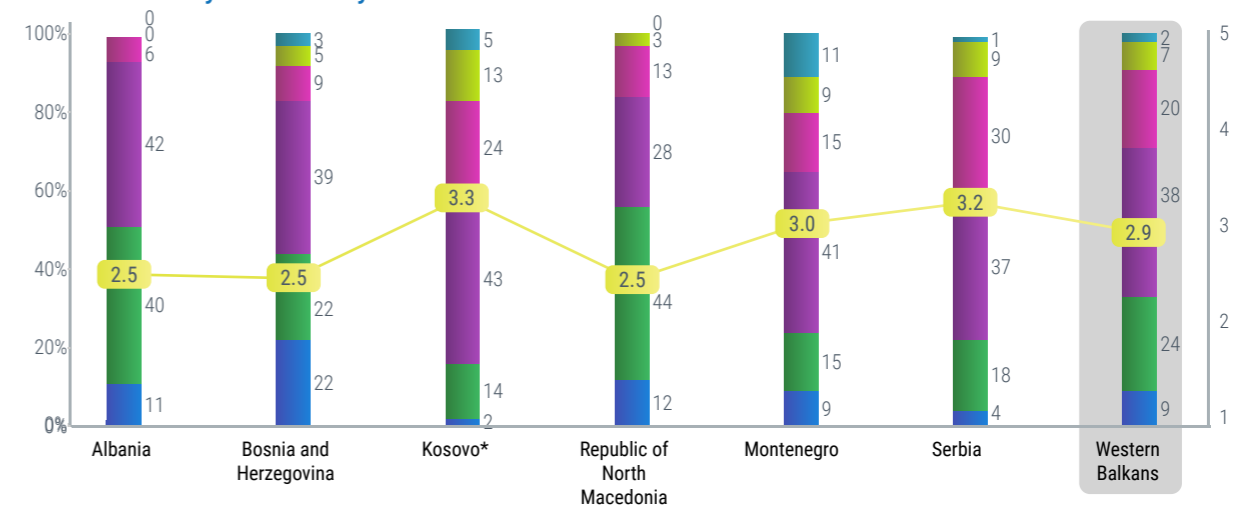
Availability of financial capital in the domestic market



Physical infrastructure



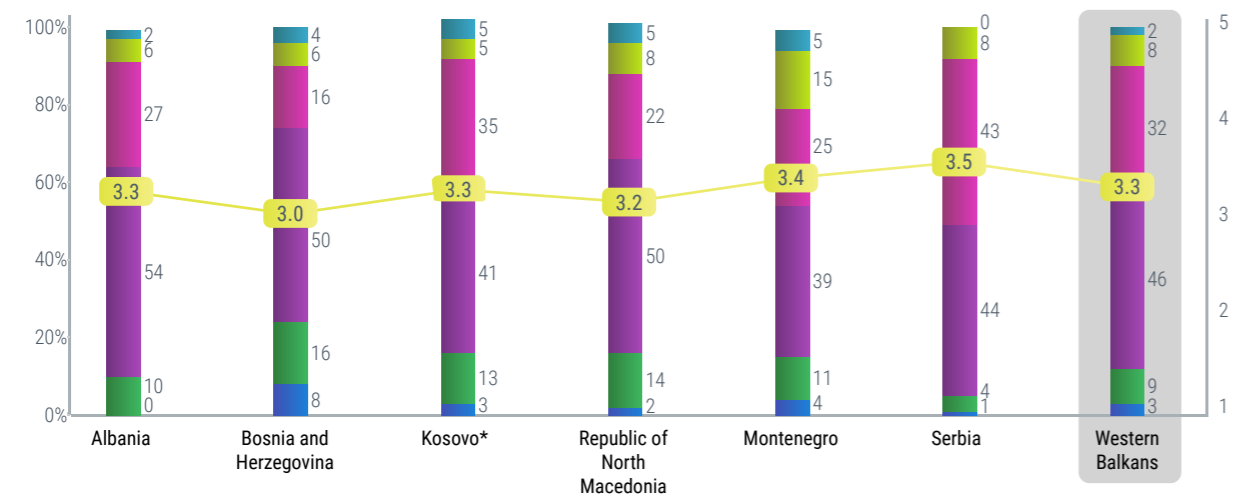
Political stability and security



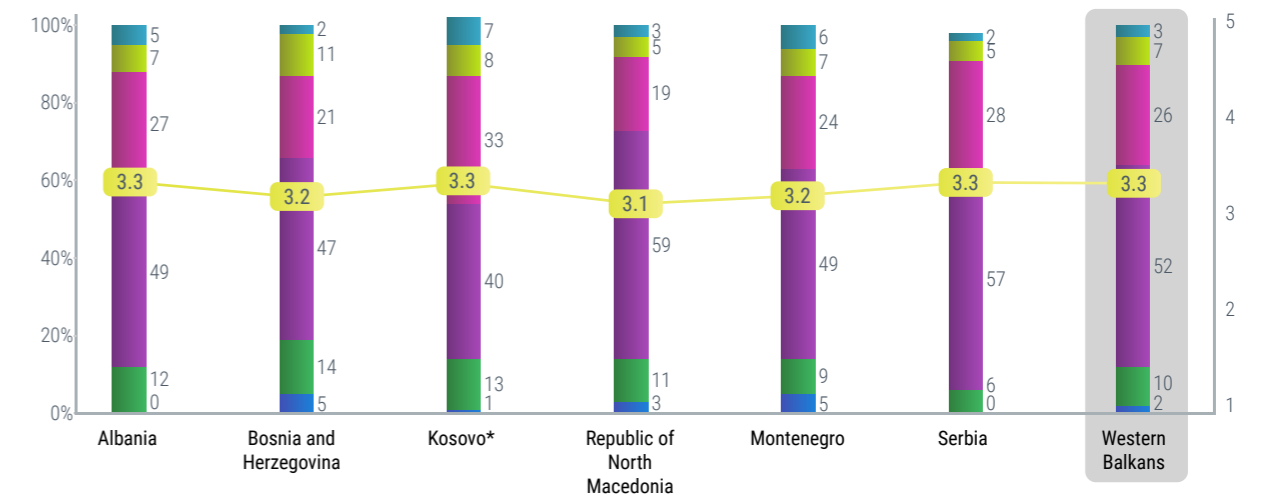
■ Significantly worsened ■ Somewhat improved ■ Mean
■ Somewhat worsened ■ Significantly improved
■ Stayed the same ■ DK/refuse

■ Significantly worsened ■ Somewhat improved ■ Mean
■ Somewhat worsened ■ Significantly improved
■ Stayed the same ■ DK/refuse

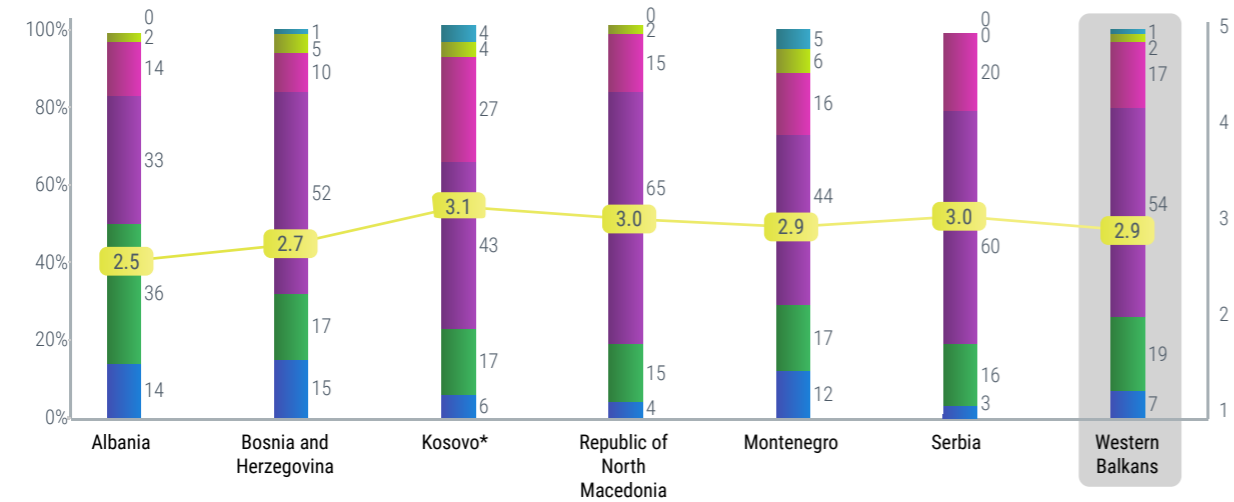
Technological innovation and capabilities



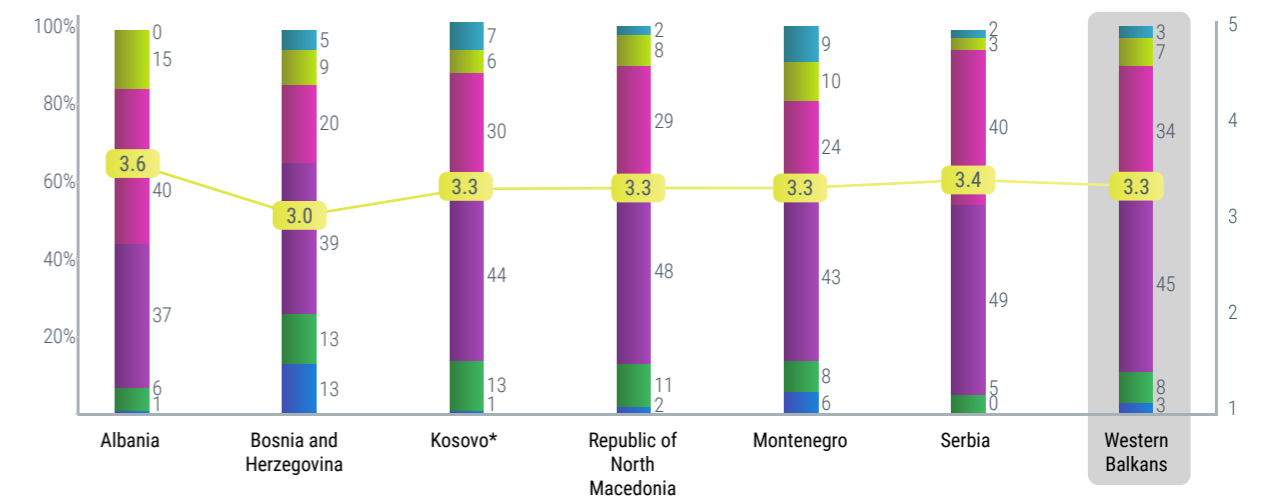
Availability of linkages with local firms



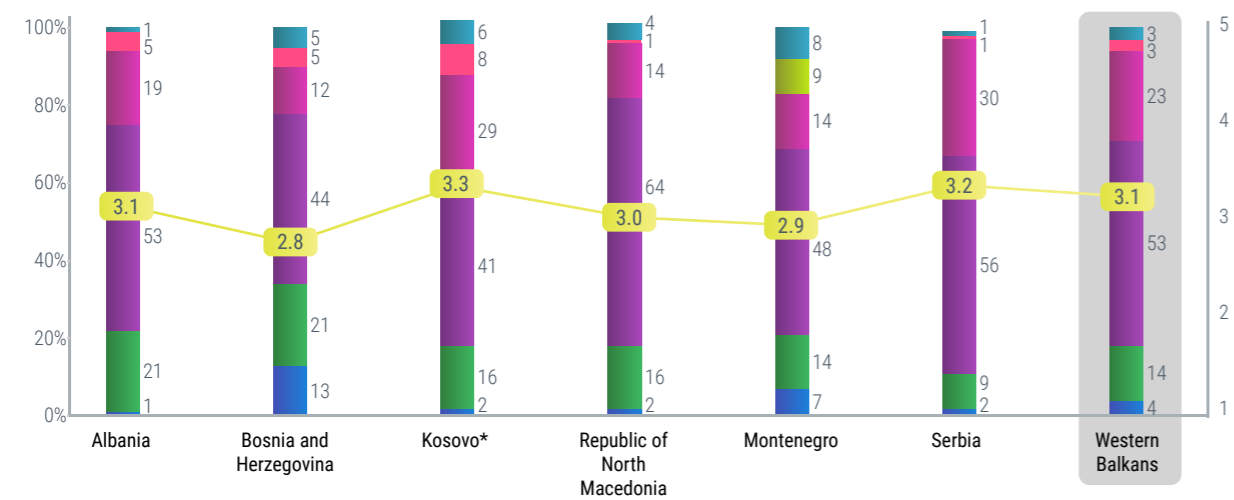
Tax rates



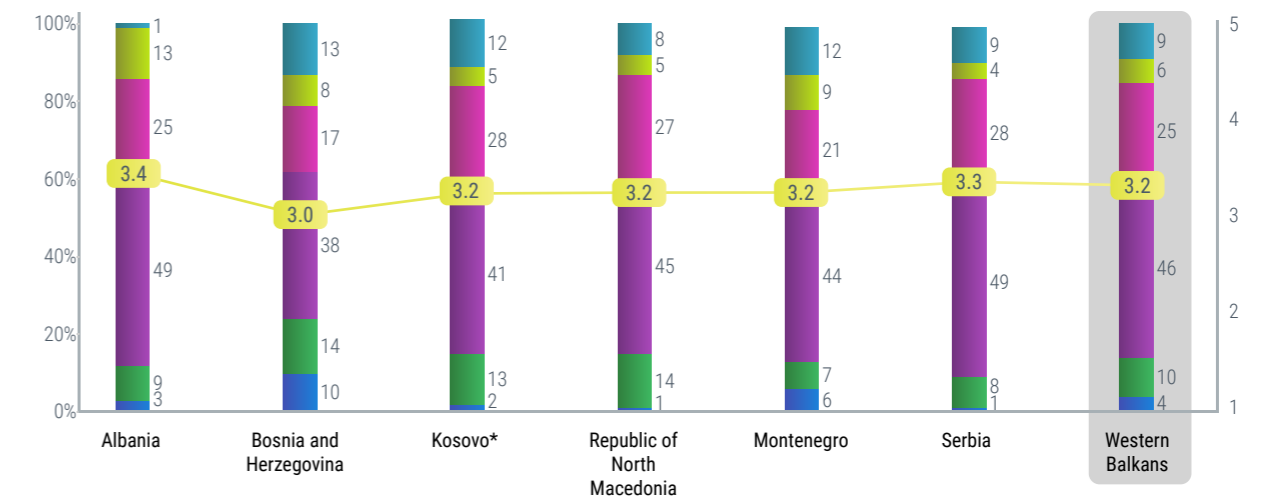
Availability of Government digital service to complete administrative procedures



Business-friendly legal and regulatory environment



Availability of Government support schemes to employ vulnerable groups



■ Significantly worsened ■ Somewhat improved ■ Mean
■ Somewhat worsened ■ Significantly improved
■ Stayed the same ■ DK/refuse

■ Significantly worsened ■ Somewhat improved ■ Mean
■ Somewhat worsened ■ Significantly improved
■ Stayed the same ■ DK/refuse

Availability of financial services tailored by industry

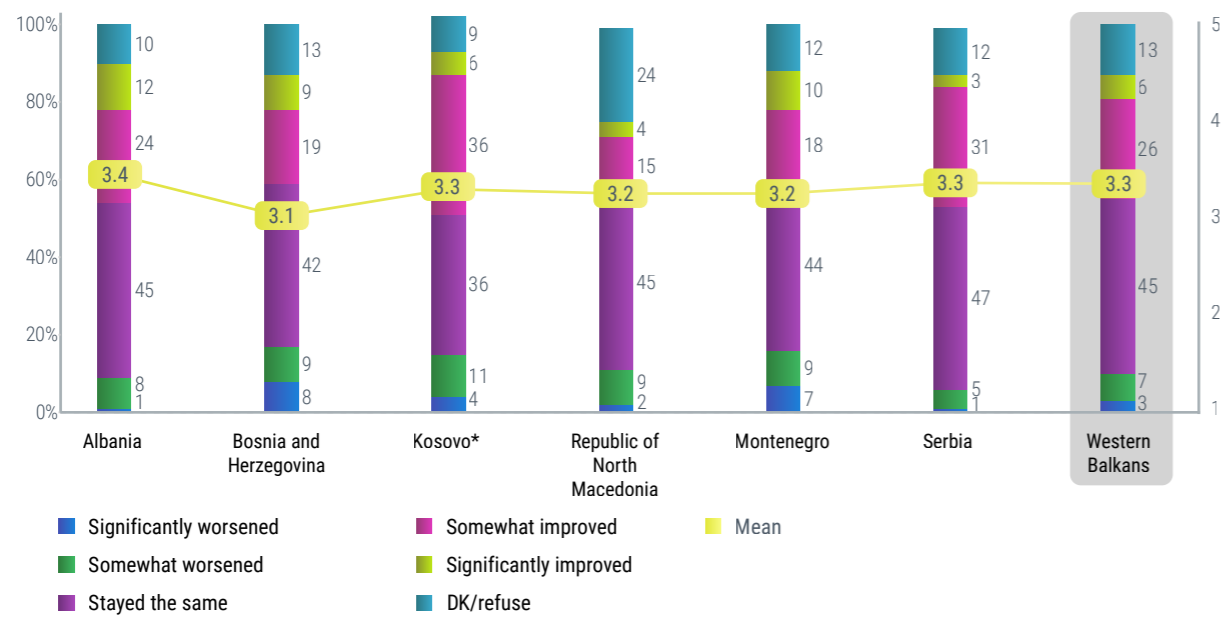
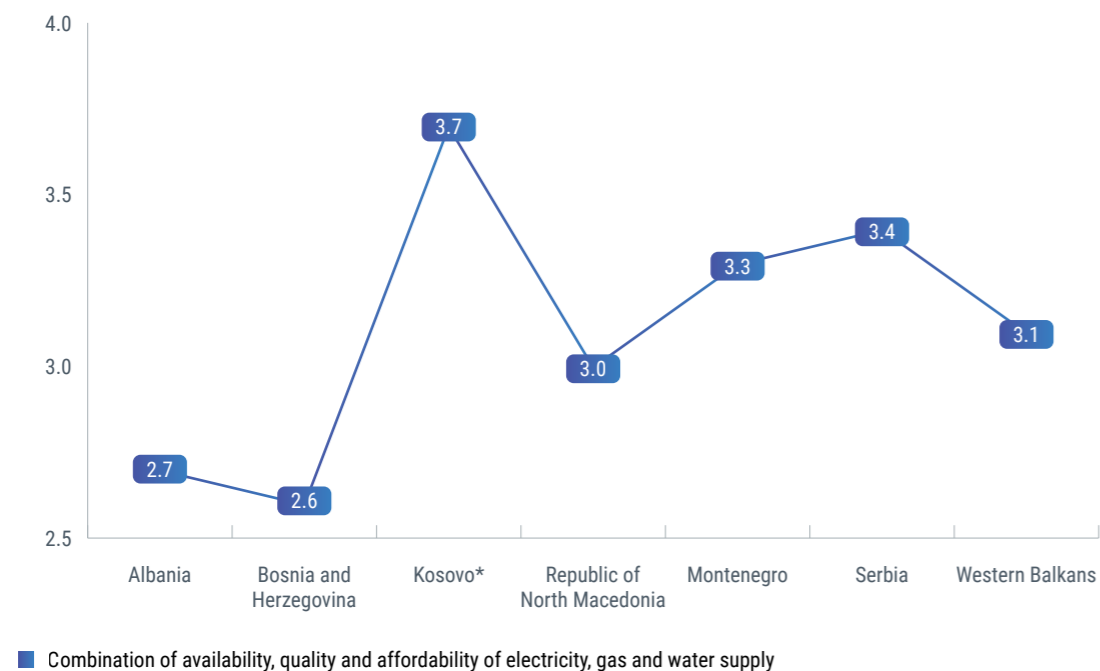


Figure 27: For your business purposes, how would you rate the combination of availability, quality and affordability of road, railroad, waterway and air transport in your economy?***

(All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means very poor and 5 excellent, mean)



Western Balkans executives are moderately satisfied with the availability, quality, and affordability of transportation infrastructure. Compared to last year, there has been a slight increase in satisfaction (3.1 in 2019 vs. 3.0 in 2018); nevertheless, the improvement in regional score is chiefly a consequence of positive developments in two of the region's economies, Kosovo* and the Republic of North Macedonia.

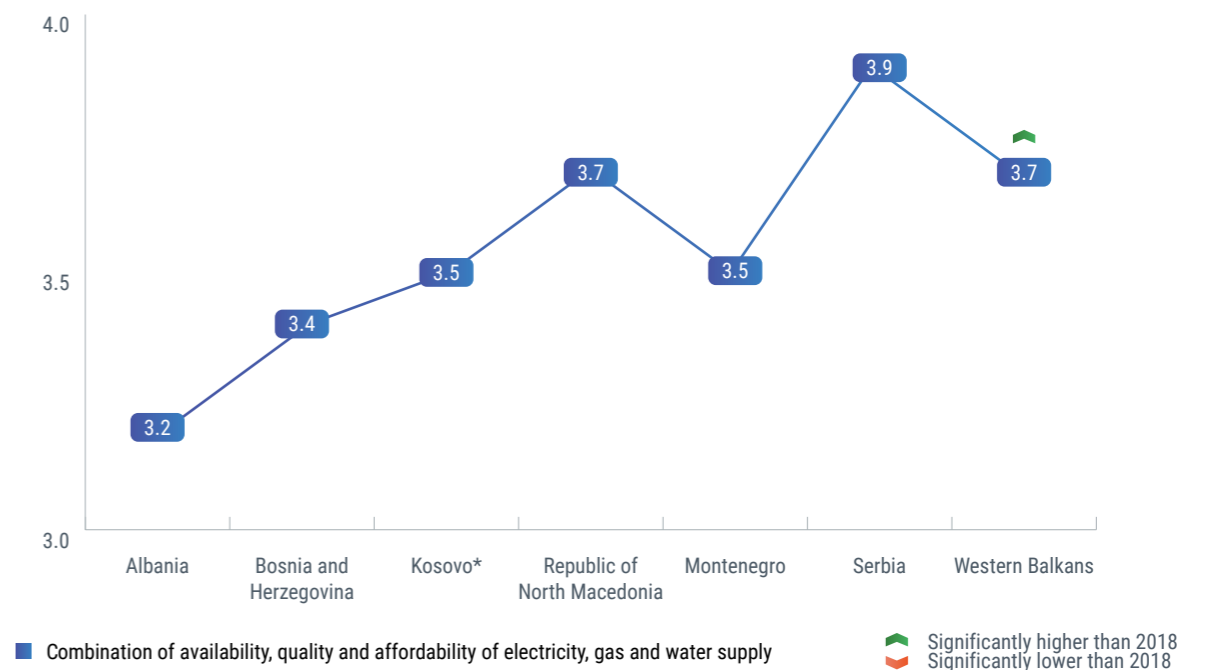
Respondents in Kosovo* seem to be the most satisfied with transportation infrastructure (3.7), while Bosnia and Herzegovina (2.6) and Albania (2.7) are at the other end of the spectrum. Serbia (3.4) and Montenegro (3.3), meanwhile, are assessed as having a better-than-average transportation network.

Kosovo* and Albania are the only two economies to have registered improvements in 2019. Namely,

***The figures might not add to 100% due to rounding.

Figure 28: For your business purposes, how would you rate the combination of availability, quality and affordability of electricity, gas and water supply in your economy?***

(All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means very poor and 5 excellent, mean)



executives' responses have positioned Kosovo* as the regional leader in this year's survey instalment (3.7). Moreover, in Kosovo*, the score has improved significantly (+0.4), making it the only economy apart from the Republic of North Macedonia, with favourable developments. These positive changes coincide with the completion and opening of the new highway (Arben Xhaferi highway) connecting the two economies – the highway is also expected to intensify trade and other relations between the two.

Large infrastructural projects in Serbia and Montenegro are yet to translate into better scores across the two economies, while a near-total lack of infrastructure investment in Bosnia and Herzegovina and Albania has, as expected, reflected poorly on their regional ranking. With sections of Corridor X and XI in Serbia still some way from being put into operation, and parts of Corridor XI in Montenegro expected to be completed by the fall of 2020, next year's instalment of the Barometer is expected to reflect these improvements more clearly. Meanwhile, an absence of infrastructure investment in Albania and Bosnia and Herzegovina has contributed to respondents there feeling left out; Bosnia and Herzegovina also has the region's highest road accident mortality rate

Executives in the Western Balkans are largely satisfied with energy infrastructure in their economies. After last years' dip (-0.3 from 2017 to 2018), the average regional score has now rebounded, and

***The figures might not add to 100% due to rounding.

even surpassed the 2017 level, reaching 3.7 in 2019. This year's surge has, however, overwhelmingly been driven by considerable improvements in the Republic of North Macedonia (+0.5) and Kosovo* (+0.3).

Serbian managers are most satisfied with energy infrastructure in the region (3.7), while their Albanian counterparts occupy the other end of the spectrum (3.2). Out of the remaining economies, the Republic of North Macedonia (3.7) comes second, with Montenegro and Kosovo* in third and fourth, respectively, with 3.5. Bosnia and Herzegovina is second-bottom in the rankings, with 3.4.

The score in this category has increased across all Western Balkans economies, apart from Bosnia and Herzegovina, where it has remained the same. The greatest increases in satisfaction have been recorded in the Republic of North Macedonia (+0.5), Kosovo* (+0.3), Albania and Serbia (+0.2 for both).

Western Balkans executives would welcome additional investment in roads. Two-thirds of respondents called for additional investment in road infrastructure as potentially the most beneficial development to their businesses, an 8-point increase on 2018. In line with an overall solid appraisal of energy infrastructure, fewer managers call for improvement in gas and electricity infrastructure (-6 points compared to 2018).

Roads remain the most critical area of investment for businesses in the Republic of North Macedonia, while in Kosovo*, although still predominant, they are

Figure 29: In your opinion, which infrastructure upgrades would have the highest positive impact on your business**

(All respondents - N=1215, share of total, %)

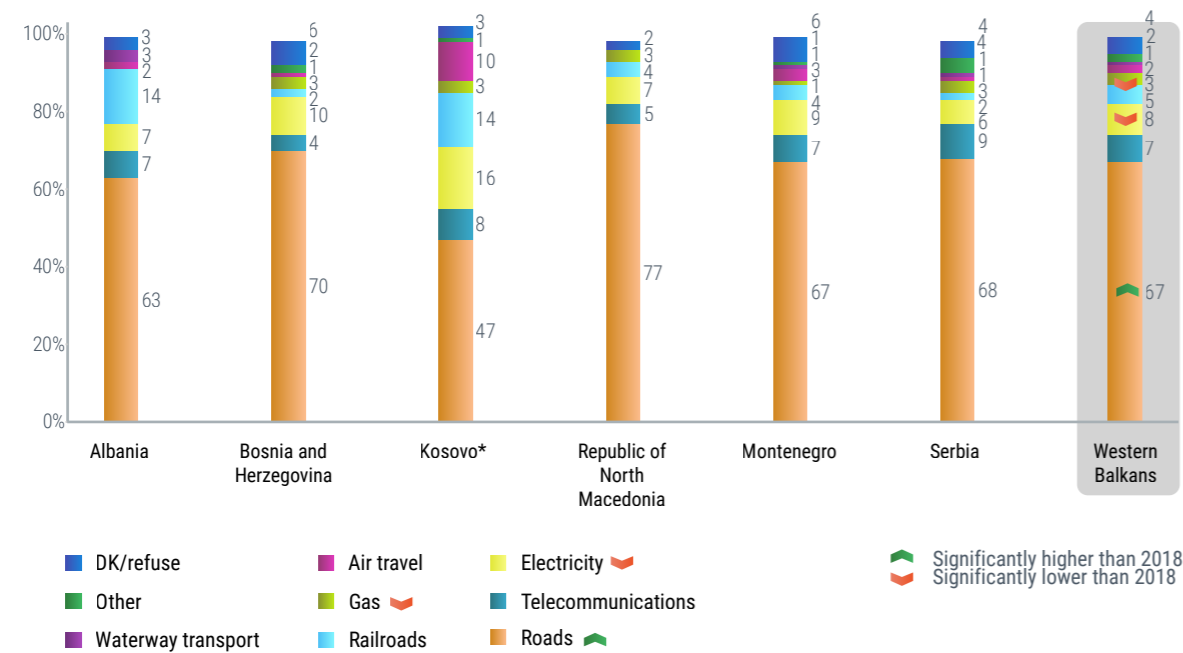


Figure 31: How would the complete elimination of roaming charges impact your business operations? It would have**

(All respondents - N=1215, share of total, %)

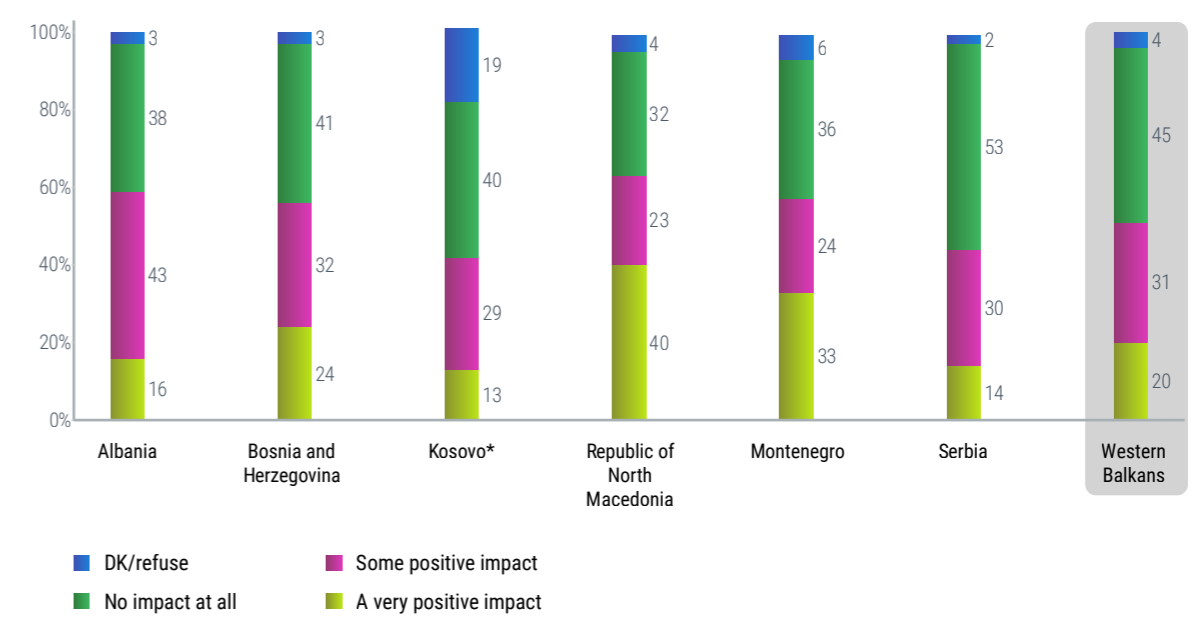


Figure 30: How did the Regional Roaming Agreement impact your business operations? It had**

(All respondents - N=1215, share of total, %)

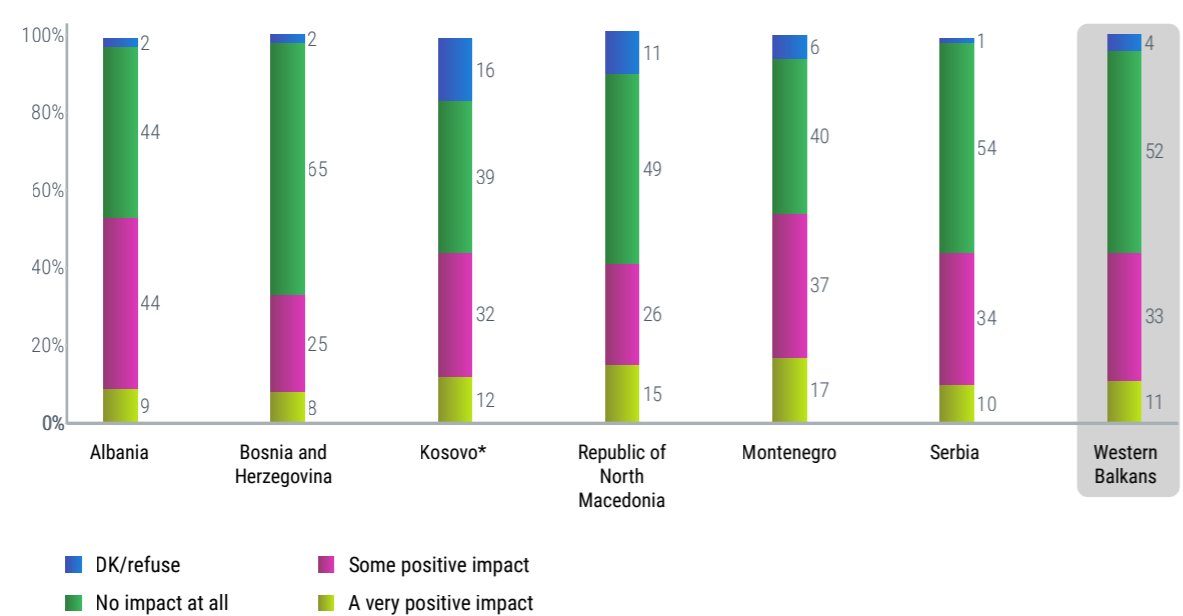
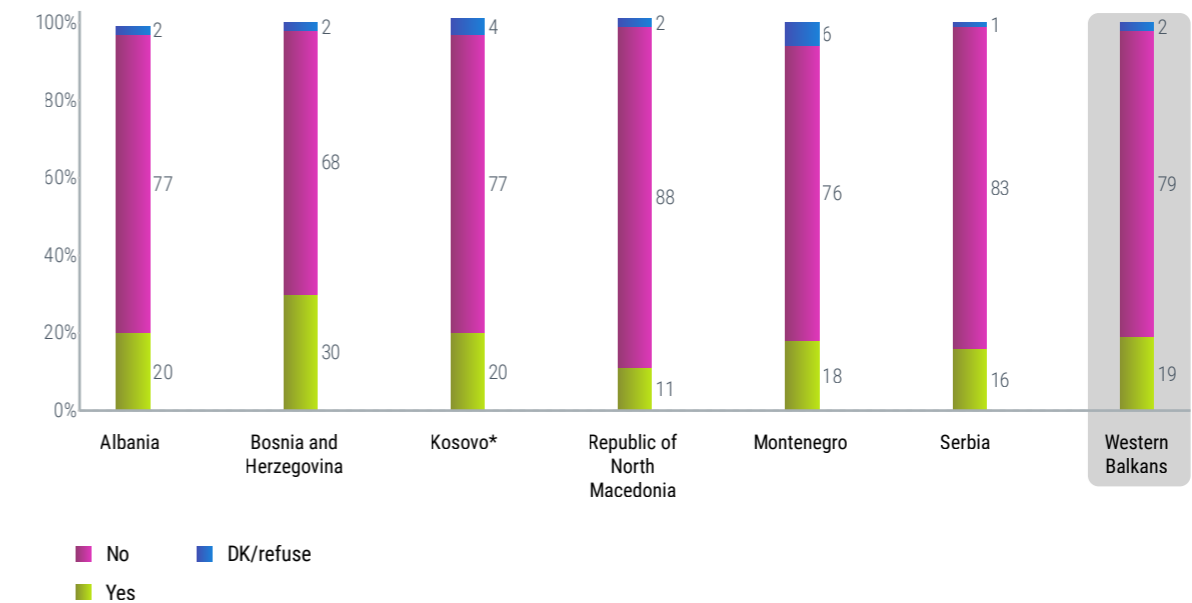


Figure 32: Have any of your company's owners or senior manager spent time living and working abroad as members of the diaspora?*

(All respondents - N=1215, share of total, %)



becoming less common. Kosovo* respondents call for more investment in energy infrastructure at a rate higher than elsewhere in the region. They, along with their counterparts in Albania, would also welcome better railroad infrastructure. Investments in air travel infrastructure would seemingly have a significant positive effect only on businesses in Kosovo*.

Businesses in the sector of agriculture, hunting, fishing, and forestry express the need for better roads significantly more than others (86%). It is interesting that although exporters would rate new roads as more important than non-exporters, the difference is not as pronounced as may be expected (69% vs. 63%).

**The figures might not add to 100% due to rounding.

The adoption of the Regional Roaming Agreement has positively impacted Western Balkans businesses. The Regional Roaming Agreement was adopted on the 1st of July 2019, leading to a considerable drop in prices for roaming charges between economies in the region. Although a dominant share of respondents state that reducing regional roaming

charges had no impact on their businesses, more than 40% still find it useful.

The new roaming agreement was welcomed the most in Montenegro and Albania, while it had the smallest effect on businesses in Bosnia and Herzegovina. Montenegro and Albania report that

**The figures might not add to 100% due to rounding.

more than half of all managers surveyed state that reduced charges positively impacted their businesses. Moreover, 17% of Montenegrin business leaders have described the agreement's impact as very positive. Meanwhile, some two-thirds of respondents in Bosnia and Herzegovina say that their businesses have not been impacted at all by the new roaming regime.

As expected, export-oriented companies benefit more than their inward facing counterparts (62% vs. 34%). Also, the bigger the company, the more it benefits from this agreement, which is expected, since larger companies are more likely to have partners abroad (39% of micro-company managers to 74% of large-company managers)..

Complete removal of roaming charges is beneficial for just under a half of all Western Balkans businesses. Now that the fees have been reduced, the complete removal of roaming charges will naturally not be as beneficial as before – for illustration purposes, the 2018 survey placed the proportion of respondents in favour of full removal at 70% against just 45% in 2019.

With the exception of Kosovo* and Serbia, the share of companies that recognize benefits of complete removal of roaming charges is greater than half across all of the region's economies. Same as last year, a complete removal would benefit companies in the Republic of North Macedonia the most, as suggested by almost two-thirds of all managers surveyed.

The results for the Republic of North Macedonia are particularly interesting; the discrepancy between the perceived benefits of reduced roaming charges and the effects of a total removal is quite high – while only 41% report potential gains as a result of a partial price reduction, as many as 63% would welcome complete removal.

On average, one in five business owners, or managers, spent time living and working abroad. Bosnia and Herzegovina has the highest share of business leaders who returned from the diaspora (30%), with the Republic of North Macedonia having the fewest (11%). As expected, the share of business leaders that have spent time living and working abroad is higher among larger firms, exporters, and foreign-owned companies.

LEGAL AND REGULATORY FRAMEWORK

Businesses in the Western Balkans remain unhappy with their engagement in policy-making, with only limited progress evident. Aggregate findings on satisfaction with public sector performance broadly follow last year's pattern: 25% are unhappy, 50% are neutral, and a further quarter are satisfied with the work of their governments. Again, businesses from Bosnia and Herzegovina are markedly unhappy to an extent well above the regional average (only 6% are satisfied), while Kosovo*'s government seems to be most accommodating of the needs of the private sector. A year-on-year comparison shows the greatest deterioration in scores to have happened in Montenegro.

Similar to last year, some 10% of all revenues, wage bills and workers remain in the realm of the shadow economy. This is largely the case across all of the region's economies save Kosovo*, where almost 40% are invisible to tax and other authorities.

The perception of stability and predictability of laws has deteriorated. Businesses in Montenegro and Albania have reported a worrying deterioration in the perception of the rule of law system; meanwhile, and on a more positive note, businesses in Bosnia and Herzegovina and the Republic of North Macedonia report a significant increase in respondent confidence.

Steering clear of public tenders remains a prevalent practice with 30% of businesses refusing to contest public procurement exercises, mainly due to concerns that requirements have been tailored to favour individual companies. Those that do take part in public procurement report moderate satisfaction with the process and its outcomes.

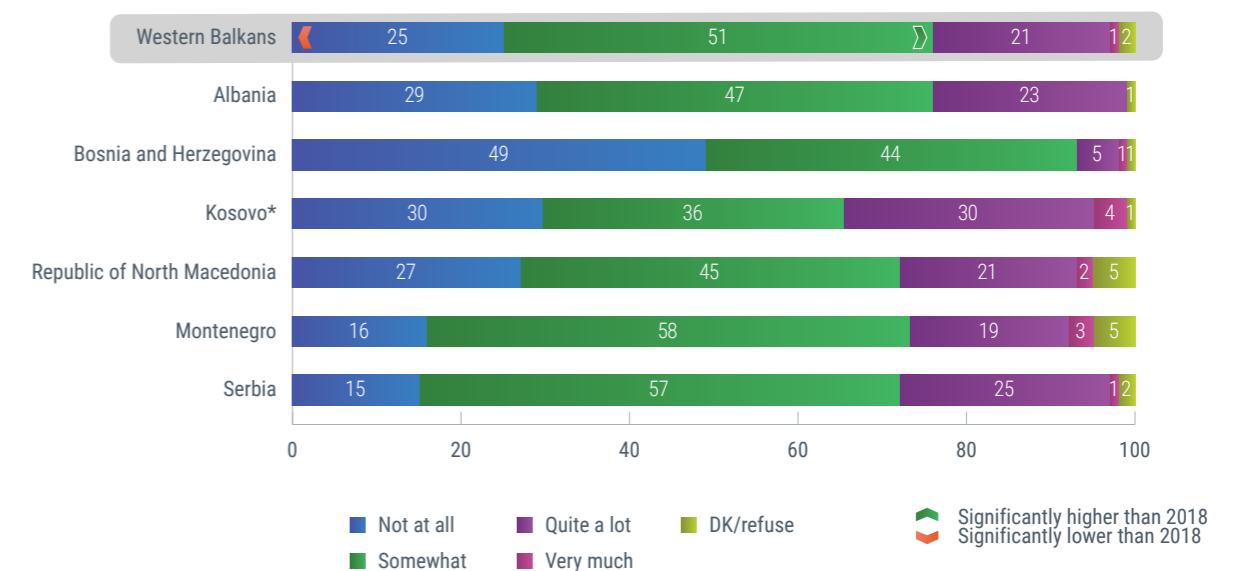
Tax-related requirements remain a key barrier to business success with 85% of respondents reporting their operations obstructed by some form of regulations, with taxation requirements top of the list (41%). Minimum wage and employment regulations have been also cited by 21% of all businesses surveyed.

There is a notable improvement in perceptions for the Republic of North Macedonia, alongside a deterioration in confidence in Montenegro. The Republic of North Macedonia has embarked on a path of recovery from political instability which has, so far, translated into more trust in government by the private sector. At the same time, political and other developments have caused an across-the-board decline in both Montenegro and Albania.

A third of Western Balkans businesses believe that information on state aid should remain confidential, while a third want it publicly released. Managers from Kosovo* and the Republic of North Macedonia are the most transparent with more than 40% advocating better access to state aid information;

Figure 33: How much do you feel the Government of your economy takes into account the concerns of businesses?*

(All respondents - N=1215, share of total, %)



**The figures might not add to 100% due to rounding.

meanwhile, only a quarter of their counterparts from Bosnia and Herzegovina would prefer to keep the information secret.

Most Western Balkans business leaders feel their governments pay little to no attention to their concerns. Around three-quarters of all respondents say their governments take their interests into account somewhat at most. The share of those satisfied with how the authorities treat them stands around a fifth (22%). Nonetheless, governments in the region have made some progress in reaching out to the business community, as the share of those who think that governments do not take their concerns at all is considerably lower in 2019 (down to 25% from 35% in 2018). Viewed by economy, Albania records the single biggest decline in this regard (-15 points), indicating good work by the government there. Meanwhile,

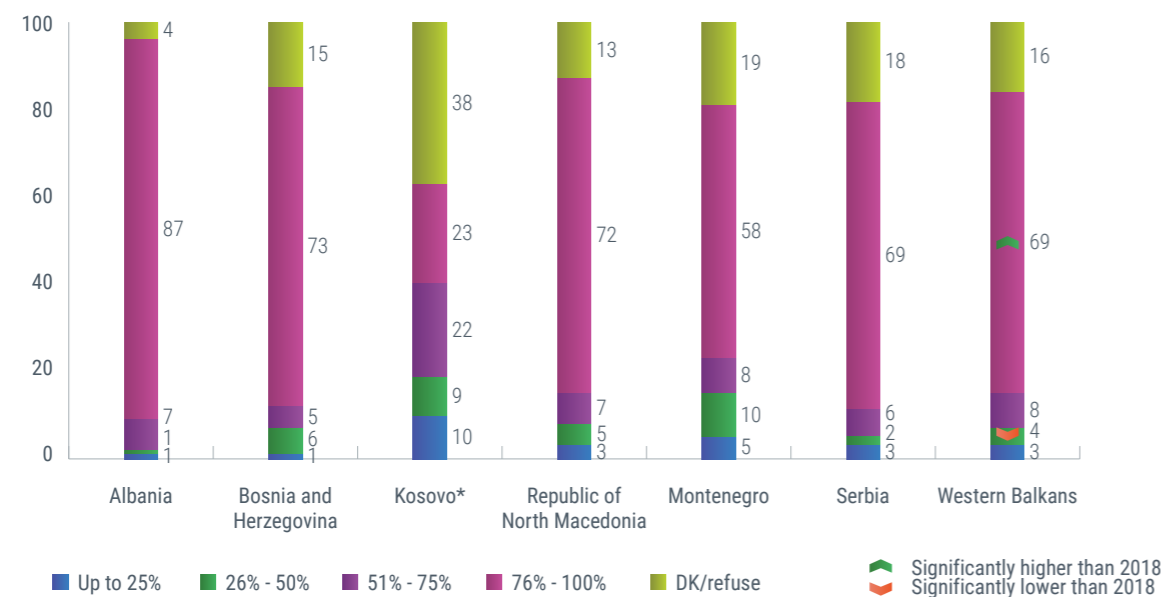
the share of businesses satisfied with the responsiveness of their government has shrunk significantly in Montenegro (down to 22% from 37% in 2018).

Business leaders in Bosnia and Herzegovina are by far the least satisfied with their government, with Kosovo* and Serbia at the other end of the scale. Share of largely satisfied companies across the region is generally similar, the two outliers: Kosovo*, with 34%, as the most positive economy, and Bosnia and Herzegovina, with 6%, as the most negative.

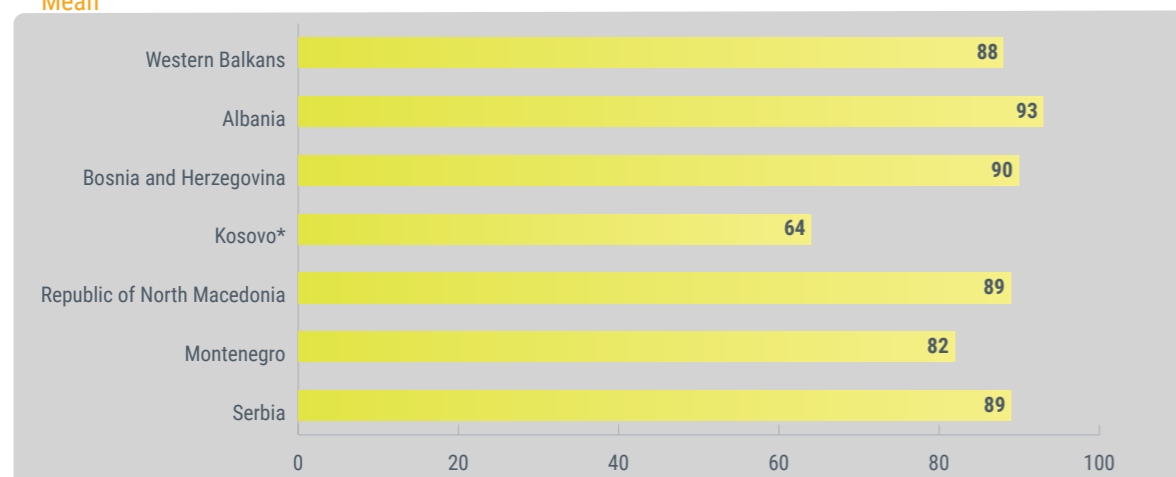
Large companies, exporters, and foreign-owned companies are generally happier with the responsiveness of their respective governments (51%). Meanwhile, only 22% of SMEs consider their governments to be supportive. Higher satisfaction rates of large companies, which are also major employers, may be due to their better negotiating power.

Figure 34: What percentage of total annual sales would you estimate a typical firm in your area of business reports for tax purposes?*

(All respondents - N=1215, share of total, %)



Mean



**The figures might not add to 100% due to rounding.

An average Western Balkans company reports around 88% of its annual sales for tax purposes.

In other words, around 12% of all revenues are attributed to the grey economy. Fiscal discipline has improved slightly, as the percentage of reported revenues has expanded from 85% in 2018 to 88% in 2019. Viewed by individual economy, however, it is clear that the improvement in regional scores is down exclusively to Albania's remarkable year-on-year improvement (+15 points) as all the other economies in the region have regressed, if slightly.

Business leaders from all Western Balkans economies report similar levels of fiscal discipline, save Kosovo*. Managers from this economy not only report the lowest share of sales (64%), but are also most reluctant to discuss them (38%). At the same time, their counterparts from Albania report the high-

est share of sales (93%) and are the most open to discussing this issue freely.

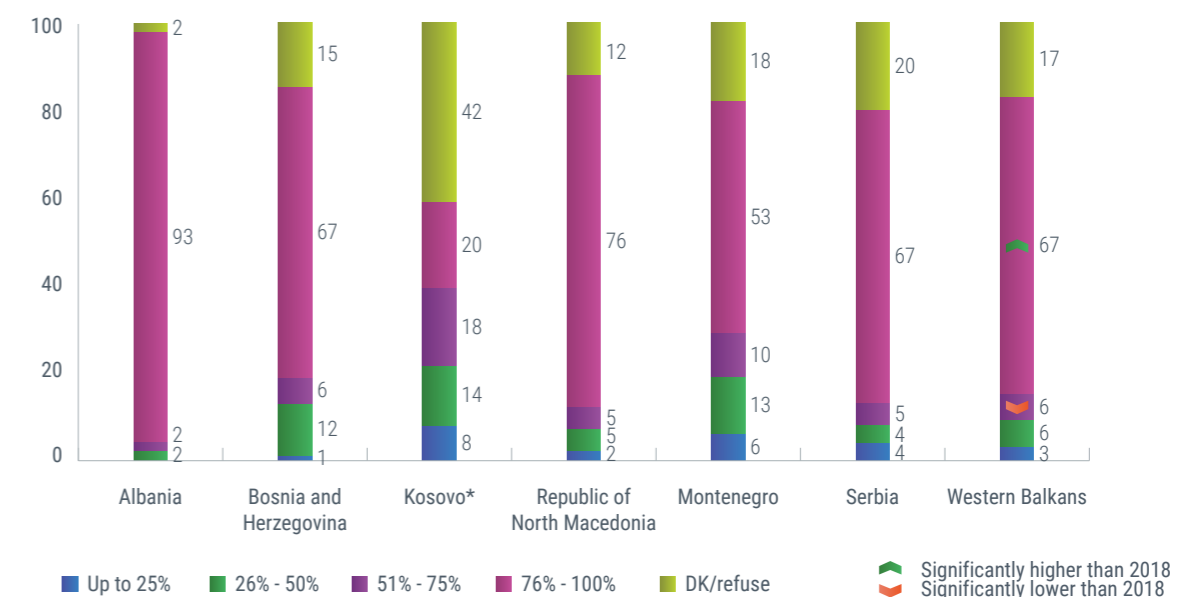
Interestingly, there are no significant variations between companies across different sizes, market orientation or ownership.

The percentage of the actual wage bill reported for tax purposes (87%) is almost the same as the level of declared sales (88%). Also, the share of the wage bill reported is the same in 2019 as it was in 2018. It should be noted that undeclared wage bills include both salaries of unregistered workers as well as the underreported wages of those workers that are on the official payroll.

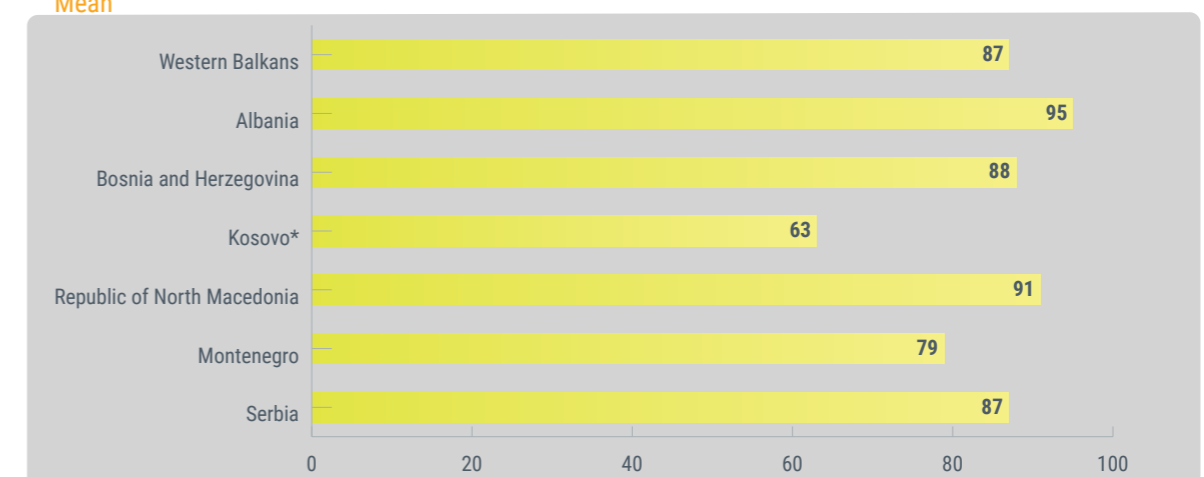
Again, the reported percentage of the wage bill does not vary too widely across different economies with Kosovo* once more the outlier. Albanian

Figure 35: What percentage of the actual wage bill would you estimate a typical firm in your area of business reports for tax purposes?*

(All respondents - N=1215, share of total, %)

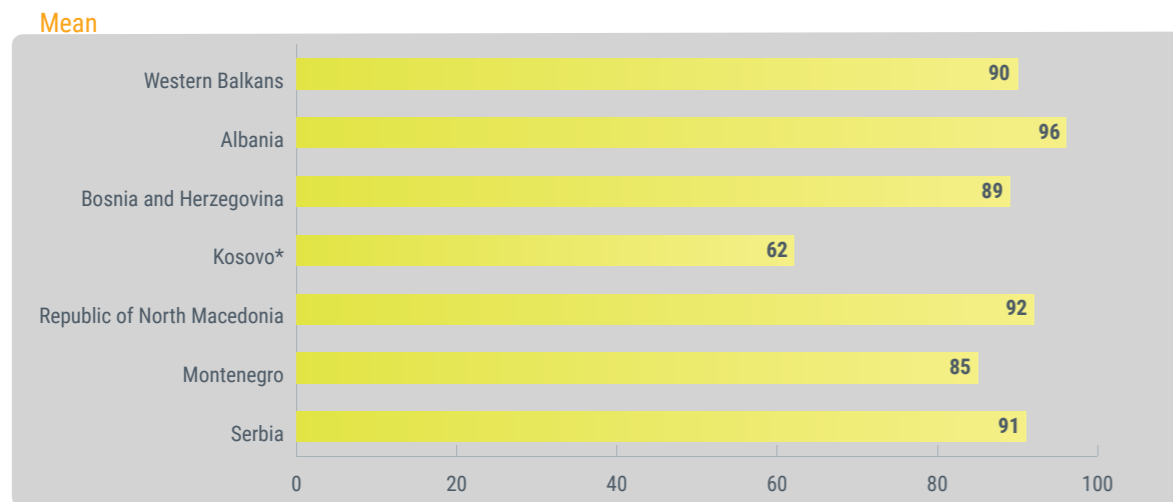
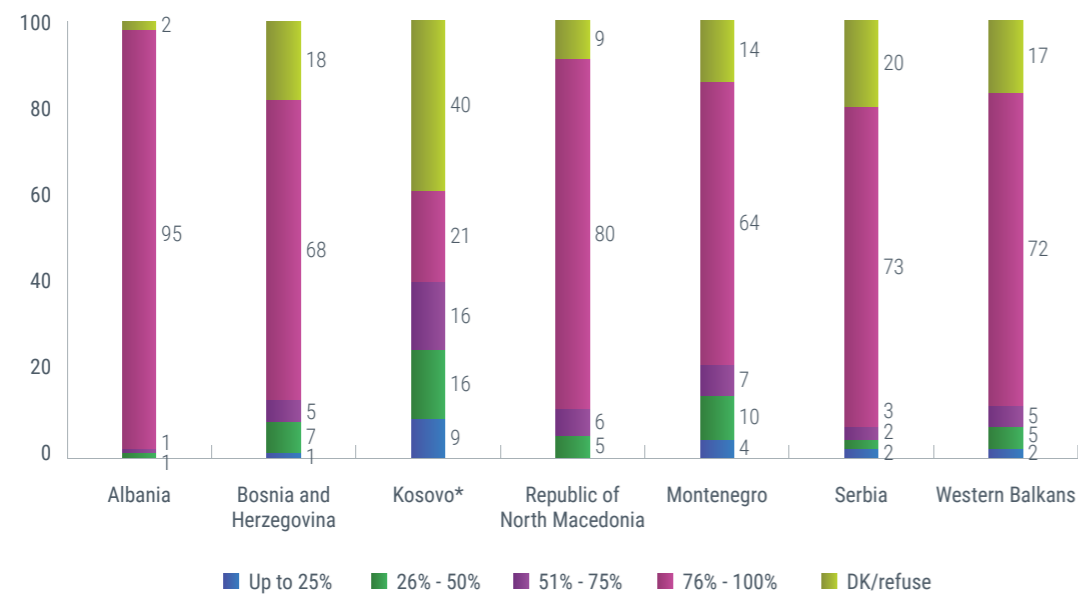


Mean



**The figures might not add to 100% due to rounding.

Figure 36: What percentage of the total number of employees would you estimate a typical firm in your area of business registers with the relevant authorities?*
(All respondents - N=1215, share of total, %)



enterprises report 95% of actual wage bills for tax purposes on average (an increase of 11 points), while, at the other end of the scale, companies from Kosovo* are both the least transparent (42%) and report the smallest portion of wage bill (63%). Also, fiscal discipline in Kosovo* has deteriorated significantly and to an extent well above the regional average (-11 points since 2018).

Again, there is not much variation between companies of different sizes, market orientation, or ownership.

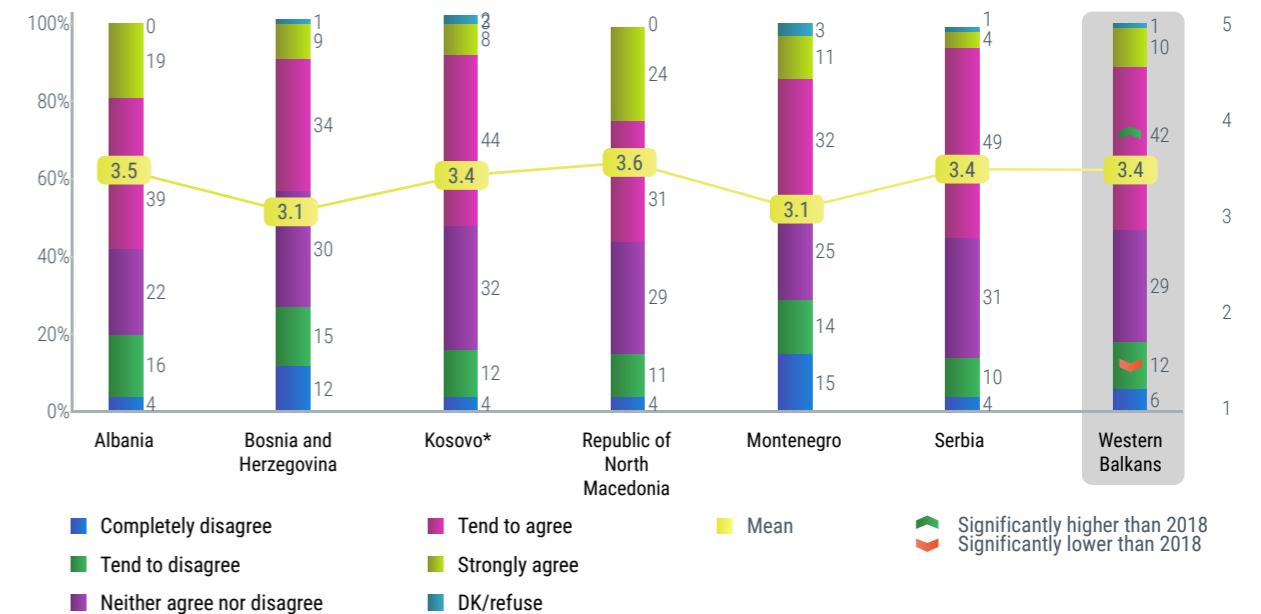
Every tenth worker in the region's business sector is part of the grey economy; in other words, one out of ten are not covered by social security, or the rights guaranteed under a valid employment contract.

Albanian businesses are both the most responsible and the most transparent, in keeping with the trend for the region, whereas Kosovo* is once more the regional outlier. As many as 96% of Albanian corporate workers are covered by an official employment contract. At the same time, close to 4 out of 10 workers in the corporate sector in Kosovo* do not have a valid contract. Businesses in Kosovo* are also by far the most reluctant to provide the requested information (40%).

High numbers of undeclared workers, or revenues and wage bills, may have an adverse effect on the sustainable development of Western Balkans businesses. There are three key ways in which the grey economy negatively impacts the economy: (1) unfair competition – legitimate businesses are faced with

**The figures might not add to 100% due to rounding.

Figure 37: To what extent do you agree with the following statement - Laws and regulations affecting my company are clearly written, not contradictory and do not change too frequently?*
(All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)

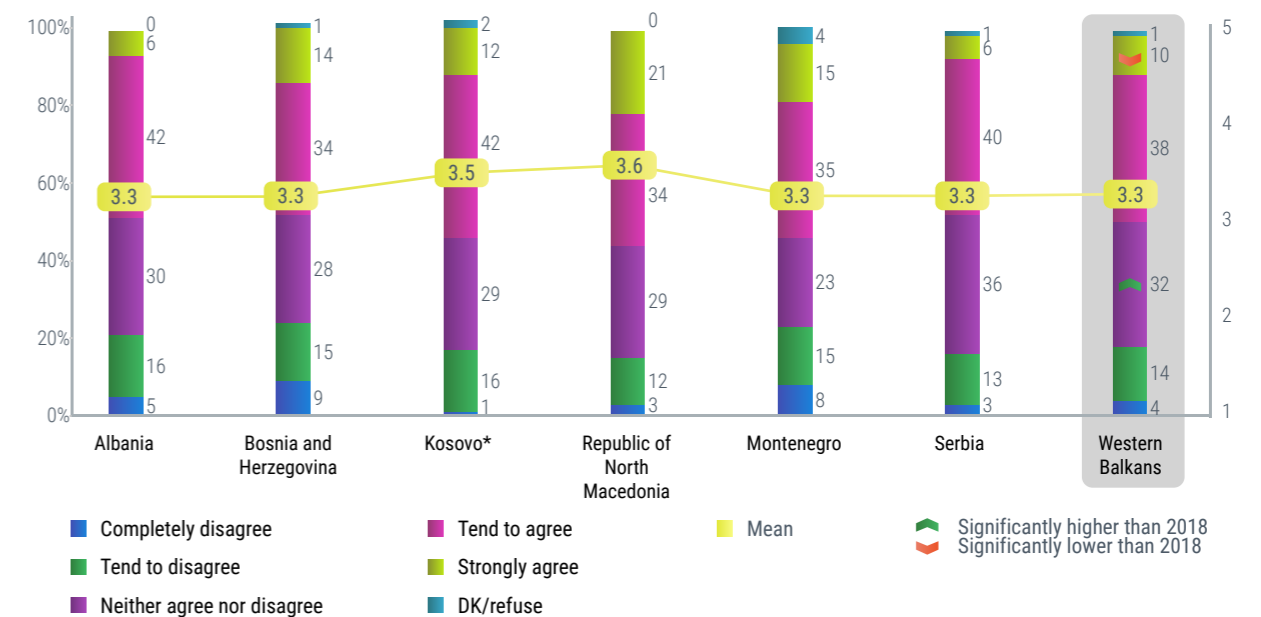


a heavy burden of taxation and social insurance payments, while their competitors avoid these costs and constraints; (2) decent employment – employees are either not covered with full social security compensations or are not even registered through valid contracts; (3) public revenues – if the government is not collecting all revenues, the tax base is eroded

and therefore, the amount available for services and infrastructure is reduced.

Businesses from the region tend to be satisfied with the laws and regulations in force in their economies (3.4), with the score even improving slightly compared to 2018. Just over half of all managers

Figure 38: To what extent do you agree with the following statement - Information on the laws and regulations affecting my company is easy to obtain from the authorities?*
(All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



**The figures might not add to 100% due to rounding.

from the region say that the laws are both clear and relatively stable over time, with only 18% expressing dissatisfaction.

Judging by the mean score, the clarity and consistency of legislation are best in the Republic of North Macedonia (3.6), while Albania boasts the single largest number of satisfied managers (58%). At the same time, satisfaction with laws and regulations is lowest in Bosnia and Herzegovina and Montenegro.

Nonetheless, perceptions of the regulatory framework in Bosnia and Herzegovina have changed for the better and in a significant way (+0.3), with the Republic of North Macedonia also recording a significant hike in approval (+0.2). Meanwhile, there has been a notable deterioration in the business' perception of relevant legislation in Montenegro (-0.4) and Albania (-0.2).

Large companies tend to be happier with laws and regulations than SMEs (3.6 vs. 3.4). Likewise, heads of firms operating with foreign capital tend to be more satisfied than domestically-owned corporations (3.6 vs. 3.4)

Close to half of all respondents found information on laws and regulations easy to obtain (3.4). The score has, however, slightly deteriorated compared to last year (-0.1).

Information on laws is most easily accessible for companies in the Republic of North Macedonia

(3.6), as attested by 55% of managers polled. Generally, all Western Balkans economies report similar satisfaction figures (around a half), while there are marked differences in the share of negative respondents; Bosnia and Herzegovina (24%), Montenegro (24%) and Albania (21%) have the largest proportion of dissatisfied respondents, and consequentially, the lowest scores (3.3).

Again, 2019 has seen some positive change for Bosnia and Herzegovina (+0.3) and the Republic of North Macedonia (+0.2), while Albania (-0.5) and Montenegro (-0.4) have suffered substantial deterioration in scores.

Notably, businesses working in the sector of agriculture, hunting, fishing or forestry report a lower score than businesses in other sectors (3.1 vs. 3.4).

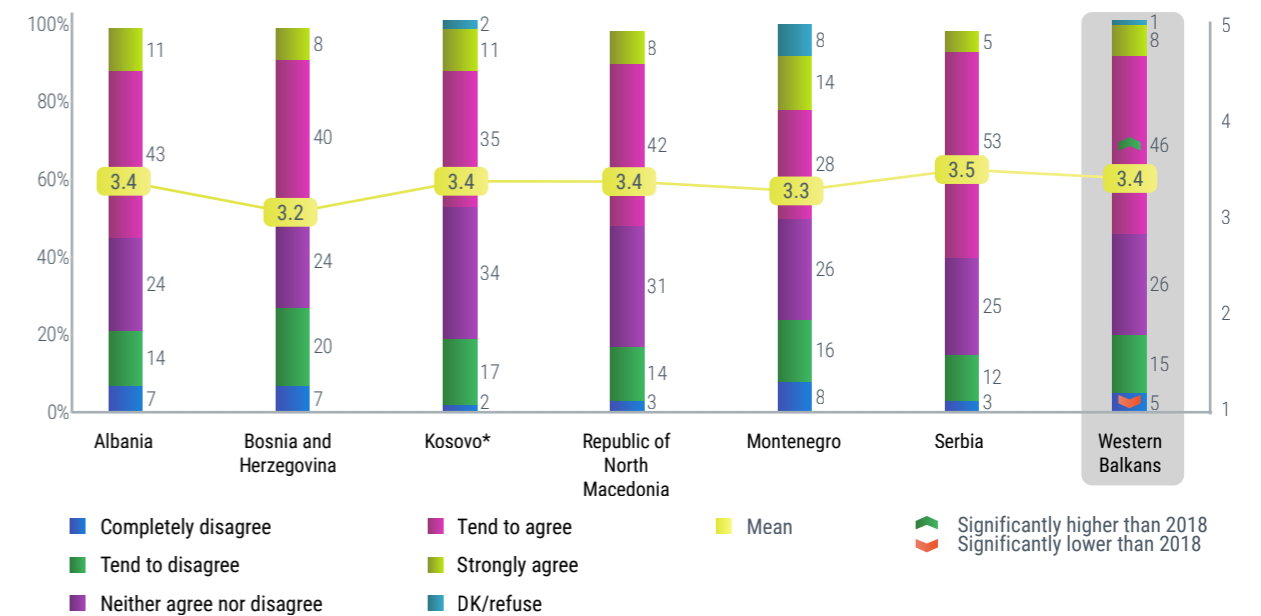
Fewer than half of all business leaders are satisfied with public administration consistency and predictability (3.3) – compared to last year, there is a slight dip in scores (-0.1).

Governments of Kosovo* and the Republic of North Macedonia are the most consistent when it comes to the interpretation of laws and regulations (3.5).

At the same time, administrations in Albania and Bosnia and Herzegovina are less effective, with 25% and 29% unhappy respondents, respectively.

Albania, Montenegro and Kosovo* have once again suffered a substantial drop in scores (-0.4, -0.3 and -0.2, respectively). Meanwhile, public administra-

Figure 40: To what extent do you agree with the following statement - Requests for information held by a government agency are granted in timely manner?*
(All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



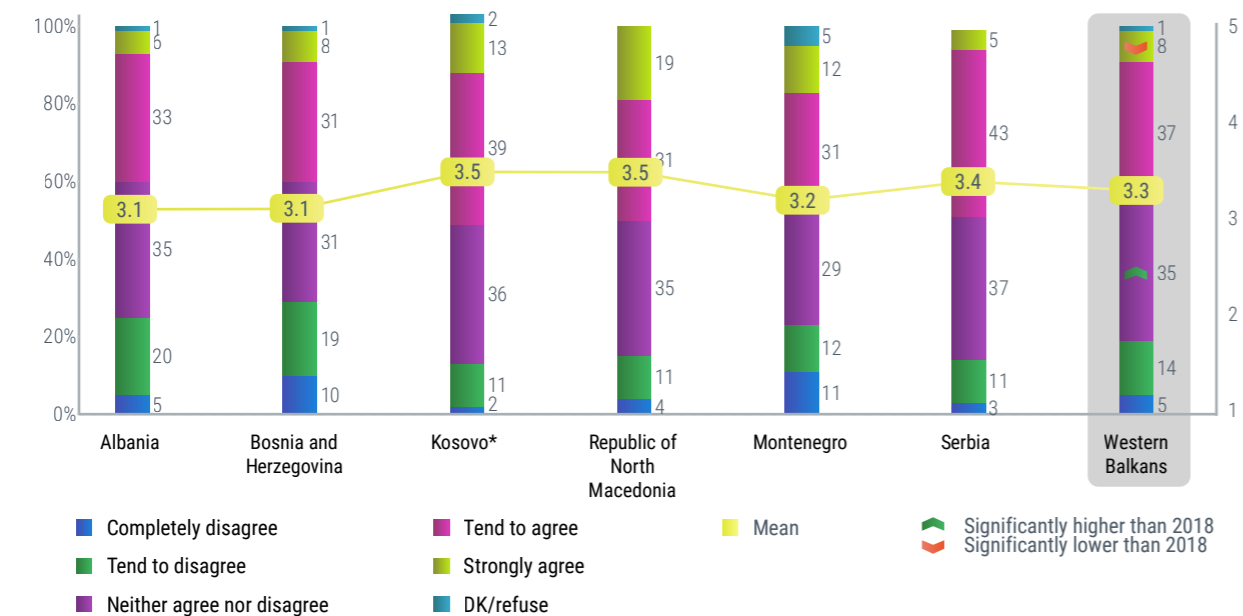
Administrations in Bosnia and Herzegovina and the Republic of North Macedonia have become more consistent and predictable (+0.2 each).

Again, the results are independent of company size, ownership, and market orientation, while

companies that belong to the sector of agriculture, hunting, fishing or forestry report a lower score than businesses in other sectors (3.1 vs. 3.3).

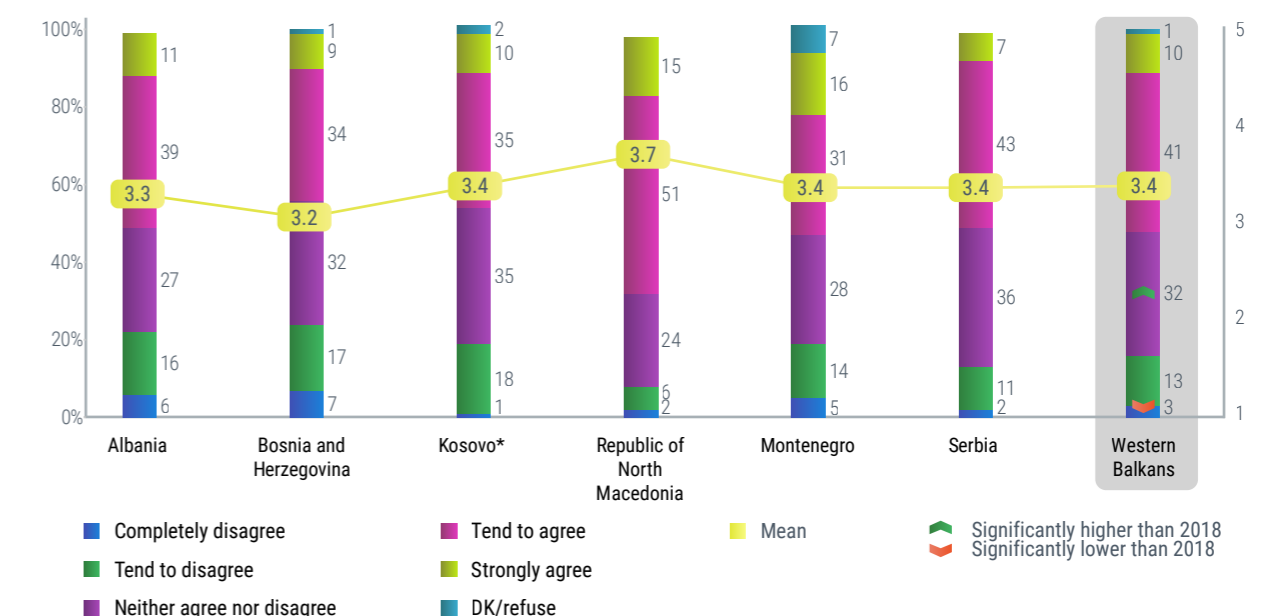
More than half of all respondents are satisfied with their governments' efficiency in providing re-

Figure 39: To what extent do you agree with the following statement - The state administration's interpretations of the laws and regulations affecting my company are consistent and predictable?*
(All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



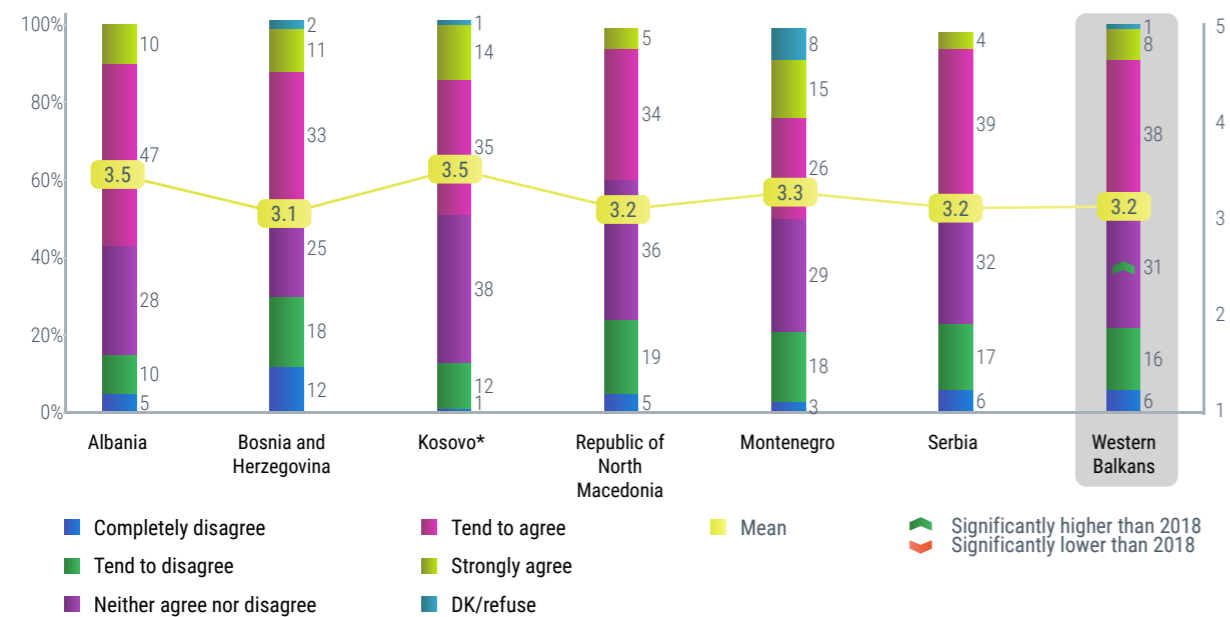
**The figures might not add to 100% due to rounding.

Figure 41: To what extent do you agree with the following statement - The information provided is pertinent and complete?*
(All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



**The figures might not add to 100% due to rounding.

Figure 42: To what extent do you agree with the following statement - Requests for information are granted at a reasonable cost?*
 (All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



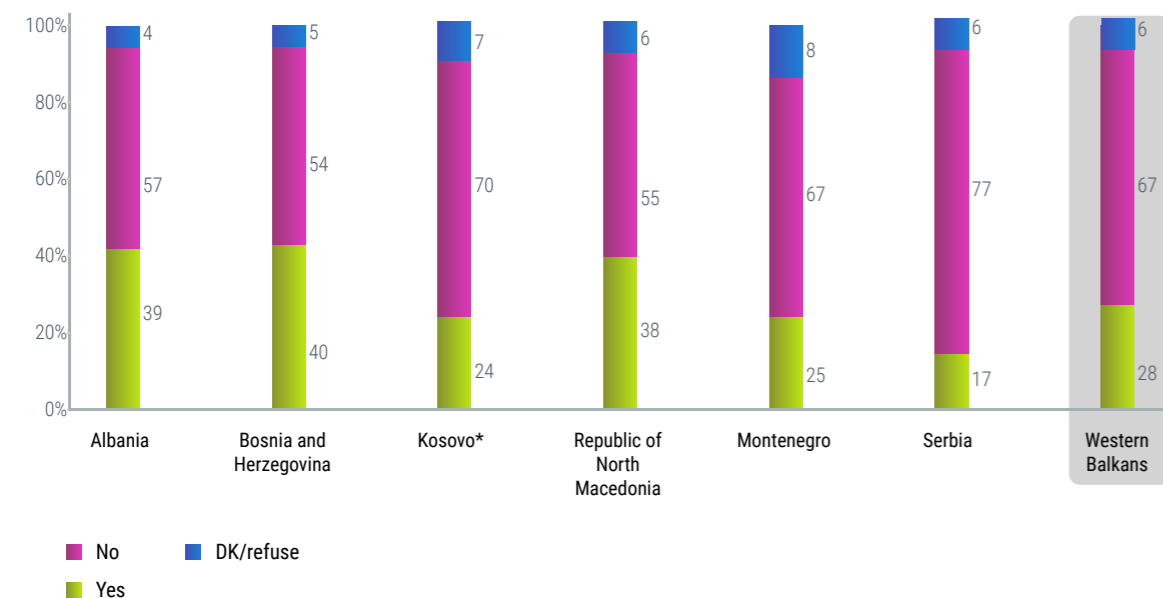
quested information (3.4). Moreover, compared to last year, there has been a slight upturn in the overall score (+0.1).

Resolving information requests takes the least amount of time in Serbia (3.5), while managers from Albania, Kosovo* and the Republic of North

Macedonia express a similar level of satisfaction (3.4). Even the two bottom-ranked economies, Bosnia and Herzegovina and Montenegro, are not too far behind (3.2).

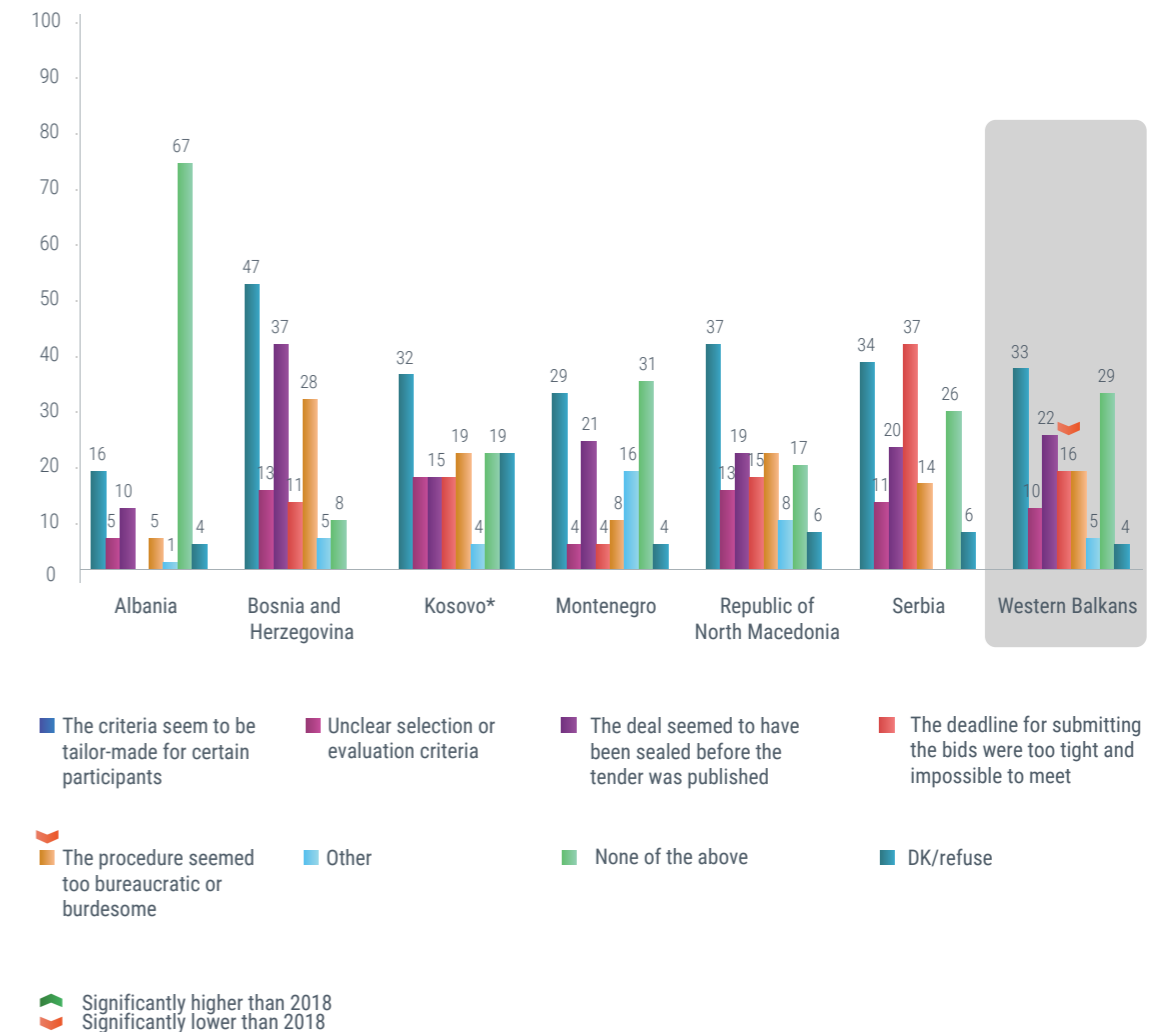
In terms of year-on-year changes by economy, both the Republic of North Macedonia and Bosnia and

Figure 43: In the past three years, has your company decided not to take part in a public tender or a public procurement procedure even though you could have offered the goods or services solicited?*
 (All respondents - N=1215, share of total, %)



*The figures might not add to 100% due to rounding.

Figure 44: If yes, was it for any of the following reasons? - Multiple answers allowed**
 (Respondents whose company decided not to take part in a public tender or a public procurement procedure - N=373, share of total, %)



Herzegovina have improved compared to 2018 (+0.4 and +0.2, respectively), while the approval ratings deteriorated further in Montenegro (-0.3).

It seems that large companies take less time to obtain information (3.6 vs. 3.4), with a similar discrepancy noted for exporting and non-exporting companies (3.5 vs. 3.3).

There is moderate satisfaction with pertinence and completeness of information provided by regulatory authorities (3.4). As in the previous survey instalments, slightly more than half of all respondents consider the information obtained both relevant and complete, while dissatisfaction is expressed by 16% of managers polled.

The relevant regulatory authorities in the Republic of North Macedonia lead the charts when it comes to perceived pertinence and completeness of the information provided (3.7), with two-thirds of happy

respondents. Meanwhile, other regional economies are at, or around, the average (3.4) with only Bosnia and Herzegovina slightly below (3.2).

Compared to 2018, the level of information obtained improved the most in the Republic of North Macedonia (+0.5) and Bosnia and Herzegovina (+0.2); meanwhile, positive responses have gone down across the other four economies (-0.2).

Once more it is the large companies that more often praise their relationship with regulatory agencies than the SMEs (3.8 vs. 3.4). The same is true for foreign and domestically owned corporations (3.6 vs. 3.4)

Fewer than half of all respondents consider the cost of obtaining information from public authorities justified (3.2). At the same time, almost a quarter consider the costs to be excessive, with a slight dip in approval recorded compared to 2018 (-0.1).

**The figures might not add to 100% due to rounding.

Satisfaction with the cost of information provided is reportedly highest in Albania and Kosovo* (3.5), with only one-in-seven unhappy respondents. Satisfaction is lowest in Bosnia and Herzegovina (3.1), with as many as 30% of all managers describing the costs as excessive. The remaining economies in the region are largely in line with the Western Balkans' average.

Compared to 2018, there is a steep drop in the number of satisfied respondents in Montenegro (-0.3) and, to a lesser degree, Serbia (-0.1). Meanwhile, there is an increase in support for service costs in all remaining economies, most notably in Bosnia and Herzegovina and the Republic of North Macedonia (+0.3 for both).

Different company sizes, market orientation, ownership or industry membership seemingly do not play a major role in the appraisal of costs involved with obtaining information.

Overall, this section shows that regional executives are moderately happy with their business-to-government relationship. However, not much progress has been made overall, as negative developments in Montenegro and Albania have offset notable improvements in the Republic of North Macedonia and Bosnia and Herzegovina.

Close to 30% of all companies in the region decided against contesting public tenders event though they could have offered the goods and services solicited. The number of voluntary withdrawals has

Figure 46: Have you been contacted for any reason by some public procuring entities over the previous 3 years?*
(Respondents whose company has earned any revenue from public procurement - N=526, %)

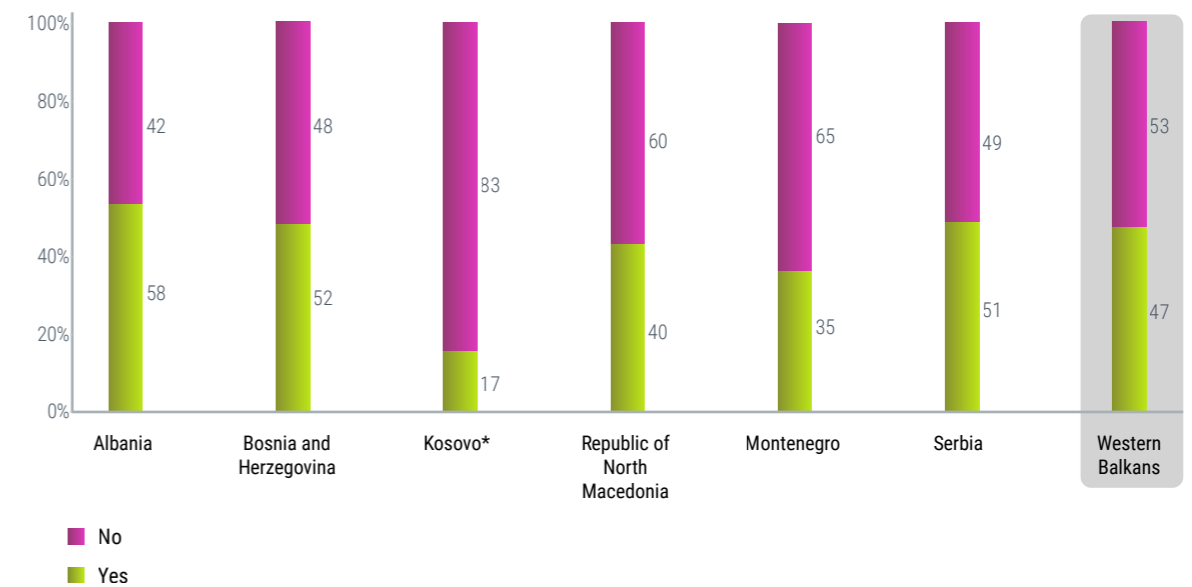
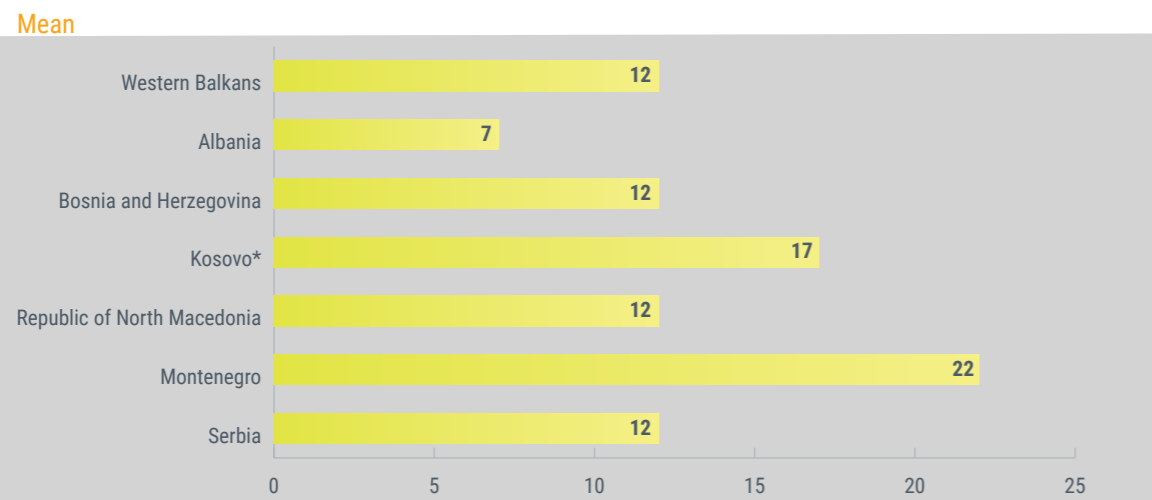
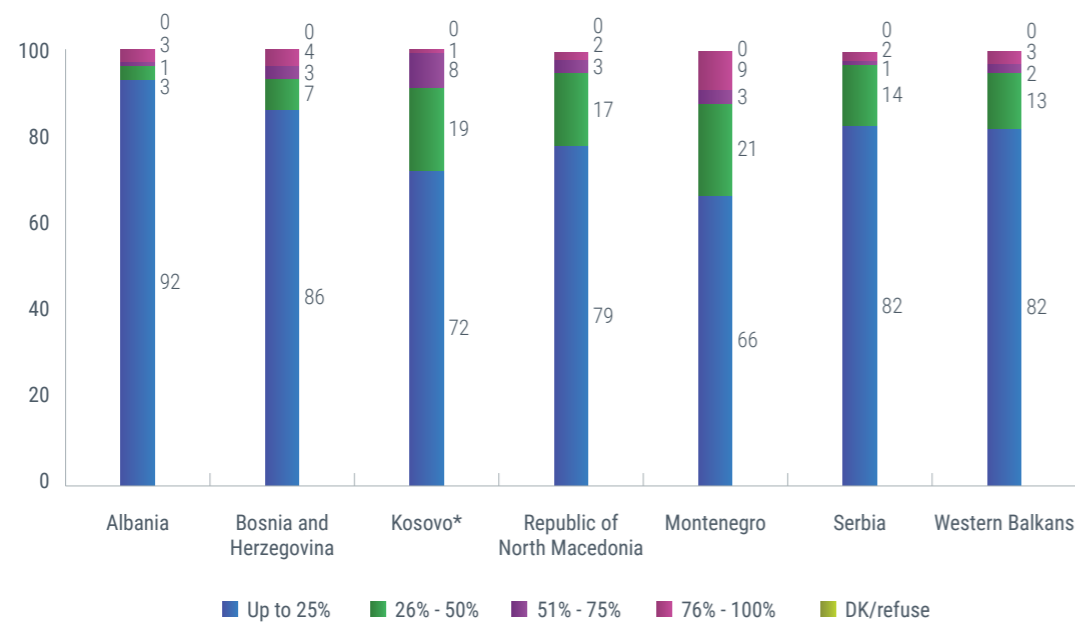


Figure 45: What is the share of the public procurement market in your company's last year overall turnover?*
(All respondents - N=1215, share of total, %)



*The figures might not add to 100% due to rounding.

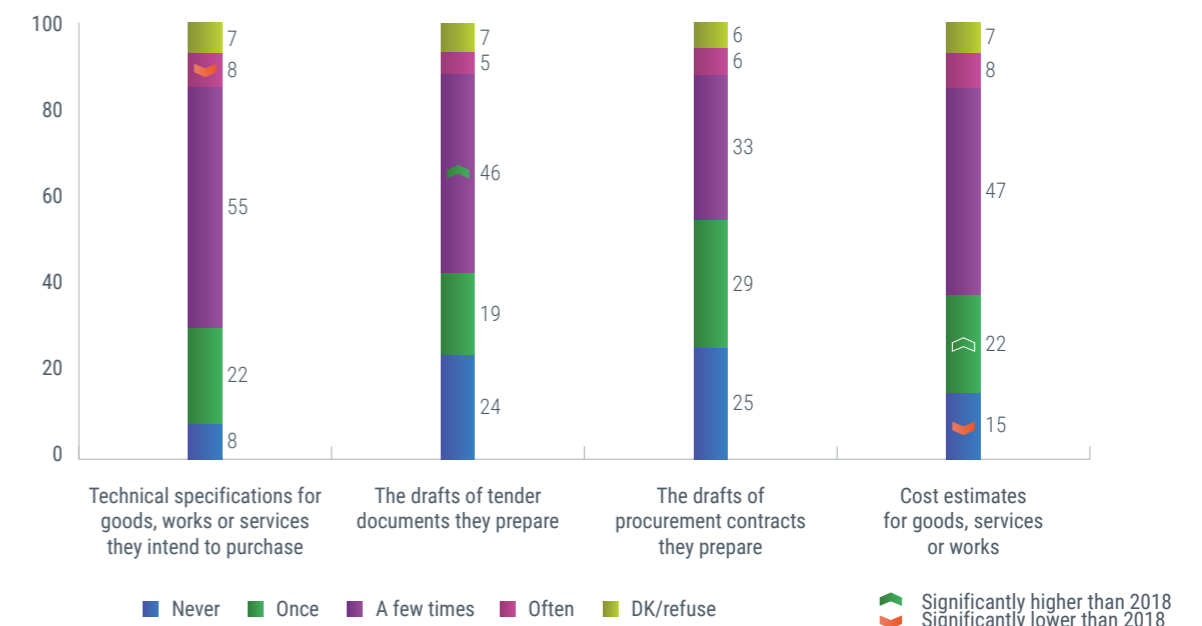
actually risen since the last survey instalment (up to 28% from 24% in 2018).

Companies from Bosnia and Herzegovina (40%), Albania (39%), and the Republic on North Macedonia (38%) are most likely to decide against contesting a public procurement while only 17% of businesses from Serbia do so regularly. Montenegro and Kosovo*, meanwhile, are at, or around, the regional average.

The share of companies not taking part in public tenders has increased dramatically in Albania (+22 points), and to a lesser extent in the Republic of North Macedonia and Montenegro, while shrinking in Serbia.

Large companies are much less likely to avoid contesting tenders than small and medium-size enterprises (7% vs. around 30%). Also, the practice of avoiding public tenders is more common with do-

Figure 47: Over the past three years, how often have public procuring entities been in contact to consult you on the following?*
(Respondents who have been contacted by some public procuring entities over the previous 3 years - N=210, %)



**The figures might not add to 100% due to rounding.

mestic companies than foreign-owned ones (28% vs. 20%).

Lack of confidence in governments acting with integrity is largely to blame for companies not taking part in public procurement. Although in gradual decline, the belief that criteria for prospective bidders were tailored to fit a certain vendor is still the chief reason why companies decide not to take part in public tenders (33%). Feeling that the deal was sealed before the call was published is likewise in

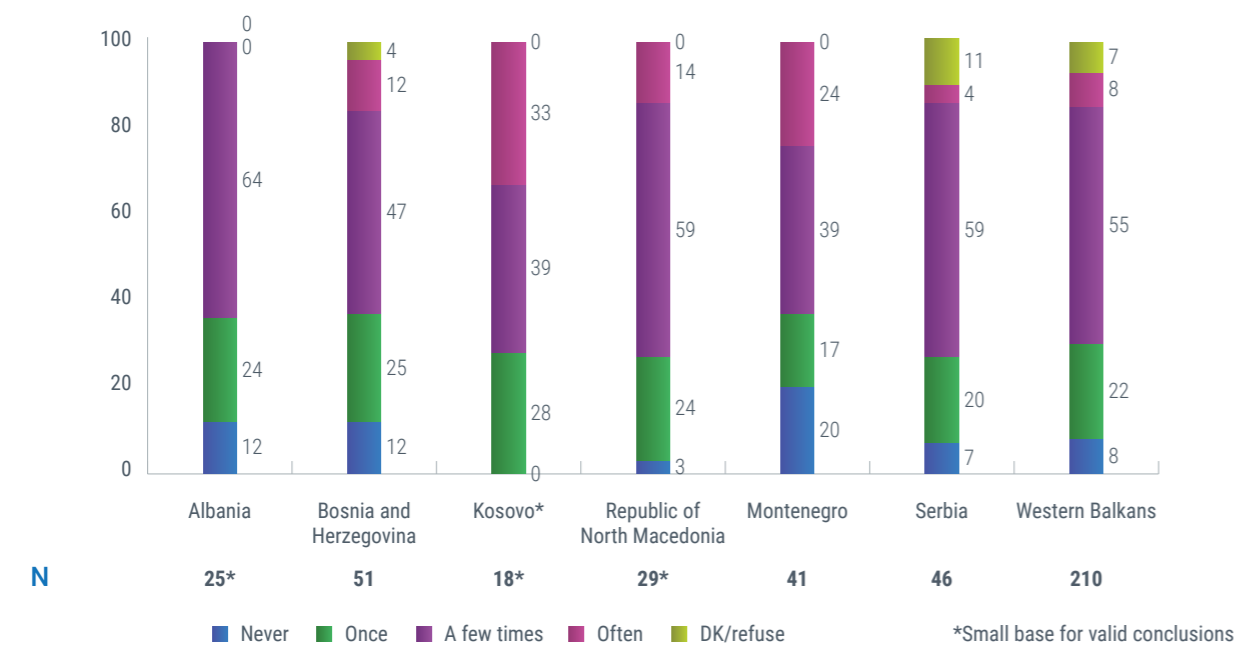
decline but still very prominent (down to 22% from 28% in 2018). It is worth noting that the procedures seem to have become much less cumbersome (16% in 2019 vs. 26% in 2018) and are now cited as problematic only as frequently as tight deadlines, which is a major positive development.

Close to half of all respondents from Bosnia and Herzegovina feel that the tender has been “fixed” to benefit a third party (47%). Likewise, 37% believe that the contract has been awarded even before the

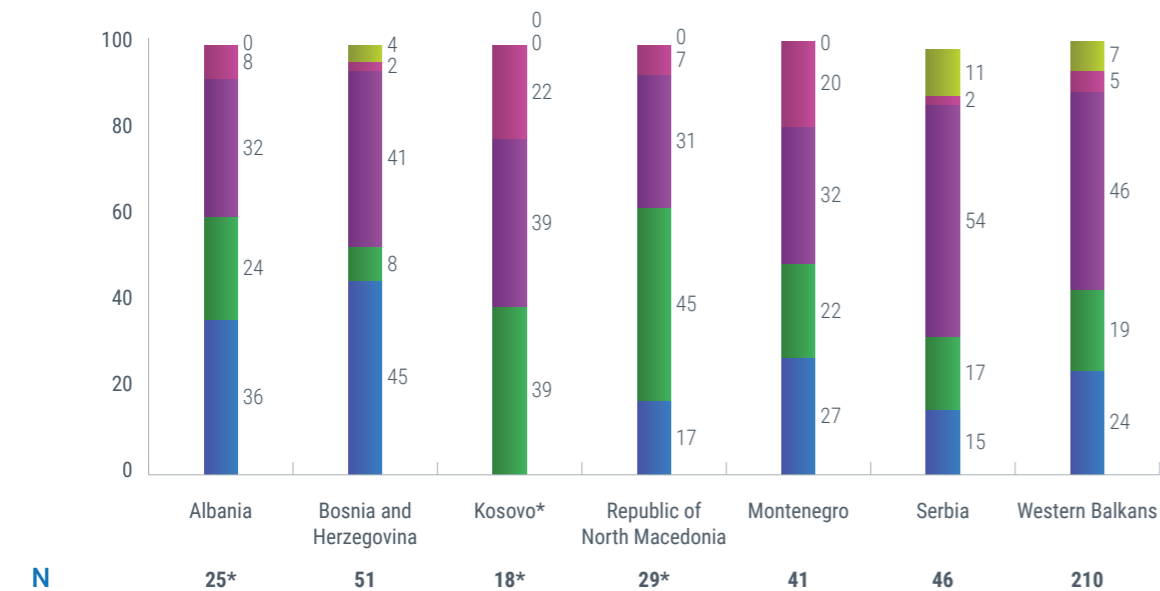
Figure 48: Over the past three years, how often have public procuring entities been in contact to consult you on the following?*

(All respondents - N=210, share of total, %)

Technical specifications for goods, works or services they intend to purchase



The drafts of tender documents they prepare

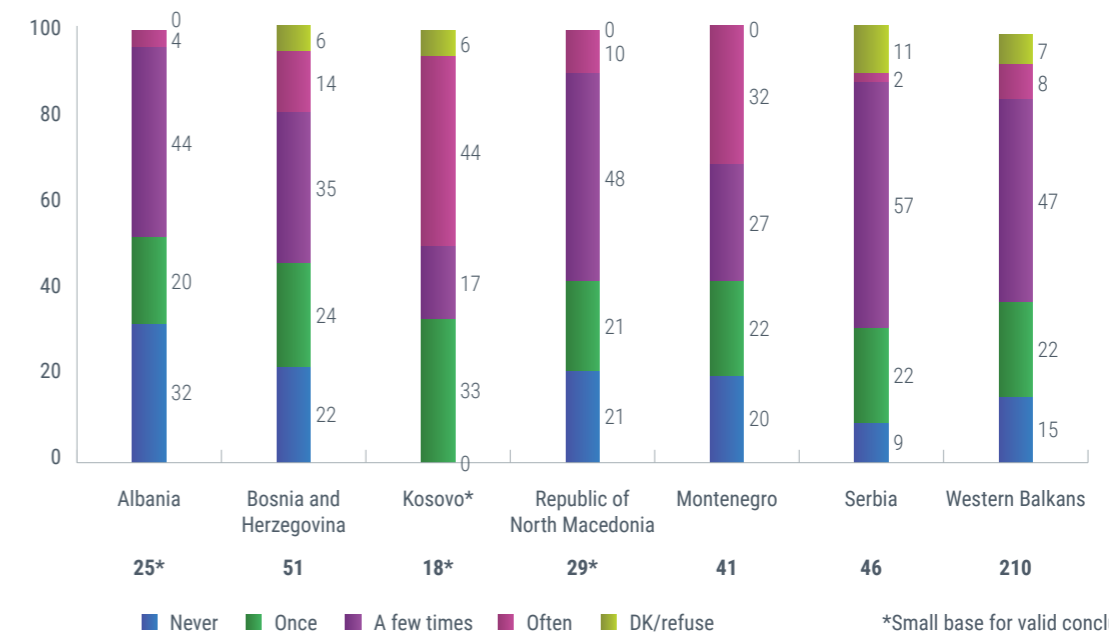


**The figures might not add to 100% due to rounding.

The drafts of procurement contracts they prepare



Cost estimates for goods, services or works



tender was published. Executives from this economy are also most likely to cite excessive bureaucracy as a barrier to competing (28%). Meanwhile, Serbian managers most frequently cite tight deadlines as a deterrent (37%), while more than two-thirds of managers who avoid public tenders in Albania fail to provide the reasoning why.

Similar to last year, Western Balkans companies source 12% of their revenues from public procurements. Montenegrin companies are most dependant on public funds (22%), while their Albanian counterparts make only 7% of their sales to the government. It is also noteworthy that almost one in ten companies from Montenegro depend on public procurements for the vast majority of their sales (76%-100%).

Slightly fewer than half of all businesses in the region have been contacted by public procurement entities over the past three years. Moreover, the practice has become more common in 2019 (up to 47% from 42% in 2018, and especially widespread in Albania (58%). Meanwhile, only 17% of all respondents in Kosovo* report being contacted by public procurement authorities.

Public entities most frequently contact businesses to inquire about technical specifications (63%) and cost estimates (55%), although to a lesser extent than last year. Soliciting aid for drafting tender documents is the third most common reason cited for public procurement authorities to get in touch with regional businesses. Communication between public authorities and the private sector is vital in

Figure 49: Have you used guidelines or manuals produced by the national procurement authority in the past three years?*

(Respondents whose company has earned any revenue from public procurement – N=526, %)

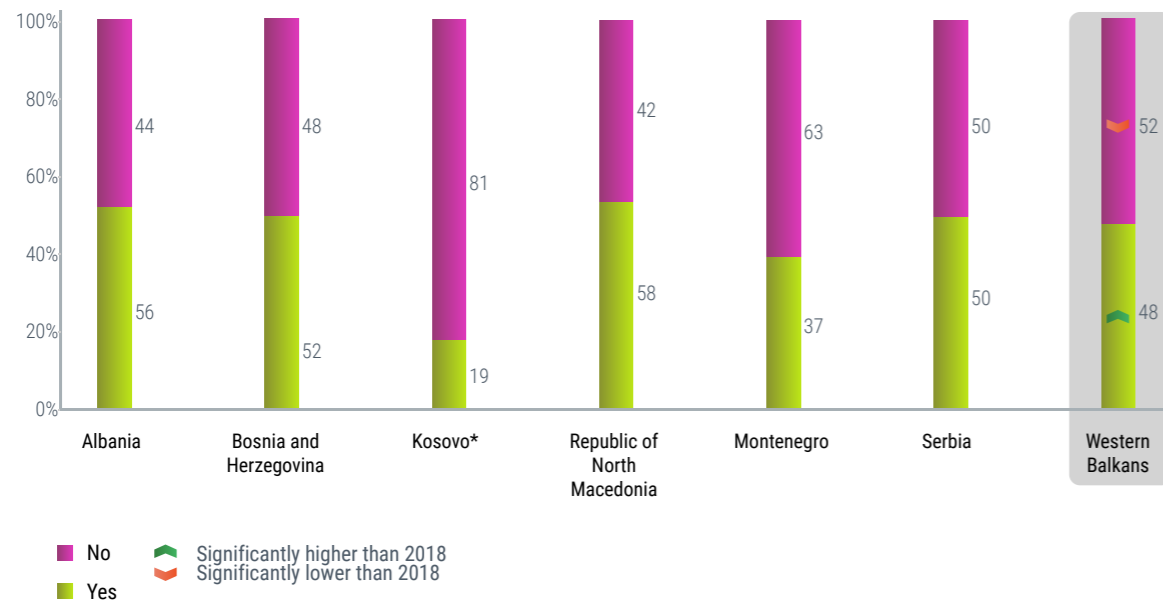
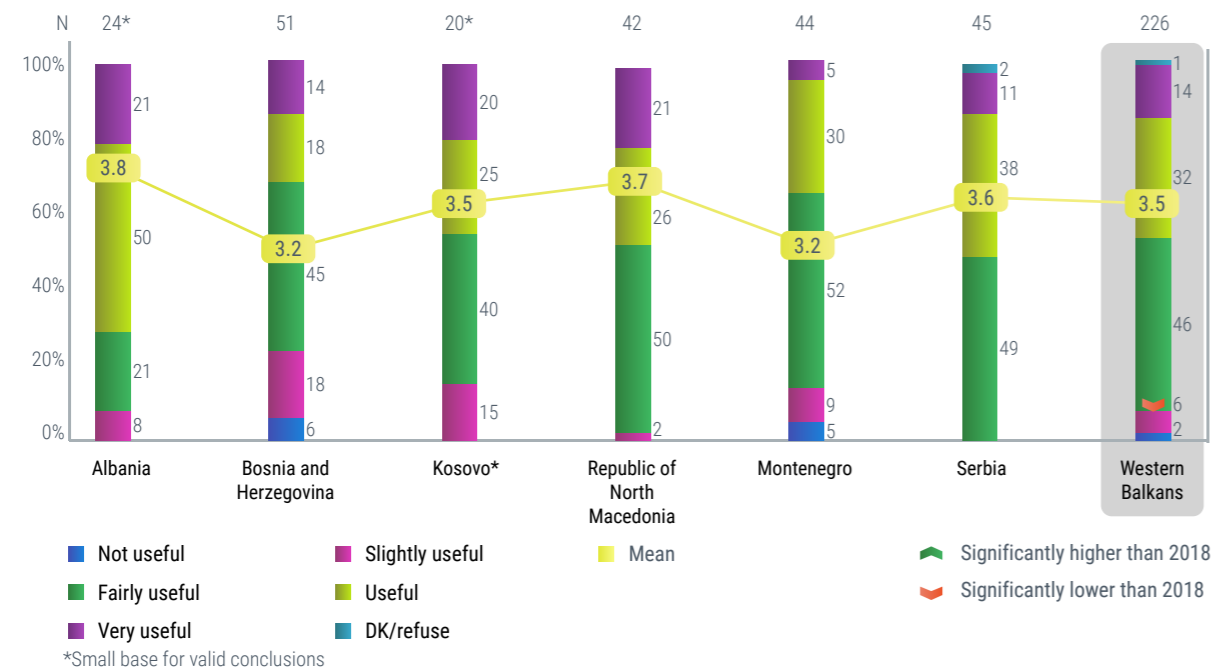


Figure 50: In general, how useful were the guidelines and manuals you used for solving your practical problems?*

(Respondents who have used guidelines or manuals produced by the national procurement authority in the past three years - N=226, scores are on a scale of 1 to 5 where 1 means not useful and 5 very useful, share of total, %, mean)

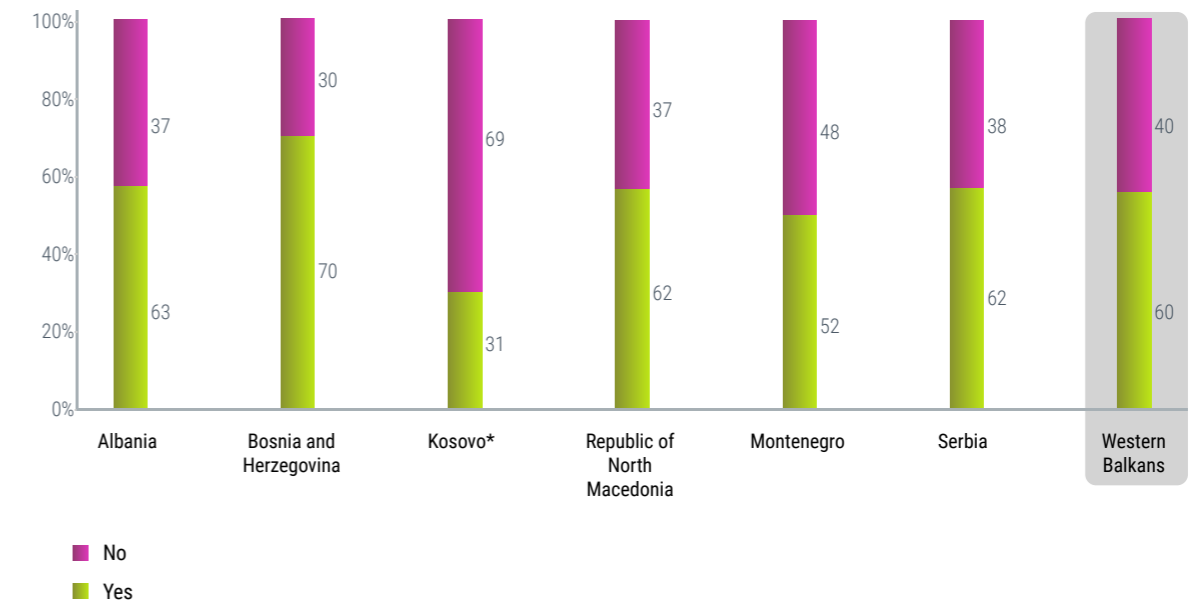


building a relationship of trust between the two and increasing the business sector's confidence in the integrity, as well as efficiency, of the procurement process.

*The figures might not add to 100% due to rounding.

Figure 51: When participating in public procurements, have you used the standard forms or models provided by the national procurement authority in the past three years?*

(Respondents whose company has earned any revenue from public procurement – N=526, %)



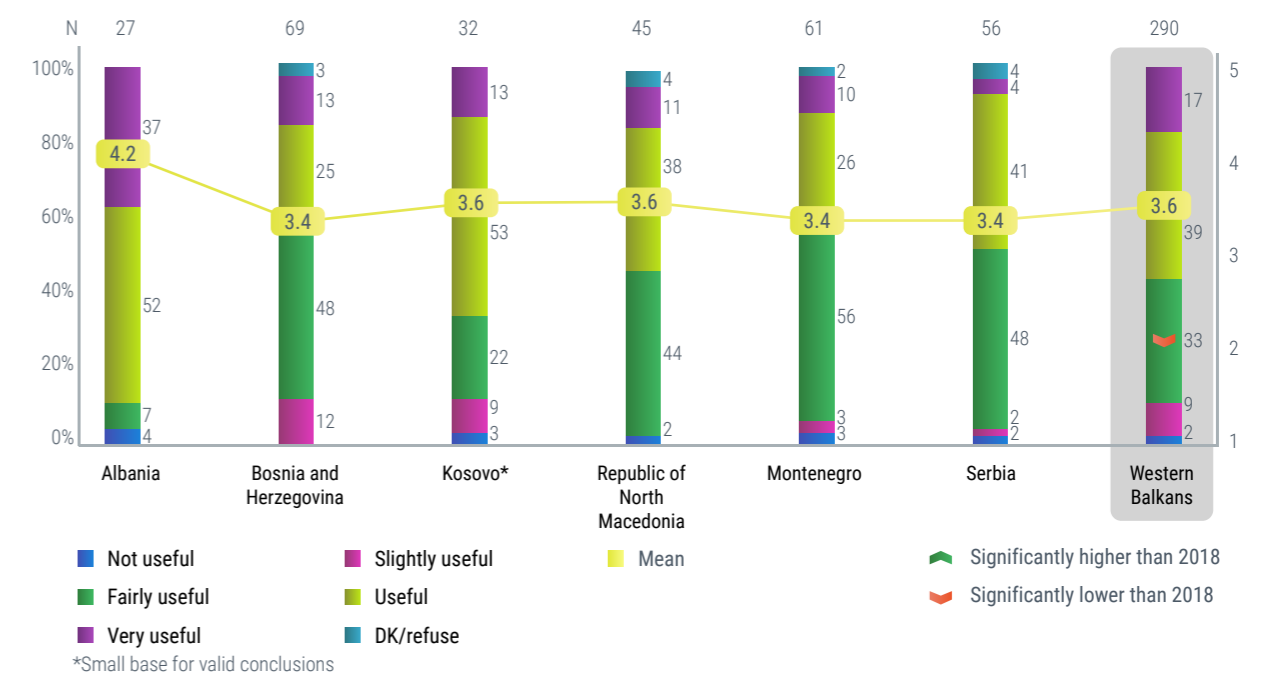
The practice of relying on official procurement guidelines for information on the tendering process is gaining traction across the region. In 2019, 48% of the Western Balkans managers reported using guidelines provided by national procurement authorities, compared to 41% in 2018. The practice has become most prevalent with businesses from

the Republic of North Macedonia (58% from 29% in 2018) and Albania (56% from 29% in 2018). Meanwhile, Kosovo* businesses are the least likely to use the guidelines (19%).

Using guidelines and manuals for procurement troubleshooting is moderately helpful for busi-

Figure 52: How would you rate the usefulness of the standard forms or models?*

(Respondents who have used the standard forms or models provided by the national procurement authority in the past three years - N=290, scores are on a scale of 1 to 5 where 1 means not useful and 5 very useful, share of total, %, mean)



*The figures might not add to 100% due to rounding.

nesses in Western Balkans, as 46% of managers described them as useful or very useful. Moreover, satisfaction with the guidelines has increased since the previous instalment (up to 3.5 from 3.3 in 2018).

Business leaders from the Republic of North Macedonia are more likely to find the guidelines helpful than their counterparts elsewhere in the region (3.7). This is in line with expectations as they also tend to utilise the manuals and guidelines to a greater extent than anyone else. Respondents from Serbia are in a close second (3.6), with Bosnia and Herzegovina and Montenegro holding up the other end (3.2 both). Due to insufficient sample size, no conclusions can be drawn for Albania and Kosovo*.

Reliance on standardised forms provided by the national procurement authority is becoming increasingly commonplace, as 60% of businesses reported using them in 2019, up from 55% in 2018.

Companies from Bosnia and Herzegovina rely on standardised forms the most (70%), with Albania (63%) and the Republic of North Macedonia and Serbia (62% each) above the regional average. At the other end, fewer than a third of companies from Kosovo* employ standardised forms issued by the procurement authority (31%).

The most significant rise in the usage of forms was reported by companies from the Republic of North Macedonia (up to 62% from 42% in 2018), with Albanian businesses increasingly relying on templates provided by the procurement authorities (up to 63%

from 45% in 2018). At the same time, Montenegrin businesses are less likely to use forms than in the previous survey instalments.

Medium-sized enterprises (68%) are more likely to use any of the standardised models than small and micro-companies (53% and 64%, respectively). However, when it comes to evaluating their usefulness, there is no variation between small and medium-sized companies, while micro-enterprises find them less useful on average.

Moreover, the year-on-year analysis shows that satisfaction with the forms has improved since 2018 (up to 3.5 from 3.3). Much of the increase can be attributed to higher satisfaction as expressed by managers from the Republic of North Macedonia, Kosovo* and Bosnia and Herzegovina; changes in Serbia and Montenegro, meanwhile, were negative.

Companies from Kosovo* and the Republic of North Macedonia have expressed the greatest satisfaction with form utility (3.6), with the other economies not far behind (3.4).

According to the survey results, only one in ten businesses had employees attending a training on public procurement in the past three years, down from 23% in 2018 and 28% in 2017.

While the number of companies participating in the trainings is similar across all the economies in the region, **business leaders in Kosovo* and Bosnia and Herzegovina tend to rely on them to a some-**

Figure 54: How would you rate the usefulness of the training in general?*

(Respondents who have attended training on public procurement in the past three years - N=126, scores are on a scale of 1 to 5 where 1 means not useful and 5 very useful, share of total, %, mean)

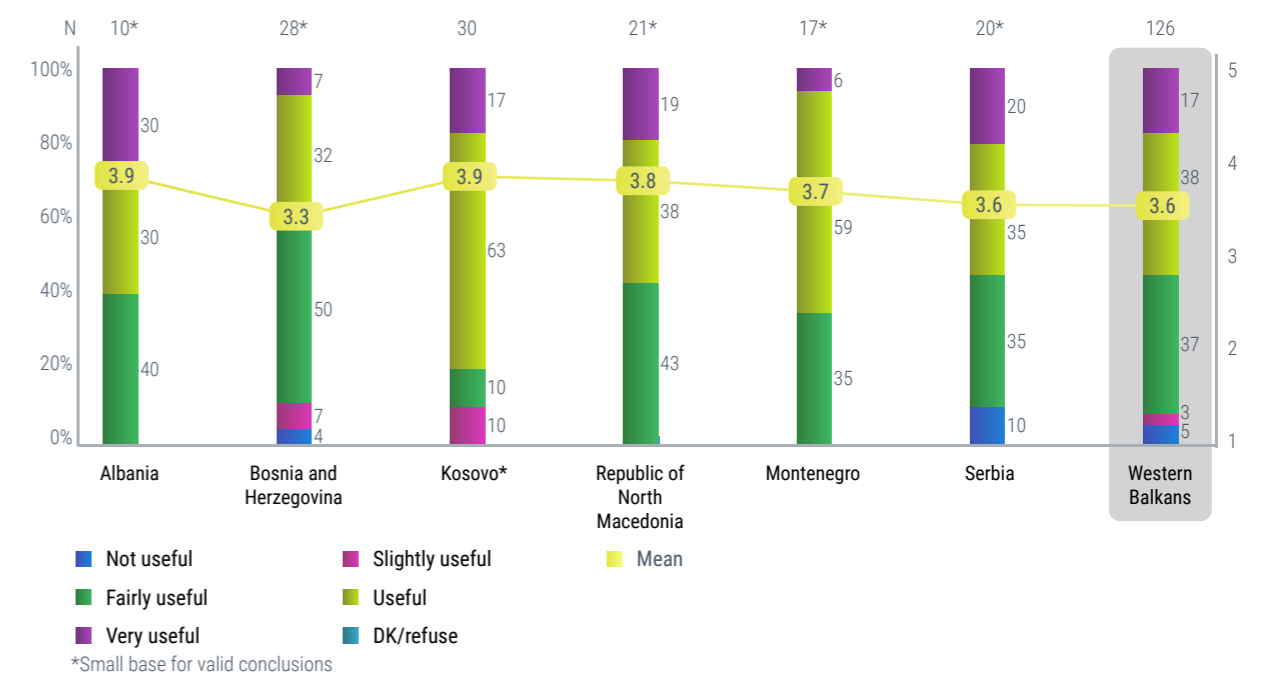
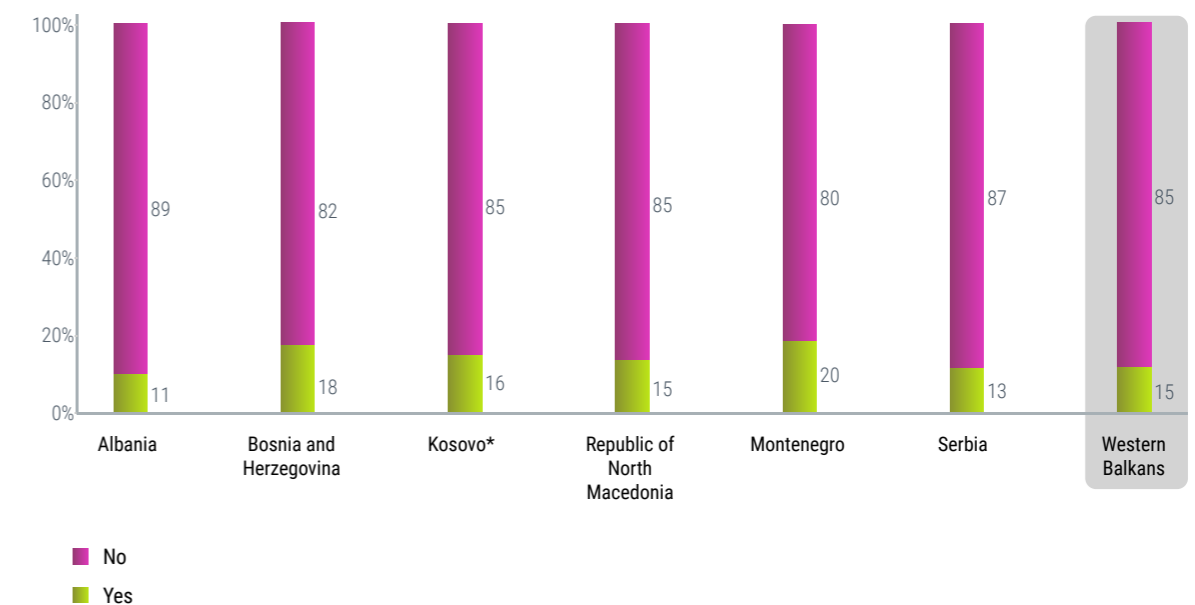


Figure 55: Have you contacted the national procurement authority for advice or other support in the past three years?*

(All respondents - N=1215, share of total, %)



what greater extent than their counterparts, while the opposite is true for Albania.

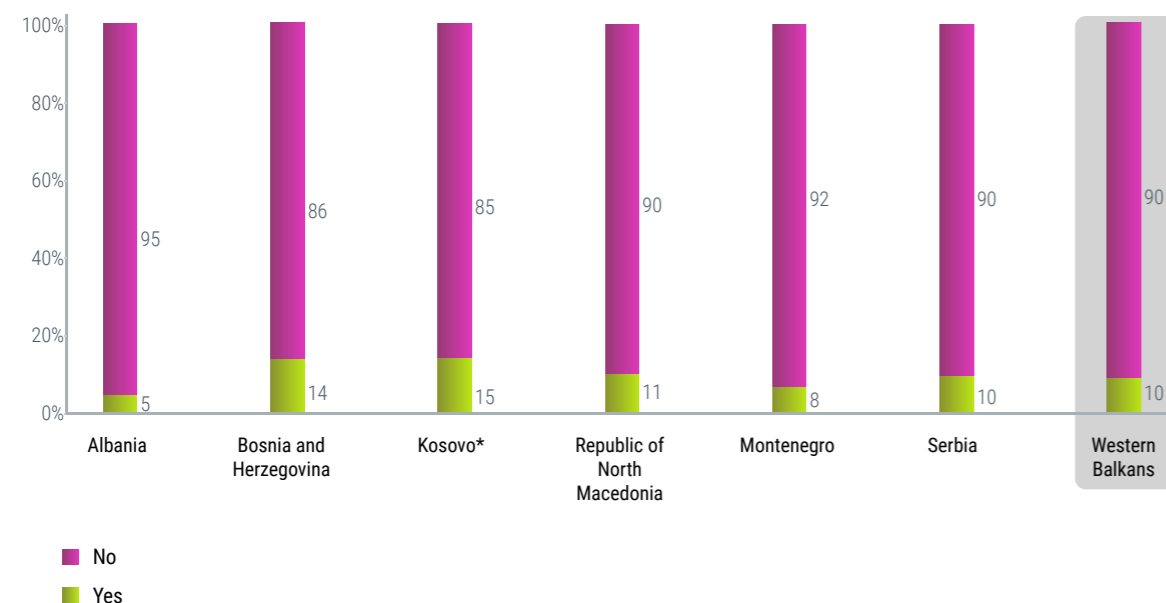
Large and medium companies take part in these trainings more often than their smaller counterparts (around 20% vs. 8%).

A regional score of 3.6 indicates that trainings on public procurement are moderately helpful, as 55% consider them generally useful, while only 8% consider them generally not useful. Compared to last year, there is a notable decrease in trainee satisfaction (0.2 from 2018). The sample size is insufficient for an assessment of the individual economies.

**The figures might not add to 100% due to rounding.

Figure 53: Have you or somebody else from your company attended any training on public procurement in the past three years?*

(All respondents - N=1215, share of total, %)



**The figures might not add to 100% due to rounding.

Figure 56: Were the answers provided generally helpful?*
(Respondents who have contacted national procurement authority in the past three years - N=189,%)

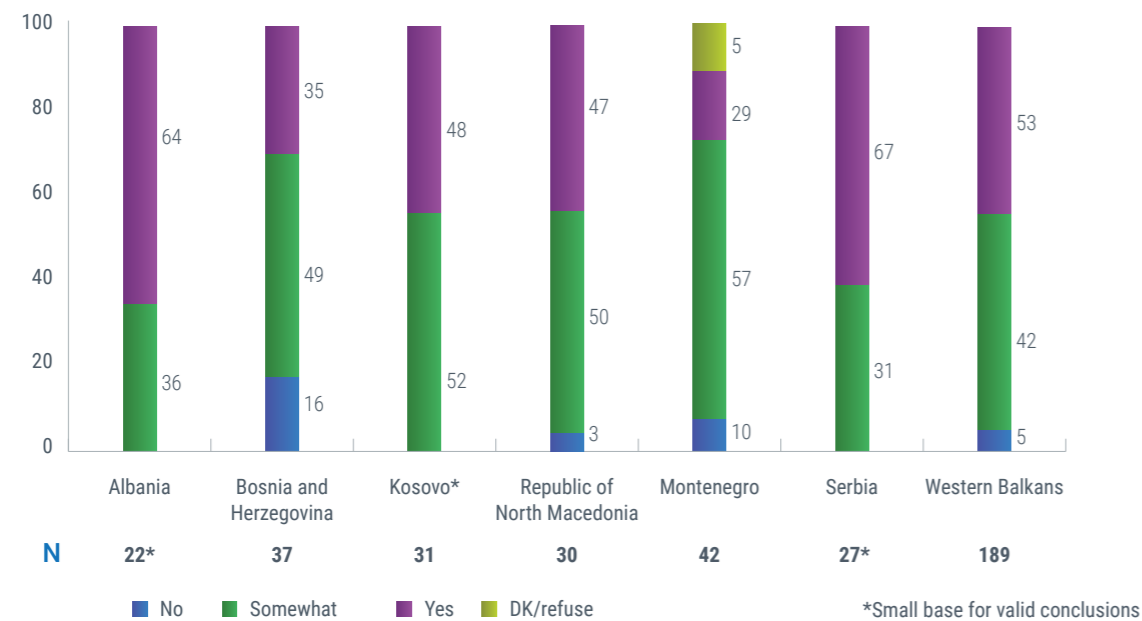


Figure 57: Could you please tell me how satisfied are you with each of the following in your place of living - Public services for businesses?*

(All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means completely dissatisfied and 5 strongly satisfied, share of total, %, mean)



Businesses seldom reach out to national procurement authorities. Only 15% of managers surveyed initiated consultations with national procurement bodies over the past three years. Again, there is not much variation across the economies with two exceptions: Montenegro, where the practice is more

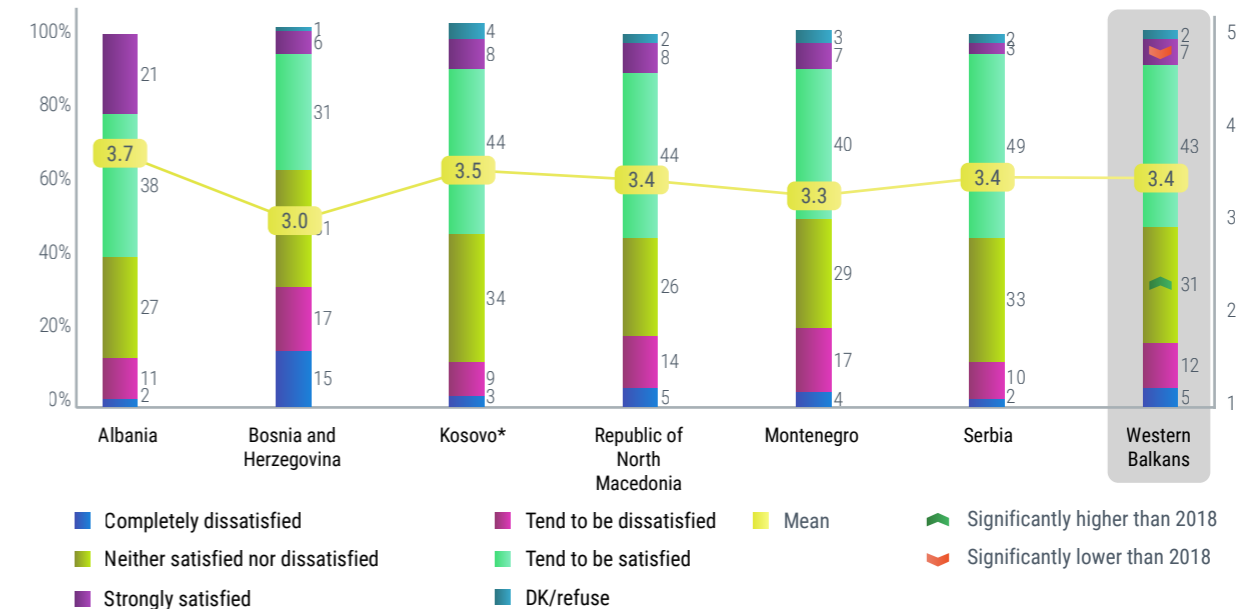
prevalent (20%), and Albania, where it is relatively less common (11%).

Medium-sized companies are on average more likely to contact national procurement agencies than all other types of corporations (30% vs. 15%)

**The figures might not add to 100% due to rounding.

Figure 58: Could you please tell me how satisfied are you with each of the following in your place of living - Digital services currently provided by the public administration for businesses?*

(All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means completely dissatisfied and 5 strongly satisfied, share of total, %, mean)



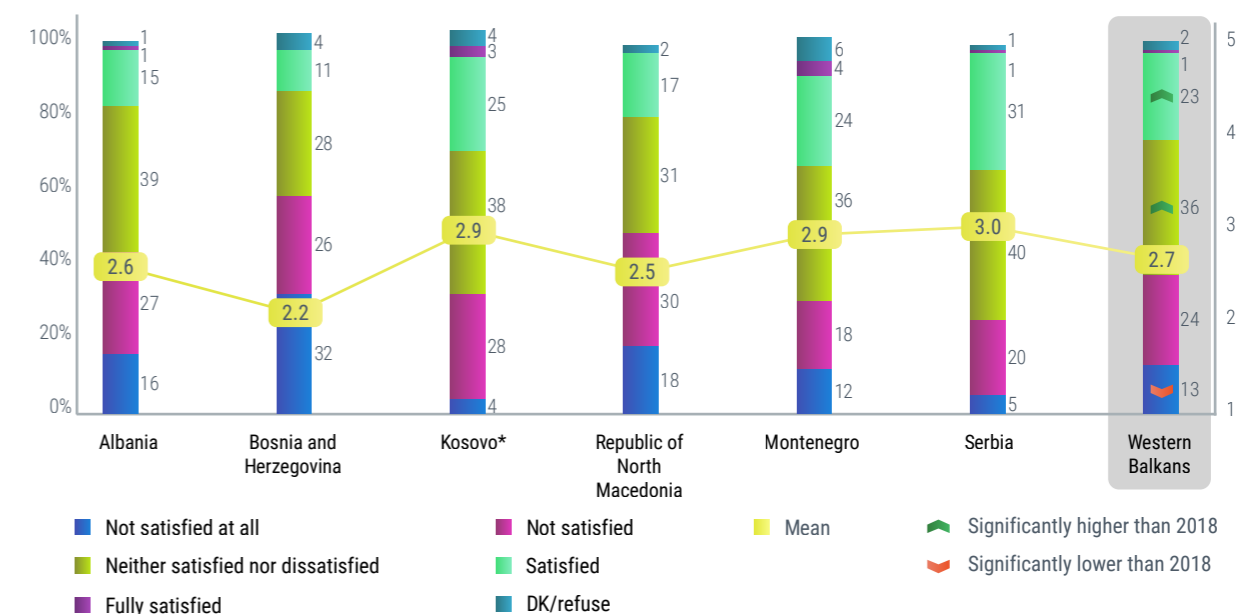
Out of those that reach out to national procurement authorities, more than half find the information extracted to be useful. In addition, 42% describe the contact as at least partially helpful, with only 5% unhappy with the outcome. These numbers should en-

courage companies to get in touch with the relevant authorities more often, as the contact is overwhelmingly likely to be positive.

Western Balkans executives are fairly satisfied with public services for businesses. After a decline

Figure 59: To what extent are you satisfied with how the government consults and involves private sector when developing new laws and regulations relevant for doing business?*

(All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means completely dissatisfied and 5 strongly satisfied, share of total, %, mean)



**The figures might not add to 100% due to rounding.

in satisfaction recorded in 2018, this year's instalment sees the regional score rebound to 3.3. This includes 45% of satisfied respondents and fewer than a fifth who are unhappy with the services rendered. The positive changes were largely driven by improvements reported by businesses from the Republic of North Macedonia (+0.5), Bosnia and Herzegovina (+0.3), and, to a lesser extent, Serbia (+0.1). Meanwhile, satisfaction with public services declined, as reported by businesses from Montenegro (-0.2).

Business satisfaction with public services is at its highest level in Kosovo* and Serbia (3.4 for both) with around half of positive responses. Bosnia and Herzegovina, meanwhile, is the only economy where the number of dissatisfied managers outnumbers the happy ones (32% vs. 28%).

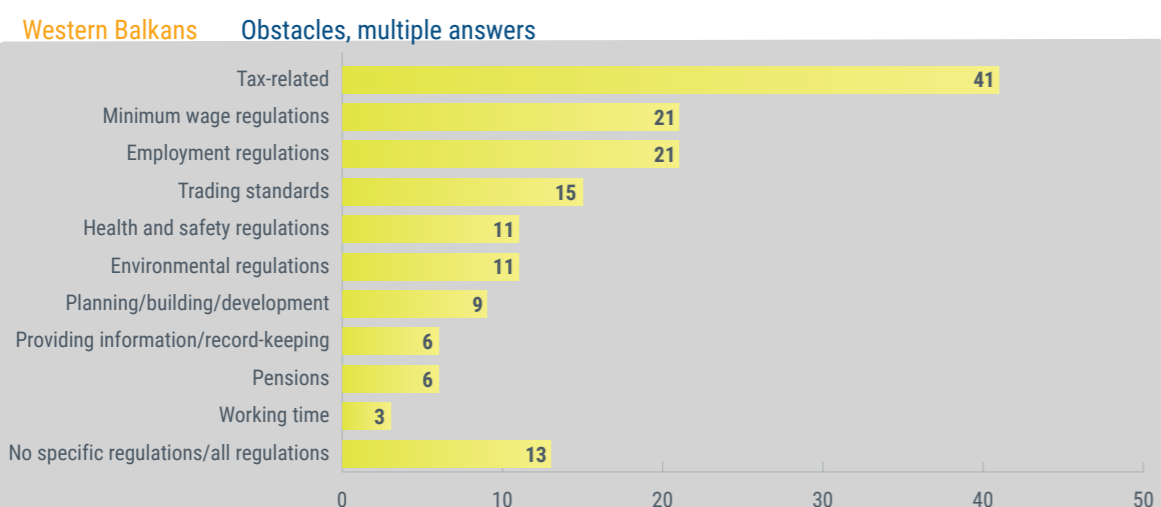
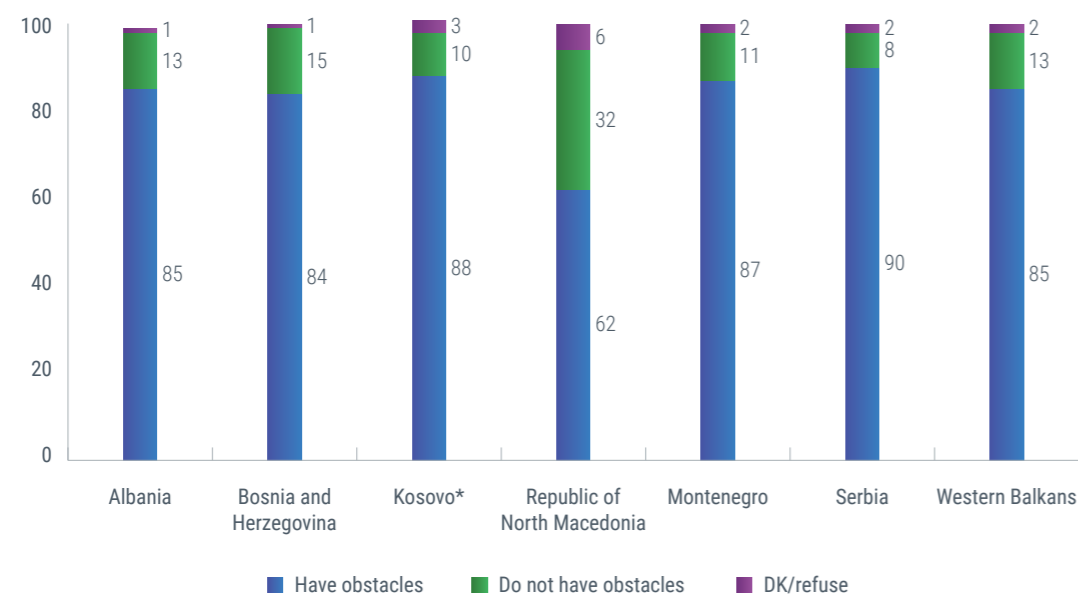
Satisfaction with public services for businesses

grows commensurate to the size of firm, from 3.2 for small companies to 3.5 for the large ones. A similar relationship is evident with exporters and non-exporters (3.4 vs. 3.2), as well as domestically- and foreign-owned companies (3.4 vs. 3.2).

Digital services provided by public administrations are deemed satisfactory by half of the businesses surveyed. Compared to the previous instalment, the rating has declined slightly, to 3.4 from 3.5 in 2019. The rise in negative responses is especially evident for Serbia and Montenegro (-0.3 each), and, to a lesser extent, Albania and Kosovo* (-0.1 each). At the same time, reports indicate that the quality of digital services provided by public administrations improved in the Republic of North Macedonia (+0.3) and Bosnia and Herzegovina (+0.1).

Albania, meanwhile, leads the region in the quality

Figure 60: Which regulations do you consider to be an obstacle to the success of a business?
(All respondents - N=1215, two answers allowed, share of total, %)



**The figures might not add to 100% due to rounding.

Table 2: Which regulations do you consider to be an obstacle to the success of a business?*
(N=1030, only respondents who have obstacles)

	Western Balkans	Albania	Bosnia and Herzegovina	Kosovo*	Republic of North Macedonia	Montenegro	Serbia
Tax-related	40.8	58.6	44.7	30.5	18.0	41.0	41.3
Minimum wage regulations	20.8	24.1	21.4	23.5	20.0	21.0	19.4
Employment regulations	20.6	18.2	25.7	16.5	14.0	31.7	20.4
Trading standards	14.6	12.8	9.2	16.0	14.5	17.1	16.9
Health and safety regulations	11.2	10.3	5.3	29.5	7.0	7.8	12.4
Environmental regulations	11.1	10.8	4.4	10.0	3.5	5.9	16.4
Planning/building/development	9.4	14.3	8.7	16.0	9.5	16.6	6.5
Providing information/record-keeping	6.3	9.9	6.3	9.5	3.5	6.3	5.5
Pensions	5.7	3.0	8.7	7.0	2.2	11.7	5.5
Working time	3.2	0.5	2.4	7.5	5.0	4.9	3.0
No specific regulations/all regulations	12.6	3.9	15.5	4.5	13.5	4.9	15.9

of digital services (3.7), with nearly 60% of satisfied respondents. While a majority of the other regional economies are at, or around, the average, Bosnia and Herzegovina occupies the other end of the spectrum (3.0).

Interestingly, satisfaction with digital services declines as company size increases – from 3.4 for micro-companies to 3.1 for large. Likewise, domestic companies tend to be happier than foreign-owned ones (3.4 vs. 3.1).

Executives in the region feel detached from the policy making process. More than a third of business leaders in the region are unhappy with the involvement of their businesses in shaping laws and policies that are relevant to their industries, while only a quarter are satisfied. There is some improvement, however, as the regional score increased from 2.5 in 2018 to 2.7 in 2019. Businesses from Serbia and the Republic of North Macedonia, in particular, recorded notably higher levels of satisfaction compared to last year (+0.2 each), with slight improve-

**The figures might not add to 100% due to rounding.

ments also reported in Albania and Kosovo*. Encouragingly, there was no regression recorded anywhere in the region.

Nonetheless, in Bosnia and Herzegovina, managers who feel excluded from the policy-making process outnumber their satisfied counterparts five-to-one. The situation is considerably better in the other five economies, but still far from ideal. The only economy where positive respondents outnumber negative ones is Serbia (32% vs. 25%).

There is a notable and concerning discrepancy between large companies and SMEs with managers of the latter feeling excluded to a significantly higher degree when compared to their counterparts from large enterprises (2.7 vs. 3.4). Also, executives of foreign-owned companies are much happier than their domestic counterparts (3.2 vs. 2.7). The relationship between size and origin, and influence on policy and public decision making is worth investigating further to establish whether SMEs are being disadvantaged in a systemic fashion.

A significant majority of Western Balkans businesses report regulatory obstacles as standing in the way of their success. Moreover, there are no major indications of a concerted push to create a more business-friendly environment, as the number of companies reporting regulatory obstacles increased from 81% in 2018 to 85% in 2019. Since the last instalment of the Barometer, the situation deteriorated the most in Kosovo* (from 71% of surveyed businesses reporting obstacles in 2018 to 88% in 2019) and Montenegro (from 78% in 2018 to 87% in 2019). At the same time, positive developments are evident in the Republic of North Macedonia, as the share of businesses reporting regulatory obstacles contracted from 88% to 62% in the space of a year.

The share of concerned businesses is relatively similar across all Western Balkans economies, with the Republic of North Macedonia the outlier as it boasts a regional low of 62% unhappy executives.

In terms of issues most commonly cited, tax regulations are the most burdensome to businesses surveyed, although to a lesser extent than previously (down to 41% from 48% in 2018). Minimum-wage and employment regulations are the next most common issues reported (21%), with few, if any, changes since 2018. Environmental regulations are cited as restrictive by only 11% of surveyed executives; this may be down to either lax enforcement or relatively undemanding legal requirements.

Tax-regulations are seen as a dominant regulatory issue across all Western Balkans economies, with

the Republic of North Macedonia the sole exception. As in previous survey instalments, tax regulation is most frequently cited as problematic in Albania, with nearly 60% of respondents flagging it.

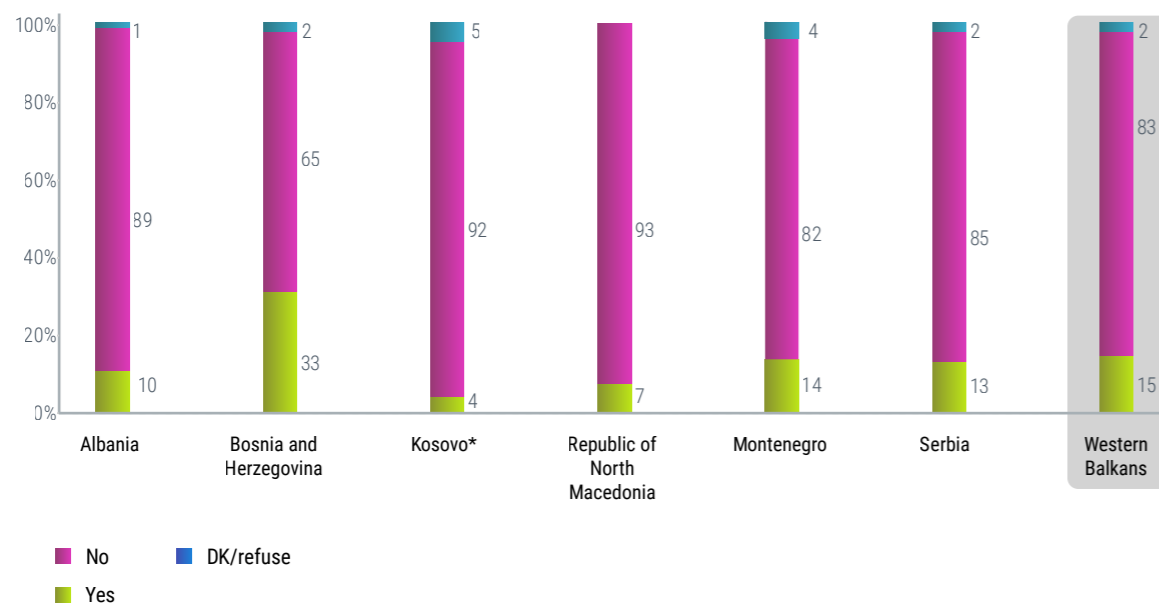
Minimum wage and employment regulations are neck and neck. Minimum wage regulations almost uniformly burden around a fifth of businesses in all economies of the region, while employment regulations are especially cumbersome for businesses in Montenegro (32%) and Bosnia and Herzegovina (26%).

Health and safety regulations are particularly challenging for businesses in Kosovo* (30%), a regional high.

In terms of year-on-year changes, executives in the Republic of North Macedonia cite taxation much less frequently in 2019 (down to 18% from 57%). Meanwhile, in Albania, minimum wage considerations are less cited in this survey instalment compared to 2018 (down to 24% from 39%).

The practice of resolving disputes through arbitration courts is diminishing. Namely, just 15% of Western Balkans' corporate leaders reported appearing before arbitration courts in the last 36 months, compared to 17% in 2018 and 20% in 2017.

Figure 61: Has your firm had any cases in arbitration courts in the last 36 months? ** (All respondents - N=1215, share of total, %)



**The figures might not add to 100% due to rounding.

Figure 62: How many cases in civil or commercial arbitration courts have involved your company either as a plaintiff or defendant in the last 36 months? ** (Respondents who had cases in arbitration courts - N=165, %)

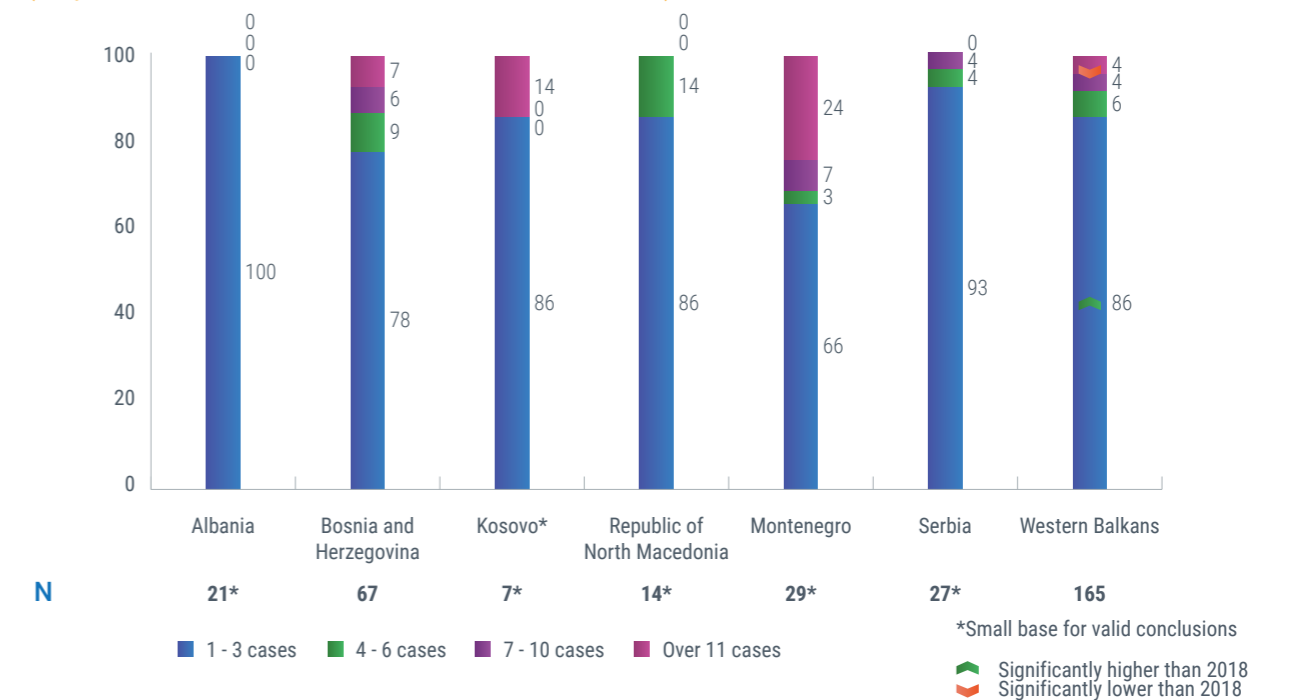
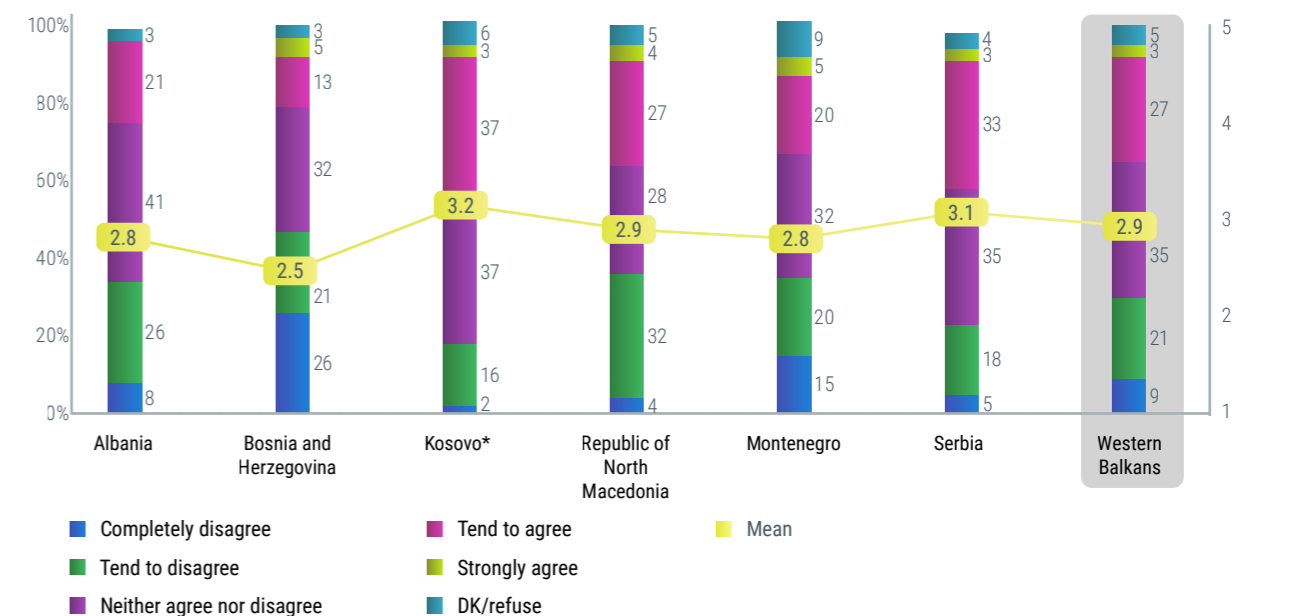


Figure 63: Do you agree with the following statement about state aid - Citizens and companies have full access to information related to state aid policies and grants awarded to companies by the public authorities? **

(All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



Businesses from Bosnia and Herzegovina are most likely to resolve a dispute in arbitration court, with a third seeking resolution through arbitration. The practice is much less prevalent elsewhere in the region, with businesses in Kosovo* (4%) and the Re-

public of North Macedonia (7%) especially unlikely to engage in the practice.

Interestingly, medium-sized companies are much more likely to take their disputes to arbitration court (26%), compared to large (16%) and small

**The figures might not add to 100% due to rounding.

(15%) corporations. Also, domestically owned companies more frequently seek dispute resolution in the arbitration court than foreign-owned ones (16% vs. 8%).

The overwhelming majority of companies surveyed were involved in 1-3 court cases over the past three years (86%), 6% were party to 4 – 6 cases, and the share of those who have been involved in 7 cases or more stands at 8%.

Fewer than a third of all businesses in the Western Balkans feel that state aid policies are relatively transparent (2.9). Meanwhile, the same number disagrees while 35% are undecided.

Kosovo* is reportedly the economy with the most transparent state aid system in the region (score 3.2), with two-fifths of managers surveyed supporting the claim. At the other end of the spectrum, most managers from Bosnia and Herzegovina consider the system in their economy to be non-transparent (2.5).

Foreign-owned companies, also the most frequent recipients of state aid, feel that the information provided is sufficient to a higher degree than their domestically-owned counterparts (3.3 vs. 2.9). This holds true for micro (2.8) and small (2.9) companies vis-à-vis medium (3.1) and large (3.4) ones. Fewer than a third of all executives believe that there is sufficient information on state aid already

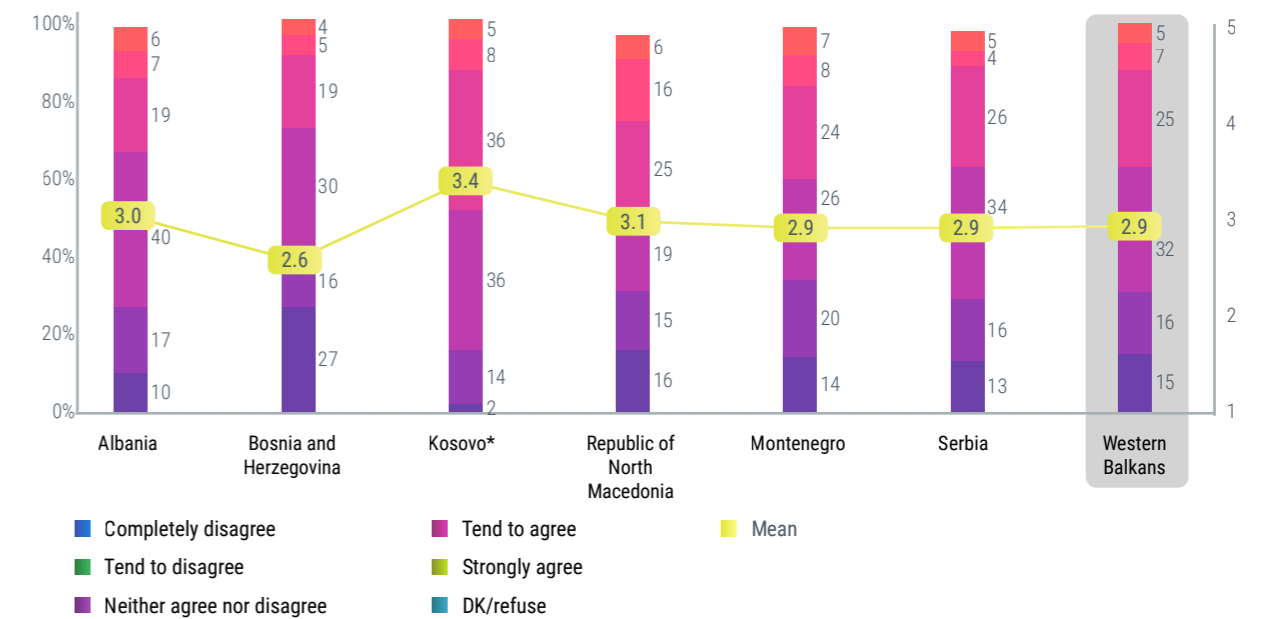
publicly available (30%). Meanwhile, a third feel that this information is insufficient, while another third are undecided.

44% of managers from Kosovo* feel there is sufficient information on state aid already publicly available. Bosnia and Herzegovina is at the opposite end of the spectrum with the same proportion of respondents (44%) who believe the available information to be insufficient. The respondents in other economies surveyed are roughly at or around the regional average when it comes to their views on the publicly available information on state aid.

There is no clear consensus among the Western Balkans business community whether the information on state aid should remain confidential or be made publicly available. Namely, a third of businesses surveyed support the idea that this information should remain private, while another third believe that this information should be publicly available.

Businesses from Kosovo* (score 3.4) believe that state aid information should remain confidential to an extent greater than elsewhere in the region. Managers from Bosnia and Herzegovina, on the other hand, believe that this information should be made more publicly available (2.6). Interestingly, managers from Bosnia and Herzegovina and Kosovo* are both unhappy for diametrically opposed rea-

Figure 65: Do you agree with the following statement about state aid - Information about state aid received by companies should remain confidential between public authorities and companies? ** (All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)

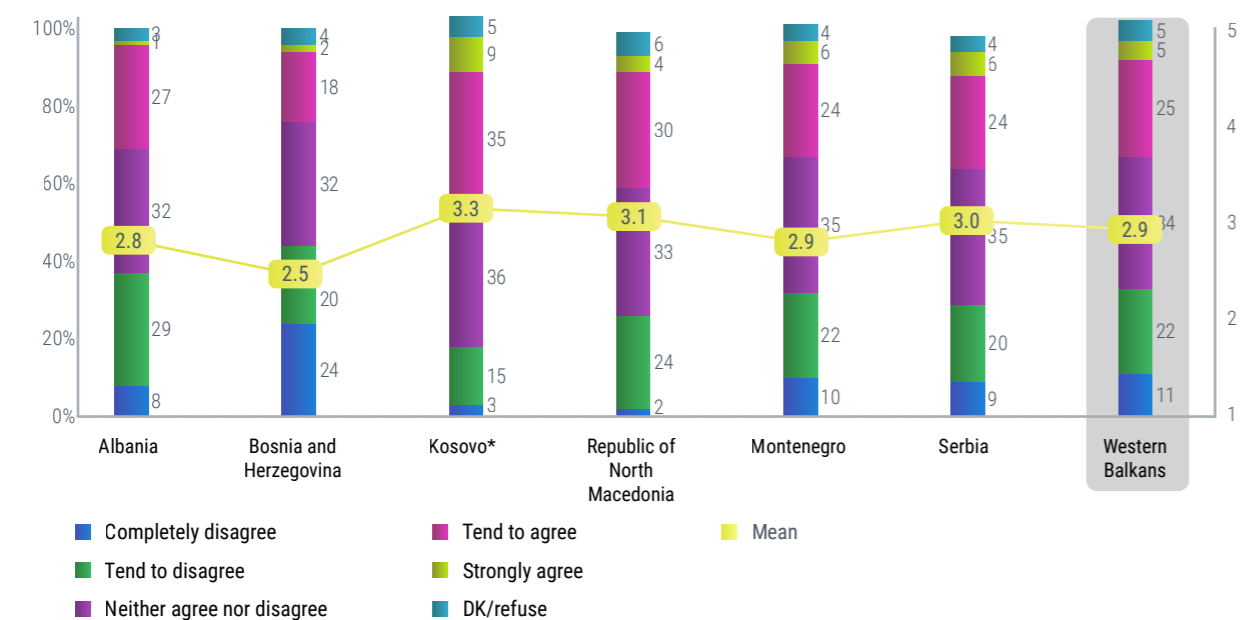


sons – the former because the information on state aid is not publicly available, and the latter because the information on state aid is publicly available, raising privacy concerns. The remaining regional economies are at, or close, to the regional average.

Around 60% of managers of large companies believe that the information on state aid should be publicly available, against only 30% of SME executives.

Figure 64: Do you agree with the following statement about state aid - Sufficient information on the state aid given to companies by the public authorities is already publicly available? ** (All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)

(All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



**The figures might not add to 100% due to rounding.

**The figures might not add to 100% due to rounding.

ACCESSIBILITY OF LOANS

Western Balkans businesses continue to finance their operations from internal funds and retained earnings, with the former playing an even more important role as a source of financing than in 2018 (70% vs. 58% of investments were financed from this source, respectively), likely a result of solid earnings in the previous year. That said, external sources of financing remain largely underutilised. Financing through commercial banks remains much more popular among large and medium-sized companies, while micro and small businesses resort to more traditional sources of funding. There is some evidence that financial markets and equity financing are gaining popularity.

There is a slight increase in the number of loan applications as 29% of companies surveyed applied to take out a credit (up from 27% in 2018). Some 7% of loan applications were rejected, while on average it took 16 days for the loan to be approved. SMEs and large companies applied for loans in almost equal shares (29%), yet findings presented in this section suggest that SMEs use loans to finance business operations rather than capital investments, opposite to what large companies employ loans for.

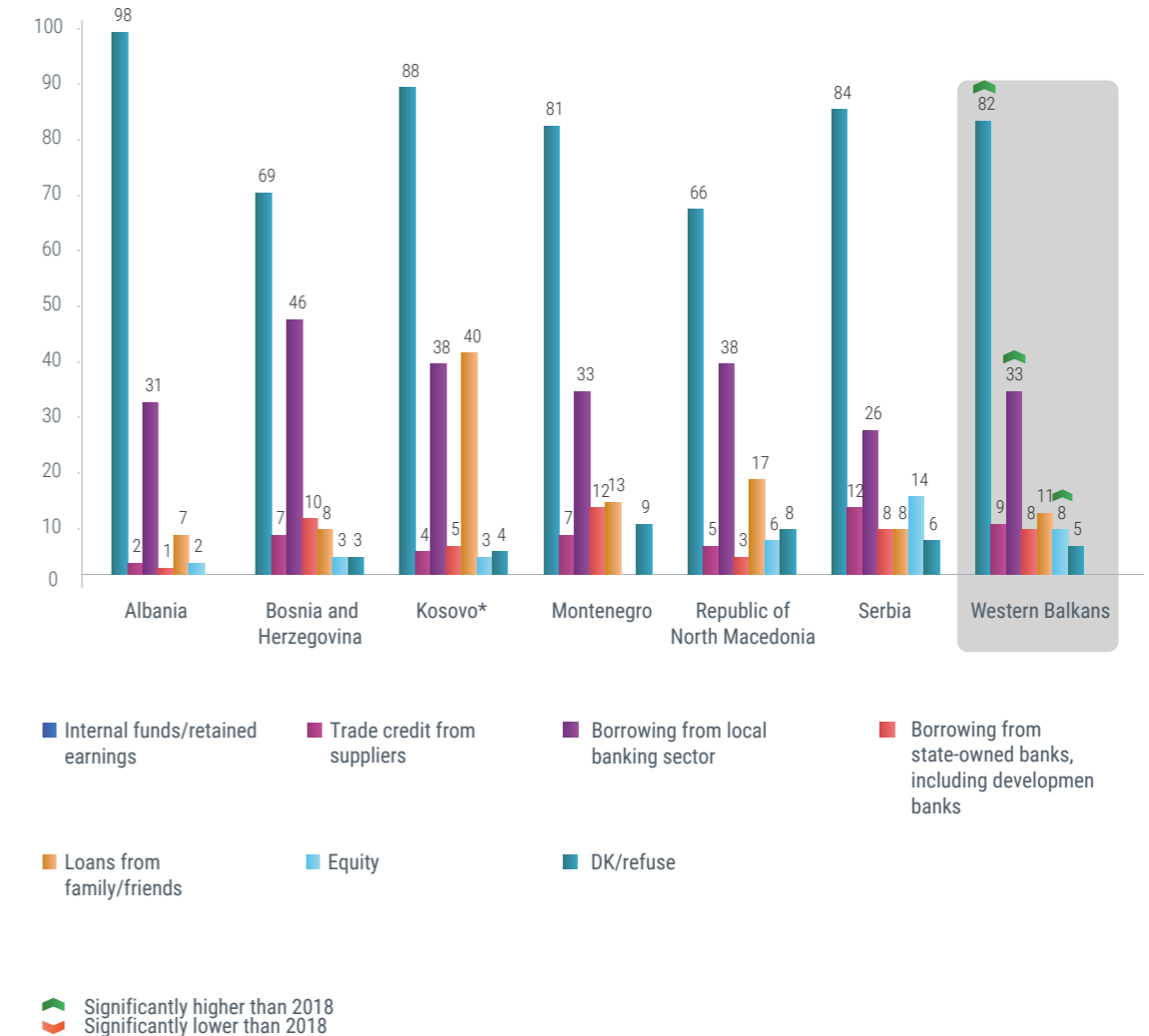
While sources of financing are generally used to a similar degree across all Western Balkans economies, commercial banks tend to be more popular in

Bosna and Herzegovina, and less so in Albania and the Republic of North Macedonia. At the same time, companies from Kosovo* and Montenegro rely on loans from family and friends more than their counterparts from the rest of the region.

Western Balkans businesses mostly finance their operations from internal funds and retained earnings, with the former by far the most dominant source of financing (up to 70% from 58% in 2018). Reliance on the commercial banking sector remains low, as only 13% of business operations are financed from loans. The importance of loans from family and friends is marginal at the regional level, except in Kosovo* and Montenegro. Category other comprises equity, state-owned institutions, credit cards, trade credits (etc.), and while none of the individual categories have a significant share on their own, as a group, they source some 14% of all investments.

Internal funds are a dominant source of financing for every Western Balkans economy. In Albania and the Republic of North Macedonia businesses rely on own financing the most, with 82% and 76% of their operations funded from this source, respectively. The share of operations financed from internal funds has grown significantly for both the economies, with a 22-point surge in Albania and an

Figure 67: Which of the following sources of finance has your company used over the past five years?*
(All respondents - N=1215, share of total, %) (Multiple answers allowed)



even more remarkable 44 point hike in the Republic of North Macedonia. The share of investments financed from retained earnings has not changed significantly for the other four Western Balkans economies since last year.

Businesses in Bosnia and Herzegovina rely on commercial loans to a significantly greater degree than elsewhere in the region (29% of investments). Likewise, loans from family and friends are more popular in Kosovo* and Montenegro (10% and 11%, respectively), while largely negligible across the other four economies.

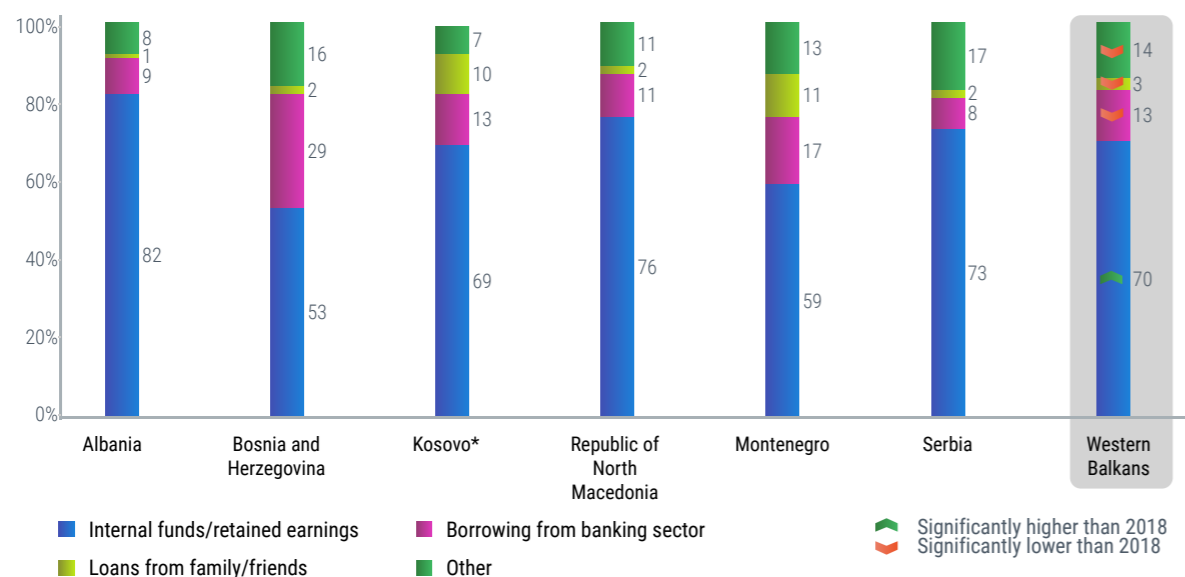
On average, SMEs finance some 70% of their operations through a combination of retained earnings and loans from family and friends (vs. 45% for large companies). As expected, the opposite is true for borrowing from the banking sector, which is much more common for large companies (19%), and medium-sized ones (17%).

As expected, internal sources continue to be the most dominant financing stream across all Western Balkans economies, with 82% of respondents using it over the past five years. The second most commonly utilised source of funding is borrowing from the local banking sector (33%). Loans from family and friends are less popular across the region as a whole (11%), but are much more prevalent in Kosovo* (40%) in particular, and Montenegro to a lesser extent (17%). The share of companies using trade credit from suppliers has remained stable and in keeping with the 2018 survey instalment (9%). It is noteworthy that the share of companies using equity as a source of financing is steadily rising, reaching 8% in 2019, and potentially heralding a new development in the financial markets.

Aside from the general prevalence of internal funds and retained earnings as sources of financing across the region, individual economies exhibit some near-unique features. Kosovo*, for instance,

**The figures might not add to 100% due to rounding.

Figure 66: What proportion of your company's working capital and new fixed investment has been financed from each of the following sources, over the past 12 months?*
(All respondents - N=1215, share of total)



**The figures might not add to 100% due to rounding.

has a significantly higher share of businesses that have taken on loans from family and friends than any other economy (40%). Likewise, businesses from Bosnia and Herzegovina borrow from local banks more than their counterparts elsewhere in the region (46%). Meanwhile, equity financing is much more popular among Serbian businesses (14%) while state-owned and development banks are more prevalent as sources of funding in the Republic of North Macedonia (12%), Bosnia and Herzegovina (10%) and Serbia (8%).

As may be expected, firms operating with foreign capital are more likely to reach out to foreign banks than their domestically-owned counterparts (28% vs. 11%), while they both use local banks with similar frequency. In general, reliance on the banking sector over the past five years has grown commensurate to the size of the company (from 26% for micro-companies to 56% in large).

Fewer than a third of all Western Balkans companies have applied for a bank loan in the past year. Compared to last year's survey results, there is a slight increase in the frequency with which regional companies apply for bank loans (up to 29% from 27% in 2018).

Businesses in Bosnia and Herzegovina are the most likely to apply for a loan (50%), with a slight uptick in applications since last year. At the other end of the scale, bank loans are still used by a relatively small number of companies in Albania and the Republic of North Macedonia (18%). Meanwhile, the share

of companies from Montenegro applying for a loan has dropped ten points in the course of a single year (down to 27% from 37% in 2018) while Kosovo* has witnessed an identical surge in interest (up to 29% from 19% in 2018).

Both SMEs and large companies applied for loans with equal frequency over the past 12 months (29%), while an industry-level review shows higher loan interest among companies doing business in agriculture, hunting, fishing and forestry (41%).

The loan approval process takes an average of 16 days. Compared to the last year, the processing period has been extended by a single day. Just under a half of all companies surveyed manage to go through the review process in under two weeks.

The Republic of North Macedonia is home to the most efficient banking sector in the region with just nine days needed to approve or reject a loan application. Significantly, in 2018, this procedure took 25 days, with an impressive level of improvement in the efficiency of banking institutions evident in just one year. At the same time, in Albania, the application review process takes 25 days and represents a significant decline in the performance of the banking sector there as eight days have been added to the timeline since the 2018 survey. In Serbia, the loan application review process has been extended by a single day since 2018, while Bosnia and Herzegovina and Montenegro saw the timeline extended by five days in that same period.

Figure 68: Has your company applied for a loan from a bank in the past 12 months?*

(All respondents – N=1215, share of total)



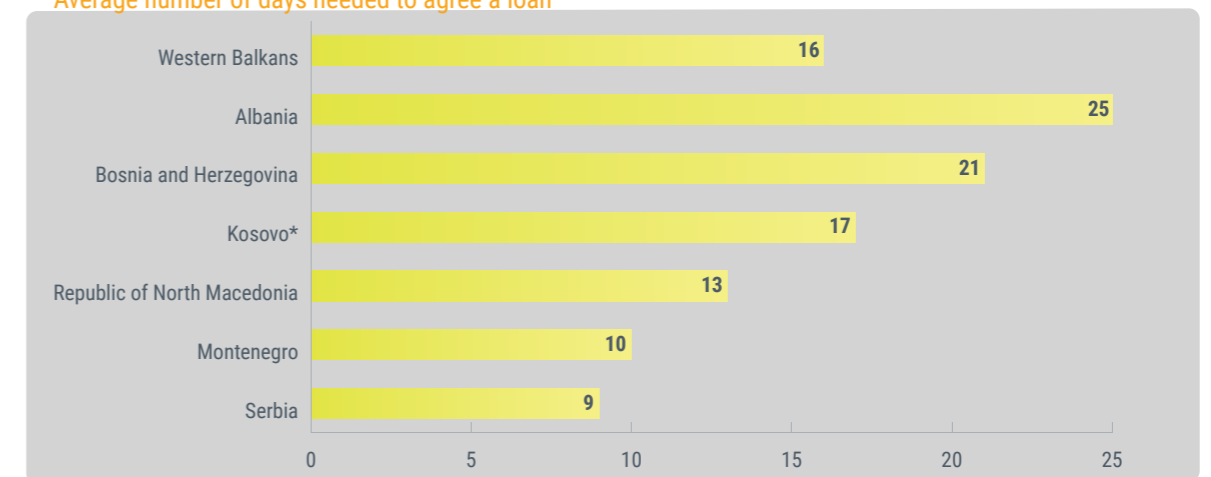
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Figure 69: How many days did it take to agree the loan with the bank from the date of application?*

(All respondents – N=1215, share of total, %)



Average number of days needed to agree a loan

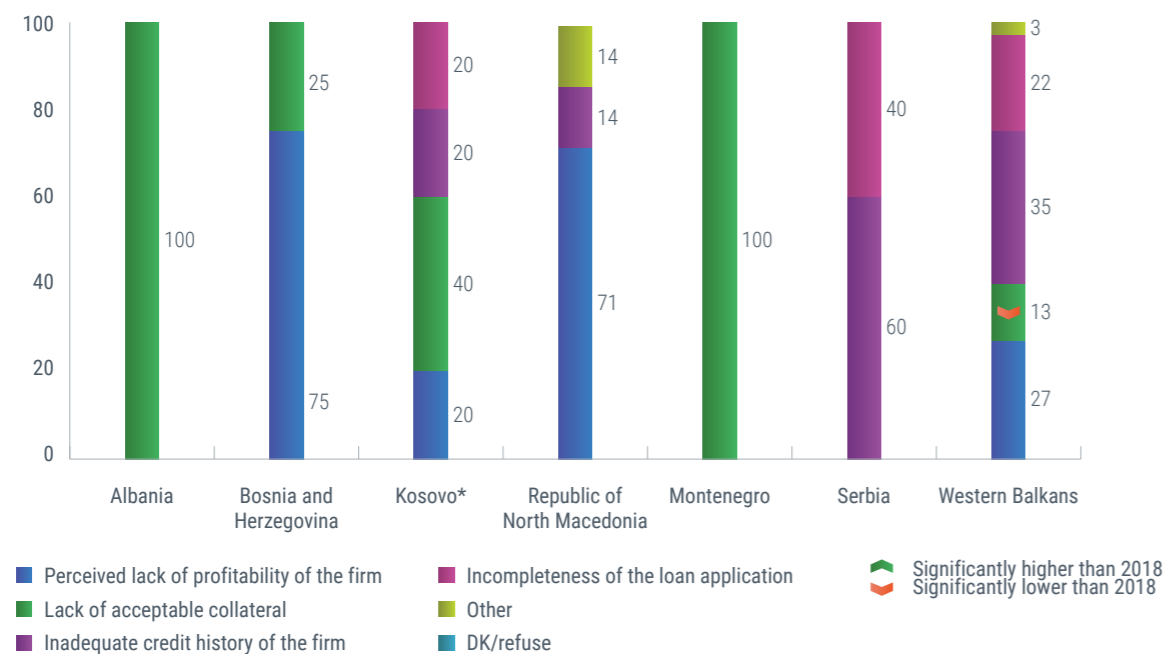


The share of rejected loan applications remains stable at 7%. Applications by companies from the Republic of North Macedonia are the most likely to be rejected (19%), while their Albanian counterparts usually see their requests approved, although after having to wait a record high number of days.

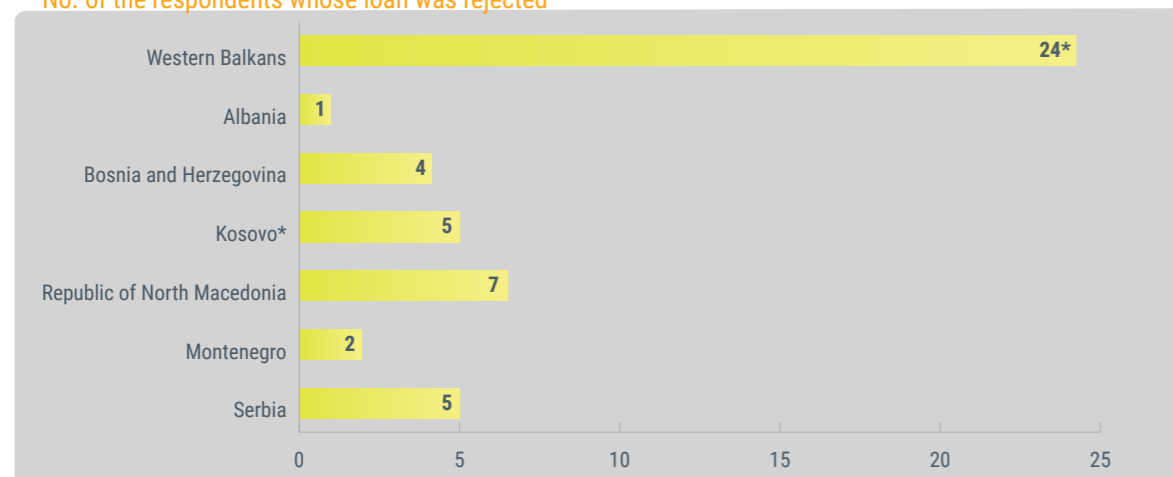
**The figures might not add to 100% due to rounding.

Figure 70: You said that your company's loan application was rejected, what was the main reason for this?*

(Respondents whose loan was not approved - N=24*, %)



No. of the respondents whose loan was rejected



**The figures might not add to 100% due to rounding.

CORRUPTION

There has been little overall progress in tackling corruption in the region, with only half of all executives surveyed claiming unofficial payments are not necessary when dealing with public officials. Moreover, it seems that business leaders have become increasingly reluctant to talk about corruption, a finding reflected in a significant non-response rate, even relative to 2018.

Fewer than half of all respondents believe that the best way to stop misconduct is to report it to the relevant public officials. Instead, almost 20% would rather reach out to the general public, either through reporting it to journalists or sharing the information on social media. Moreover, it is particularly concerning that almost 30% of all respondents feel powerless and believe that wrongdoing cannot be stopped by any means. More than 80%, however, feel that digitalisation of public services represents an opportunity to curb corruption through greater transparency and accountability.

A breakdown of data by economy, however, suggests there is some room for optimism, with Albania making headway in its battle against corruption. Likewise, there is growing confidence in the work of public officials in the Republic of North Macedonia. Meanwhile, there is no change in corruption percep-

tions in Serbia, while Kosovo*, Montenegro and bottom-ranked Bosnia and Herzegovina exhibit largely negative tendencies.

Half of all survey respondents report that no additional payments are necessary "to get things done" in their respective economies. However, close to a fifth of all respondents surveyed disagree. Meanwhile, there has been no change in the overall regional score since 2018 (2.3).

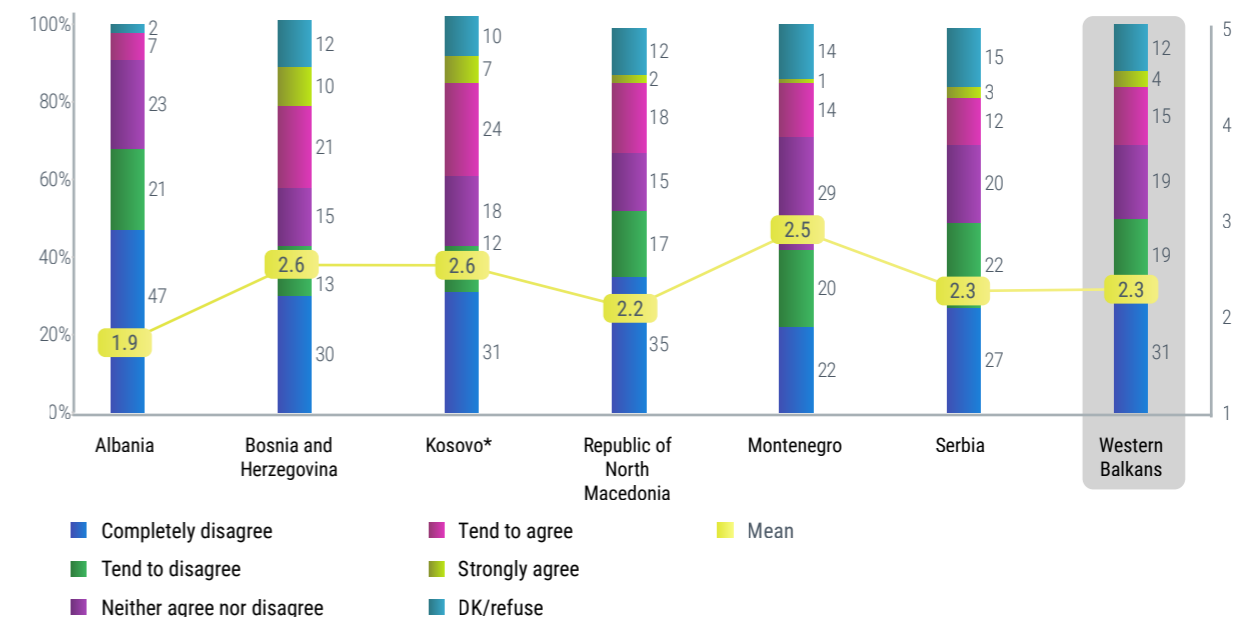
Although perceptions of corruption may appear similar across all of the region's economies, there are some notable differences. For instance, in Albania (score 1.9), only 7% of executives find bribery to be necessary to facilitate doing business, in contrast to nearly a third of all respondents surveyed in Bosnia and Herzegovina and Kosovo*. Out of the remaining three economies, Serbia and Montenegro are doing somewhat better than the regional average, with 20% of executives confirming that some level of corrupt practices are needed to get the job done.

The perception of corruption has changed in most of the economies surveyed. There are marked improvements in the Republic of North Macedonia (-0.4) and Albania (-0.2). Meanwhile, Kosovo* has

Figure 71: Thinking about officials, to what extent would you agree with the following statements?*

(All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)

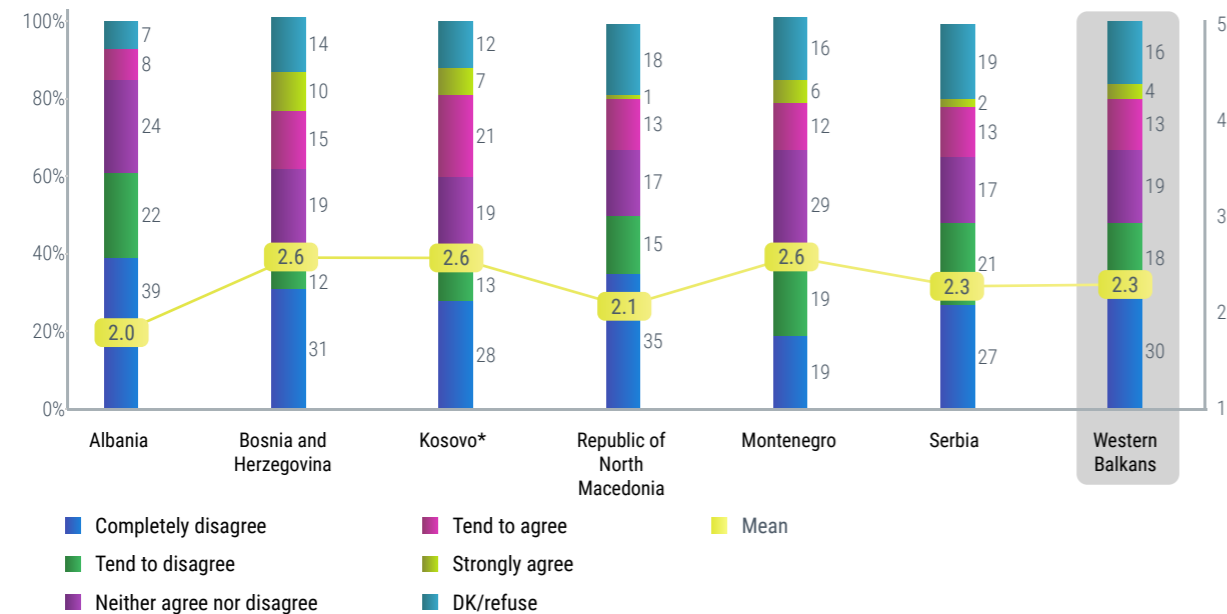
It is common for companies in my line of business to have to pay some irregular "additional payments/gift" to "get things done"



**The figures might not add to 100% due to rounding.

Figure 72: Thinking about officials, to what extent would you agree with the following statements?*
(All respondents - N=1215, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)

Companies in my line of business usually know in advance how much this 'additional payment/gifts' will cost

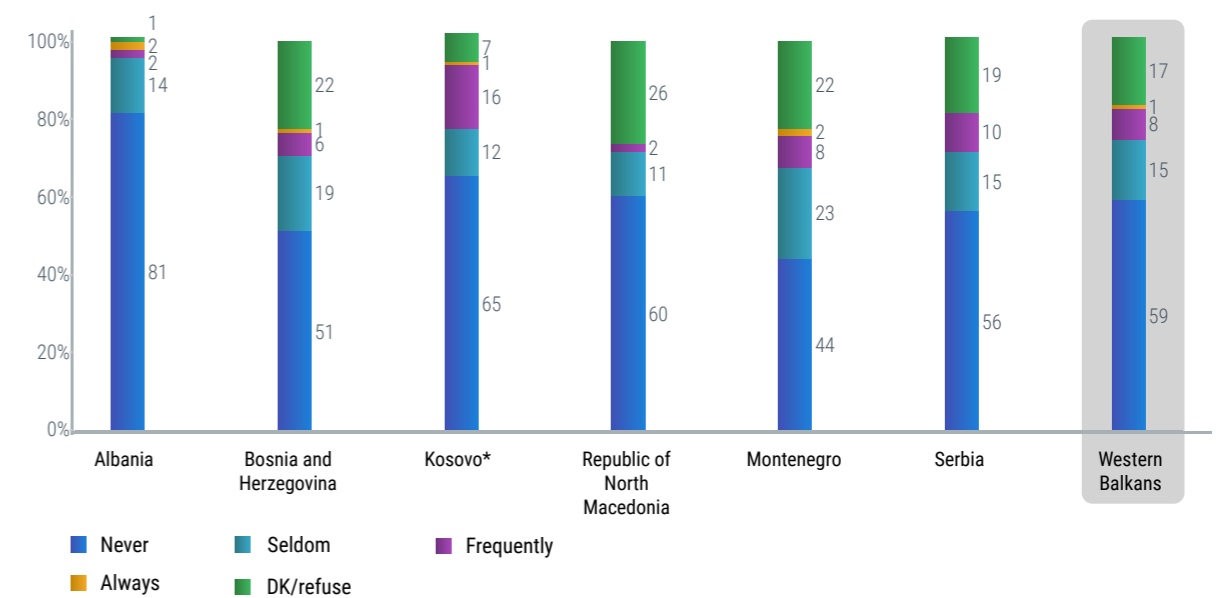


seen its score deteriorate rather dramatically (+0.4 in the score), with Bosnia and Herzegovina (+0.1) and Montenegro (+0.1) also slipping. Importantly, the non-response rate was significantly higher in Bosnia and Herzegovina in 2019 (12%) than it was in 2018 (2%).

There is an evident gulf in the perception of corruption between large companies and SMEs – the former feel corruption much more acutely than the latter (3.2 vs. 2.3). The discrepancy is also there for foreign-owned and domestic enterprises, although to a significantly lesser extent (2.5 vs. 2.3).

Figure 74: Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often they would make payments/gifts for the following purposes? (results by economies)**

(All respondents – N=1215, share of total)
To get connected to and maintain public



The cost of a bribe is known by some 17% of Western Balkans businesses. There is a slight if significant improvement from the last year (down to 2.3 from 2.4 in 2018), which could indicate that corruption is less prevalent and, therefore, its price is less well known. This assumption is backed up by a high correlation in scores between the acknowledgment of corruption in the previous response and familiarity with the cost of a bribe in this one (19% and 17%, respectively).

Just over half of all respondents surveyed feel that additional payments are unnecessary when obtaining services from public authorities. There is a notable eight-point decrease in this category since 2018 with an accompanying four-point hike in the ranks of the non-respondents. While the data is relatively inconclusive, it is not hugely speculative to suggest a worsening of the situation in the region when it comes to popular perceptions of corruption.

Scores and rankings are in line with the reported presence of corruption in each of the individual economies. Businesses from Albania are, therefore, the least likely to know the price of bribery (only 8%) while for Bosnia and Herzegovina and Kosovo* those numbers are significantly higher (25% and 28%, respectively). As for the remaining regional economies, business representatives from Montenegro are more likely to know the cost of bribes (18%) than their counterparts from the Republic of North Macedonia (14%) and Serbia (15%).

Viewed by purpose of payment, there is little variation across the categories surveyed. In addition to around half of all respondents who feel bribes are unnecessary, around 16% say these payments are needed only seldom, while 13% consider them a necessary precondition to doing business. Seemingly, informal payments are most commonly needed to secure government contracts, with 16% of respondents conveying this impression.

The Republic of North Macedonia (-0.5) and Albania (-0.4) have shown the greatest improvement in tackling corruption compared to 2018, while for Kosovo* (+0.3) and Montenegro (+0.3) the information on the cost of bribes has become more readily available.

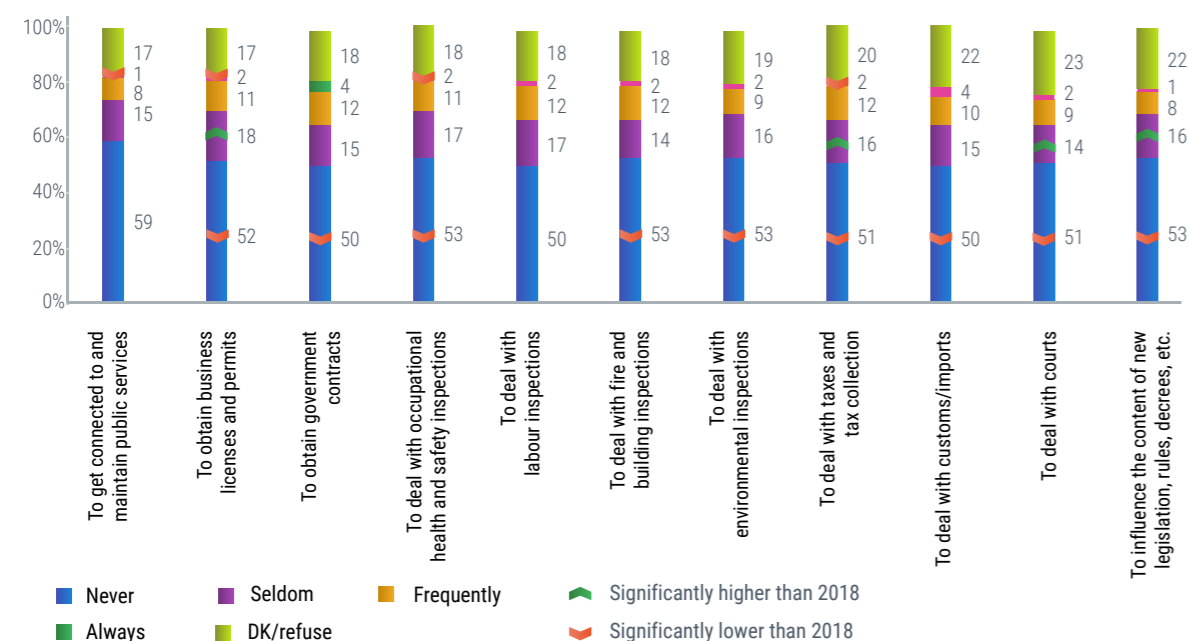
Businesses in Albania have become increasingly more open to discussing corruption, since their non-response rate dropped from 15% to just 4% in 2019. A similar, if less pronounced, development has been noted in Kosovo* (8% DK/refuse in 2019 vs. 10% in 2018). At the same time, the ranks of the reluctant respondents have swelled in the Republic of North Macedonia (28% in 2019 vs. 8% in 2018) and Bosnia and Herzegovina (23% in 2019 vs. 7% in 2018).

Executives from large companies are significantly more likely to know the exact sum that they have to pay (3.2), compared to their counterparts from smaller business organisations (2.3).

Out of all the Western Balkans economies, informal payments are least important to doing business in Albania, according to three-quarters of executives

Figure 73: Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often they would make payments/gifts for the following purposes?*

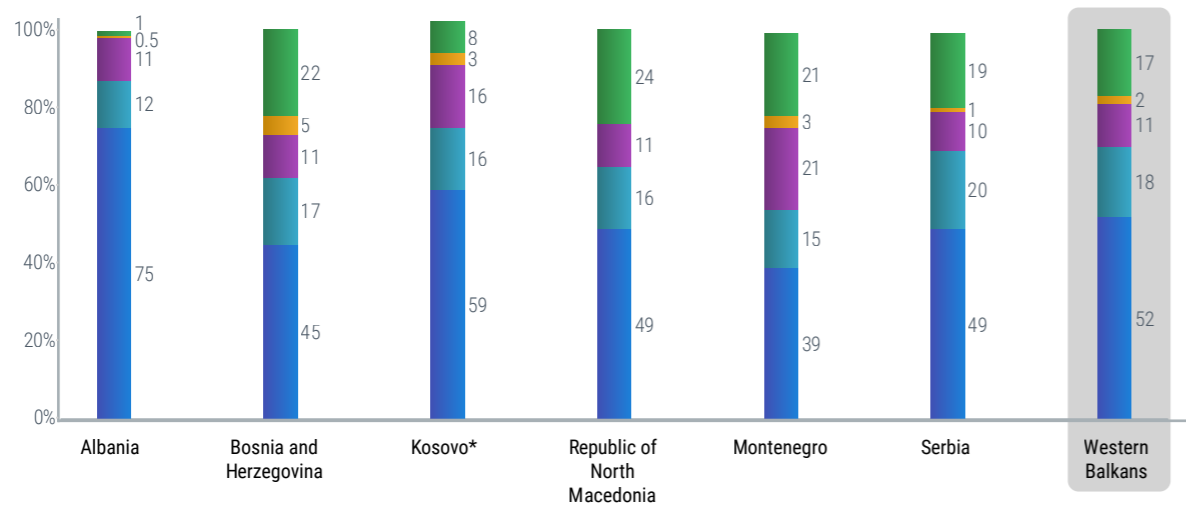
(Exporters only - N=333, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)
Western Balkans



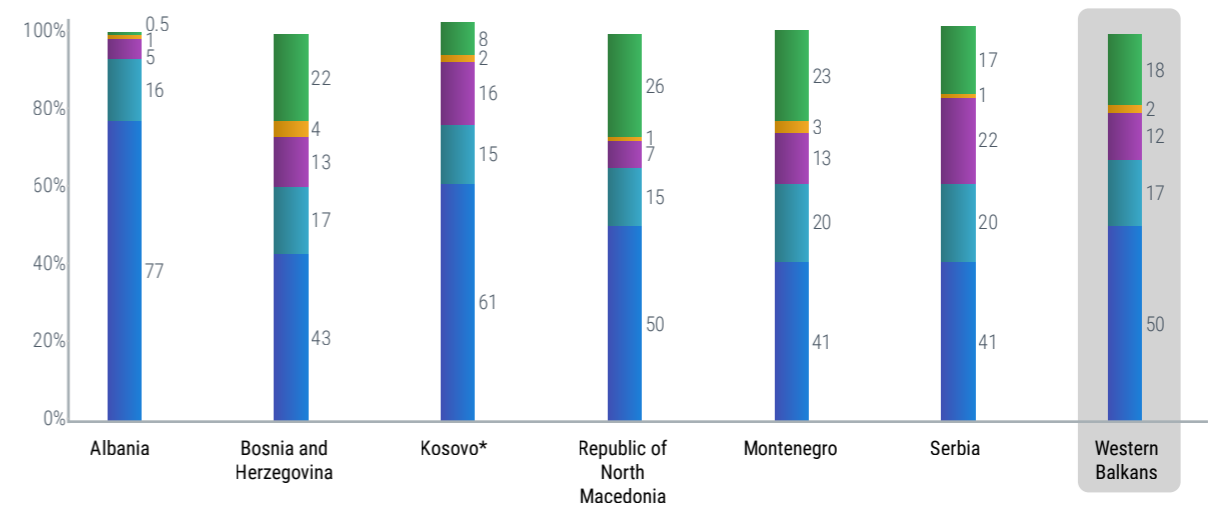
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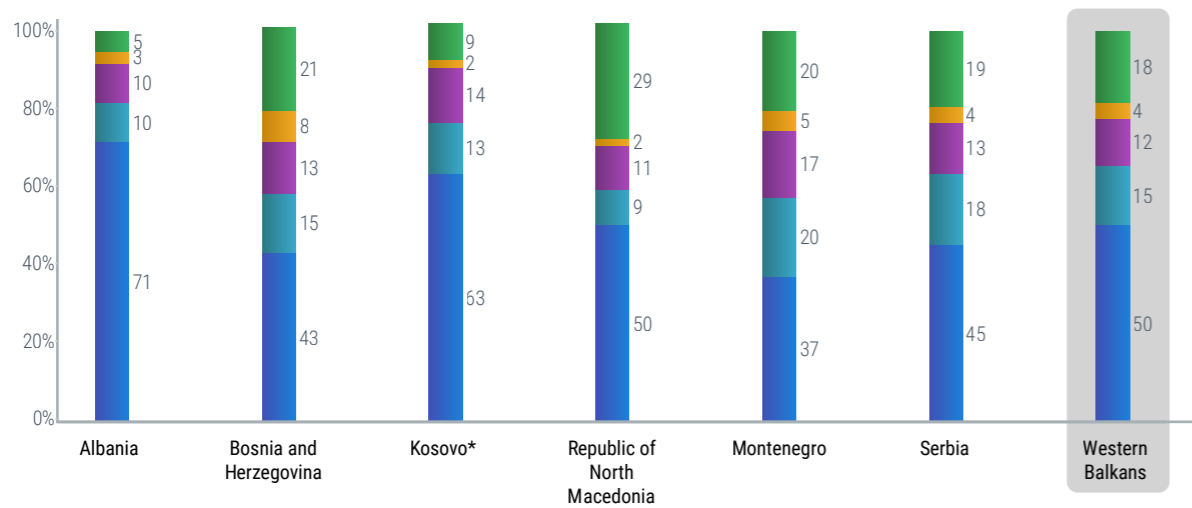
To obtain business licenses and permits



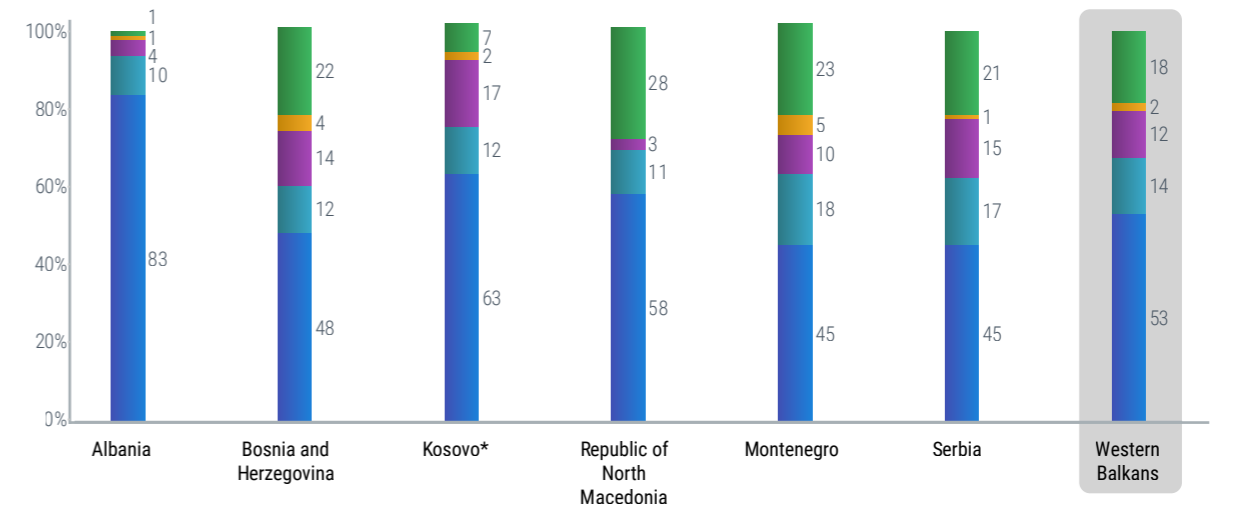
To deal with labour inspections



To obtain government contracts

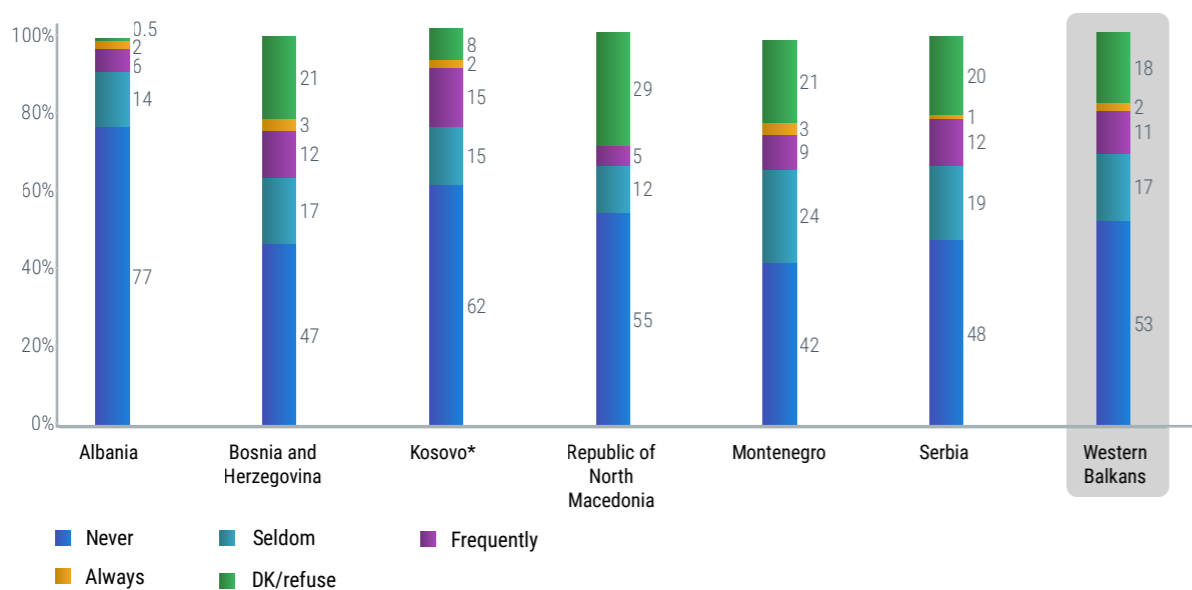


To deal with fire and building inspections



■ Never ■ Seldom ■ Frequently
■ Always ■ DK/refuse

To deal with occupational health and safety



■ Never ■ Seldom ■ Frequently
■ Always ■ DK/refuse

surveyed, with only 10% finding bribes necessary. Kosovo* also boasts a high share of executives who think bribes are not needed (62%), but this economy also has a considerable percentage of those who consider informal payments necessary (17%). Montenegro seems to struggle most with unofficial payments as only 42% of all respondents think that bribes are not common, while 16% characterise them as frequent.

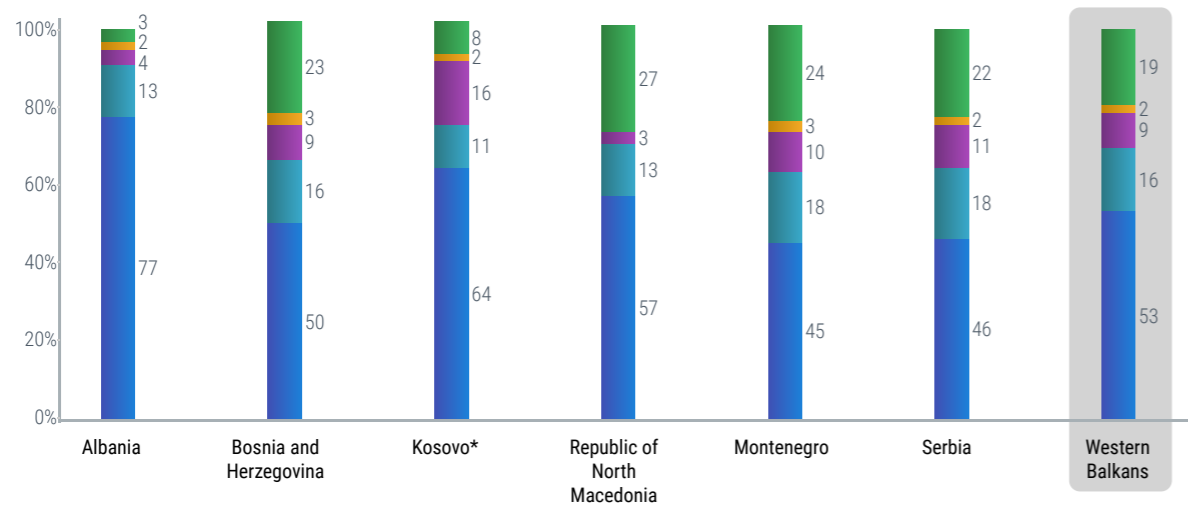
Again, large companies exhibit a higher perception of corruption relative to the others.

The costliest bribes are the ones directed towards securing government contracts (EUR 2,507 EUR), while obtaining business licences and permits unduly costs some EUR 1,705 on average. Dealing with environmental inspection (EUR 1,264) is next and is

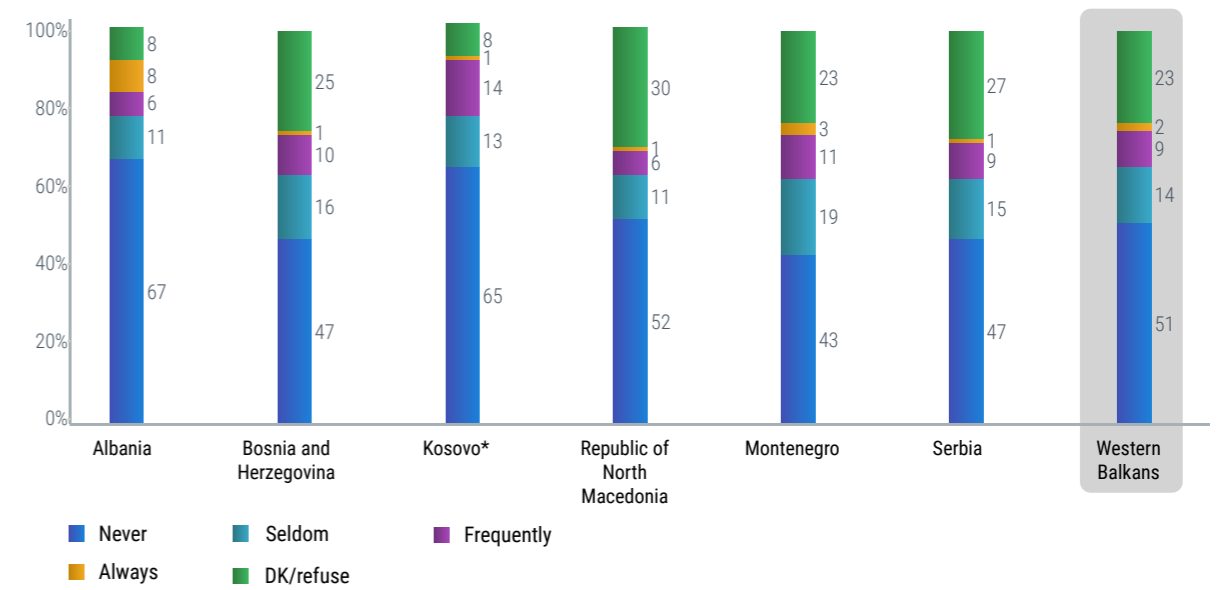
followed by paying off the judiciary (EUR 1,247) and bribing the fire and building inspectors (EUR 976). The survey found that occupational health and safety inspectors were the least expensive public service to bribe (EUR 739).

Tariffs seem to have changed significantly over the past year. The biggest reduction in cost is noted in regards to getting connected and maintaining public services (down to EUR 744 from EUR 2,675 in 2018). Dealing with environmental inspections seems to be increasingly costly (up to EUR 1,264 from EUR 182 in 2018), while there is a significant hike in the cost of obtaining business licences and permits and a decrease in the amount needed to obtain lucrative government contracts or a favourable ruling from the courts.

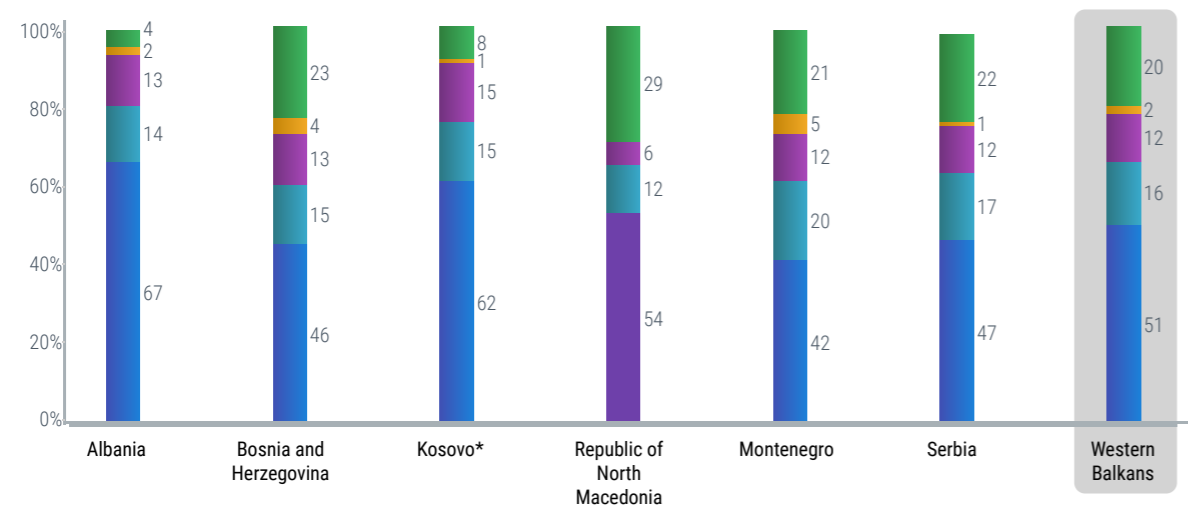
To deal with environmental inspections



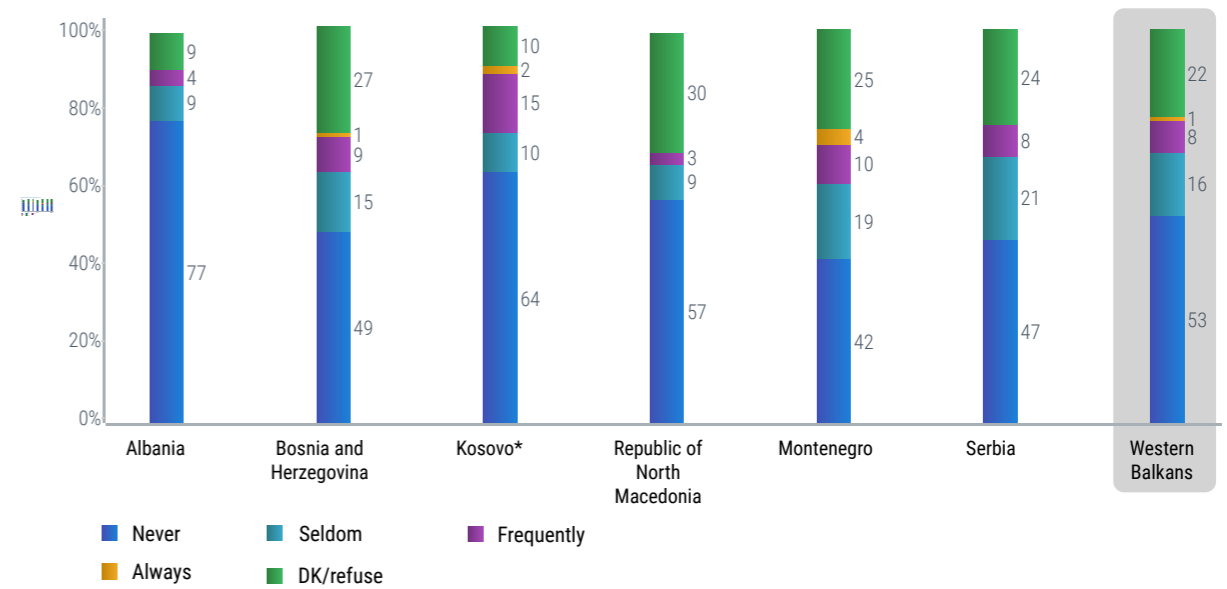
To deal with courts



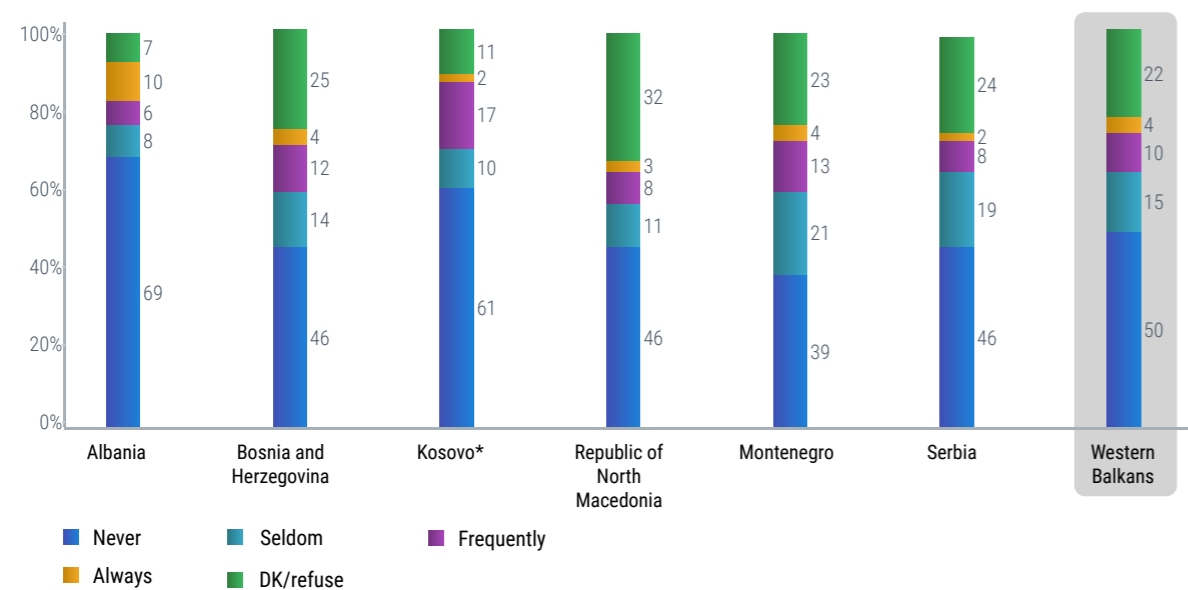
To deal with taxes and tax collection



To influence the content of new legislation, rules, decrees, etc.



To deal with customs/imports



The results here should be used with caution due to the presence of outliers that may well have skewed the sample.

A significant proportion of executives from the region believe that the best way to stop wrongdoing is to report it to the authorities (44%). At the same time, close to 30% feel powerless to stop corruption, a deeply worrying statistic. Releasing the information to the general public, either through media or directly, is the preferred method to stop corruption as expressed by close to a fifth of all respondents.

In line with general perceptions of corruption, corporate leaders from Albania and the Republic of

North Macedonia largely place their faith in formal structures and the relevant public authorities (54% and 52%, respectively). At the other end of the spectrum, managers from Bosnia and Herzegovina have the least amount of confidence in public officials, which is hardly surprising considering the perceived prevalence of corruption in this economy.

Since 2018, public authorities in Montenegro and Kosovo* have lost much of the business community's hard-earned trust. The share of businesses that would report wrongdoing to the relevant public authorities in Montenegro has shrunk by 14 points (down to 41% from 55% in 2018), accompanied by

a near-commensurate rise in the number of respondents favouring releasing the information to the general public (up to 31% from 17% in 2018). In Kosovo*, likewise, only 39% of all respondents would report wrongdoing through the relevant official channels, down from 55% in 2018.

At the same time, public officials in the Republic of North Macedonia have regained some of the trust of their business community with 52% of business leaders polled favouring official channels, up from 41% in 2018.

Worryingly, the largest share of business leaders in Bosnia and Herzegovina feel that wrongdoing by public officials cannot be curbed by any means (37%). Their Albanian and Montenegrin counterparts, meanwhile, are much more optimistic (16% and 17% respectively).

Some 41% of executives polled believe that the digitalisation of public services represents an opportunity to reduce corruption greatly, while an additional 42% believe that it would at least have a marginally positive effect. Still, 17% of business leaders in the region think that the process would have no impact on preventing corruption.

At least half or more managers in Albania, the Republic of North Macedonia and Montenegro place much of their faith in digitalisation as a tool for preventing corruptive practices. Meanwhile, their counterparts in Bosnia and Herzegovina and Kosovo* are not as convinced.

Figure 75: Please estimate what is the approximate amount (in EUR) of unofficial payments/gifts that companies like yours would make in a given year for the following purposes
(Respondents who consider that unofficial payments/gifts are made at least seldom and did not mark DK/refuse, Mean)*

Western Balkans 2019/20	Average amount of unofficial payments/gifts (EUR)	*Different base (No. of respondents) for each purpose
To get connected to and maintain public services	744	294
To obtain business licenses and permits	1705	386
To obtain government contracts	2507	380
To deal with occupational health and safety inspections	739	346
To deal with labour inspections	964	371
To deal with fire and building inspections	976	316
To deal with environmental inspections	1264	313
To deal with taxes and tax collection	892	357
To deal with customs/imports	881	350
To deal with courts	1247	318
To influence the content of new legislation, rules, decrees, etc.	898	282

Figure 76: In different societies, there are different views on the most effective ways to stop wrongdoing. Which one of these do you think is the most effective way in your economy society?*
(All respondents - N=1215, share of total, %)

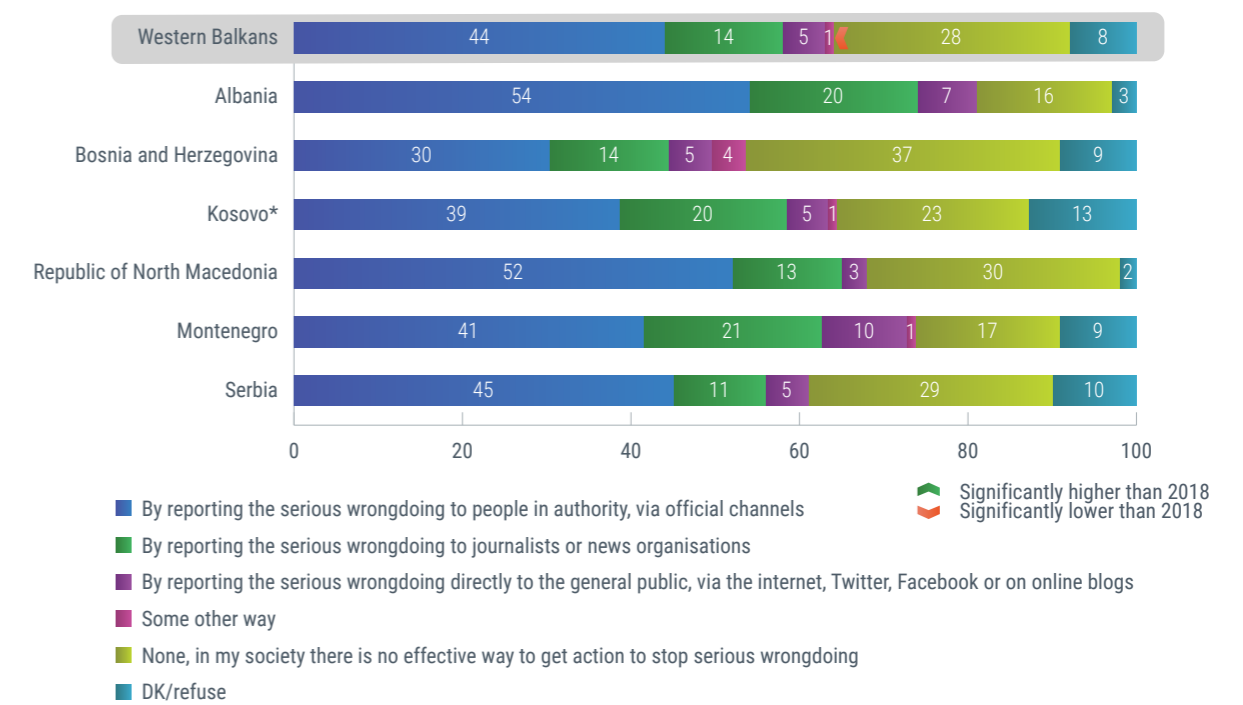
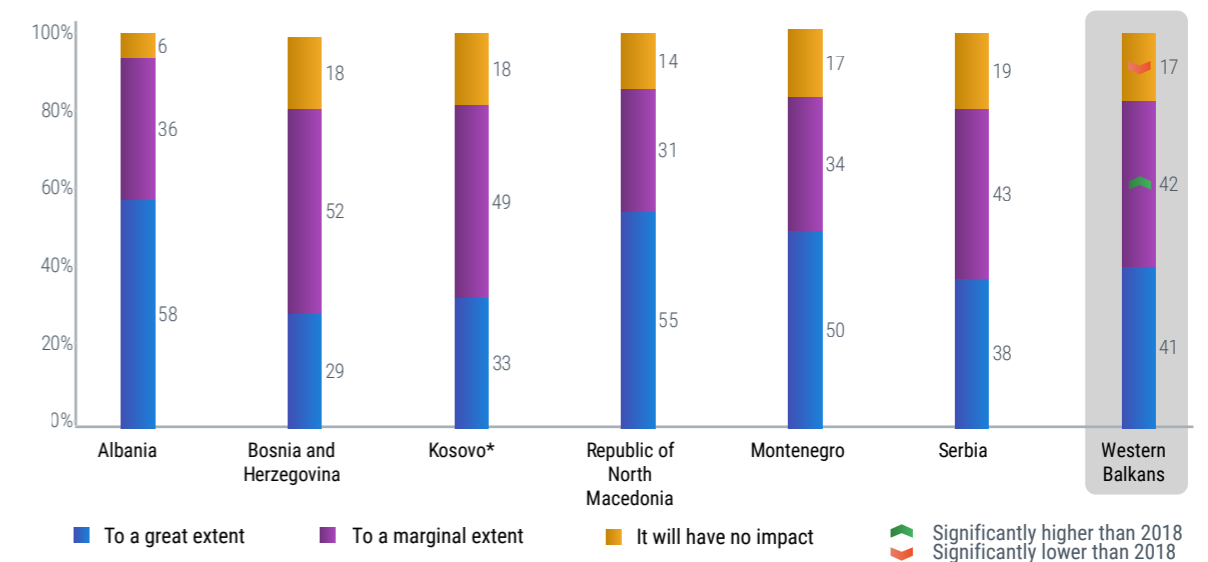


Figure 77: To what extent do you believe the digitalisation of public services would have a positive impact on preventing corruptive practices?*
(All respondents - N=1215, share of total)



**The figures might not add to 100% due to rounding.

TRADE AND INVESTMENT

Aggregate findings for this section illustrate why more decisive action is needed to bring the region together. However, in order to foster trade, as well as provide for the free movement of capital and labour throughout the region, Western Balkans governments need to ensure that these economic processes are taking place against a backdrop of continued political stability.

Foreign direct investment by Western Balkans corporations remains sporadic. When companies from the region do decide to invest across the border, they are still primarily driven by the need to access new markets or integrate their company better into an existing value chain. They tend to either invest within the Western Balkan region, or the European Union, an increasingly popular investment destination. Yet, the scope of these investments tends to be rather limited. For illustration purposes, out of 1000 Western Balkans companies, 100 have invested internationally, of which 57 have done so within the confines of the region. There is, however, an increase in the ranks of international investors, albeit a very incremental one. The reasons why Western Balkan companies rarely invest in the region, and are increasingly starting to choose the EU as an investment destination, are multifaceted, and include considerations of political stability as well as the quality of the regulatory

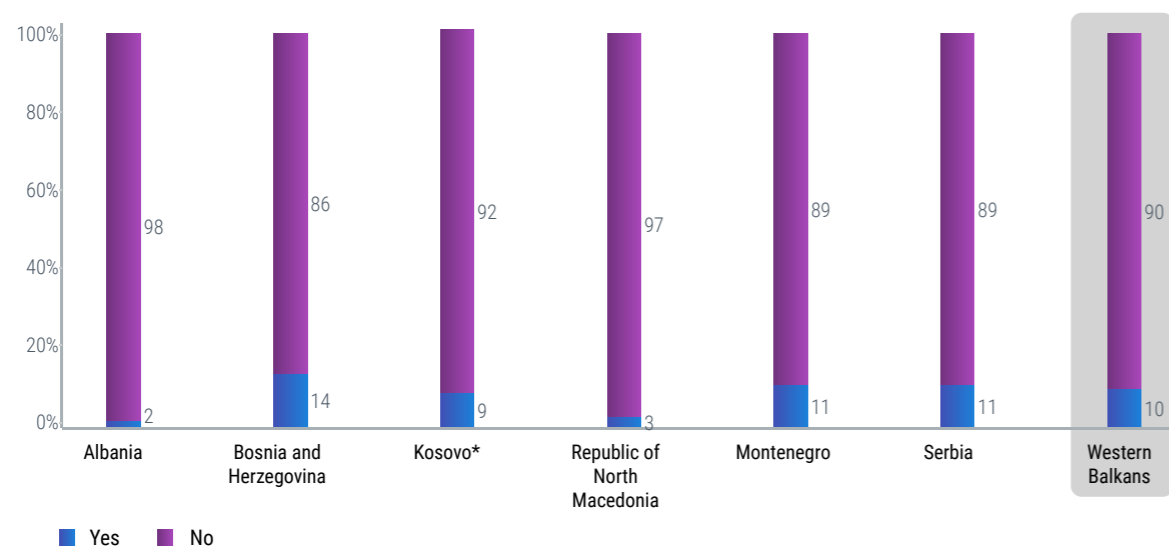
environment; worryingly, these are the areas where only limited progress has been made, if any.

There is little evidence that FDIs coming to the region are becoming more integrated into domestic economies. Namely, only 6% of sales of regional companies are made to multinational corporations located in their home economies. The situation is no different in Serbia, touted as the region's FDI champion in recent years.

Companies in the region are focused on domestic markets. Even though more than 80% of managers surveyed claim their products can match those from the EU, and the rest of the region, only a third are exporters. Non-exporters usually cite a lack of plans, interests or capacities to export, while exporters complain of few improvements in export procedures, including the continued insistence on hardcopy documents, stringent licensing and inefficient customs procedures. As a result, some 84% of the companies' revenues are generated in domestic markets. Likewise, the vast majority of managers surveyed feel their governments should prioritise giving business to resident companies.

More than 50% of companies in the region claim to have benefited from the CEFTA Agreement, yet there is no regional consensus whether it is easier

Figure 78: Has your company invested abroad, or plans to do so in the next 12 months?*
(All respondents – N=1215, share of total)



**The figures might not add to 100% due to rounding.

Figure 79: Where did you invest or plan to do so?*
(Respondents whose company invested abroad, or plans to do so in the next 12 months - N=110, share of total, %)



*Small base for valid conclusions

to export to the CEFTA region or the EU. However, some economies like the Republic of North Macedonia and Kosovo* clearly favour CEFTA, while Serbia and Bosnia and Herzegovina favour the EU market. This is likely, at least in part, due to unresolved issues between the individual economies, including Kosovo*'s 100% tariffs on merchandise from the two economies. For illustration purposes, Serbian and Bosnian companies exported EUR 440 and EUR 79 million worth of goods, respectively, to Kosovo* in 2017; in 2019 those numbers were EUR 23 million and EUR 2 million, respectively. Resolving these disputes quickly may restore some of the faith in the CEFTA arrangement, reducing uncertainty in the region.

Similar to the previous survey instalments, only one in ten Western Balkans businesses has invested abroad or plans to do so. Companies from Bosnia and Herzegovina show the greatest level of ambition (14% invested or plans to do so) and are closely followed by their counterparts from Montenegro and Serbia (11% each); moreover, expanding business operations abroad has become increasingly more popular in all three of these economies since

**The figures might not add to 100% due to rounding.

2018 (+5 points across all). At the same time, the Republic of North Macedonia and Albania are much less ambitious, with investment abroad shrinking dramatically in the latter (down to 2% from 17% in 2018).

As expected, large (59%) and medium-sized (19%) companies are much more likely to invest across borders than smaller ones (6% for small and 3% for micro-companies). This is likewise true for exporters (24%) and non-exporters (2%), as well as foreign- (33%) and domestically-owned companies (8%).

Western Balkans companies usually do not differentiate between the EU and the region when they make investment decisions, although the EU is increasingly becoming a popular investment destination (up to 59% from 42% in 2018). Also, companies tend to concentrate investment resources closer to home, as the share of those reporting to have business operations outside of the EU and the Western Balkans region has shrunk to just 4% from 13% in 2018.

Meanwhile, the interpretation of results by economy is ill-advised due to the unrepresentative sample siz-

es (samples at the economy level consist of fewer than 30 companies).

Access to new markets continues to be the most important reason for Western Balkans companies to operate outside of their economies, according to 60% of managers investing abroad (mean rank 1.9). Markets of individual Western Balkans economies are relatively small and are further shrinking due to the aging population and emigration. Exports are not always a viable solution as transportation and customs clearance may induce significant costs and take a considerable amount of time. Therefore, companies that want to grow and possibly attain an economy of scale by selling larger quantities of their product may have to invest in order to conquer new markets. However, that situation is likely to change should "Mini Schengen" be introduced, and even more once the Western Balkans become part of the greater Schengen Area.

Better integration into a value chain is another key reason for investing abroad (mean rank 2.7). Integration of the company into a value chain is usually cited as second (41%) or third (40%) reason for investing across the border, exemplifying the need for regional companies to become part of (or rather create) larger value chains.

Lowering production costs is ranked third (3.1). It is interesting that this reason for investing abroad is relatively evenly dispersed – each rank has been voted for in around 20% of the cases. This is prob-

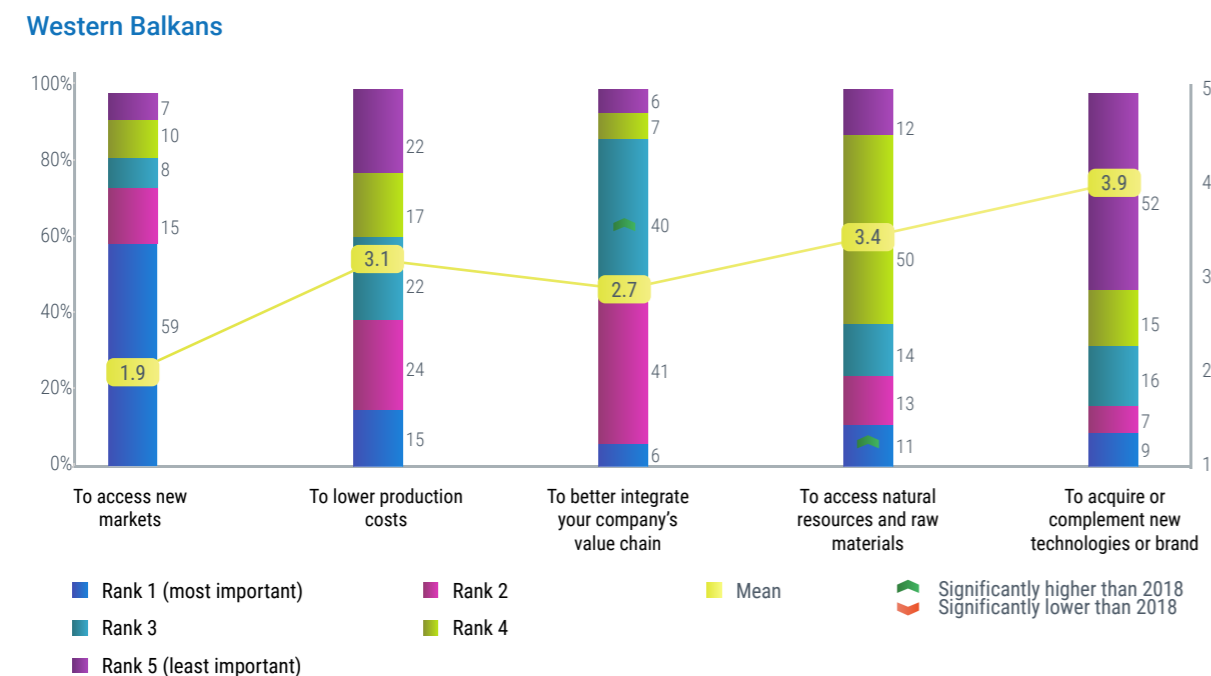
ably due to the fact that companies of different profiles, sizes and industries have different needs. For instance, for companies that have energy-intensive production, it makes little sense to invest outside of the Western Balkans to reduce production costs, given the currently favourable level of energy prices in the region. At the same time, some companies may decide to invest abroad as wage growth in their respective economies become unsustainable for their business model.

Accessing natural resources and raw materials, as well as acquiring new technologies are clearly not as important, given that the former is usually ranked fourth, while the latter is usually ranked last. In the case of the former, it may be that regional companies are gradually shifting towards services not dependant on these kinds of resources. In the case of the latter, regional companies are probably not competitive enough to buy-out and overtake technologically more sophisticated competitors.

As in the previous survey instalments, there is little to separate the factors guiding investment decisions. The difference between the most and least important factors has shrunk even further in 2019 and the range is now from 4.3 for the most important consideration, (Market size and potential), to 3.9 for the least important (Access to land or real estate).

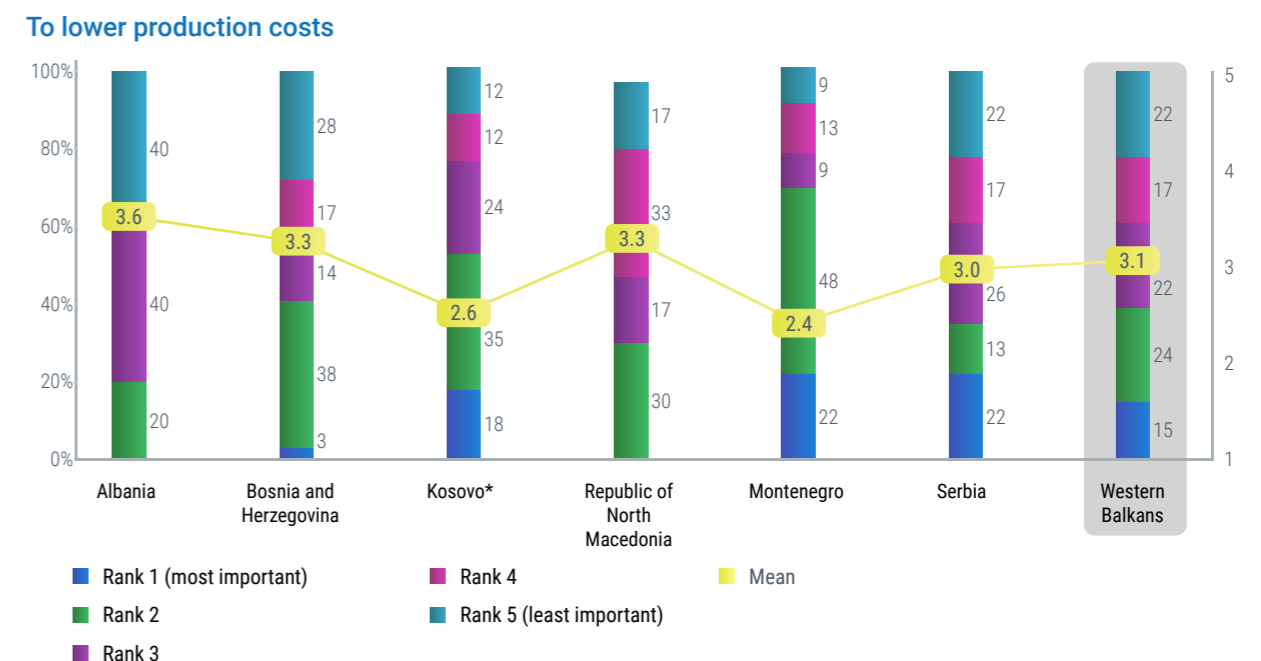
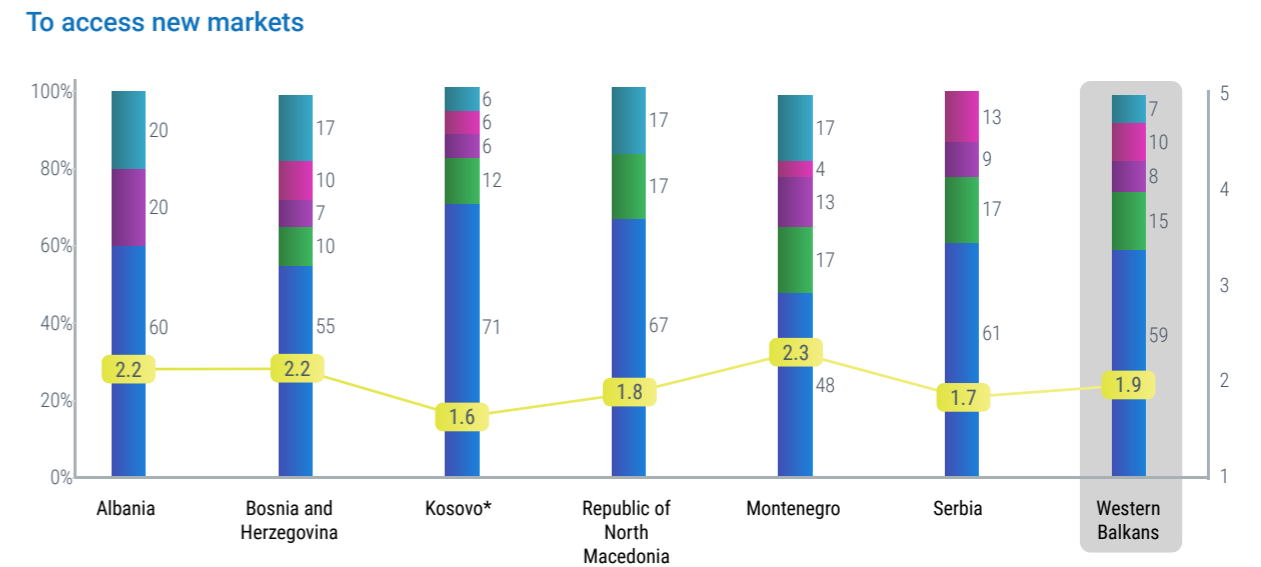
Compared to last year, the composition and importance of factors considered remain relatively unchanged. Even the factors assessed as relative-

Figure 80: Which of the following reasons best describes your company's motivation to invest abroad?* (Respondents whose company invested abroad, or plans to do so in the next 12 months - N=103, ranks are on a scale of 1 to 5 where 1 means most important and 5 least important, share of total, %, mean)



**The figures might not add to 100% due to rounding.

Figure 81: Which of the following reasons best describes your company's motivation to invest abroad?* (Respondents whose company invested abroad, or plans to do so in the next 12 months - N=103, ranks are on a scale of 1 to 5 where 1 means most important and 5 least important, share of total, %, mean)



ly less important than others in 2018, like Tax rates or Availability of linkages with local firms, have seen their scores rise in 2019 and are now broadly aligned with the rest.

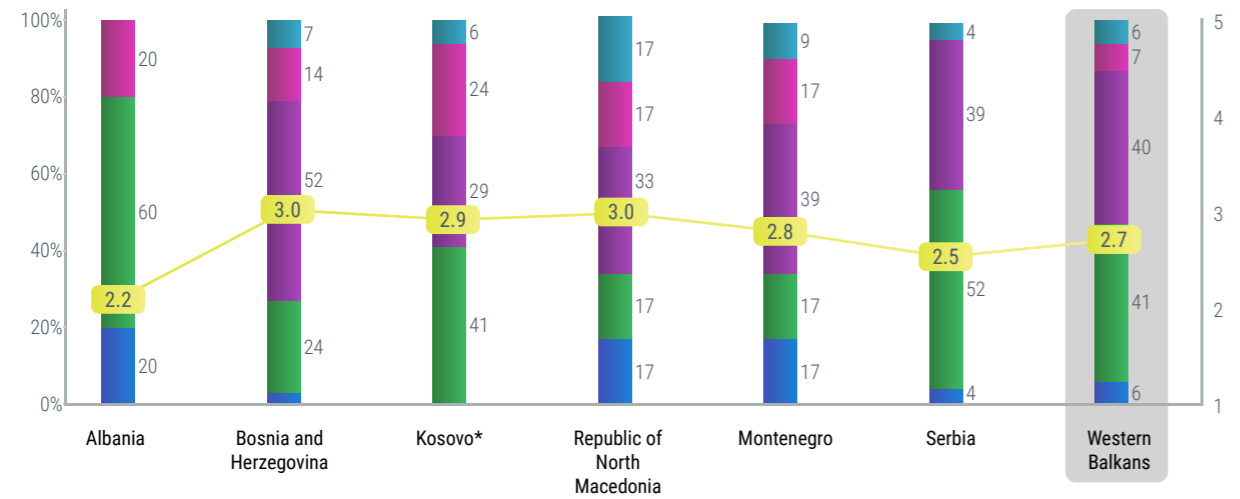
companies in the region sell their goods and services solely on the domestic market. Yet, the focus on the domestic market becomes even more pronounced when its share in total sales is considered with 84% of revenue coming from within the home economy. As at the same time, a third of companies from the region are exporters, while 16% of total sales in the Western Balkans are made outside the region. Companies mostly export to the EU (9%), while the share of sales made by exporting to another economy in the region has declined from 9% in 2018 to 6% in 2019.

This is likely a manifestation of extreme diligence by Western Balkan companies when making their investment decisions considering scarce resources and infrequency with which such decisions are made. Conversely, it is hard to tell whether any (and which) of these factors could be labelled as a potential deal-breaker, since all have relatively high scores.

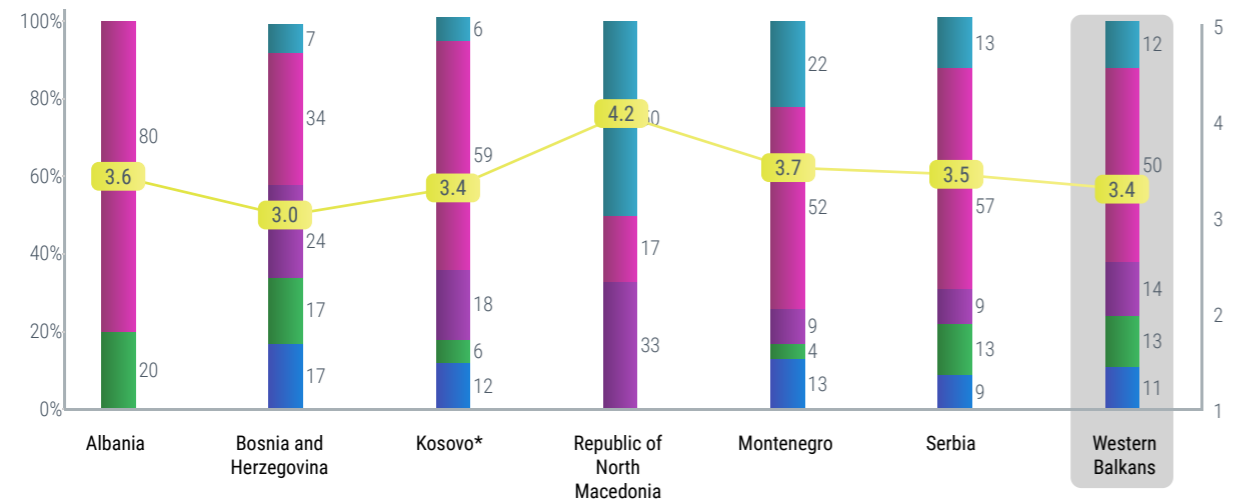
When it comes to selling their products, the focus of Western Balkans companies lies almost squarely on the domestic market. As many as two-thirds of

**The figures might not add to 100% due to rounding.

To better integrate your company's value chain



To access natural resources and raw materials



To acquire or complement new technologies or brand

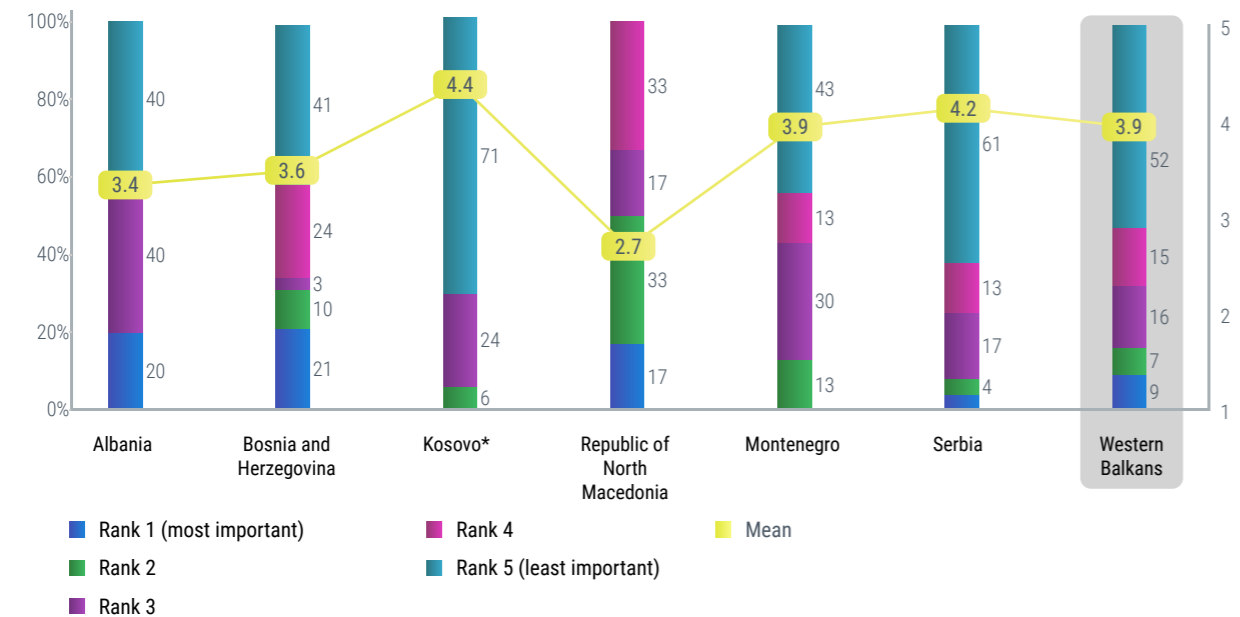


Figure 82: In the process of choosing where to invest abroad, how important were the following factors?

(Respondents whose companies invested abroad, or plans to do so in the next 12 months - N=103, scores are on a scale of 1 to 5 where 1 means not important at all and 5 very important, share of total, %, mean)

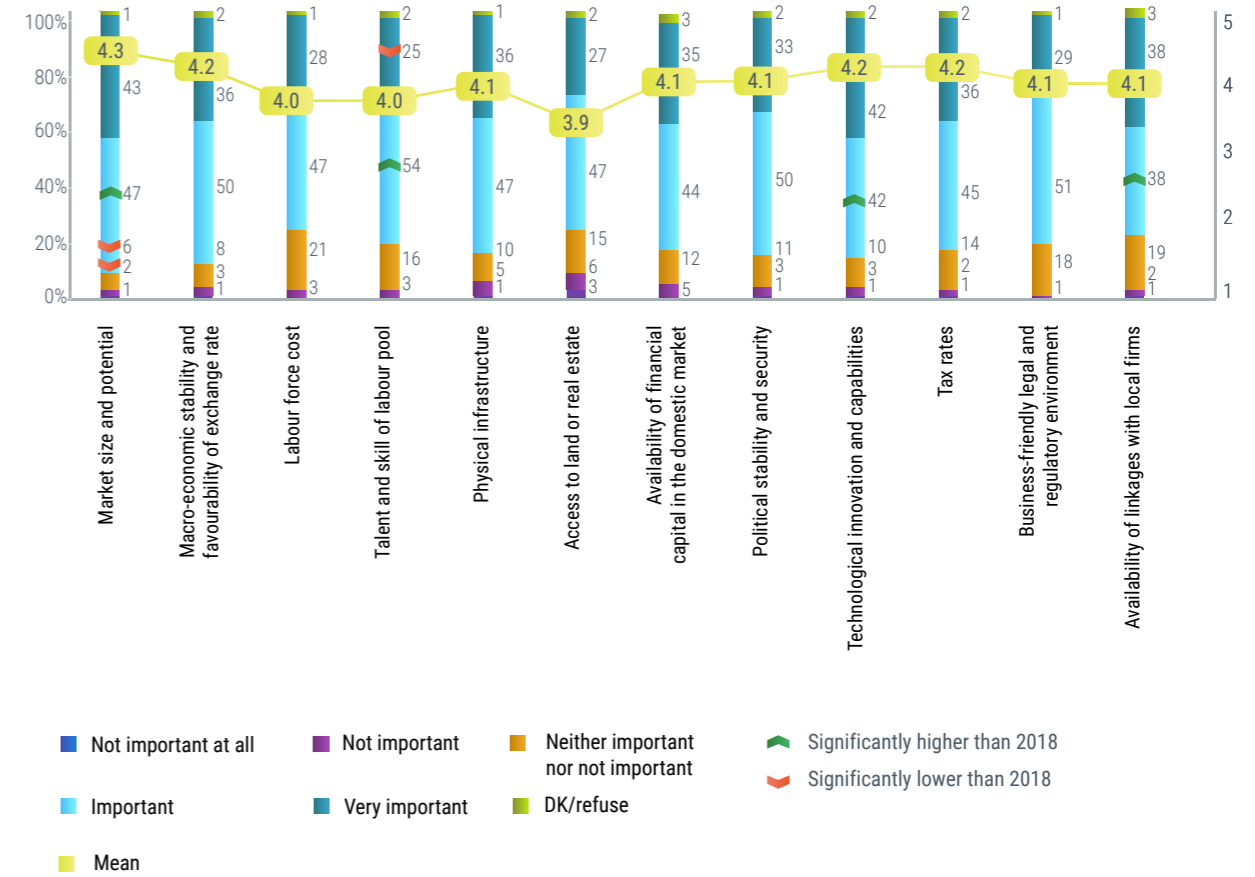
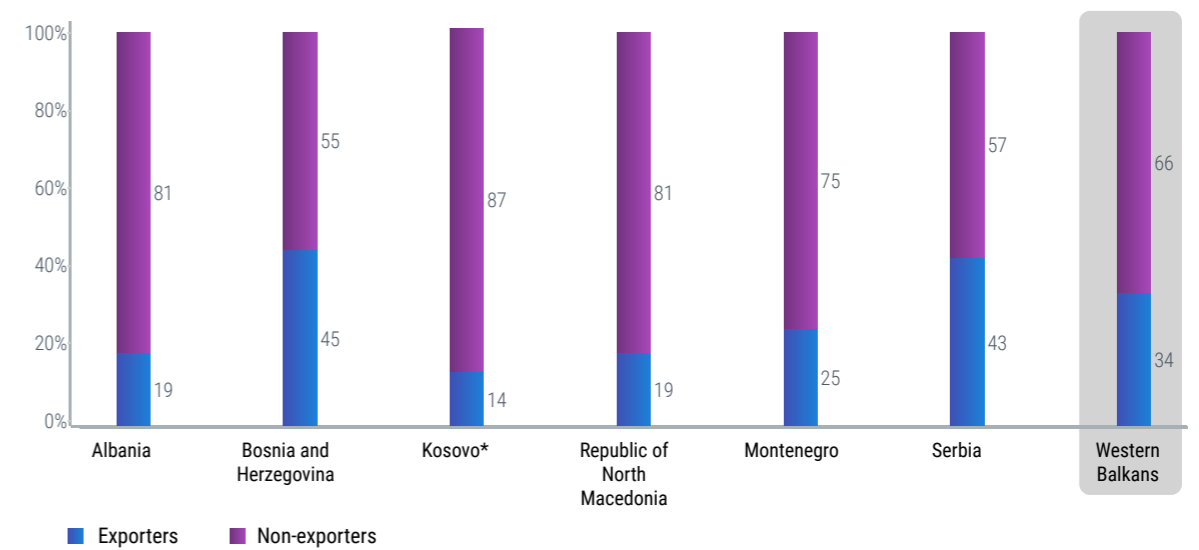


Figure 83: Has your company exported goods or services over the past 12 months?

(All respondents - N=1215, share of total)



**The figures might not add to 100% due to rounding.

Figure 84: What percentage of your company's sales are made domestically, exported to the Western Balkans region, to the EU or to the third countries?***
(All respondents – N=1215, share of total)

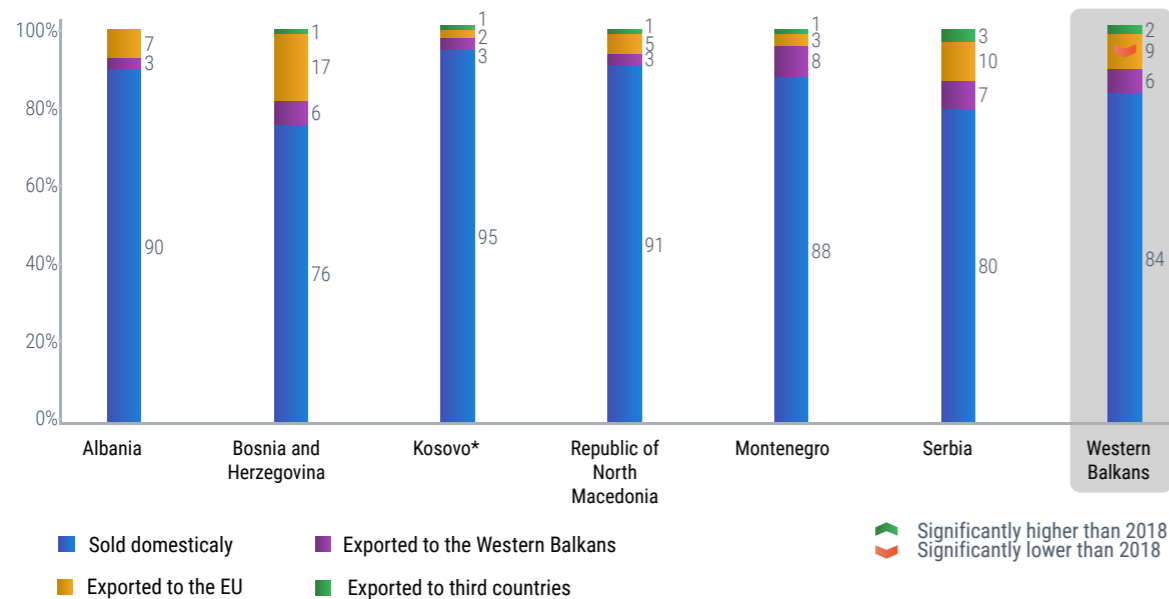


Figure 86: Has your company imported goods or services over the past 12 months?***
(All respondents – N=1215, share of total)

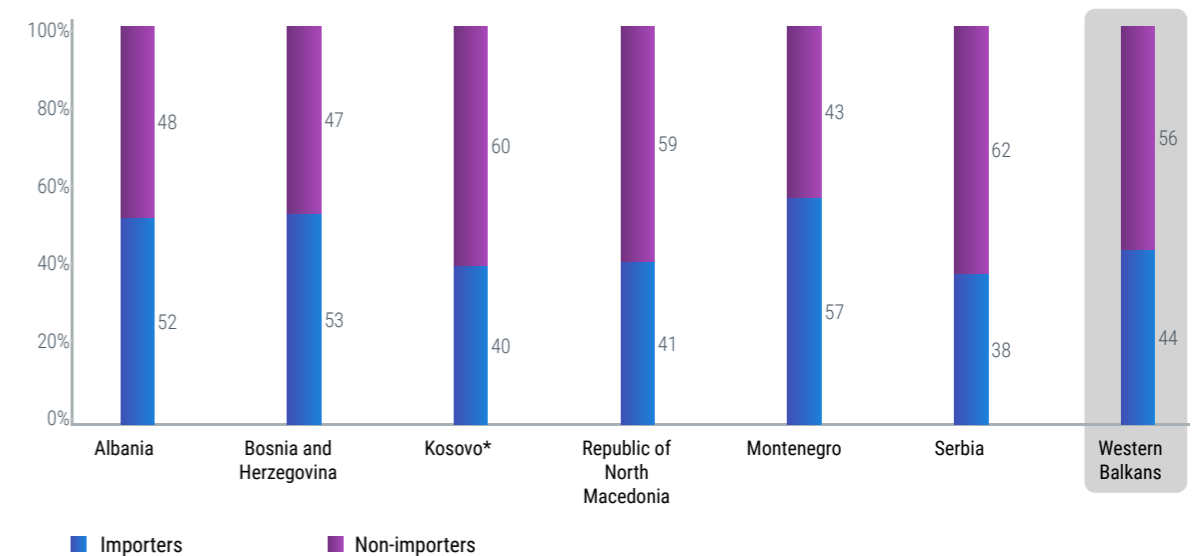
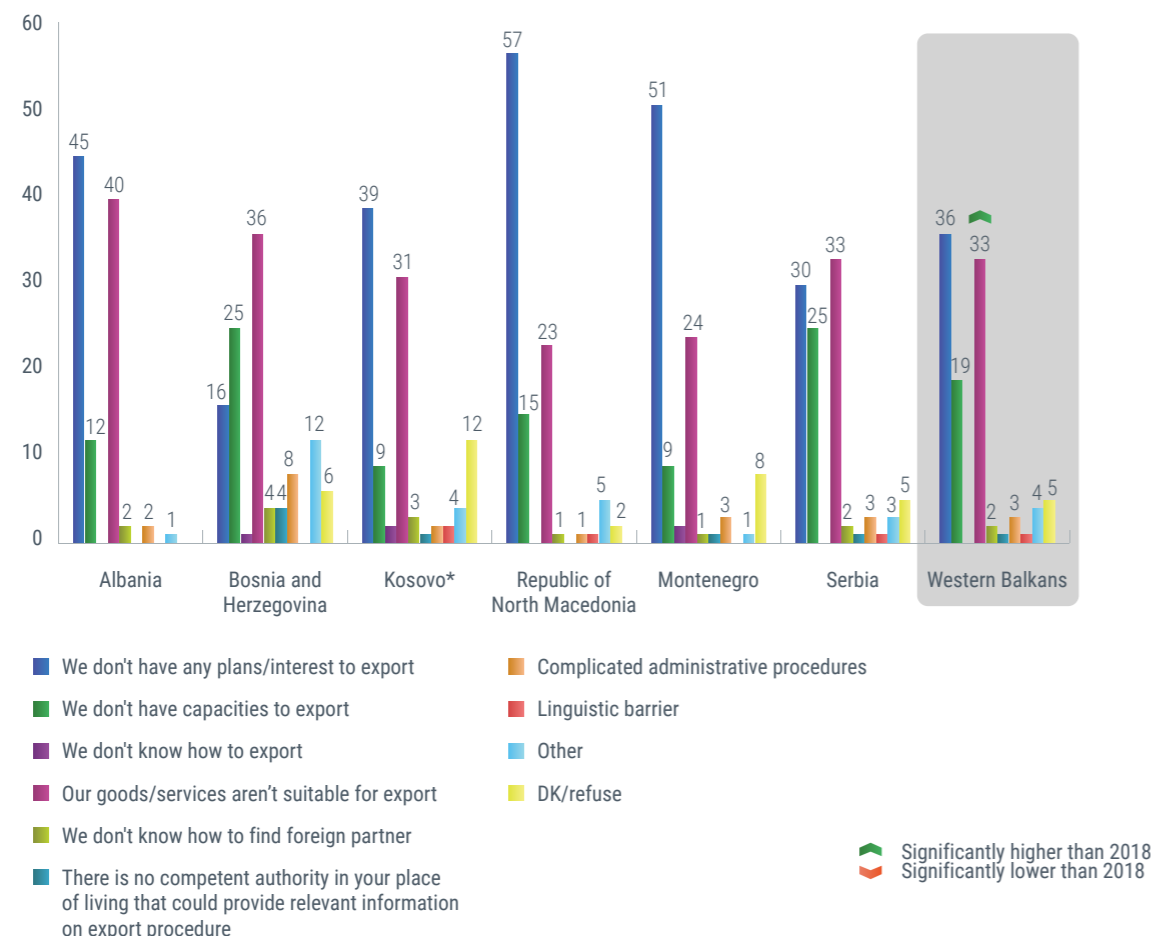


Figure 85: Why doesn't your company export?***
(Respondents who do not export - N=882, %)



Businesses from Bosnia and Herzegovina and Serbia seem to be the most export-oriented. In Bosnia and Herzegovina, 45% of all companies are seeking out markets abroad, while 24% of total sales are coming from outside their economy. This is closely mirrored by Serbia where 43% of all companies export and 20% of total businesses' sales originate abroad. Both economies are more focused on the EU, rather than regional markets. Businesses in Kosovo*, the Republic of North Macedonia and Albania are much less likely to offer their products abroad and have a significantly lower proportion of revenues coming from outside their economy.

Companies from the Republic of North Macedonia are least interested in export (57% say they have no interest), while businesses from Albania are most concerned about the competitiveness of their products abroad (40%). Also, 19% of companies surveyed would presumably export, but they are limited in their capacities. This scenario is most widespread among non-exporters from Bosnia and Herzegovina and Serbia.

Export-oriented companies make almost half of their sales in foreign markets (48%). Also, market orientation is highly correlated to company size, as larger firms source almost 60% of their sales outside of the domestic market, while medium-sized and small companies source less than 30%. Ownership plays an important role too, since foreign companies make 55% of their sales outside their economy of residence.

It is interesting that almost none of the non-exporters stated lack of information as a barrier for exporting their goods. Also, excessive administrative procedures seem to be a significantly limiting factor only for non-exporters from Bosnia and Herzegovina.

Companies that do not export usually state that they either do not have plans to export or that their products are simply not suitable for export. These two categories of companies account for more than two-thirds of non-exporters. The confidence of the businesses in their products vis-à-vis foreign competition has declined as in 2018, 21% evaluated them as not suitable vs. 33% in 2019, possibly a source of some concern.

Western Balkans companies primarily source their inputs on the domestic markets. When it comes to sourcing their inputs, fewer than half of companies (44%) reach out to foreign markets when buying their inputs. Again, the percentage of those purchases in total input purchases is considerably lower (24%). Imports from the EU make up most of the raw materials, intermediate goods or services sourced from abroad.

Montenegro and Albania depend on imports the most in the region, as more than half of their companies reported importing goods or services over the past 12 months. Bosnia and Herzegovina also saw more than half of its companies importing goods or services, but the share of imported inputs in total inputs is considerably higher for the two former economies (a third vs. a quarter for Bosnia and

***The figures might not add to 100% due to rounding.

***The figures might not add to 100% due to rounding.

Herzegovina). Serbia seems to be the most self-sufficient when it comes to sourcing inputs, as only 38% of its companies import while only 18% of its total inputs are sourced on the foreign markets.

Further integration of the region through initiatives like "Mini Schengen" would allow Western Balkans

economies to attain a higher level of specialisation and economies of scale (efficiency), by making importing and exporting easier and cheaper. Economies of the region (or their companies) generally tend to be self-sufficient, as much as possible, yet, they would likely welcome an opportunity to reliably source inputs at lower prices.

Figure 87: What percentage of your company's inputs and supplies are...?*

(All respondents - N=1215, share of total, mean)

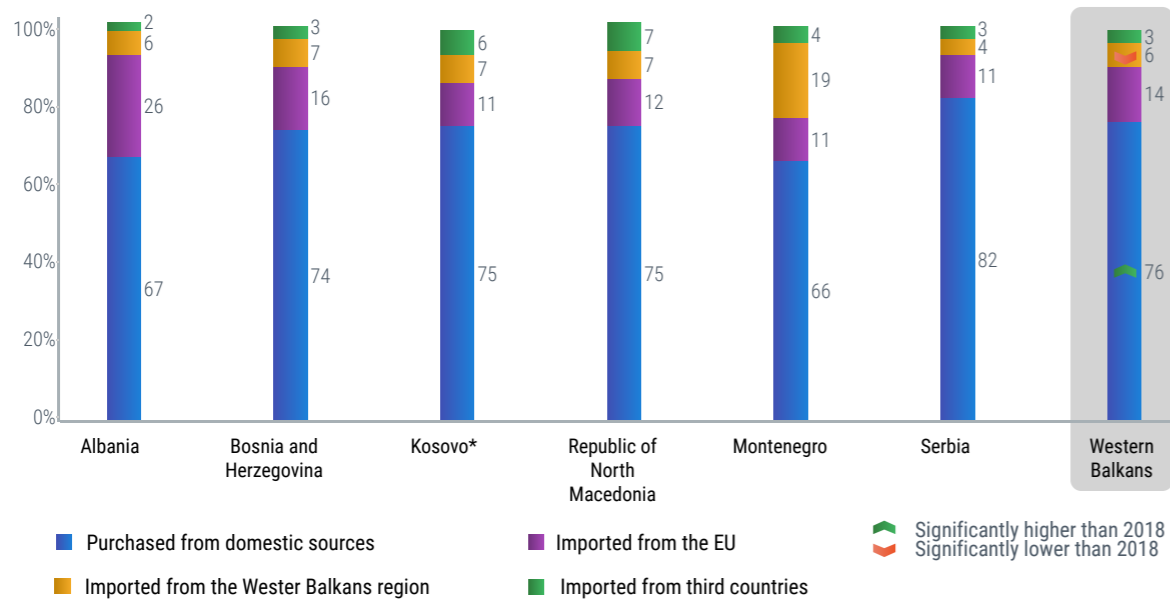
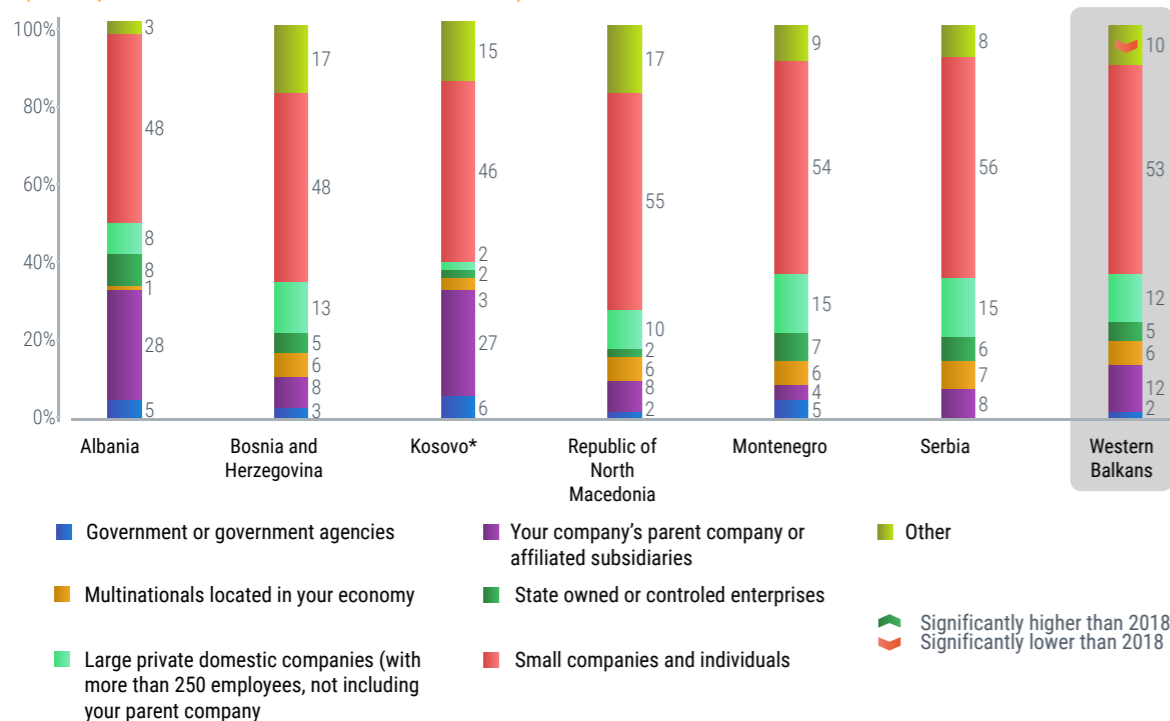


Figure 88: What percentage of your domestic sales are made to?*

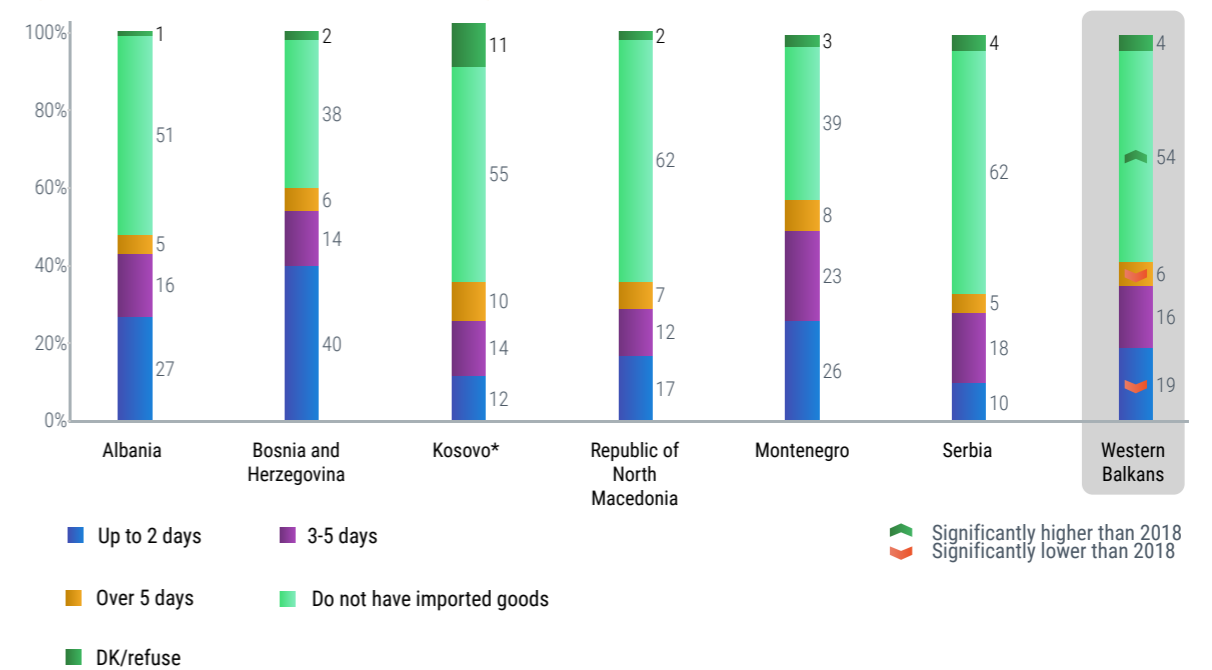
(All respondents - N=1215, share of total, mean)



**The figures might not add to 100% due to rounding.

Figure 89: If you have imported goods in the past 12 months, what is the average number of days to clear imports through customs?*

(All respondents - N=1215, share of total, %)



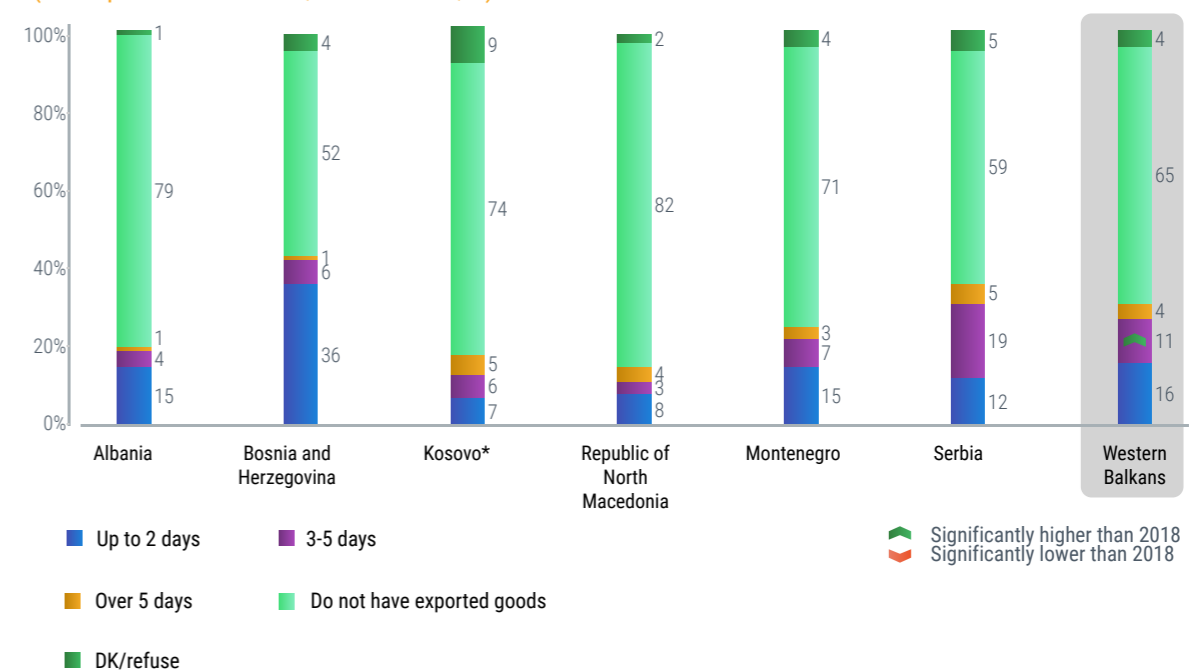
Domestic companies tend to rely on domestic markets much more than foreign-owned ones (80% of inputs vs. 34% of inputs). The same stands true for non-exporter and exporter companies (84% of inputs vs. 62% of inputs). Furthermore, reliance on foreign

markets rises as the size of the company increases (small source 79% of inputs domestically vs. 45% for large).

Small firms and individuals remain the main buyers for Western Balkans companies. This is applicable

Figure 90: If you have exported goods in the past 12 months, what is the average number of days to clear exports through customs?*

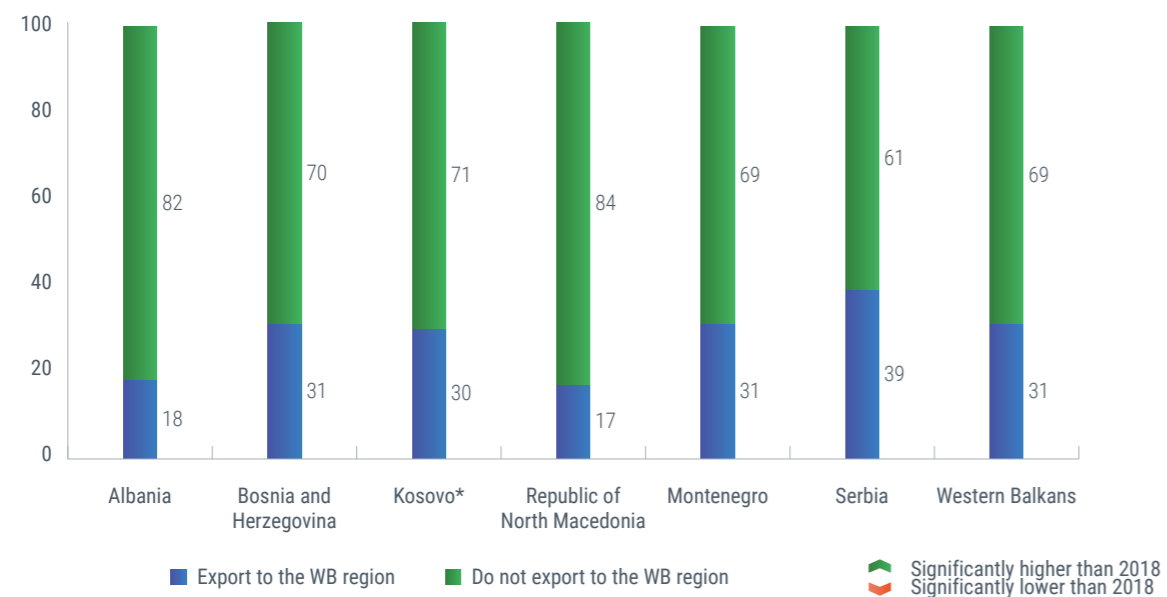
(All respondents - N=1215, share of total, %)



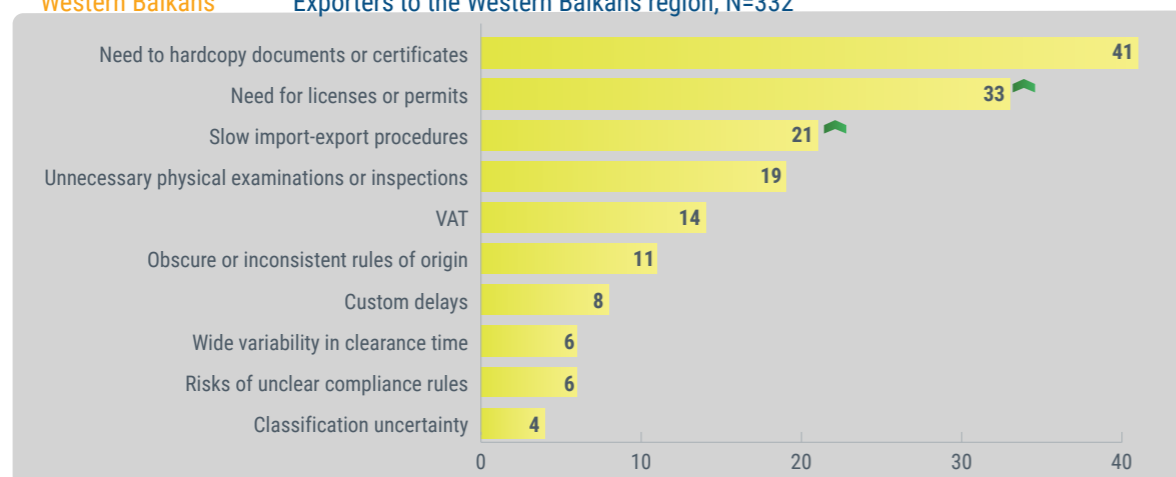
**The figures might not add to 100% due to rounding.

Figure 91: If your company exports to the Western Balkans region, what are the main obstacles to your exports?*

(All respondents - N=1215, share of total, %)



Western Balkans Exporters to the Western Balkans region, N=332



to all economies in the region, and to a slightly greater degree to Serbia, the Republic of North Macedonia and Montenegro than for the rest of the pack.

Large private companies and parent companies are also significant buyers, as they account for 12% of sales each. Large private companies are especially important in Montenegro and Serbia (15%), while parent companies are particularly popular in Albania (28%) and Kosovo* (27%). Same as last year, public sector [Public sector is here defined as both the government and state-owned enterprises.] purchases create demand for 7% of total sales with the practice more prevalent in Albania (13%) and Montenegro (12%) than elsewhere in the region.

Same as last year, multinational companies create demand for only 6% of total sales. This figure may

act as a proxy for measuring the integration of foreign companies within the domestic economy – the higher the share is, the more integrated the company. Given that this share is rather limited, the level of integration of multinational companies within Western Balkans economies can be considered generally low. Even in the case of Serbia, the region's FDI champion over the past several years, this share stands at 7%.

Slightly fewer than 45% of all importers report clearing customs within two days or less on average, while an additional 36% state that it usually takes 3-5 days. Share of companies that have waited for more than five days on average has dropped from 19% in 2018 to 13% in 2019. At the same time, however, the share of companies reporting customs clearance within two days has also decreased.

Clearing through customs takes the least time in Bosnia and Herzegovina, as two-thirds of Bosnian companies reported customs clearance within two days. Albanian customs are relatively efficient as well, since slightly more than half of all companies reported clearing customs within two days or less. According to the survey results, importers from Kosovo* face the longest wait – only 25% clear customs within two days, while 21% have to wait at least five days, and 24% do not know the answer.

Moreover, 2019 has brought significant improvement in the Republic of North Macedonia and Bosnia and Herzegovina, while Kosovo* experienced some regression. Namely, the share of companies reporting to have cleared customs within two days increased from 55% in 2018 to 65% in 2019 in Bosnia and Herzegovina and from 27% in 2018 to 46% in 2019 in the Republic of North Macedonia. In Kosovo*, the share of companies reporting customs clearance in two days or less shrunk from 41% in 2018 to 25% in 2019, mostly in favour of the 3-5 day cluster.

Exporters, large enterprises and companies operating with foreign capital usually take less time to clear customs than their counterparts.

Around 45% of exporters reported clearing customs within two days or less on average, while an additional 32% stated that it usually took 3-5 days. Meanwhile, 13% of exporters took more than five days to clear customs.

Customs administration seems to be the most efficient in Bosnia and Herzegovina and Albania, as 76% and 70% of exporters, respectively manage to clear customs within two days or less. Kosovo* reports the lowest share of exporters clearing thorough this quick (25%), while the Republic of North Macedonia reports the highest number of those that have to wait at least five days. As with imports, Montenegro is the economy positioned around the regional average.

Similar to clearing through customs with imports, large and foreign companies, as well as exporters, spent less time on average dealing with customs while exporting.

Just under a third of all Western Balkans companies export to their regional peers. Most regional exporters are still found in Serbia, although their share has declined from 45% in 2018 to 39% in 2019. Companies from Bosnia and Herzegovina, Montenegro, and Kosovo* are at, or around, the regional average when it comes to exporting in the region, yet with divergent trends. Namely the share of regional exporters shrunk in Bosnia and Herzegovina (from 42% in 2018 to 31% in 2019), while expanding in Montenegro (from 21% in 2018 to 31% in 2019); meanwhile, there was no change in Kosovo* (30%). In Albania and the Republic of North Macedonia fewer than one in five companies export to the region.

Table 3: If your company exports to the Western Balkans region, what are the main obstacles to your exports?*

(Respondents whose companies are exporters to the WB region, N=332, %)

	2019	Need to hardcopy documents or certificates	Need for licenses or permits	Slow import-export procedures	Unnecessary physical examinations or inspections	VAT	Obscure or inconsistent rules of origin	Custom delays	Wide variability in clearance rules	Risks of unclear compliance rules	Classification uncertainty
N											
332	Western Balkans	41	33	21	19	14	11	8	6	6	4
36	Albania	47	36	22	31	6	3	19	6	3	3
62	Bosnia and Herzegovina	45	31	23	18	3	21	5	6	8	2
59	Kosovo*	53	31	14	10	29	8	5	5	7	0
33	Republic of North Macedonia	21	36	27	27	12	15	6	9	9	3
64	Montenegro	36	30	16	25	17	8	5	6	5	9
78	Serbia	40	35	26	13	14	10	10	6	4	5

**The figures might not add to 100% due to rounding.

Figure 92: To what extent do you agree that your company is threatened by global competition?
Please use scale from 1 to 4, where 1 means totally disagree, 2 – disagree, 3 – agree and 4 means totally agree.**
(All respondents - N=1215, share of total, %)

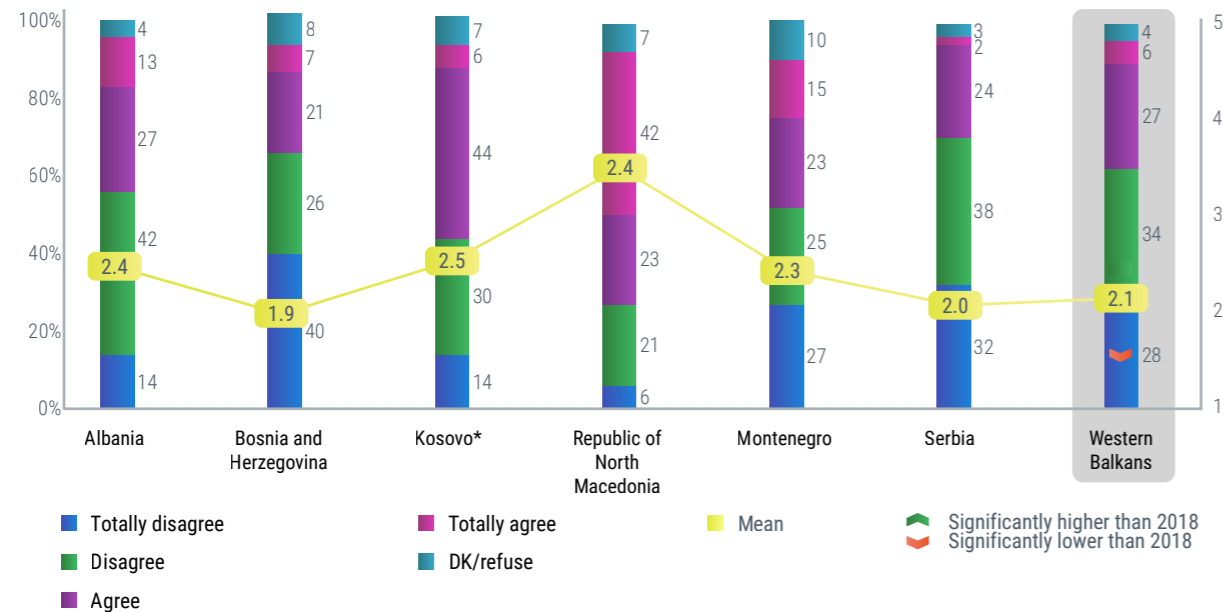


Figure 94: To what extent do you agree with the following statements - My company's products, goods and services can compete well with products, goods and services from the Western Balkans?*
(All respondents - N=1215, share of total, %)

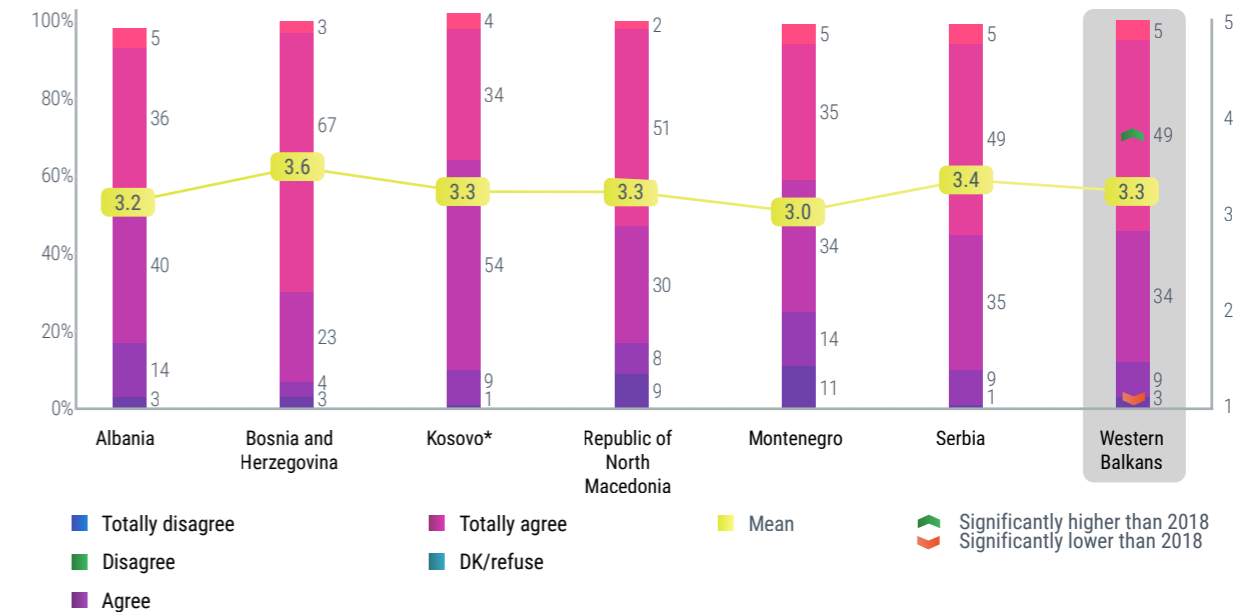


Figure 93: To what extent do you agree that your company is threatened by competition from the Western Balkans region? Please use scale from 1 to 4, where 1 means totally disagree, 2 – disagree, 3 – agree and 4 means totally agree.**
(All respondents - N=1215, share of total, %)

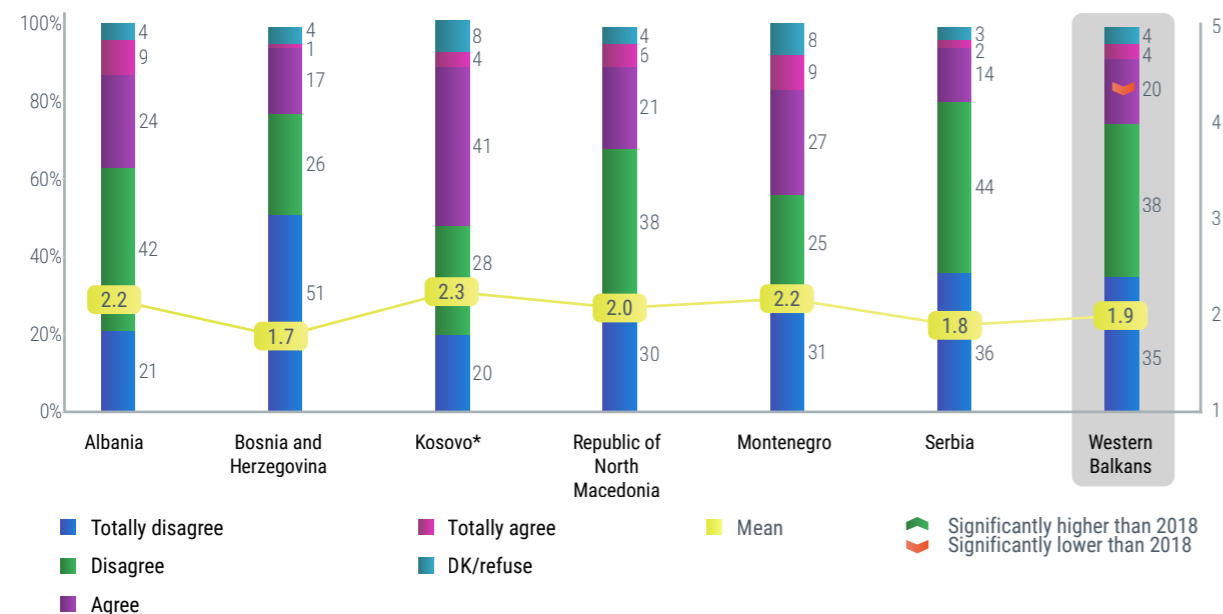
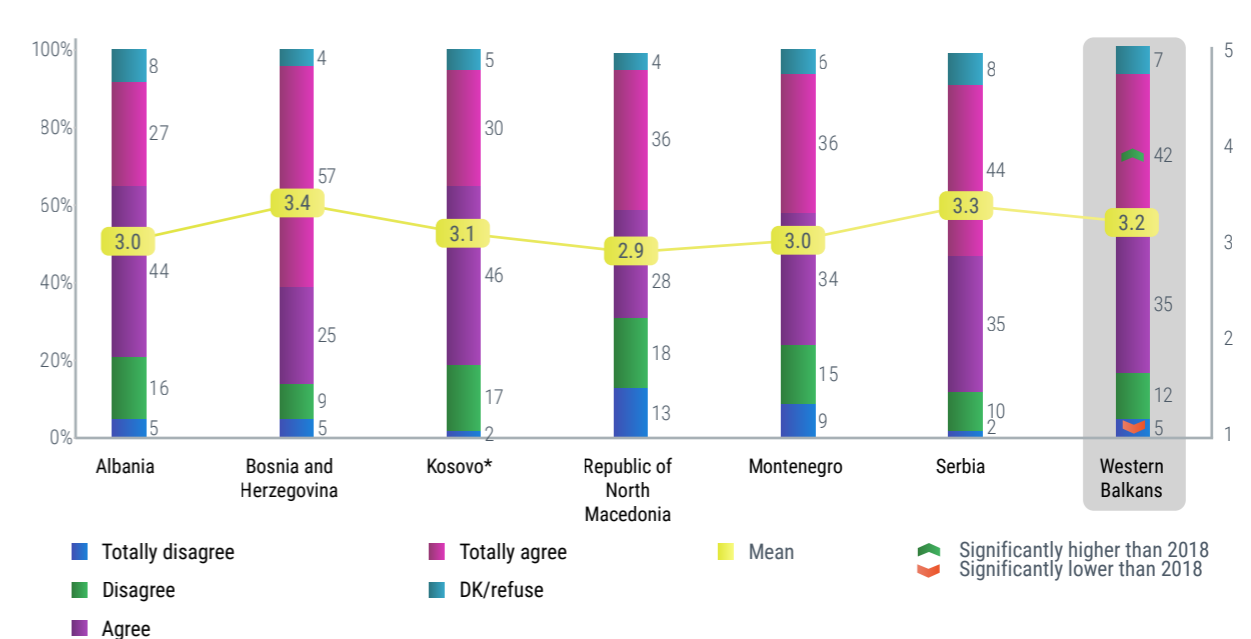


Figure 95: To what extent do you agree with the following statements - My company's products, goods and services can compete well with products, goods and services from other EU countries?*
(All respondents - N=1215, share of total, %)



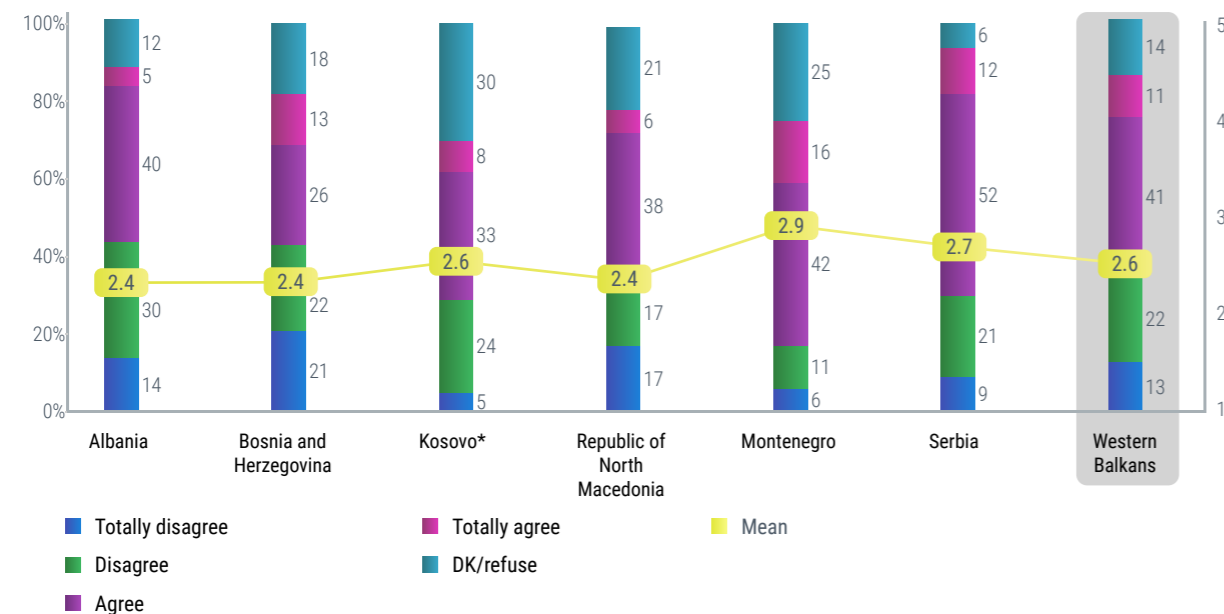
Crucial obstacles to exporting in the region remain largely unchanged, while some are even more pronounced. Again, the need to hardcopy documents and certificates is brought up as burdensome by 41% of exporters. This is followed by the insistence

on different licences and permits, which is problematic for a third of the exporters. Slow import-export procedures and unnecessary physical examinations, or inspections, are cited by a fifth of the exporters. Interestingly, uncertainty regarding customs (cus-

**The figures might not add to 100% due to rounding.

**The figures might not add to 100% due to rounding.

Figure 96: To what extent do you agree with the following statements - "My company has benefited from the regional free trade agreement (CEFTA 2006)"?*
(All respondents - N=1215, share of total, %)



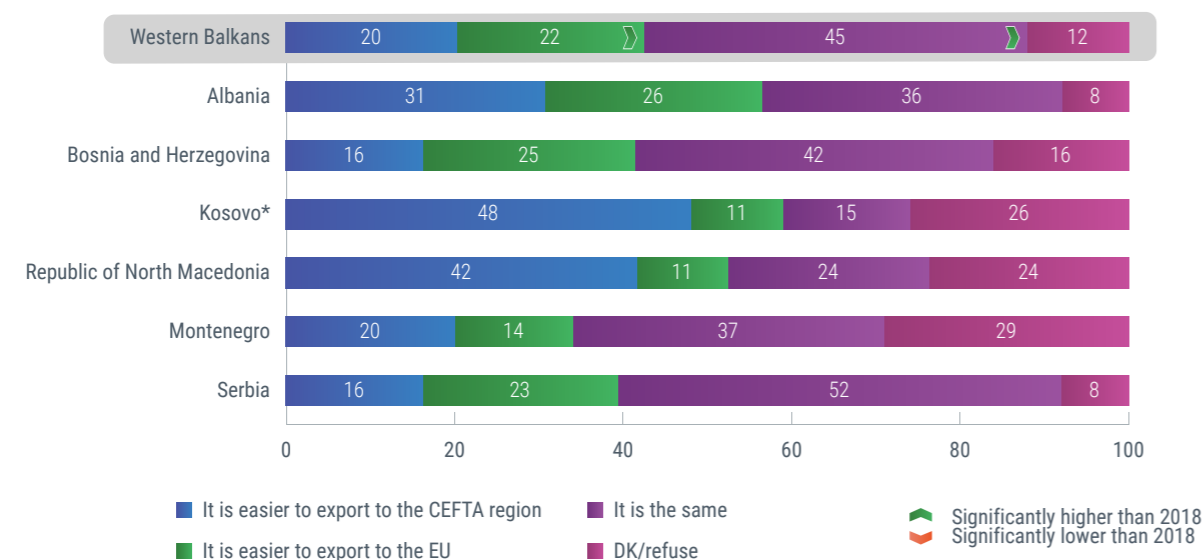
tom delays, inconsistent rules, risk of non-compliance, variability in clearance time) does not pose too big of a problem, according to respondents.

Concerningly, almost no progress has been made over the course of 2019. Namely, there has been an increase in the number of managers reporting insistence on different licences and permits (from 21% in 2018 to 33% in 2019) and complaining of delays in import procedures (from 18% in 2018 to 21% in

2019). On the other hand, obscure or inconsistent rules of origin are less frequently cited (from 18% in 2018 to 11% in 2019).

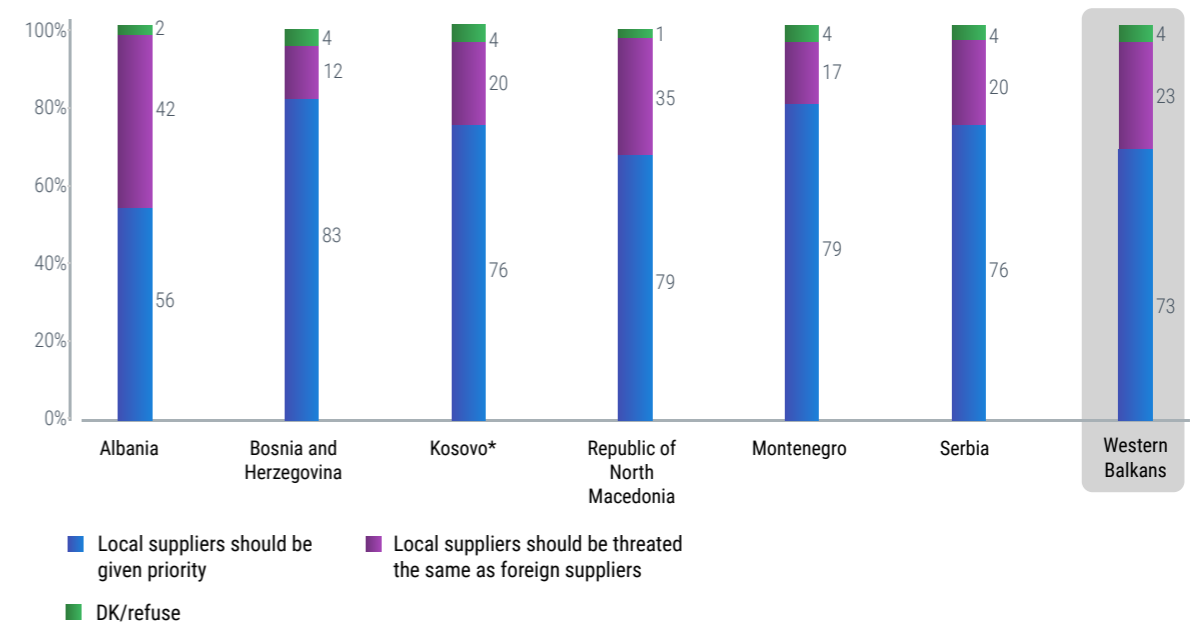
The need to hardcopy documents or certificates is the main obstacle cited across most economies. This issue is especially pronounced in Kosovo* (53%) and Albania (47%), while the Republic of North Macedonia is at the other end of the scale (21%). Licences and permits are equally burdensome across almost

Figure 97: If your company is an exporter, can you tell us whether it is easier to export to the CEFTA region, or to the EU?*
(Respondents who export - N=333, %)



**The figures might not add to 100% due to rounding.

Figure 98: 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)?**
(All respondents - N=1215, share of total, %)



all economies. Slow import-export procedures are most problematic for businesses from the Republic of North Macedonia (27%) and Serbia (26%), while they are least problematic in Kosovo*, which otherwise has the least efficient custom procedures. Unnecessary physical examinations or inspections are the second most cited barrier in Albania and in the Republic of North Macedonia. The VAT case is a curious one as the tax hardly warrants a mention in Bosnia and Herzegovina (3%) and Albania (6%), while it is considered a major obstacle in Montenegro (17%), and a huge one in Kosovo* (29%).

Compared to 2018, the requirement to provide hardcopies of certificates was eased drastically in Montenegro (-26 points) and in the Republic of North Macedonia (-19 points), while the situation appears to have deteriorated in Albania (+20 points) and Kosovo* (+13 points). Enforcement of licencing and permits requirements improved in one economy only, the Republic of North Macedonia (-24 points), while it deteriorated significantly across all other economies, save Montenegro.

Close to two-thirds of Western Balkans executives exhibit a high degree of confidence when coming against foreign competition. The regional score has remained unchanged for the third year in a row now, standing at 2.1.

While generally pessimistic in outlook, companies from Bosnia and Herzegovina exhibit the highest degree of confidence in their products, boasting

**The figures might not add to 100% due to rounding.

a regional high score of 1.9, with Serbia in a close second with 2.0. While less confident on average, the other four economies also boast a significant proportion of managers who do not feel threatened by global competition.

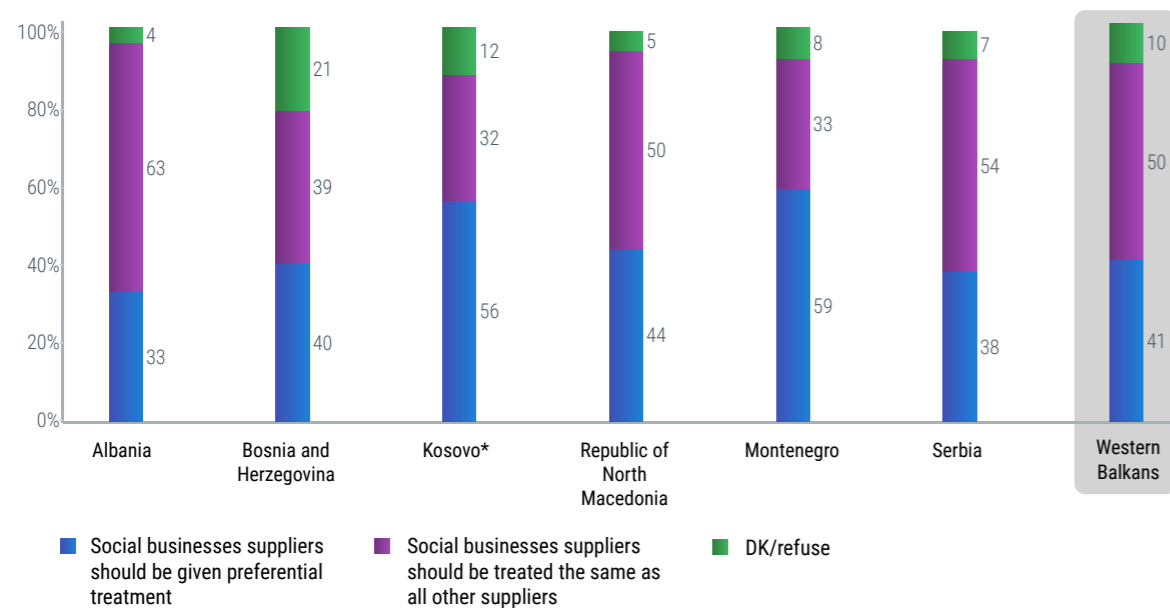
Some significant changes in the perception of own business competitiveness are evident across the region. For example, Montenegro, last year's flag-bearer, has seen its confidence deteriorate from 1.8 to 2.3 in 2019 with a similar development noted in Albania (2.4 from 1.9 in 2018). On a positive note, confidence in Bosnia and Herzegovina and Serbia improved by 0.2 and 0.1, respectively.

While confidence is not affected by company size, it does depend on market orientation. Namely, exporters are much more cautious and report lower confidence than non-exporters (2.3 vs. 2.0). This can probably be attributed to the fact that they actually come into contact with foreign competitors, both at home and across the border. It is interesting that domestic and foreign firms exhibit the same level of confidence.

As in the previous survey instalments, Western Balkans executives are even less concerned about regional competition than they are about global, with close to three-quarters of executives describing themselves as confident (1.9). Some 80% of managers from Bosnia and Herzegovina and Serbia are confident in their competitiveness within a regional context, with scores of 1.7 and 1.8, respectively. At

Figure 99: In your opinion, when procuring products and services, should the governments in the region give preferential treatment to suppliers which are social businesses, or should they be treated the same as all other suppliers (provided price and quality is equal)?**

(All respondents - N=1215, share of total, %)



the same time, managers from Kosovo* exhibit a significantly lower level of confidence (fewer than 50% of confident managers and a score of 2.3).

Companies from Bosnia and Herzegovina and Serbia have seen an increase in the share of confident managers in 2019, improving their scores by 0.4 and 0.1, respectively. On the flip side, managers in Albania, Montenegro, and Kosovo* have grown less confident in the course of last year.

A large majority of Western Balkans managers consider their products to be competitive in a regional setting. Moreover, the level of confidence has rebounded to its 2017 levels following last year's short-lived dip (up to 3.3 from 3.1 in 2018).

In line with other findings presented in this section, managers from Bosnia and Herzegovina tend to be most confident in the quality of their goods and services (90% of confident managers), with Serbia as second ranked, with 84%. Again, Montenegro and Albania tend to exhibit significantly lower levels of confidence, with Kosovo* and the Republic of North Macedonia at, or around, the regional average.

Reported gains in confidence are in keeping with the findings across the section, with Albania as the sole exception; namely, Albanian executives report an upswing in confidence in their merchandise, while at the same time registering a lower level of confidence in their ability to face up to the regional and global competition.

Similar to last year's results, close to four-fifths of executives surveyed believe that the quality of their products is on par with those coming from the EU. Moreover, the regional score improved slightly in this regard, from 3.1 in 2018 to 3.2 in 2019.

Firms from Bosnia and Herzegovina and Serbia easily top the rankings when it comes to product confidence, with average scores of 3.4 and 3.3, respectively. the Republic of North Macedonia is at the opposite end of the scale (score 2.9), with close to a third of managers unconvinced in the ability of their products to compete against their EU equivalents.

Exporters are much more confident in their merchandise than non-exporters (score 3.5 vs. 3.0) and the same is true for foreign and domestic companies (score 3.6 vs. 3.2).

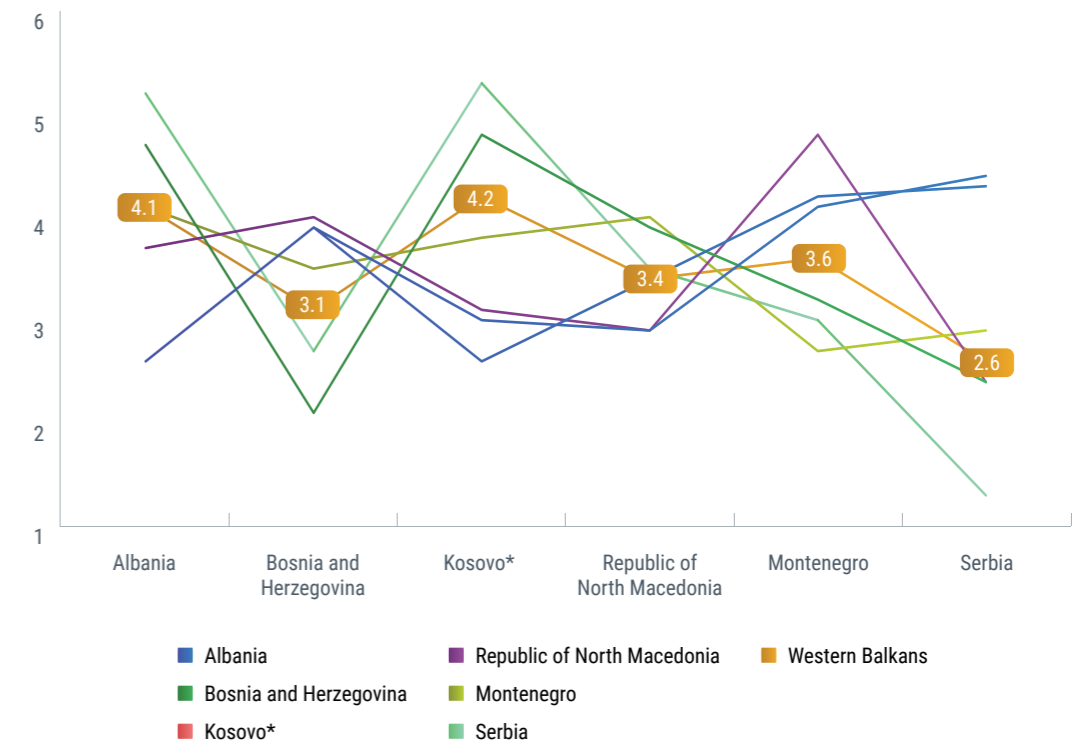
Slightly more than half of all surveyed managers have reaped at least some benefit from the CEFTA free trade agreement, with a slight increase evident from the 2018 survey (+.1). The increase at the regional level has come about largely as a consequence of an increase in figures in Albania (from 1.9 in 2018 to 2.4 in 2019) and the Republic of North Macedonia (from 2.2 in 2018 to 2.4 in 2019); meanwhile, no regression was recorded across any of the other economies.

Montenegrin businesses seem to have benefited the most, as they boast the highest regional score as well as the lowest share of businesses that did not experience any benefits (17%). In Serbia, al-

**The figures might not add to 100% due to rounding.

Figure 100: According to your opinion, which market in the Western Balkans region is the most open one? Please give us your opinion no matter whether you/your company had direct experience with it (1 - most open, 6 - least open)**

(Respondents who can rank, N=446, mean)



	2019	Albania	Bosnia and Herzegovina	Kosovo*	Republic of North Macedonia	Montenegro	Serbia	Western Balkans
Market	Albania	2.6	4.7	2.6	3.7	4.1	5.2	4.1
	Bosnia and Herzegovina	3.9	2.1	3.9	4	3.5	2.7	3.1
	Kosovo*	3	4.8	2.6	3.1	3.8	5.3	4.2
	Republic of North Macedonia	2.9	3.9	3.4	2.9	4	3.5	3.4
	Montenegro	4.1	3.2	4.2	4.8	2.7	3	3.6
	Serbia	4.4	2.4	4.3	2.4	2.9	1.3	2.6

most two-thirds of businesses have benefited from CEFTA, while there is also a sizable share of those who did not (30%), resulting in a cumulative score of 2.7. While Kosovo* stands at the regional average score-wise, the rest of the region's economies sit slightly below the line.

As expected, exporters tend to benefit more than non-exporters (2.7 vs. 2.3). Generally, it seems that benefits are also more tangible for larger companies.

Although there is no regional-level consensus on whether it is easier to export to the CEFTA region or the EU, there is a clear preference at economy level. In addition to 45% undecided managers, 22% are of the opinion that the EU market is less demanding, while 20% feel that way about the CEFTA region. Moreover, the overall sentiment regarding the EU market has improved significantly since 2018, with a seven-point increase in respondents who prefer working with this market.

**The figures might not add to 100% due to rounding.

Kosovo* and the Republic of North Macedonia clearly favour the CEFTA market. In Kosovo*, almost half of all exporters feel they have an easier time working with the CEFTA market, rather than the EU; the Republic of North Macedonia is in second place here, with 42% of managers who favour selling their goods and services on the CEFTA market.

Bosnia and Herzegovina and Serbia, meanwhile, favour the EU market. While a majority of managers in the two economies do not have a stated preference for either of the two markets, those that do, are clearly selling to the EU.

Preferences are also changing over time among the Western Balkans economies. There has been an obvious shift in opinion among companies from Serbia between 2018 and 2019, with a remarkable drop of 27 points within the ranks of those that have a preference for the CEFTA market. A similar yet markedly less pronounced development has also been recorded in Bosnia and Herzegovina (-6 points). This is likely, and at least in large part, due to the continued enforcement of trade tariffs against the two economies by Kosovo*'s government. At the same time, companies in the Republic of North Macedonia are starting to view CEFTA as the main go-to market, with an incredible 31 point hike in preferences since 2018. Similar, if less pronounced, developments are evident in Kosovo* (48% in 2019 vs. 33% in 2018) and Albania (31% in 2019 vs. only 14% in 2018).

Foreign companies either consider the EU market easier to export to (45%) or express no preference between the two (45%)

There is consensus among Western Balkans executives that governments should give priority to local companies taking part in public procurements. Same as last year, close to three-quarters of respondents feel that governments should afford some degree of protectionism to domestic companies.

Executives from Bosnia and Herzegovina and Montenegro are mostly in favour of preferential treatment for local companies (83% and 79%, respectively). Meanwhile, Serbia and Kosovo* are at, or around, the regional average, with managers from Albania most likely to support free and fair competition for all companies in the region.

There is consensus that governments should not give preferential treatment to social businesses, albeit a fragile one. 41% of businesses support the idea that decisions on public procurement should encompass social considerations, while 50% disagree. Sentiments differ across the individual economies, however.

The idea of affording preferential treatment to not-for-profit companies that aim to address social problems is endorsed by a majority of businesses in Montenegro (59%) and Kosovo* (56%). At the same time, their counterparts from Albania and Serbia are much less likely to support this type of socially-driven affirmative action (33% and 38%, respectively). While the Republic of North Macedonia is closer to the latter group than the former one, respondents from Bosnia and Herzegovina are split almost evenly down the middle.

Smaller companies tend to support the idea of giving preferential treatment to social businesses more than large ones (45% of micro- and 38% of small ones vs. 28% of large ones).

The market in Serbia continues to be perceived as the most open in the region, recording a further, if slight, improvement in perceptions since 2018. In fact, the Serbian market is perceived as the most open by three out of five remaining Western Balkan economies. Meanwhile, the market in Bosnia and Herzegovina is perceived as the second most open with the Republic of North Macedonia now moving into third after recording a slight increase in the ratings since the 2018 instalment.

Montenegro, meanwhile, has dropped into fourth, following a decline in ratings since 2018 with markets in Kosovo* and Albania seemingly the least open with average ranks of 4.2 and 4.1, respectively. While Albania's score deteriorated in the course of last year, Kosovo* recorded a substantial improvement in perceptions.

Interestingly, there is a clear polarisation between Serbia and Bosnia and Herzegovina, on one side, and Albania and Kosovo* on the other. These two blocks consider each other's markets as generally very insular. Certainly, one of the underlying reasons for this lies with the tariffs Kosovo* imposed on goods from Bosnia and Herzegovina and Serbia. In the case of Albania, meanwhile, logistics likely play a major role, since the Albanian market is not easily reachable by companies from Serbia and Bosnia and Herzegovina.

INNOVATION AND TECHNOLOGY

Western Balkans companies still use the Internet in a largely traditional fashion, mostly for communication and advertising. One of the more "modern" features, e-banking, has seen an upswing in interest over the past year, as now around half of all companies surveyed rely on this method to execute financial transactions. However, half of all companies still do not have a functional website.

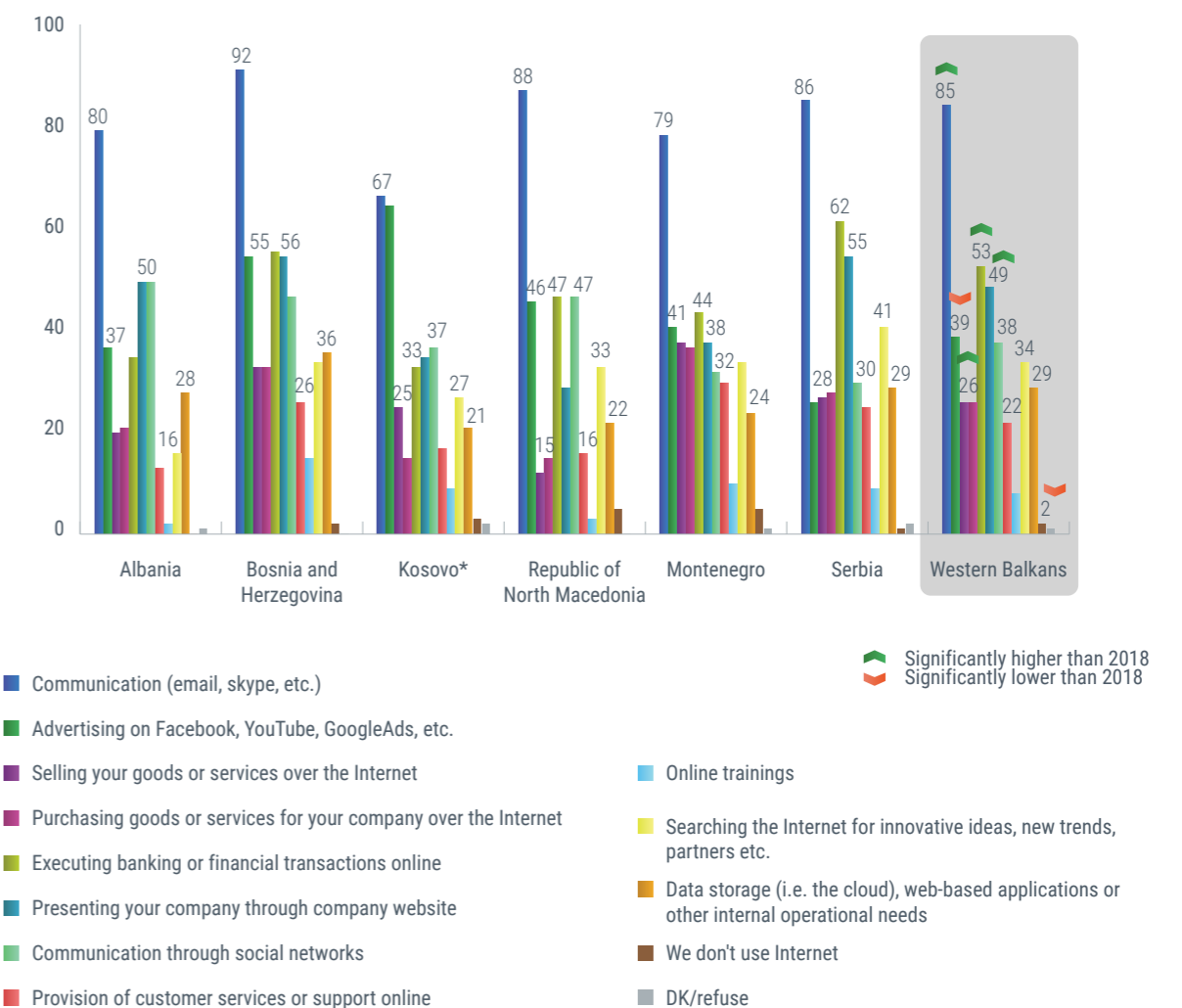
In spite of global trends, the number of online sellers has remained relatively unchanged. Companies that do sell over the Internet, have, however, increased their volume of sales, in some instances significantly.

There is little new to report in terms of innovation since last year. Fewer than three out of ten compa-

nies report introducing a new product or process over the past three years. Moreover, three-quarters of these innovations were new only to their respective enterprise. Out of 1000 Western Balkans companies, 290 have introduced an innovation and out of these, 75 have introduced market-level innovations, of which 12 were at the EU level, and 9 were innovations on a global scale. It is worth noting that the highest share of companies that reported innovations in the Western Balkans come from Bosnia and Herzegovina and Montenegro, while Kosovo* reports the highest share of European and global innovations.

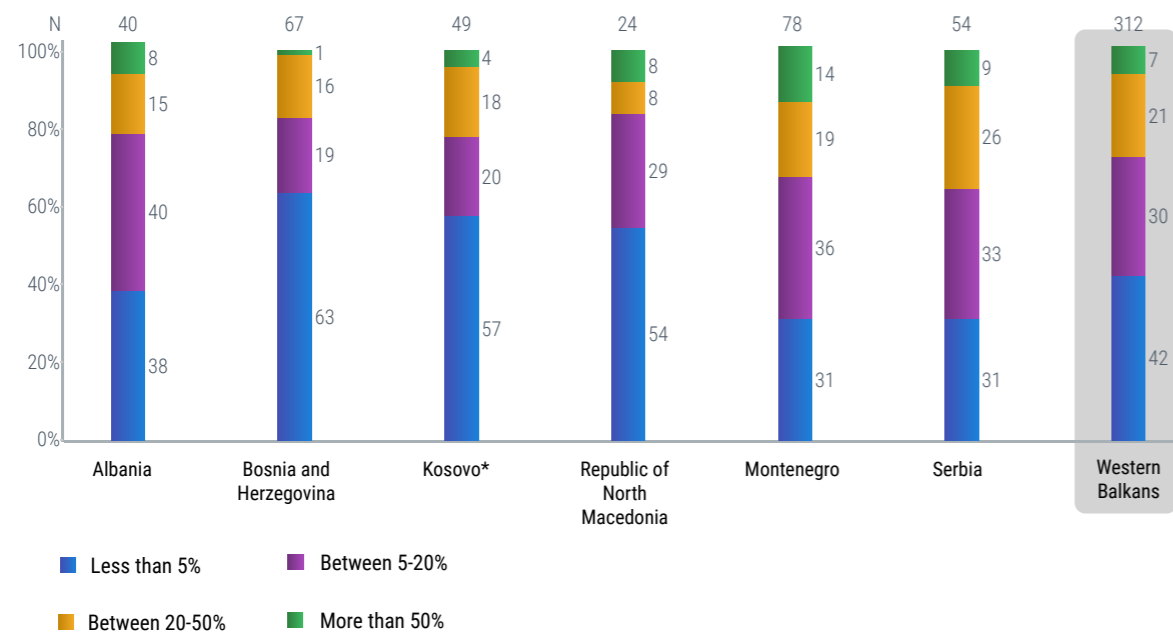
Innovative activity could be fostered through encouraging cooperation and targeted financial support. Namely, Western Balkans businesses tend to

Figure 101: Does your company use Internet for...? **
(All respondents - N=1215, share of total, %)



**The figures might not add to 100% due to rounding.

Figure 102: What percentage of your total sales is currently generated through online sales?*
 (All respondents who sell their goods or services over the Internet - N=312, share of total, %)



rely almost solely on their own strengths when it comes to R&D activities. They rarely cooperate with universities (only one in 10) or among each other (only two in 10). Also, financial support for innovation, either from governments or international donors, gets to only 1 in 10 companies on average. It is worth noting that special attention needs to be placed on supporting SMEs in this regard as large companies receive support from the governments to a much greater extent (42% vs. 9% for SMEs).

Almost all Western Balkans companies use the Internet and its use is becoming more diverse and widespread. Still, the Internet is prevalently used for communication via Skype, email and other channels (85% of the companies). E-banking has significantly gained in popularity, as more than half of companies execute transfers online in 2019 (vs. 40% in 2018). Also, almost half of all companies have a website (vs. 42% in 2018). It seems that advertising on social media, Google and YouTube has lost some of its earlier popularity (39% in 2019 vs. 46% in 2018). Same as last year, just over a quarter of companies sell their goods and/or purchase inputs online. Despite the global trend of online learning, only 8% of companies reported using the Internet for this purpose.

Businesses from Bosnia and Herzegovina seem to be the most digitalised, as they most extensively use all the listed features (used by 45% of companies on average). Usage of the Internet is also widespread in Serbia and Montenegro, as close to 40% of the companies use the listed features on average. The

remaining economies, while less digitally savvy, still use the Internet extensively, with the listed features used by close to a third of all companies on average.

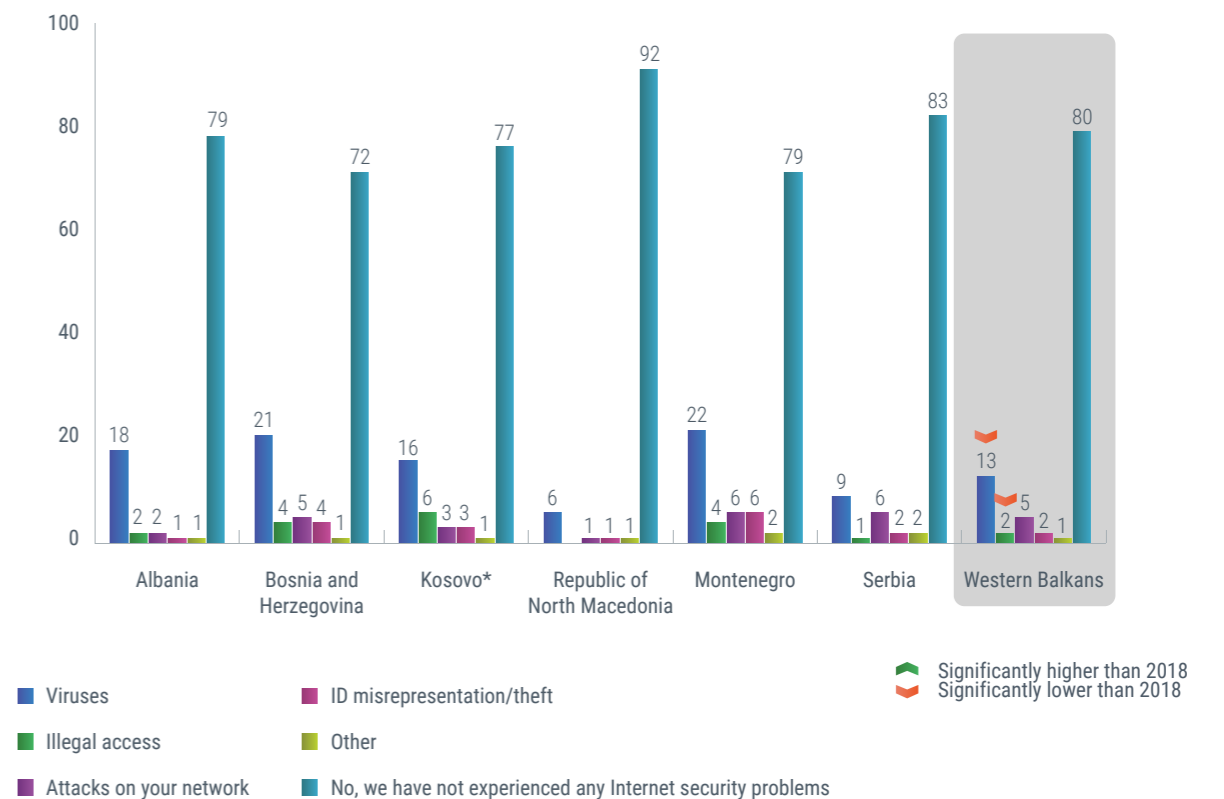
As expected, Internet use is more widespread among large companies and exporters than the rest. Large companies tend to use the internet to search for innovative ideas and trends considerably more than the smaller ones (70% of large companies, 50% of medium-sized ones and less than 30% of small and micro ones). Also, employees of large corporations benefit from online trainings more than those employed in smaller companies.

Traditional ways of selling are still the largest source of revenue even among the companies that sell their goods and services online; online sales are on the rise, however. Although the number of businesses selling online remained unchanged, almost 30% of executives from the region noted that online selling accounted for a significant source of income in 2019, compared to 20% in 2018. Most of this increase can be attributed to the growing significance of revenues from online sales in Kosovo* and Albania, and, to a lesser extent, the Republic of North Macedonia and Montenegro.

Online sales remain the most popular in Serbia and Montenegro with a third of the businesses reporting to have generated more than 20% of their revenue over the Internet. In spite of the growing significance of online sales in the rest of the region, around 80% of the companies still generate at least 80% of their revenues the traditional way.

*The figures might not add to 100% due to rounding.

Figure 103: In the last six months, have you experienced any of the following Internet security problems?*
 (Respondents whose companies are using the Internet - N=1168, %)



Smaller companies usually rely on the Internet more than large ones when selling their products. Online sales are especially important for businesses in the sector of education, science, culture, information, with 60% of businesses in this sector generating at least 20% of their revenues over the Internet.

Companies from the region rarely experience problems with Internet security. The vast majority noted they had no security problems over the past six months (80%). Meanwhile, 13% reported issues with computer viruses, while illegal access was experienced by only 2% of businesses surveyed. While there is broad consensus on the issues faced across the region, Internet security appears to be the least problematic in the Republic of North Macedonia. Also, viruses are somewhat more problematic in Montenegro, Bosnia and Herzegovina and Albania (around one in five companies reported facing this issue).

The vast majority of businesses are satisfied with their Internet connection. More than nine out of ten managers experience no issues with their Internet connection. It seems that the Republic of North Macedonia is also home to the best Internet connection with 98% of satisfied respondents. At the same time, only 75% of their counterparts in Bosnia and

**The figures might not add to 100% due to rounding.

Herzegovina described their Internet connection as satisfactory.

Reliability and stability of the connection, together with bandwidth, are the key features of good Internet access, say a majority of the Western Balkans business community. These two characteristics are the most important for 81% of businesses, while price and coverage are deemed to be not as critical. This is largely in line with expectations since the price of Internet access is generally affordable.

Western Balkans economies exhibit different preferences when evaluating the importance of Internet features. For instance, managers from Serbia and the Republic of North Macedonia value the reliability of connection the most, while their colleagues from Albania, Montenegro and Bosnia and Herzegovina appreciate bandwidth. Prices are perceived as important by managers from Kosovo* and Albania to an extent above the regional average.

Large companies prefer speed, while smaller mostly favour stability of the connection. Also, large companies seem to be more affected by the price (13%) than smaller ones (4-8%).

Most companies work on research and development on their own. Almost identical to last year, only

Figure 104: Are you satisfied with your Internet connection?*
(Respondents whose companies are using the Internet - N=1168, %)

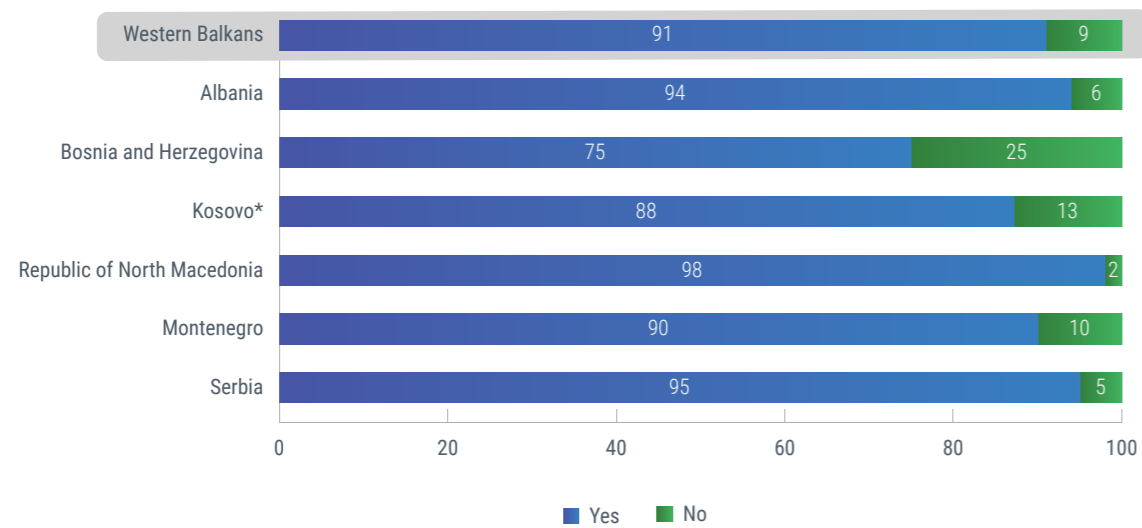
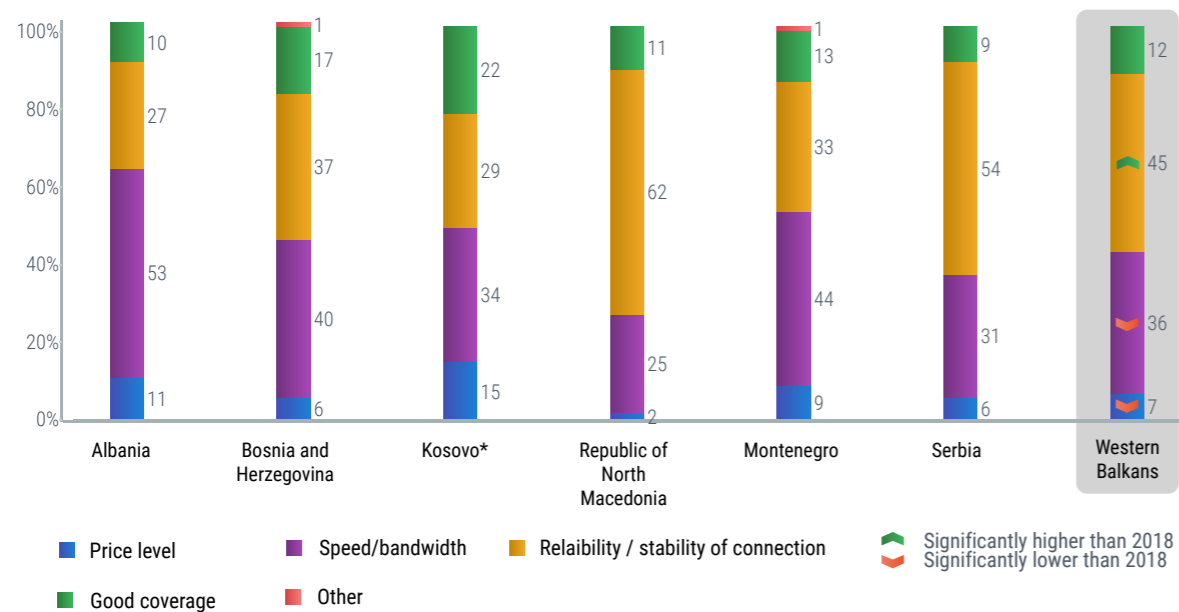


Figure 105: Which feature is the most important aspect for you regarding your internet access?*
(Respondents whose companies are using the Internet - N=1168, %)



9% of Western Balkans businesses have cooperated with universities on R&D. Cooperation of businesses and universities is at an above-average level in Bosnia and Herzegovina, Kosovo* and Montenegro, while Albania and the Republic of North Macedonia are lagging behind.

Large companies (44%), foreign-owned companies (21%) and companies doing business in agriculture, forestry and fishing (18%) are more likely to codevelop new projects with universities than the rest.

Three out of ten Western Balkans companies have introduced new, or significantly improved, products or services, in the past 12 months. Companies from Bosnia and Herzegovina and Montenegro seem to be the most innovative, as just over 40% have introduced new or significantly improved products and/or services over the past year. The number of new or improved products is half that for Albania, Kosovo* and the Republic of North Macedonia, while Serbia is at the regional average.

**The figures might not add to 100% due to rounding.

Large and medium enterprises are more innovative than small and micro ones (around 40% vs. around 25%). Similar is true for exporters and non-exporters (42% vs. 22%); and foreign and domestic companies (42% vs. 28%).

A large majority of companies rely on their own strengths and capacities when working on an innovation. Close to 80% of the businesses in the region develop innovations on their own, while 18% codevelop them with another enterprise. Customising products or services developed by other enterprises is practiced by 9% of companies in the region. The practice of trusting the development of an innovation solely to another enterprise is present only in Montenegro with some statistical significance.

Companies from Bosnia and Herzegovina and Serbia tend to develop innovations by themselves, while their counterparts from Kosovo* and the Republic of North Macedonia are more open to collaboration.

Although a majority of managers innovate only at the enterprise level, a quarter has managed to introduce a product that was completely new to their market. Almost 70% of the companies in the region introduced an innovation that was new only to their enterprise, while 26% introduced an innovation that was, to their knowledge, first in their respective markets.

Markets in Kosovo* and Albania have seen the highest number of new products introduced by domestic companies over the past year (40% of surveyed

Figure 106: In the past 3 years, did you cooperate with any of the universities on research and development (R&D) or technology development projects to help develop new products or services?*
(All respondents - N=1215, share of total, %)

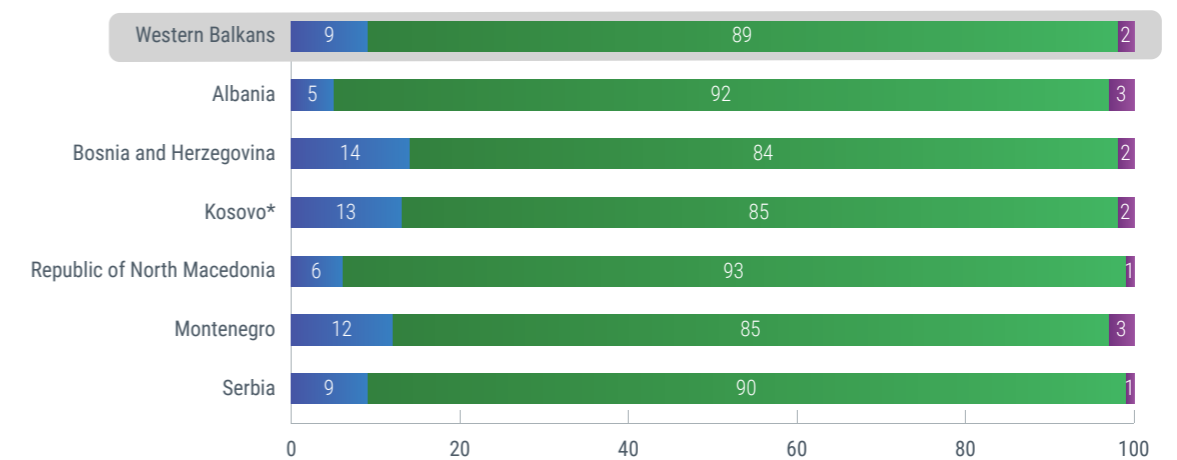
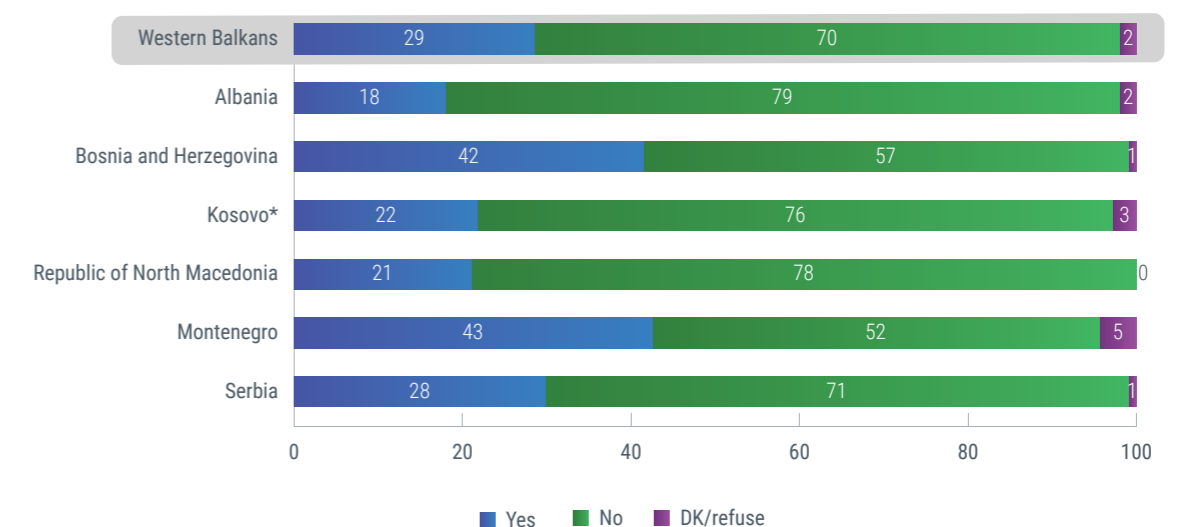


Figure 107: Have you introduced new or significantly improved products and/or services in the past 12 months?*
(All respondents - N=1215, share of total, %)



**The figures might not add to 100% due to rounding.

Figure 108: Who developed these product innovations?*
 (Respondents who introduced new or significantly improved products and/or services - N=354, %)

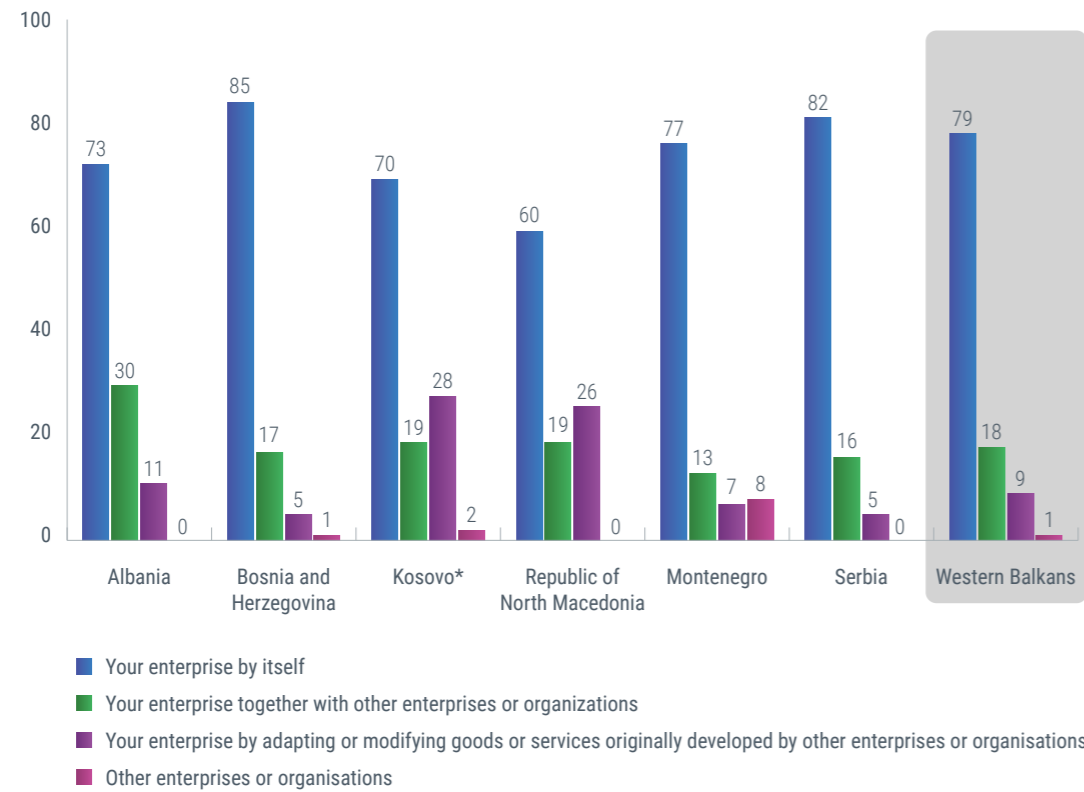
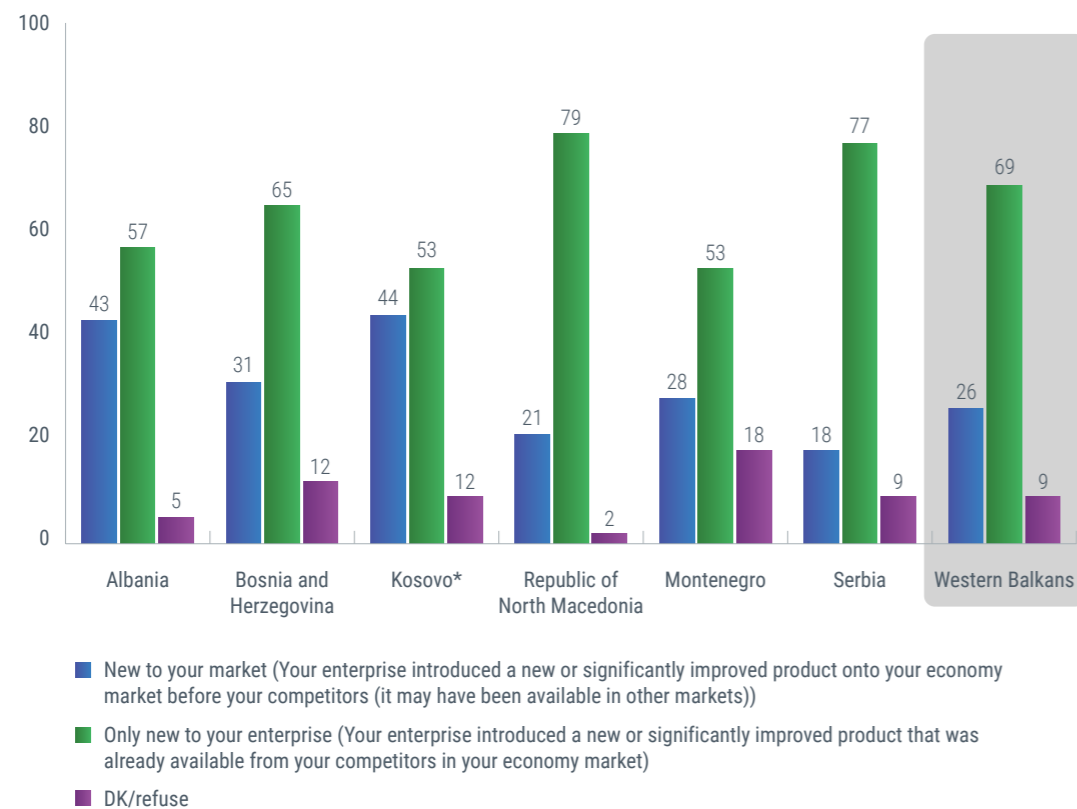
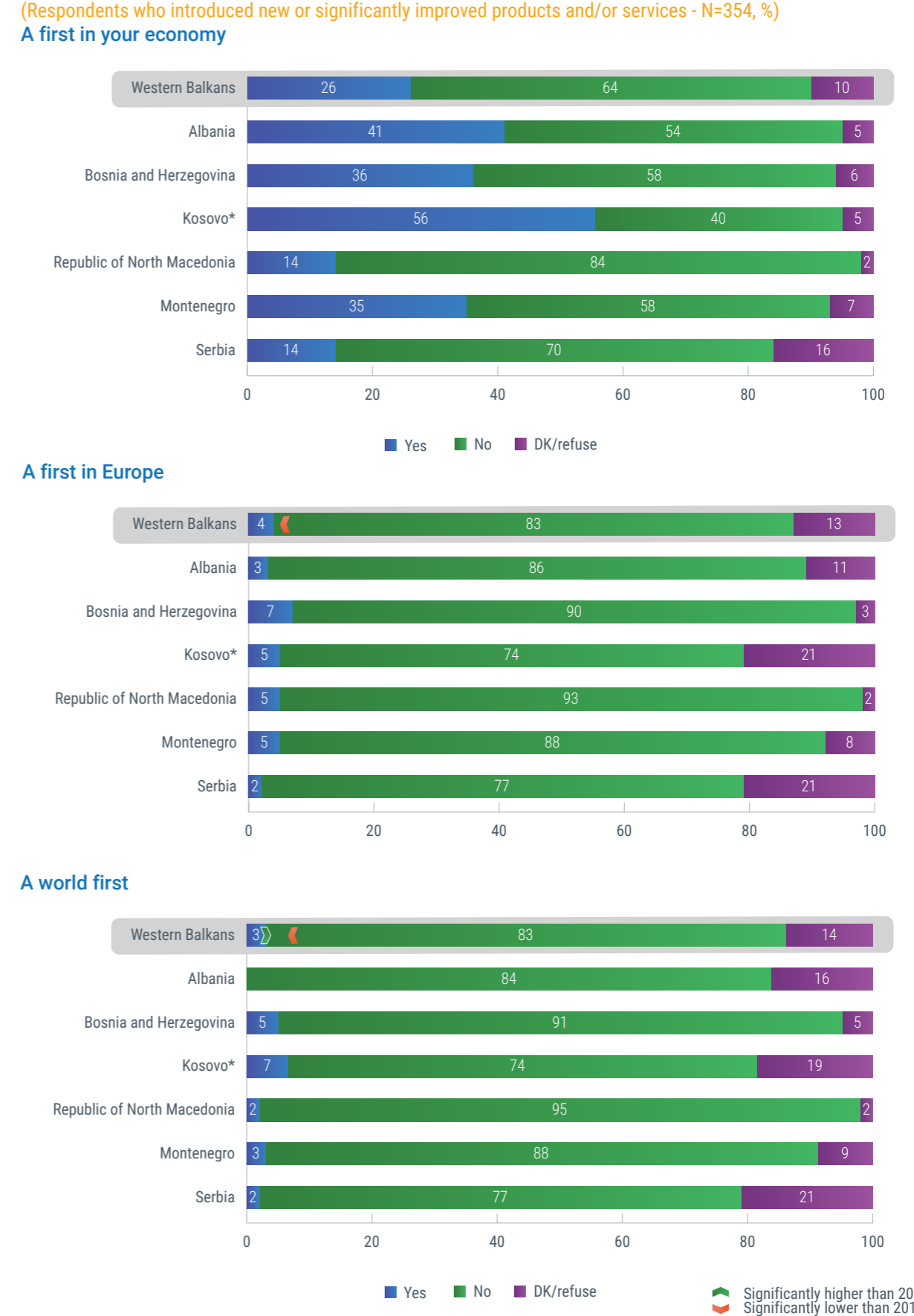


Figure 109: Were any of your product innovations (goods or services)...?*
 (Respondents who introduced new or significantly improved products and/or services - N=354, %)



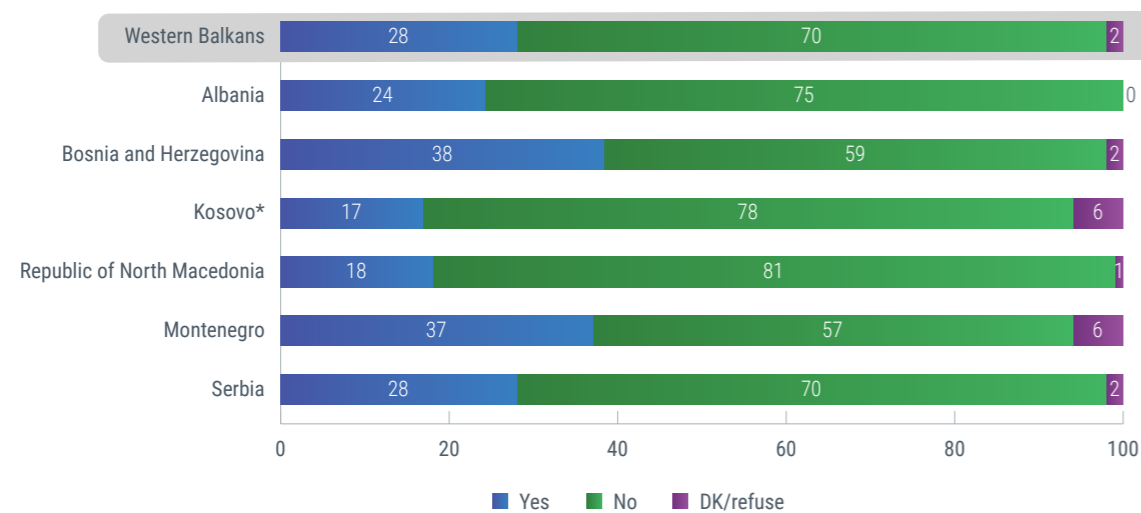
**The figures might not add to 100% due to rounding.

Figure 110: To the best of your knowledge, were any of your product innovations during the three years 2017 to 2019...?*
 (Respondents who introduced new or significantly improved products and/or services - N=354, %)



**The figures might not add to 100% due to rounding.

Figure 111: Have you introduced new or significantly improved production and/or service delivery processes in the last three years (2017-19)?**
(All respondents - N=1215, share of total, %)

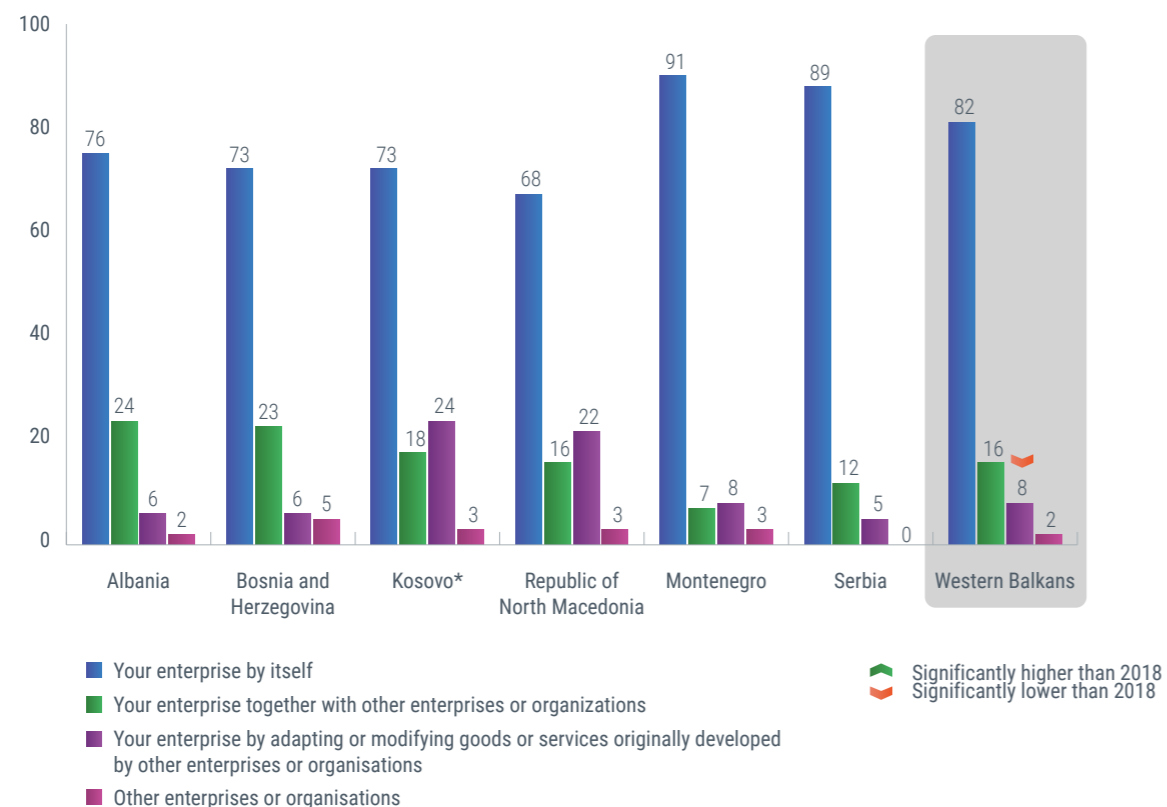


enterprises). At the same time, companies from the Republic of North Macedonia and Serbia more often innovate only at the enterprise level.

Interestingly, the level of innovation is largely independent of industry membership. Foreign-owned companies, however, are much more likely to deliver market-level innovation than domestic ones (43% vs. 24%).

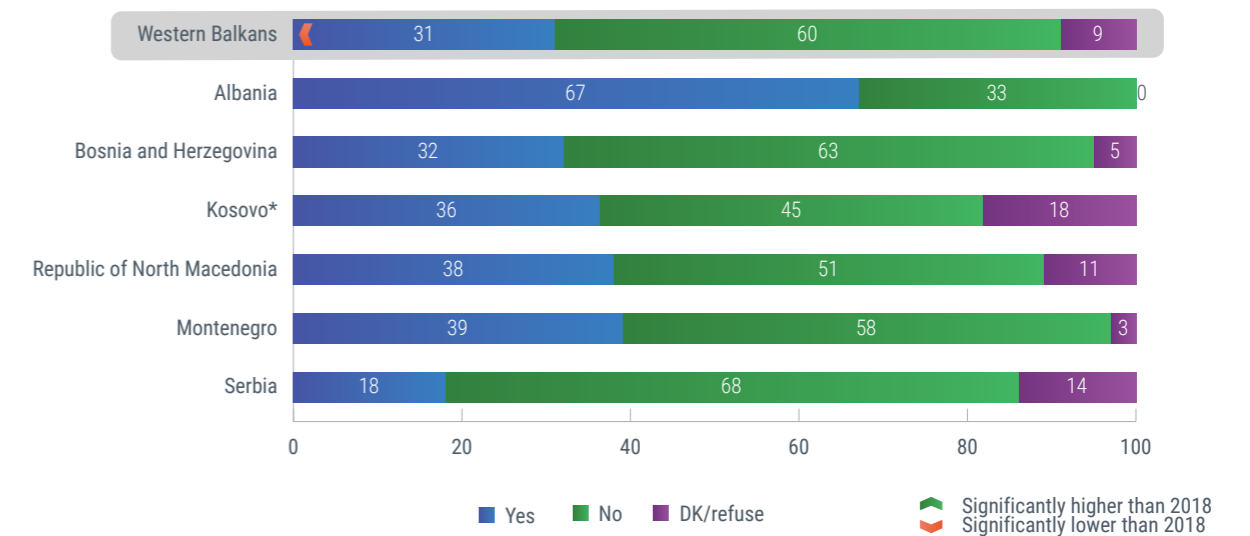
Most of the new products and services that Western Balkans businesses have managed to introduce over the past three years were new only to their respective markets. Similar to last year, around a quarter of companies in the region that reported innovations, noted that the product, or service, can only be considered an innovation in their respective economies. Meanwhile, innovations at the European

Figure 112: Who developed these process innovations?*
(Respondents who introduced new or significantly improved production and/or service delivery processes - N=331, %)



**The figures might not add to 100% due to rounding.

Figure 113: Were any of your process innovations introduced during the three years 2017 to 2019 new to your market?*
(Respondents who introduced new or significantly improved production and/or service delivery processes - N=331, %)



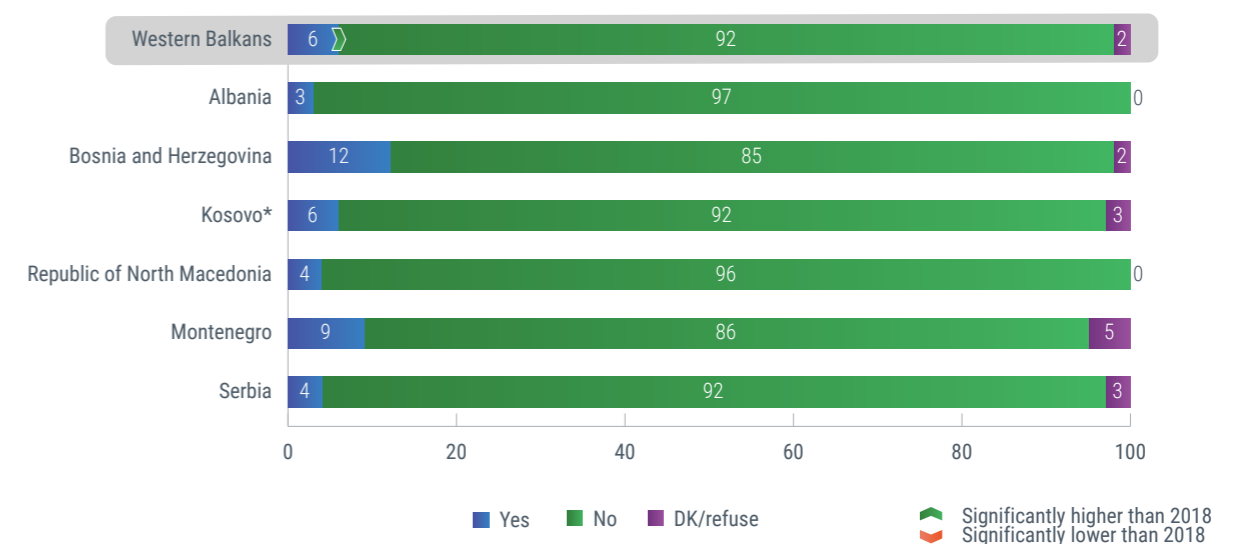
and global levels, although still exceptionally uncommon, have grown from 2% to 4% and from 1% to 3%, respectively, since 2018.

Managers from Kosovo* claim the highest level of innovative dynamism as 56% of their innovations were new to their market, while as many as 7% reported introducing an innovation on the global scale. Meanwhile, executives in Bosnia and Herzegovina are reporting an above-average level of innovative

activity across all markets relative to the region, with their Albanian counterparts largely restricting their innovative work to their economy (41%) with only 3% of innovations at the European level and none relevant globally.

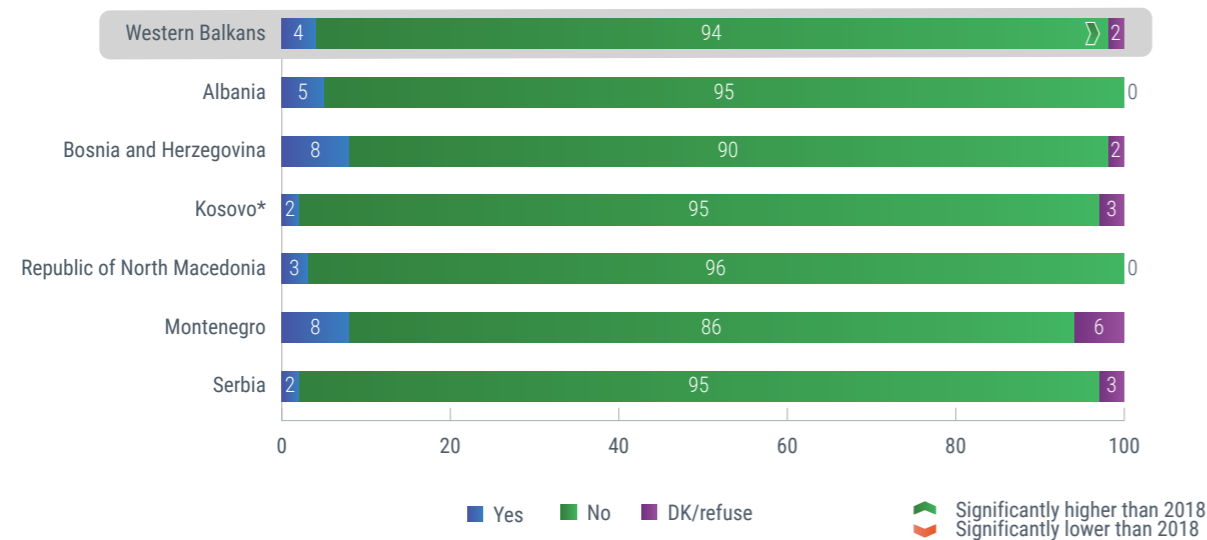
Innovations at all levels are much more common among foreign than domestically-owned companies. Likewise, 34% of innovations by foreign-owned companies were new only to their respective mar-

Figure 114: During the past three years (2017 to 2019), did your enterprise receive any public and/or donor's financial support for innovation activities from the following levels of government? Include financial support via tax credits or deductions, grants, subsidized loans, and loan guarantees. Exclude R&D and other innovation activities conducted entirely for the public sector under contract.**
(All respondents - N=1215, share of total, %)
Local or regional

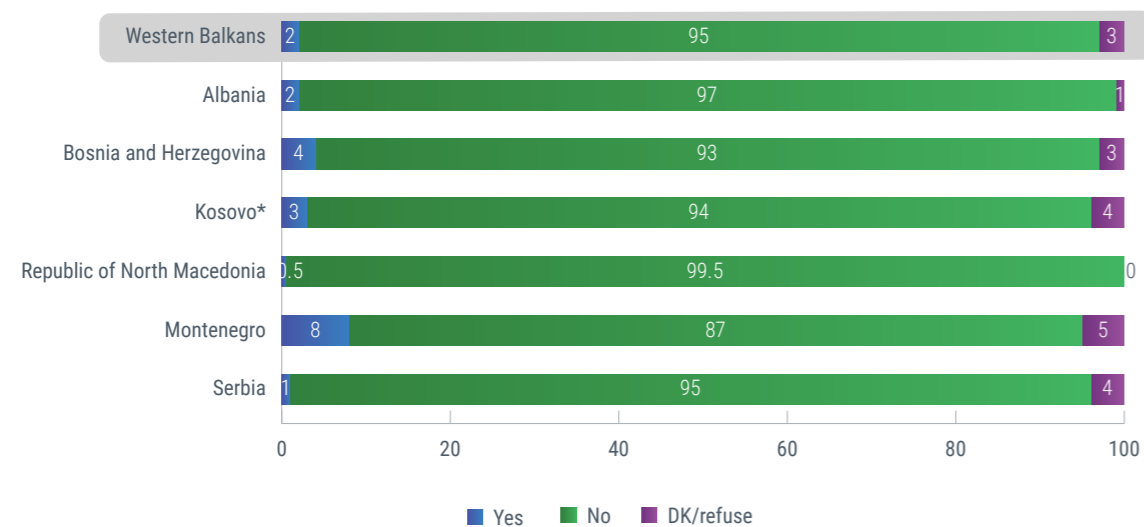


**The figures might not add to 100% due to rounding.

Central government (including central government agencies or ministries)



The European Union (EU) or other donors



kets (vs. 25% of domestic), 14% were innovations at the European level (vs. 3% of domestic) and 11% at the global level (vs. 2% of domestic).

Western Balkans companies are not particularly engaged in developing new production and delivery processes, with an almost unchanged level of innovative dynamism in this regard. Closely mirroring last year's results, only three out of ten companies have introduced process innovations over the past 3 years.

Responses here tend to closely follow patterns established under innovative practices as again Bosnia and Herzegovina and Montenegro boast the highest share of companies reporting process innovations (38% and 37%, respectively). While Serbia sits at the regional average, the slowdown in innovative activities across the rest of the economies, and especially in Kosovo* (from 32% in 2018 to 17% in 2019) and

Albania (from 38% in 2018 to 24% in 2019), has resulted in below-average scores.

As expected, exporters, foreign and large companies are working on process innovations more than the rest.

Similar to product development, companies usually work on process innovation on their own (82% of the companies). In addition, 16% are cooperating with other enterprises, while 8% are adapting and modifying other enterprises' products. Albania and Bosnia and Herzegovina favour cooperation in this area, as opposed to Montenegrin companies that favour developing new processes on their own. Businesses that adapt and modify processes already introduced by other companies are most prevalent in Kosovo* and the Republic of North Macedonia.

Again, large companies are the ones that usually cooperate, while small enterprises tend to rely on their own resources.

As with innovative products and services, the majority of process innovations introduced by Western Balkans businesses over the past three years already existed on the market. On average, only around 30% of business innovations in the Western Balkans are new to the market, while 60% already existed.

Businesses in Albania tend to claim market-level innovations most frequently in the region (67%), while their Serbian counterparts are at the opposite end (18%). All remaining economies claim market-level process innovations with an above-average frequency.

Somewhat surprisingly, market-level process innovations are more common among micro-companies than among medium-sized ones (37% vs. 29%), while the sample is insufficiently large to derive a reliable conclusion about large companies. Market-level process innovations are more often claimed by businesses in agriculture, hunting, forestry and fishing than in other industrial sectors.

The majority of Western Balkans companies finance research and development on their own; however, there are some early indications of increasing support from their respective governments. Around 90% of businesses in the region rely on their own resources to finance R&D undertakings. Overall, companies in the region rarely receive support in the form of EU funds or assistance from other donors, except in Montenegro (8%). Support from the government, either through central- or local-level institutions, plays a potentially pivotal role, especially in some economies. Namely, 20% of businesses from Bosnia and Herzegovina received some support from the state over the past three years (up from 8% in 2018). Similar is true for Montenegro, with 17% of businesses receiving financial support from the government (up from 10% in 2018). In the rest of the region, only 7-8% of businesses received government support albeit at an increased rate compared to the previous years.

Large companies receive support from the governments much more often than their smaller counterparts (42% vs. 9% of SMEs). Also, foreign-owned companies are more likely to be granted state aid than domestic ones (16% vs. 10%).

SKILL NEEDS

Finding an applicant with the required set of skills is a considerable challenge for employers in the Western Balkans. Namely, more than a quarter of companies in the region have reported struggling to fill vacancies, with the most commonly cited reason being the lack of necessary skills by prospective applicants. With this issue likely to become increasingly important in the near future, policy makers must invest considerable effort in increasing the size of the labour pool through activation, training, and education of both the inactive and the unemployed. With women more frequently inactive due to various reasons, special tailored programmes should be designed and deployed to ensure their inclusion into the labour pool. This may include making childcare more accessible, ensuring equal pay for equal work, and introducing flexible work arrangements in order to help women strike the right balance between household and professional responsibilities.

The average education level for employees in the Western Balkans has remained largely unchanged, with the dominant share of the workforce holding a secondary education diploma. The effect of brain-drain due to migration and policies promoting labour-intensive FDI are clearly having an effect al-

ready; the share of the workforce with a university degree has shrunk from 31% in 2014 to 24% in 2019.

Companies in the region are becoming increasingly open towards youth. Since the executives say they are reasonably satisfied with the education systems, they are generally willing to give a chance to educated young people. Even though only a quarter of the executives surveyed reported to have (or intends to have) an internship programme in their companies, 80% say they would employ inexperienced but educated applicants. However, companies rarely organise additional trainings to improve their workers' skills.

Identical to last year, Western Balkans companies mostly employ workers that hold a secondary degree (54%). The share of employees with a university degree or higher is also substantial at 24%, while 18% have a vocational school diploma. Year-on-year changes, slight as they may seem, are still cause for concern. Namely, a comparison of the results across the six instalments of the Balkan Barometer reveals that the share of workers with a university diploma is constantly shrinking over time – from 31% in 2014 to 24% in 2019. Still, this does not necessarily mean that the number of workers with university degrees

declines in absolute terms, but recent surges in employment across the region have tended to target the less educated workforce due to the nature of the work involved.

Businesses in Kosovo*, Montenegro and Albania employ the workforce with the highest proportion of university-educated employees (around 30%). Meanwhile, in Serbia (22%) and Bosnia and Herzegovina (17%), university graduates are less prevalent among the employed. Workers holding vocational education diploma are most popular with Albanian companies (29%) and much less so in Serbia, Montenegro and Bosnia and Herzegovina (around 15%). Reliance on employees with secondary school diplomas is most common in Bosnia and Herzegovina (64%). Workers with only a primary-level education are present only in Albania and Kosovo* with some statistical significance.

Employees with higher education tend to be more numerous in companies operating with foreign capital (36%) than domestic one (23%), while market orientation makes almost no difference. As expected, a larger share of highly educated employees can be also found in companies in sectors of education, science, culture, information, health and social protection (37%).

Western Balkans managers are growing more satisfied with education systems in their economies (mean score 3.6). Almost two-thirds of managers find that skills taught throughout the education sys-

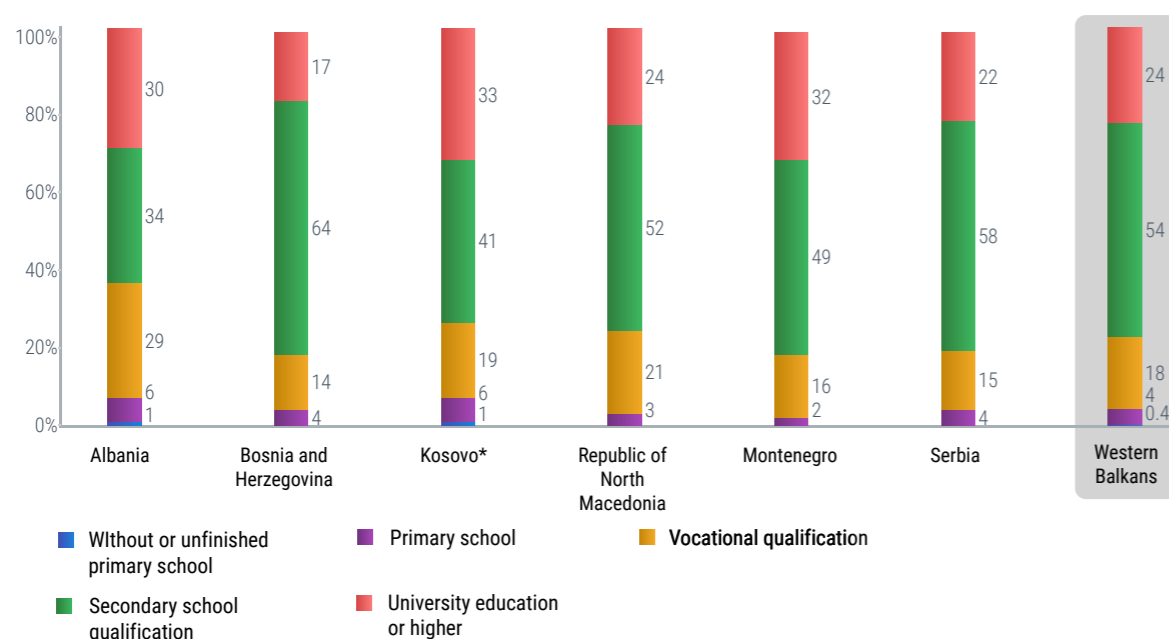
tem meet the needs of their businesses, while fewer than 20% disagree. After a dip in 2018, this year has brought about considerable improvement in this regard (average score in 2019 is 3.6 vs. 3.3 in 2018). This improvement has primarily been driven by positive changes in the Republic of North Macedonia (+0.5 mean score) and Albania (+0.4 mean score), while developments in Kosovo* and Montenegro (-0.3 mean score) have had the opposite effect.

Applicability of skills taught in education is the highest in Serbia (3.9) and Albania (3.8). In these two economies, around three quarters find the education system satisfactory, while the share of dissatisfied respondents is relatively small, especially in Serbia (8%). Bosnia and Herzegovina occupies the other end of the spectrum with 44% unhappy managers and only 33% of respondents satisfied with the level of education provided in their economy (score 2.7). Satisfied managers outnumber their unhappy counterparts across all the other economies in the region at a two-to-one ratio.

While satisfaction with knowledge and skills acquired through education remains the same irrespective of firm size, market orientation and industry, foreign-owned companies seem to be significantly more satisfied than domestic ones (3.8 vs.3.5).

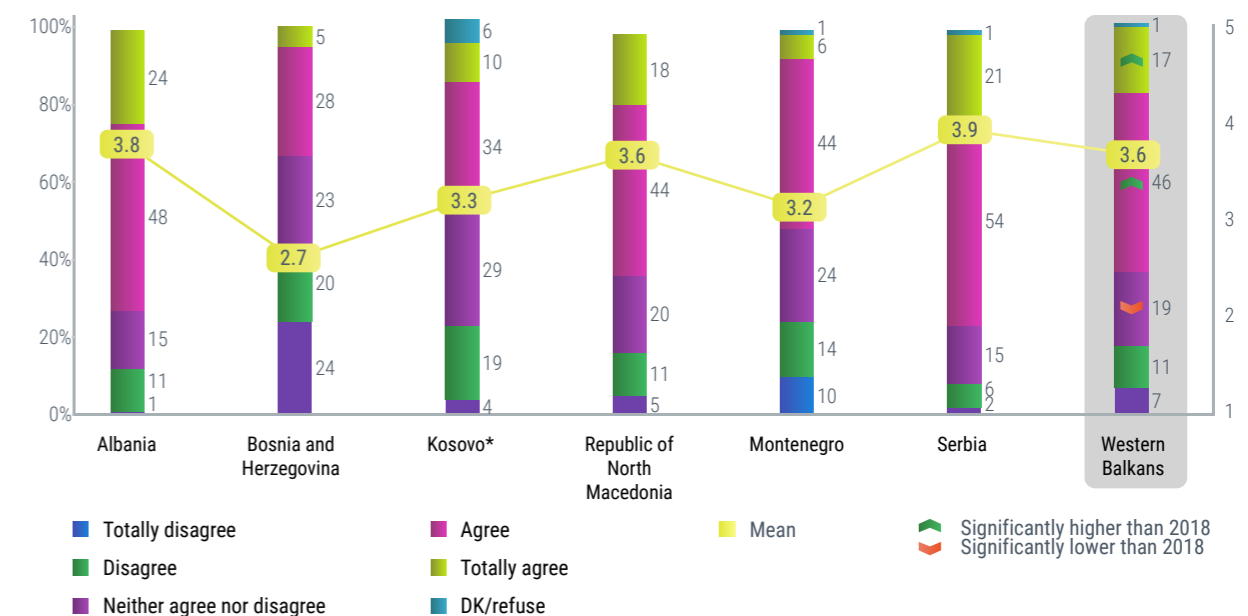
Western Balkans managers are generally eager to employ qualified, yet inexperienced young people (mean score 4.1). 80% of managers are willing to employ individuals without work experience, with the

Figure 115: What percentage of your company's workforce has the following education levels?*
(Respondents who did not mark DK/refuse - N=1185, %)



**The figures might not add to 100% due to rounding.

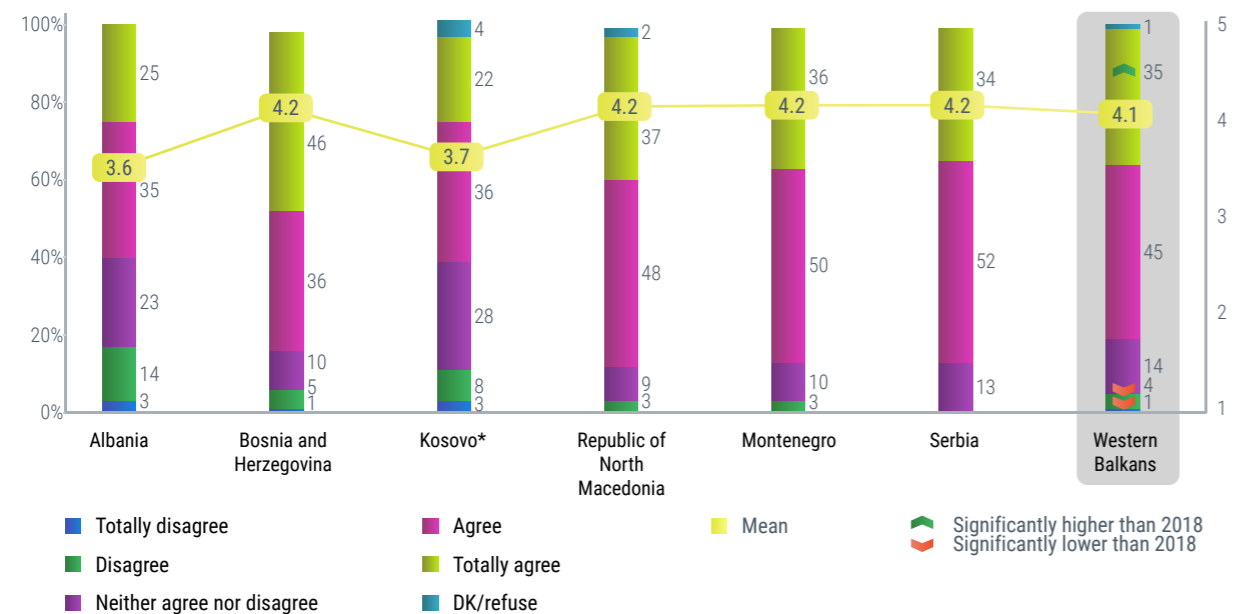
Figure 116: Would you agree that the skills taught in educational system of your economy meet the needs of your company?*
(All respondents - N=1215, %)



**The figures might not add to 100% due to rounding.

Figure 117: How likely would you hire young person whose educational profile completely meets the needs of your business, but without work experience?*

(All respondents - N=1215, %)



number growing on a year-by-year basis up to (4.1 from 3.9 in 2018). An increase in the regional score is a direct consequence of improvements in the Republic of North Macedonia (+0.4) and Montenegro (+0.2).

Most Western Balkans economies are very supportive of hiring inexperienced young people. Nine out of ten companies in Serbia, Montenegro, the Republic of North Macedonia and Bosnia and Herzegovina would hire educated but inexperienced youth (score 4.2). The situation in Bosnia and Herzegovina is interesting; although managers claim to be unhappy with the economy's education system, they remain extremely motivated to provide employment opportunities to young people educated in the said system without requiring prior work experience. The situation in Albania and Kosovo* is not as favourable towards youth, as only 6 out of 10 companies are willing to offer them jobs without prior experience.

Results remain fairly similar across different industries, yet larger companies are somewhat more likely to provide opportunities for youth than smaller ones. The same goes for exporters and non-exporters, and for foreign and domestically-owned companies.

Close to two-thirds of Western Balkans companies are either willing to establish, or already have an internship or apprenticeship program.

Companies in the Republic of North Macedonia are most in favour of internship schemes, while their counterparts in Bosnia and Herzegovina and Montenegro are the least likely to pursue this idea.

As expected, internships are much more common in large companies (63%) than in medium-sized and smaller ones (28% on average).

Western Balkans companies widely recognise the importance of digital skills. Close to 80% of managers in the region stress that digital skills are important to conducting their businesses. This is largely the case in all Western Balkans economies, with the exceptions of Kosovo* and the Republic of North Macedonia, where this trend is expected to accelerate in the future.

The importance of digital skills increases with a commensurate increase in company size (from 73% in micro-companies to 92% in large companies), and it is also high among foreign-owned firms (89%) and, predictably, in export-oriented ones (87%).

A majority of Western Balkans companies undertake measures to improve the digital skills of their employees. Companies in the region recognise the importance of digital skills for their competitiveness, as illustrated above. This is further reflected in the fact that 55% of companies surveyed provide some form of training to upgrade their workers' skills [The graph might capture multiple responses from one respondent.]. Usually, training is organised through on-the-job events or internal learning (44%) while workshops, seminars, and online courses are less common.

Individual economies generally follow the regional pattern when it comes to types of training and share of companies that organise them. Monte-

Figure 118: Did you already have, or plan to introduce in your company, an internship or apprenticeship program?*

(All respondents - N=1215, %)

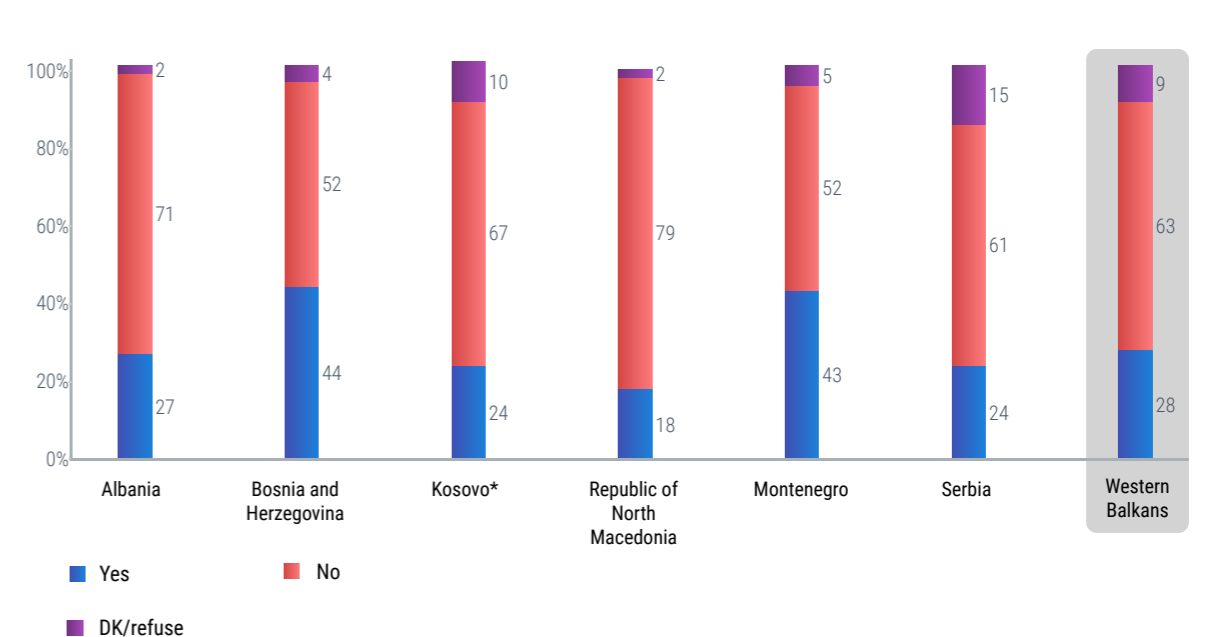
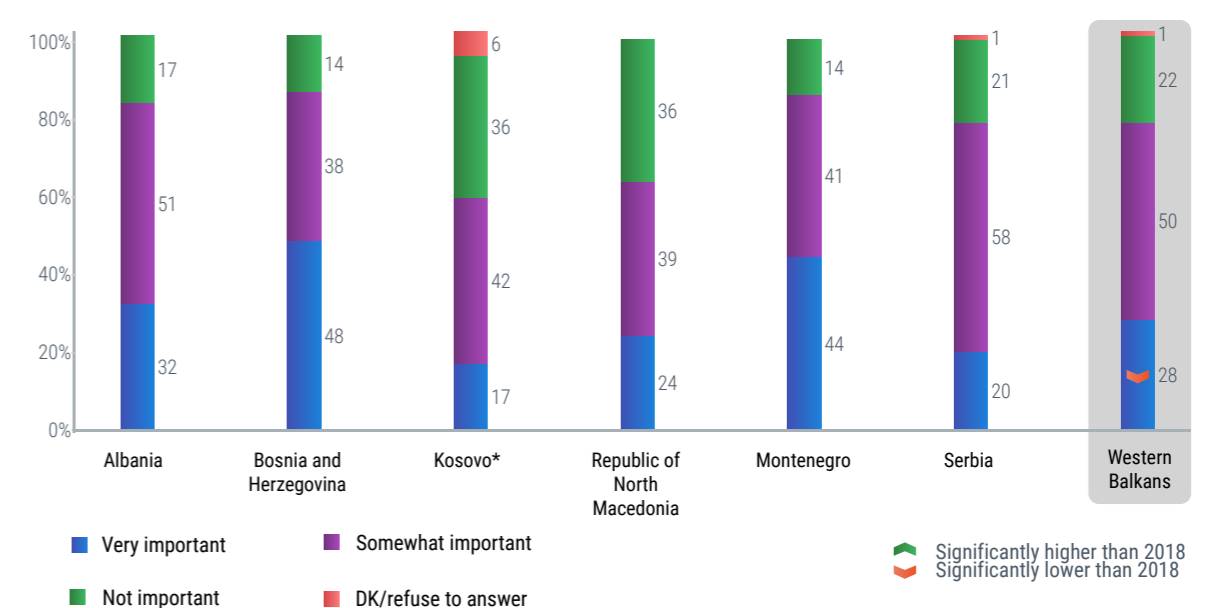


Figure 119: How important are digital skills for your company?*

(All respondents - N=1215, %)



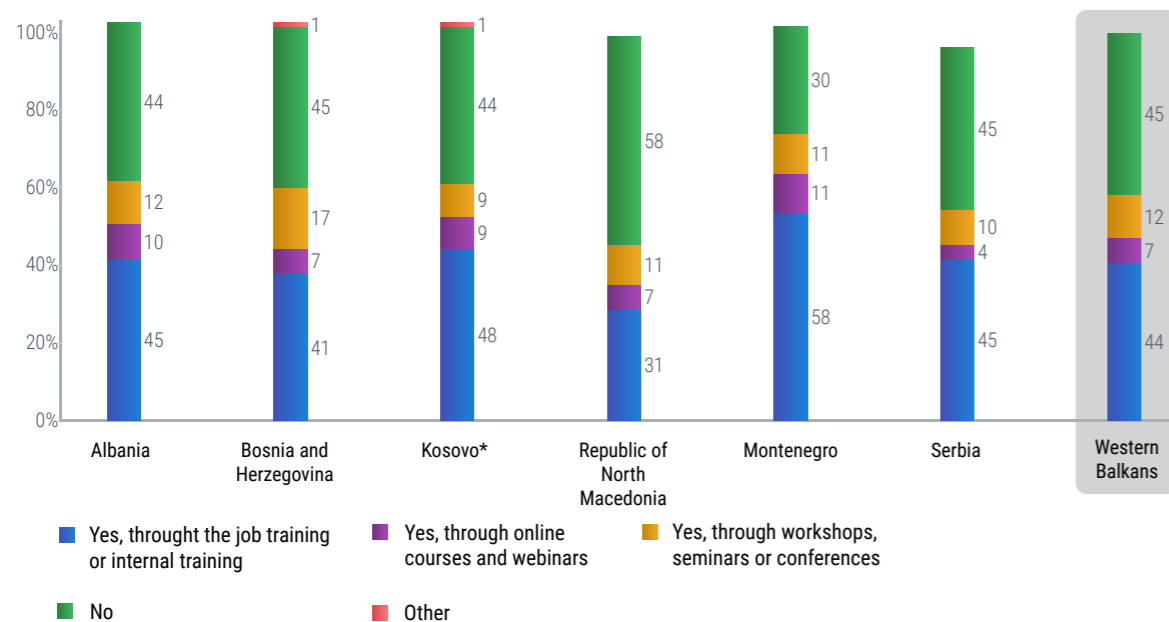
negro and the Republic of North Macedonia can be regarded as exceptions as in the former companies organise trainings more often than the average (70% of the companies organise trainings), while the practice is much less common in the latter (42% of the companies organise trainings).

Some 28% of Western Balkans managers reported hard-to-fill vacancies over the past 12 months. Nonetheless, hard-to-fill vacancies appear to be less of a problem in 2019 than was the case with the previous instalment of the Barometer (down from 38% in 2018).

*The figures might not add to 100% due to rounding.

**The figures might not add to 100% due to rounding.

Figure 120: Do you take concrete measures to improve the digital skills of your employees?*
(Respondents who marked digital skills as very important and somewhat important - N=922, multiple answers, %)



This indicator is expected to greatly vary in the future depending on migration trends and fluctuating unemployment rates.

It seems that the qualification and availability of Albanian workforce match employers' needs to an extent greater than anywhere else in Western Balkans, with only 14% of hard-to-fill vacancies. The situation is similar in Serbia (20%), while in Bosnia and Herzegovina a majority of companies struggle to fill select vacancies.

The availability of adequate workforce seems to have improved significantly in Albania, the Republic of North Macedonia, and Kosovo*, by around 20 points on average. Meanwhile, the labour pool seems to be shrinking dramatically in Bosnia and Herzegovina, as a share of companies reporting this issue expanded by 10 points since 2018.

The larger the company, the harder it is to recruit – only 30% of small companies cite this issue in comparison to 49% of large corporations.

Close to two-thirds of Western Balkans managers attribute their inability to fill vacancies to the applicants' poor qualifications, while only 13% cite uncompetitive salaries and compensation. These results are largely in keeping with the previous survey instalments.

Managers from Montenegro cite the lack of skills more often than executives from other economies (85%), while respondents from Serbia and the Republic of North Macedonia most commonly recog-

nise inadequate compensation as the reason for hard-to-fill vacancies (20% and 18%, respectively).

Only one in four companies has provided additional training for their employees. The number of companies providing training for their staff has declined year-on-year from the first edition of the Barometer with no discernible reason.

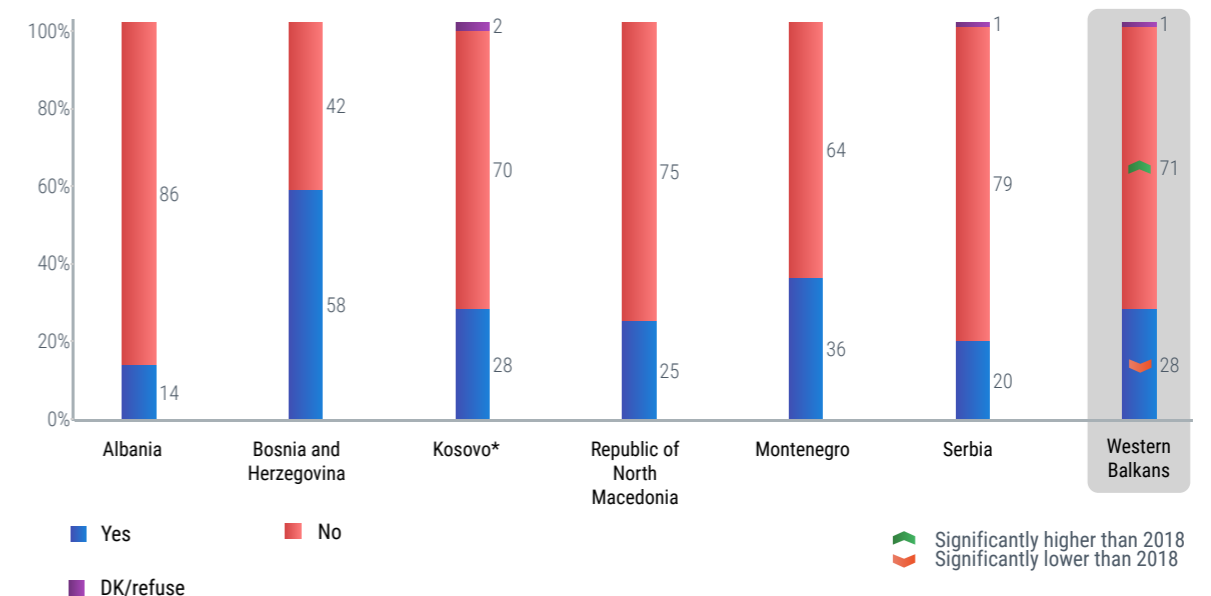
The practice of providing supplementary development opportunities to employees follows a general regional pattern with the exception of Bosnia and Herzegovina, and to a lesser extent, Montenegro. Half of all companies in Bosnia and Herzegovina paid for, or organised, training for their staff, with roughly a third following suit in Montenegro. As far as the remaining economies are concerned, on average, only one in five companies reported providing supplementary training.

As companies provide trainings for employees relatively sporadically, they also rarely review their skills. Slightly more than half of all Western Balkans companies review the skills of their employees, out of which half do so only partially. The share of companies reviewing their employees' skills is also in a gradual decline.

As expected, reviewing skills and providing trainings follow the same pattern. Even though the share of companies that at least partially review employees' skills is almost identical across most economies, business leaders from Bosnia and Herzegovina and Montenegro tend to take this process more seriously.

**The figures might not add to 100% due to rounding.

Figure 121: Did you have vacancies over the past 12 months that have proved hard to fill?*
(All respondents - N=1215, share of total, %)

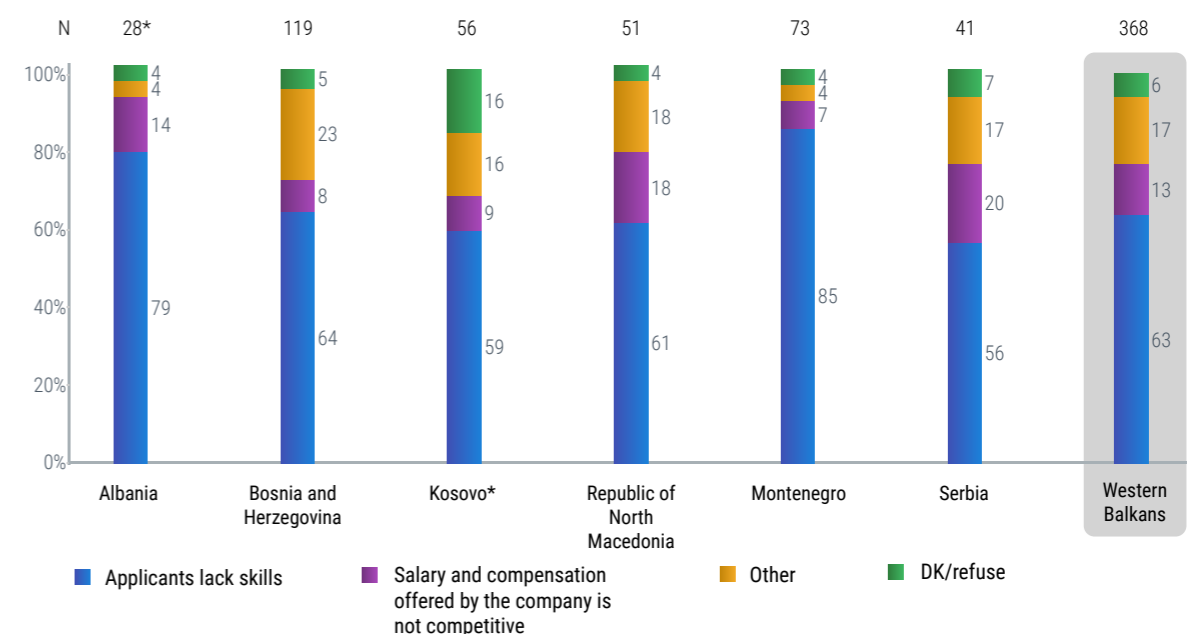


Companies that review employees' skills more often include large firms and those operating with foreign capital (68% and 53%, respectively).

Just over half of Western Balkans executives assess their employees as interested in acquiring new skills. Meanwhile, close to a third consider their employees as largely indifferent, and 12% assess employee interest as unsatisfactory. At the regional level, year-

on-year changes were for the most part subtle and mutually offsetting in terms of general improvement and deterioration. However, at economy level, many of the changes recorded were significant. Namely, executives' perception of their employees' ambition has declined slightly across all Western Balkans economies, except for Bosnia and Herzegovina and Montenegro, where it has improved.

Figure 122: Why do you think this is the case?*
(Respondents who had difficulty in filling vacancies - N=368, %)

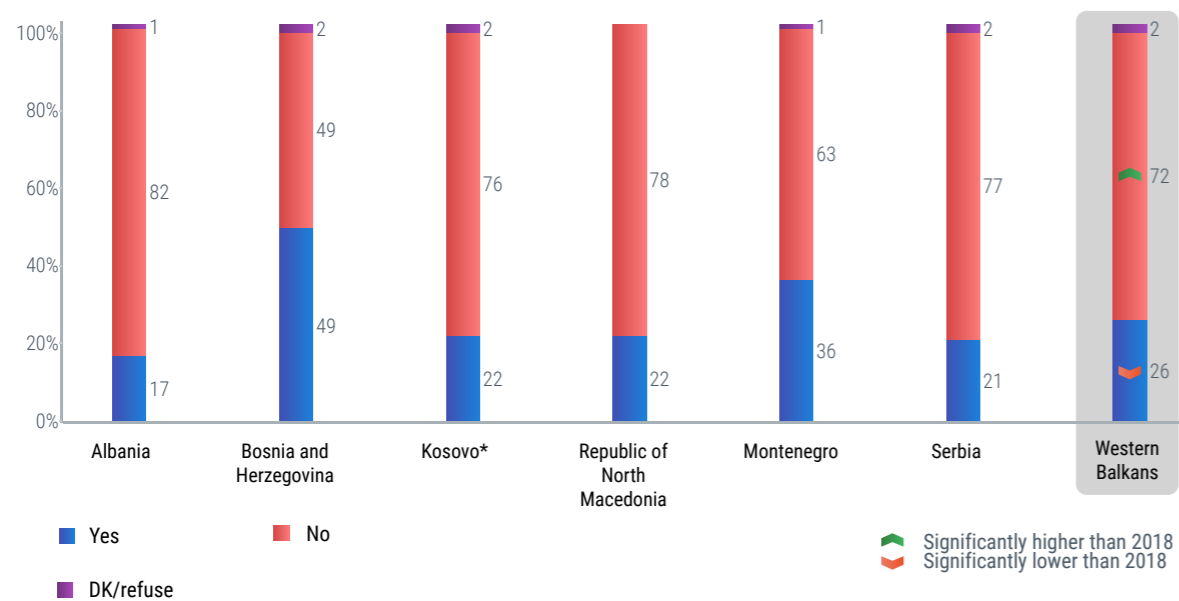


*Small base for valid conclusions

**The figures might not add to 100% due to rounding.

Figure 123: Over the past 12 months, has your business funded or arranged any training and development for staff in the organisation, including any informal on-the-job training, except training required by the law?***

(All respondents - N=1215, share of total, %)



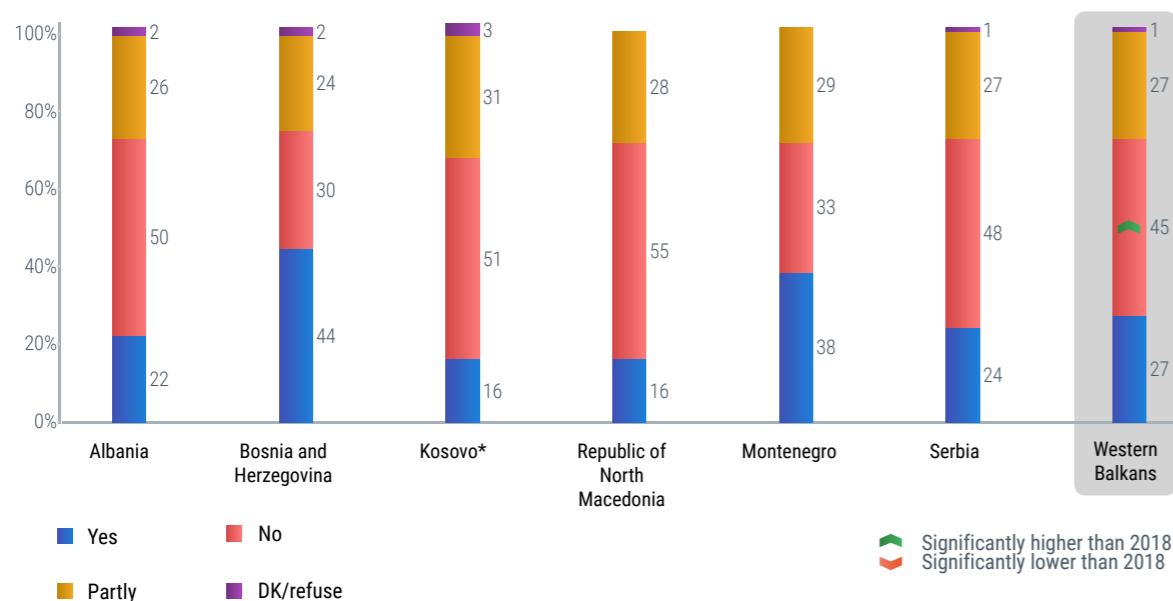
Employees from Montenegro, assessed as most apathetic in 2018, are now considered most assertive and ambitious. Montenegro boasts the regional high of 62% when it comes to companies assessing their employees as motivated to learn, while the remaining economies are largely positioned at, or around, the regional average. Employees from Kosovo*

stand out as the most uninterested in the region, according to their employers (18%).

Large and foreign-owned companies assess the interest of their employees in professional development considerably higher than the rest (81% and 84%, respectively).

Figure 124: Thinking about skills requirements, does your company regularly review the skill and training needs of individual employees?***

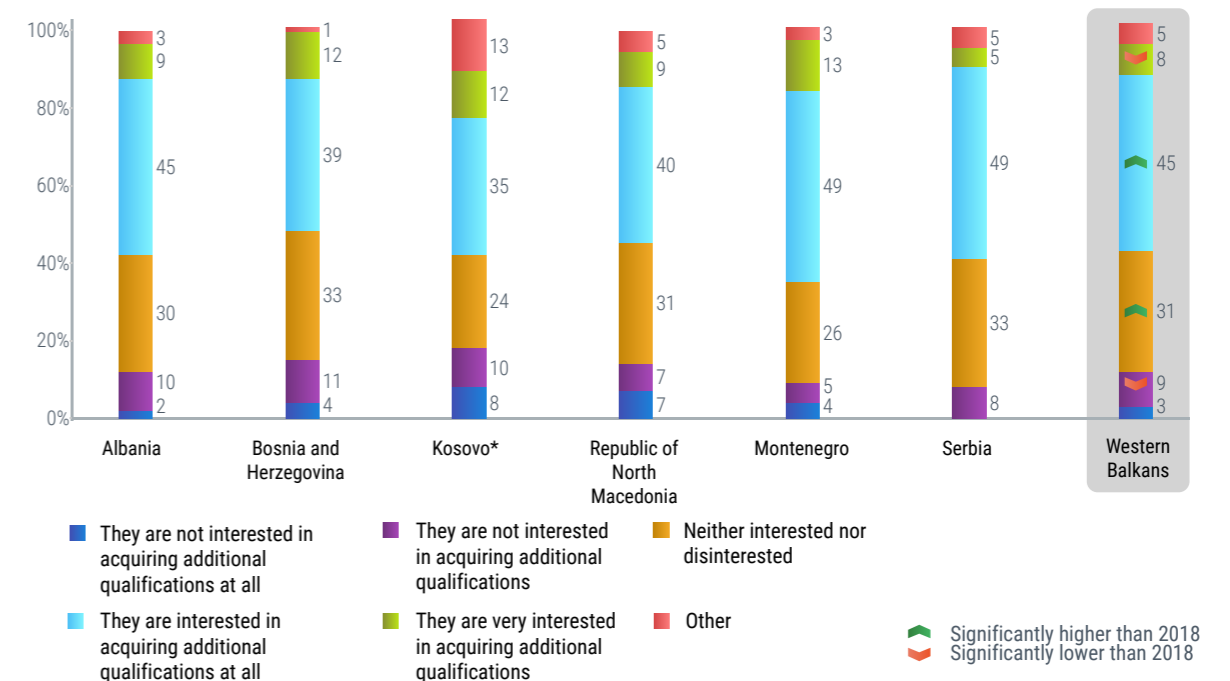
(All respondents - N=1215, share of total, %)



***The figures might not add to 100% due to rounding.

Figure 125: How would you assess the readiness of employees in your company to acquire additional qualifications in order to advance and get promoted?***

(All respondents - N=1215, %)



Western Balkans executives prioritise striking the right balance between household responsibilities and their professional obligations as a critical precondition for increasing the number of women in the workforce (48%). The second most cited measure for helping women into the labour market is making childcare more accessible (42%), while equal pay for equal work, and increasing flexible work arrangements would also be helpful (38% and 37%, respectively).

professional realms is crucial for bringing more women into the workplace (54%). Meanwhile, executives from the Republic of North Macedonia prioritize more accessible childcare (52%) while largely dismissing concerns over the gender pay gap as a barrier to women entering the labour market; at 23%, respondents from this economy were the least likely to associate disparities in pay with the exclusion of women from the labour force. At the same time, business leaders from Albania and Kosovo* were most likely to focus on the pay gap as a critical obstacle to women in the workplace (51% and 57%, respectively).

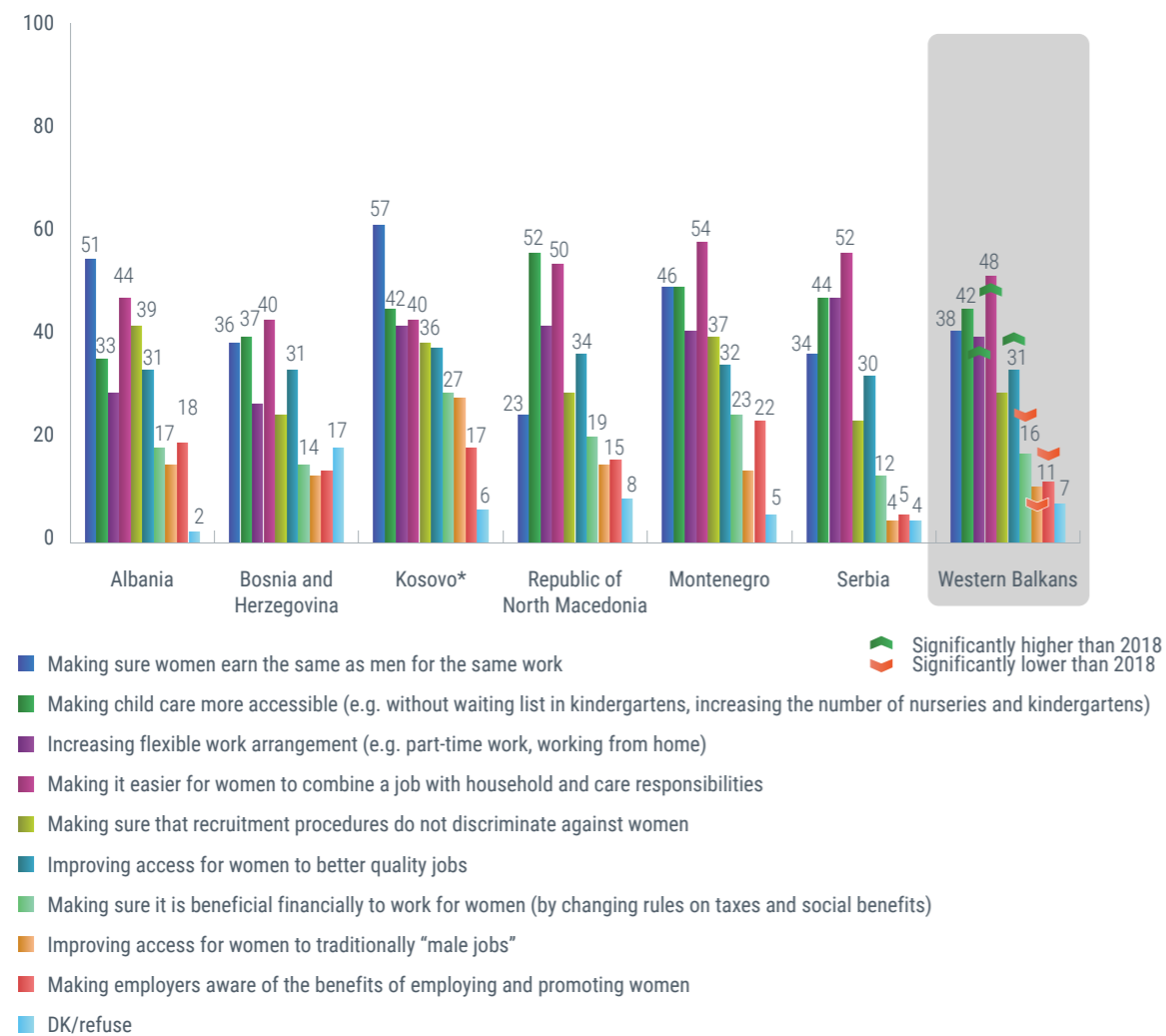
At the same time, changing taxation rules to favour women is deemed important by only one in six executives. Measures like making employers aware of the benefits of employing and promoting women, or improving access for women to traditionally "male jobs" are reckoned effective by an even smaller group of managers – only one in ten consider them effective.

In an encouraging development from last year, executives are now more interested in improving the position of women, as reflected in the higher overall response rate (93% in 2019 vs. 87% in 2018). Managers in the Western Balkans were overwhelmingly open to discussing all the measures proposed, with the notable exception of respondents from Bosnia and Herzegovina who were the least likely to engage with the question (only 83%).

Managers from Montenegro and Serbia feel that striking the right balance between the private and

***The figures might not add to 100% due to rounding.

Figure 126: In your opinion, what are the most effective ways to increase the number of women in the labour market?*
 (All respondents - N=1215, %)



EMPLOYMENT PRACTICES

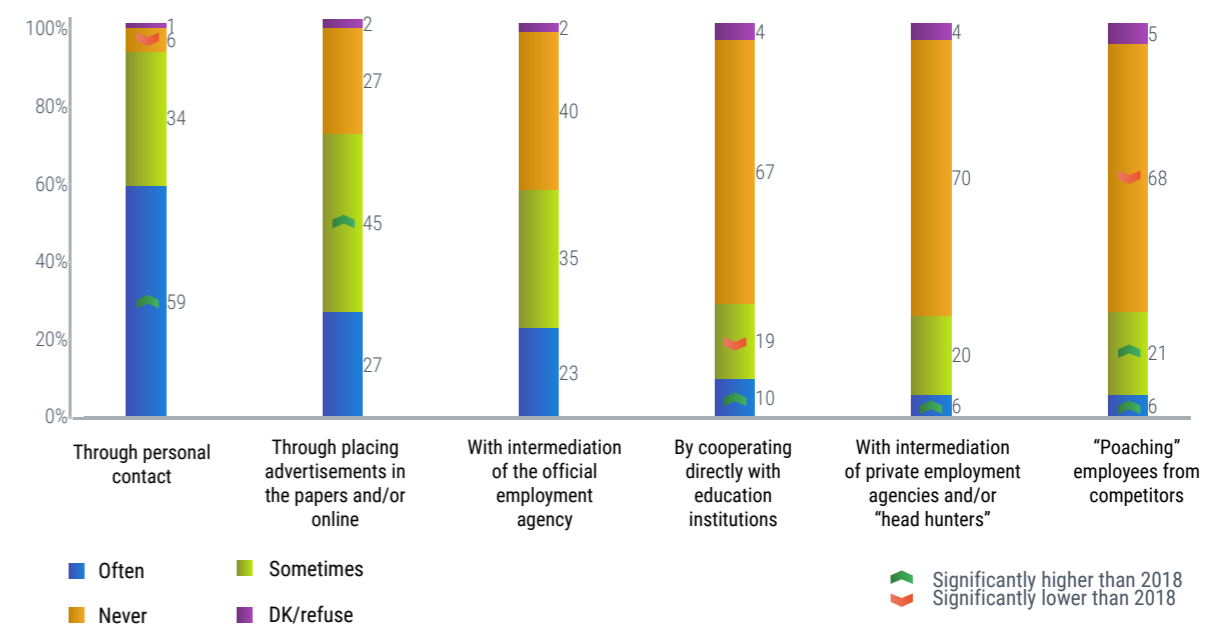
Close to three-quarters of all Western Balkans companies would prefer to maintain their current staffing levels. Out of the remainder, only a small fraction is intent on downsizing, while another 16% are interested in hiring additional employees. As has become customary, new hires are most likely to come by the way of personal contacts or advertisements, while poaching staff from a competitor is also becoming increasingly popular.

The Western Balkans would benefit from greater freedom of movement, i.e. "Mini Schengen". Managers in the region tend to be open-minded when employing workers from abroad, and even more so when hiring from the economies in the region. Greater regional mobility would enable individual economies to exchange workers, especially in instances where there is a strong mutual preference, such as between workers and companies from Bosnia and Herzegovina and Serbia, and also between Kosovo* and Albania.

Strong gender preferences as well as discrimination against the Roma community persist. The trend of preferring male to female candidates when hiring has become even more pronounced since 2018, with the practice now responsible for the severely imbalanced gender structure where only a third of all employees are women. Meanwhile, discrimination against the Roma persists with 15% of all managers stating that hiring a Roma would adversely impact the working environment in their respective firms. While the region as a whole continues to underperform in matters of inclusion and equality, Kosovo* is a particularly stark example with men accounting for three-quarters of all employees and anti-Roma sentiment widespread.

A personal recommendation remains the preferred method for identifying new hires in the Western Balkans (93% of companies rely on it). Publishing a job vacancy in the newspapers and online has increased in prominence and comes in second, as 72% of executives rely on this method. Looking for new candidates through registered employment agencies is still used by more than half of all managers, while "poaching" employees from competitors has gained traction recently, reaching 27% in 2019. Contacts with educational institutions and private agencies are favoured by 25-30% of companies.

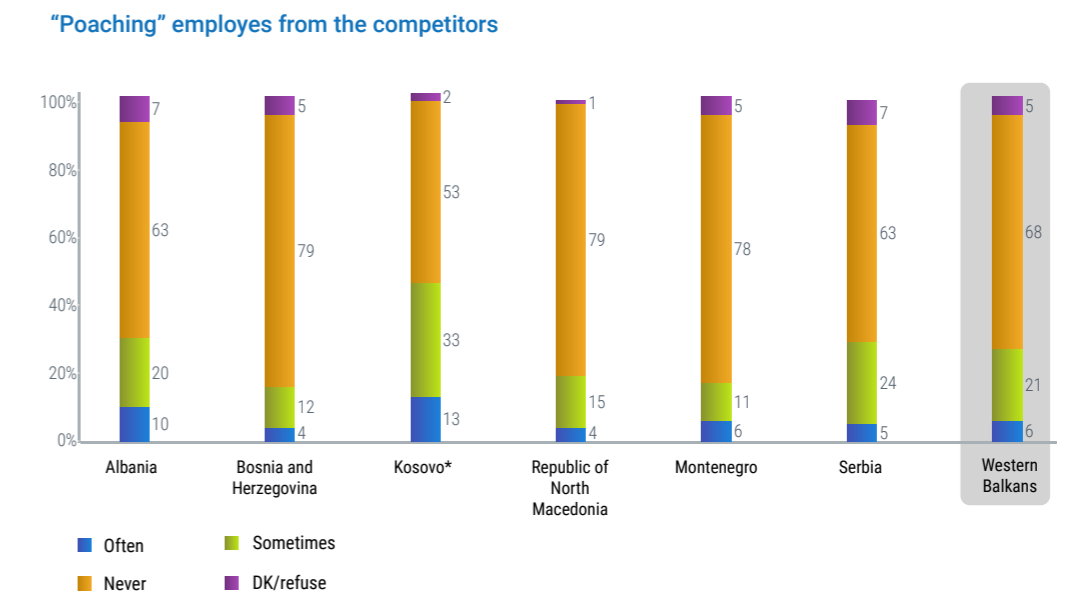
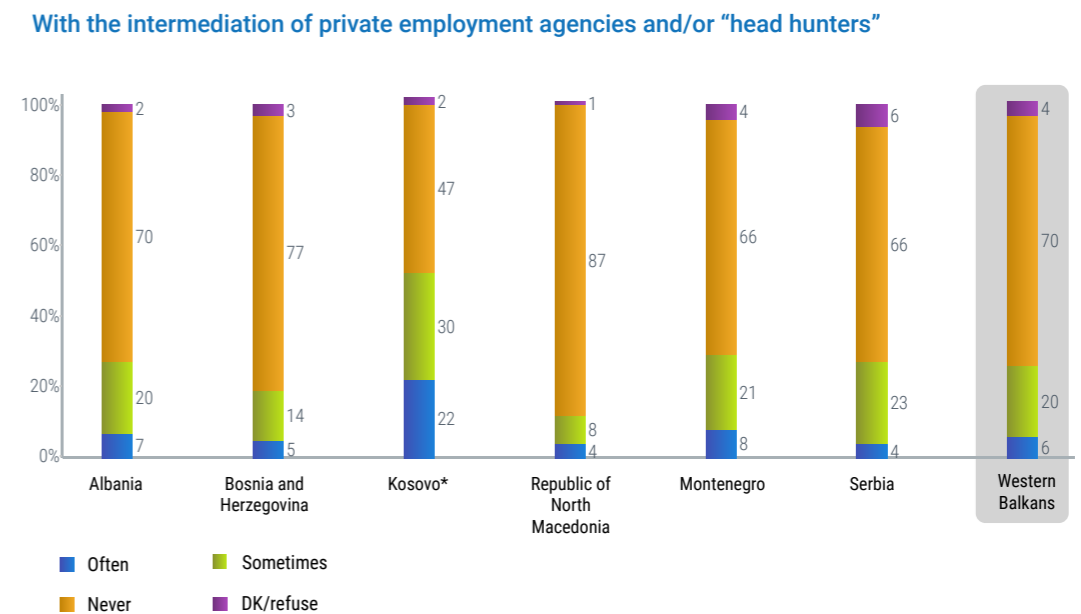
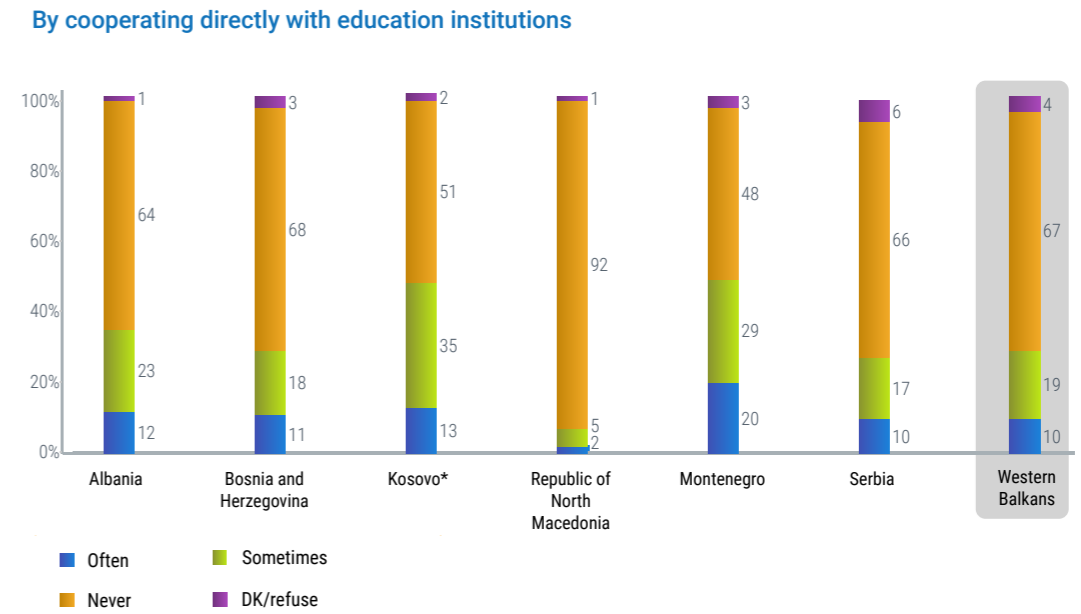
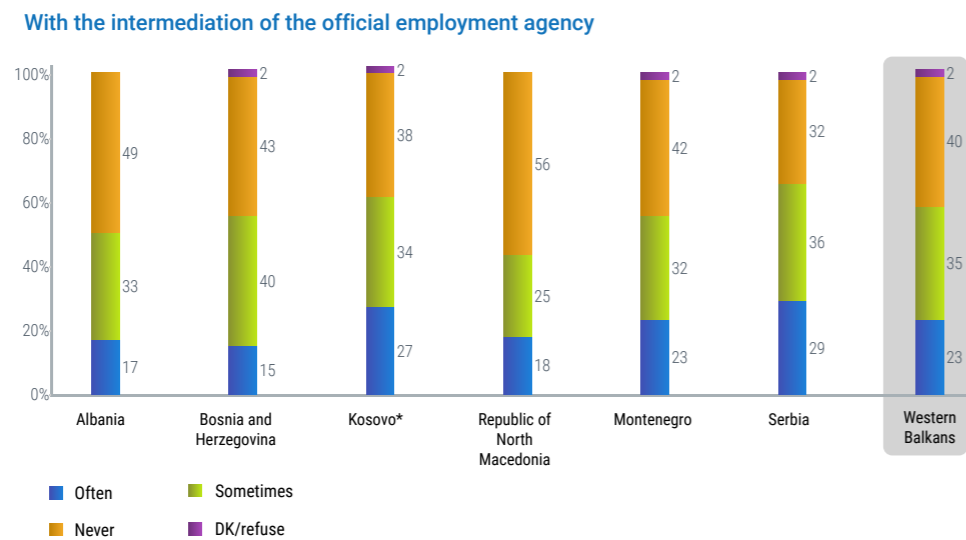
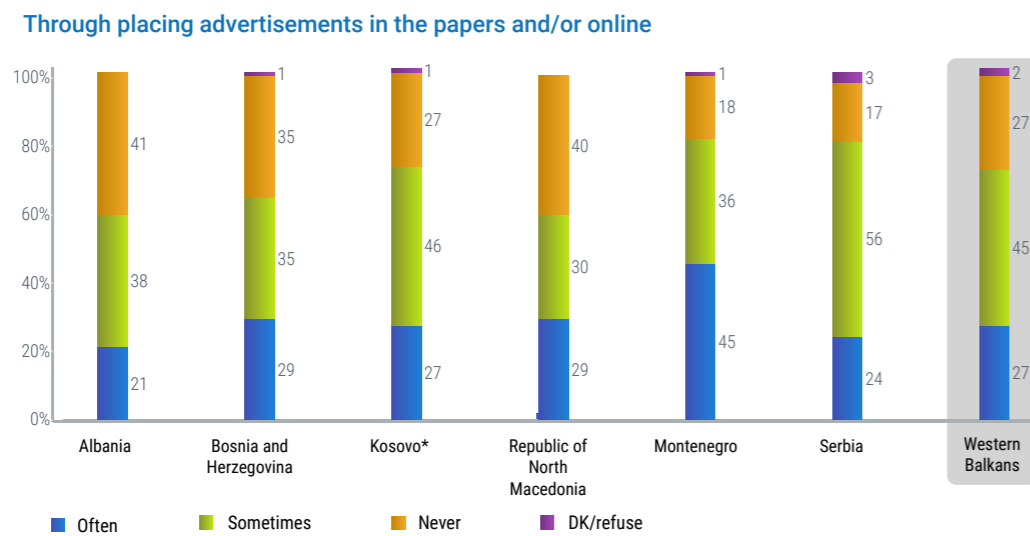
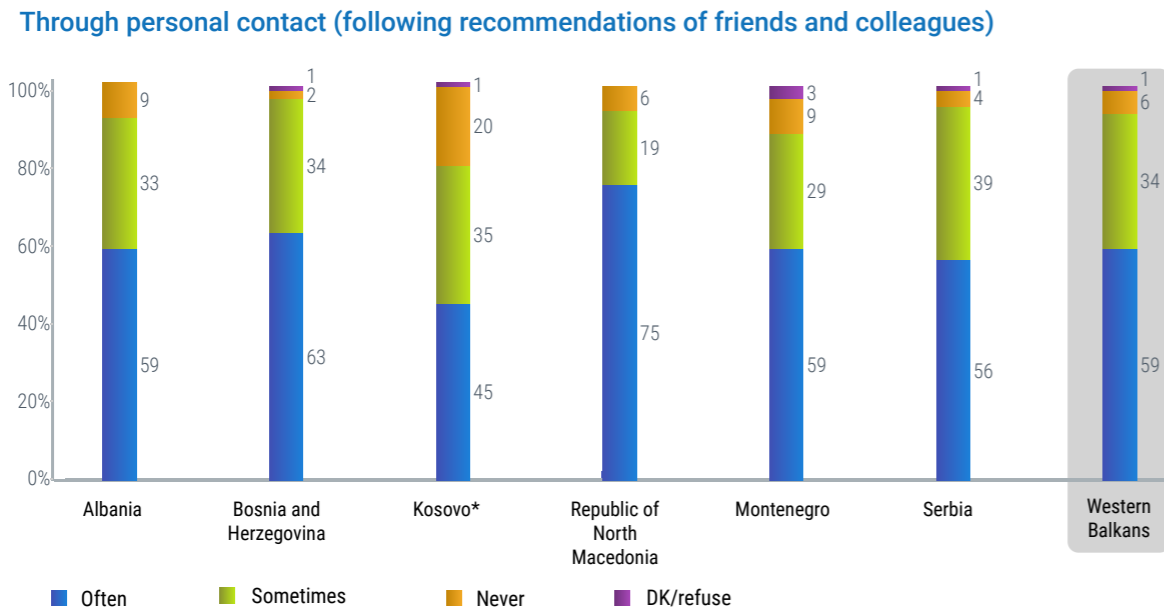
Figure 127: How often do you use the following when hiring new employees? Please mark each of the following methods with 1 often, 2 sometimes or 3 never.**
 (All respondents - N=1215, share of total, %)



**The figures might not add to 100% due to rounding.

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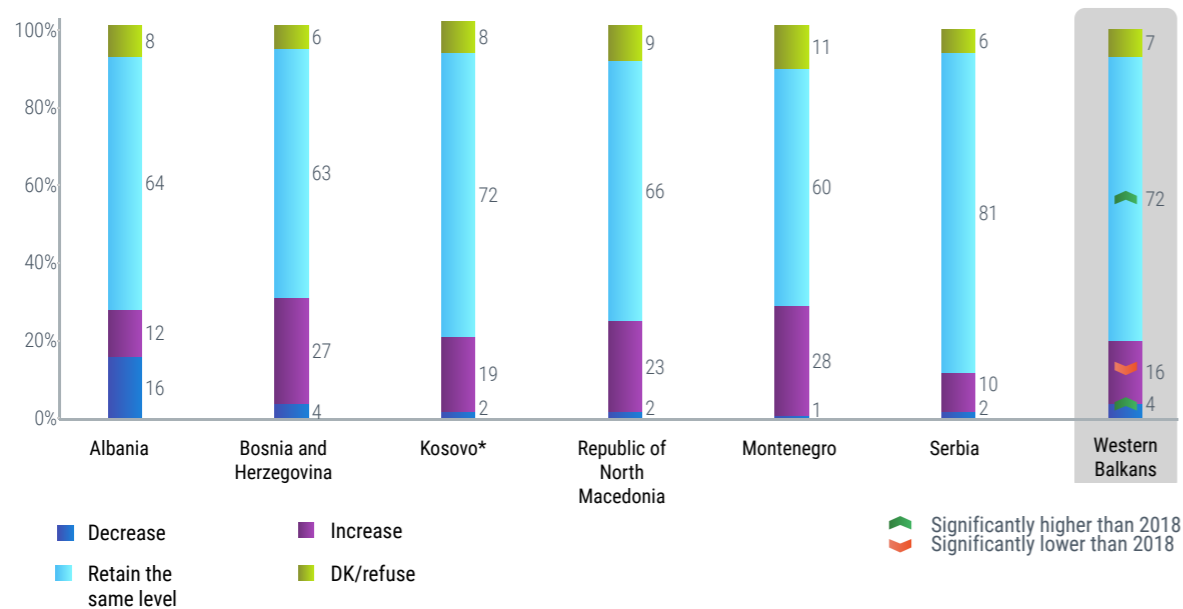
Figure 128: How often do you use the following when hiring new employees? (By economies)
 Please mark each of the following methods with 1 often, 2 sometimes or 3 never.**
 (All respondents - N=1215, share of total, %)



**The figures might not add to 100% due to rounding.

Figure 129: If you could change the number of full-time workers your company 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 retain the same level of employees?***

(All respondents - N=1215, %)



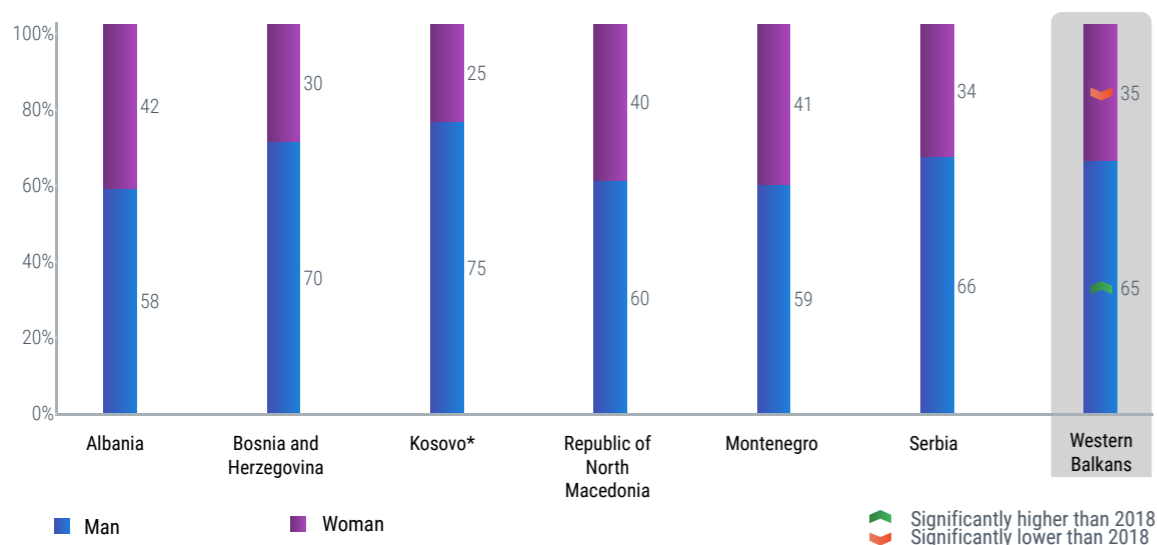
Recruitment through personal contacts, advertisements and official agencies are all utilised by companies across the region to a relatively similar extent. Cooperation with education institutions and the private sector is most prominent in Montenegro and Kosovo*, as almost half of the managers in the two economies use this channel when searching for new employees. Also, managers from Kosovo* cooperate with private agencies and rely on "poaching"

more than their counterparts from the rest of the region.

While small companies frequently rely on personal contacts, large ones are much more likely to reach out to education institutions, official and private agencies or "poach" an employee from a competitor.

Figure 130: Out of the total number, how many of your employees are men and how many women?***

(All respondents - N=1215, share of total, %)



**The figures might not add to 100% due to rounding.

Figure 131: How likely would you hire a Roma person whose educational profile and experience completely meet the needs of your business?***

(All respondents - N=1215, %)

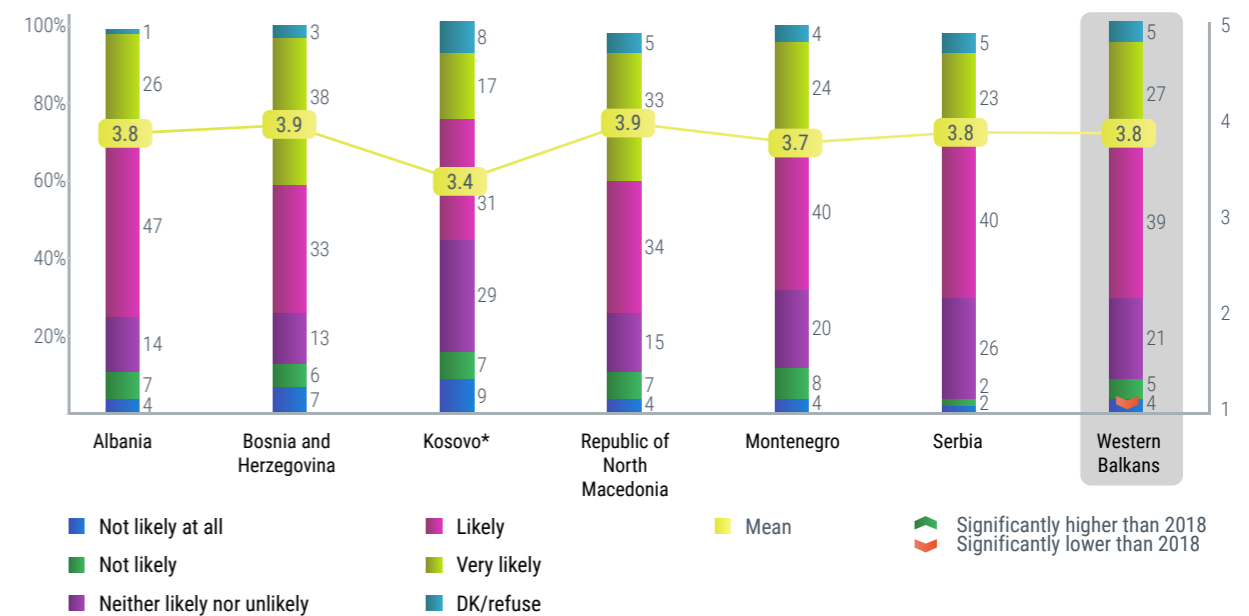
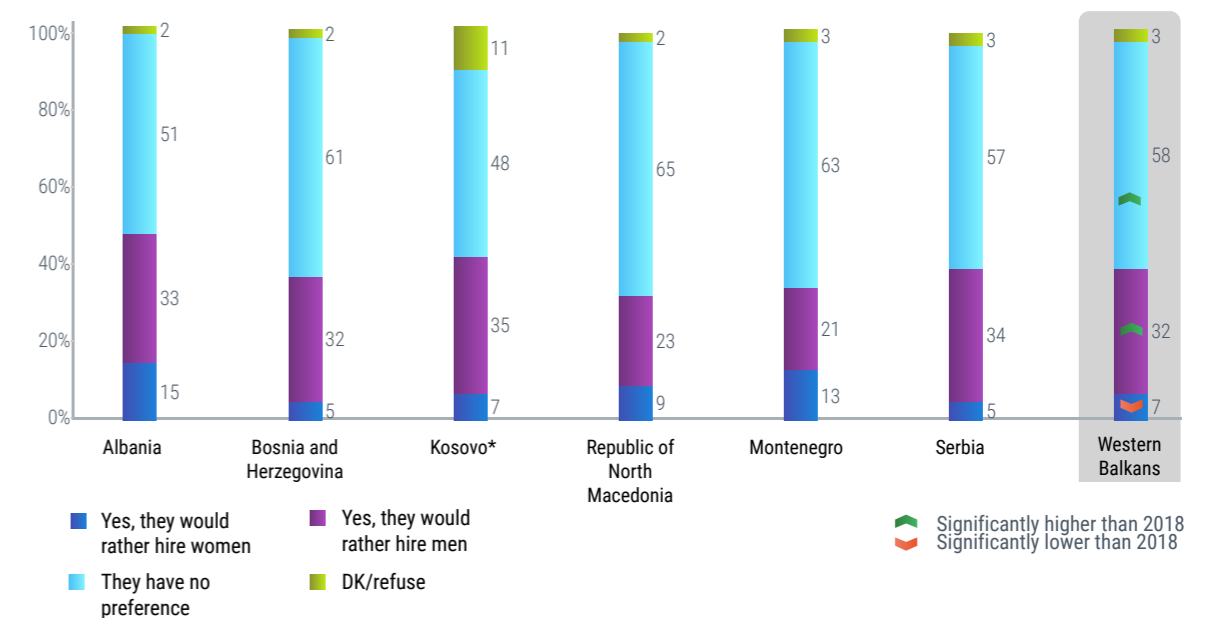


Figure 132: In your opinion, do companies like yours have a gender preference in terms of hiring?***

(All respondents - N=1215, share of total, %)



Close to three-quarters of executives from the Western Balkans want to retain their current staffing levels. Compared to last year, the percentage of businesses that are happy with their number of employees has grown to 72% from 64% in 2018, potentially signalling that businesses are plateauing and

are unable to take the next step in their development. Only 16%, meanwhile, are interested in growing their workforce, while a mere 4% would lay-off employees if they could.

**The figures might not add to 100% due to rounding.

More than a quarter of managers from Montenegro and Bosnia and Herzegovina would consider growing their workforce, while 16% of their counterparts in Albania would downsize, a regional high. Meanwhile, a fifth of executives in Kosovo* and the Republic of North Macedonia say they would be happy to hire more staff, with their counterparts from Serbia seemingly satisfied with their number of employees.

While there is no link between the optimal number of employees and company size or ownership structure, more exporters appear to be happy to grow their staff than their non-exporting counterparts (20% vs. 15%). Also, a higher percentage of firms doing business in education, science, culture, information, health, and social protection feel overstaffed compared to the rest of the economy (8% vs. 4%).

With a slight decline in the share of women in corporate employment (from 38% in 2018 to 35% in 2019), the workplace gender gap grows more pronounced across the region. With the share of men in employment expanding in every economy except for Serbia, men account for 65% of the region's workforce, with Kosovo* (75%) and Bosnia and Herze-

govina (70%) especially emblematic of the region's problem with gender in the workplace.

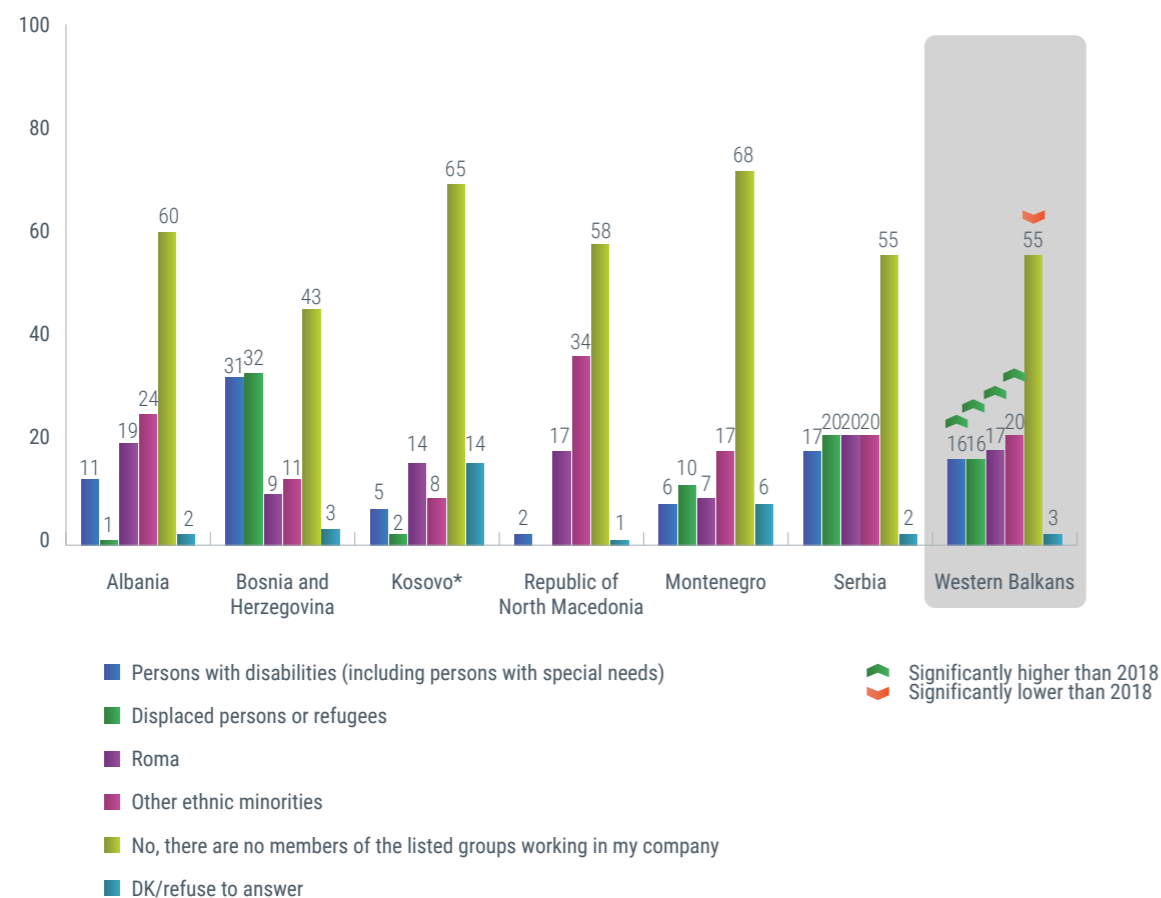
Even though three-quarters of respondents would likely employ a Roma person whose qualifications meet the job requirements, there is still 9% who would not. The share of hiring managers who would discriminate based on ethnicity, however, is declining at the regional level; in 2017, 16% of executives admitted they would not hire an otherwise qualified individual because of their ethnicity. Yet, not all economies are progressing at the same rate, or at all; Kosovo* and Bosnia and Herzegovina have actually regressed nine and five points, respectively, since 2018. Meanwhile, Serbian and Republic of North Macedonian managers tend to be more open towards the Roma population when compared to their regional counterparts.

As was the case in the previous survey instalments, larger firms, exporters and foreign-owned companies are more open to Roma hires.

The number of executives who would rather hire a man than a woman is growing, according to their colleagues in the regional business community.

Figure 133: Do you have somebody from the below mentioned vulnerable groups working in your company?*

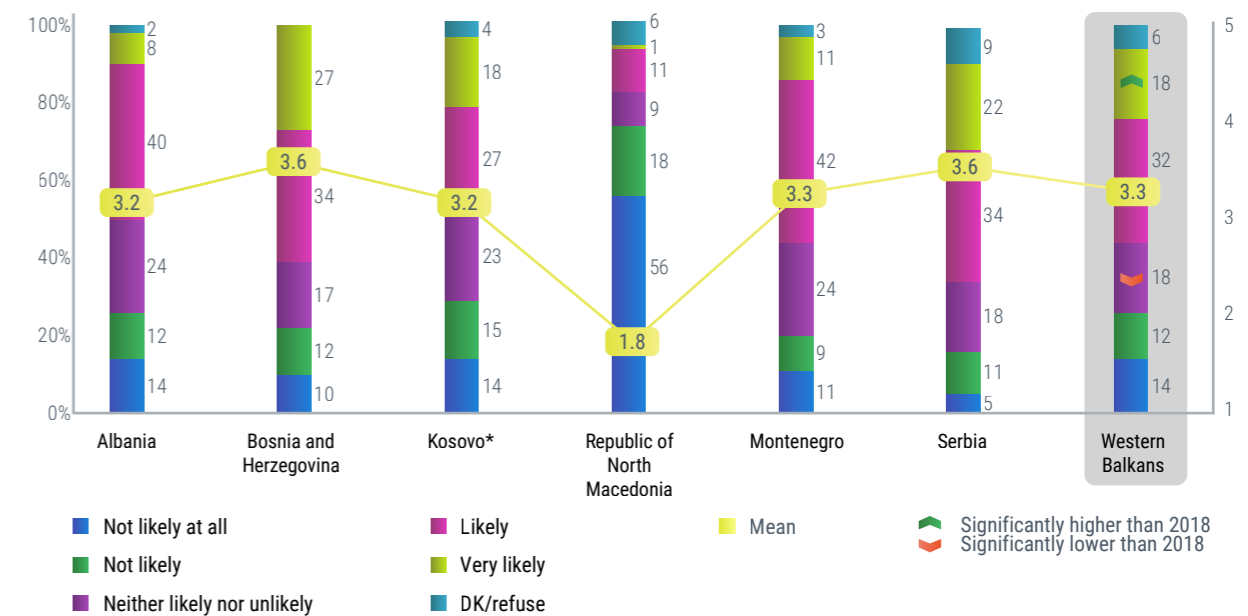
(All respondents - N=1215, multiple answers, %)



**The figures might not add to 100% due to rounding.

Figure 134: How likely would you employ workers from abroad in your company?*

(All respondents - N=1215, %)



Even though close to 60% of all managers believe that their counterparts do not have a gender preference when hiring, the share of those who claim a gender bias towards men has increased to 32% from 24% in 2018. Four out of six economies show almost uniform increases in gender bias towards men in the workplace with Montenegro and the Republic of North Macedonia the only two exceptions.

The bias towards male hires is most evident in Serbia, Bosnia and Herzegovina, and Kosovo*, where male-to-female preference ratios are seven-to-one, six-to-one and five-to-one, respectively. In the remaining economies, although companies still prefer men to women, the ratio is closer to two-to-one.

As may be expected, companies doing business in traditionally "male" sectors such as industry, mining, and construction are much more likely to hire a man than a woman (44% vs. 5%). Gender preferences are also more pronounced in domestic than in foreign firms.

Businesses in the region are becoming increasingly more open towards workers from socially excluded and vulnerable backgrounds. The share of companies employing a member of an excluded or vulnerable group has increased from 28% in 2018 to 37% in 2019, an encouraging indicator of the companies' growing social responsibility.

Companies from Bosnia and Herzegovina are especially likely to recruit staff with vulnerable back-

**The figures might not add to 100% due to rounding.

grounds (54% of the companies), followed by their counterparts in Serbia and Montenegro (42% for both economies). At the same time, reportedly only one in five companies in Kosovo* reported having employees from socially excluded groups on the payroll.

Executives in Bosnia and Herzegovina are also the most likely to recruit individuals with disabilities, as well as displaced persons or refugees, with a third of companies reporting employees from these two groups. Meanwhile, the employment rate for the displaced and the disabled is worryingly low in Kosovo* and the Republic of North Macedonia. The percentage of companies in the region that employ Roma is the highest in Serbia (20%), Albania (19%) and the Republic of North Macedonia (17%).

Further analysis shows that large, exporter and foreign-owned companies are more open towards hiring individuals from vulnerable groups than the rest.

One in four businesses would not consider employing workers from abroad. After a minor dip in 2018, the level of trust in foreign labour force is recovering (up to 3.3 from 3.1 in 2018).

As in the previous survey instalments, the Republic of North Macedonia stands out as the only economy where foreign workers would not be welcomed by a majority of respondents as 56% of respondents describe themselves as not likely at all to hire foreign arrivals. In turn, the number of executives who would

Figure 135: How likely would you employ workers from the region WB in your company?*
(All respondents - N=1215, %)

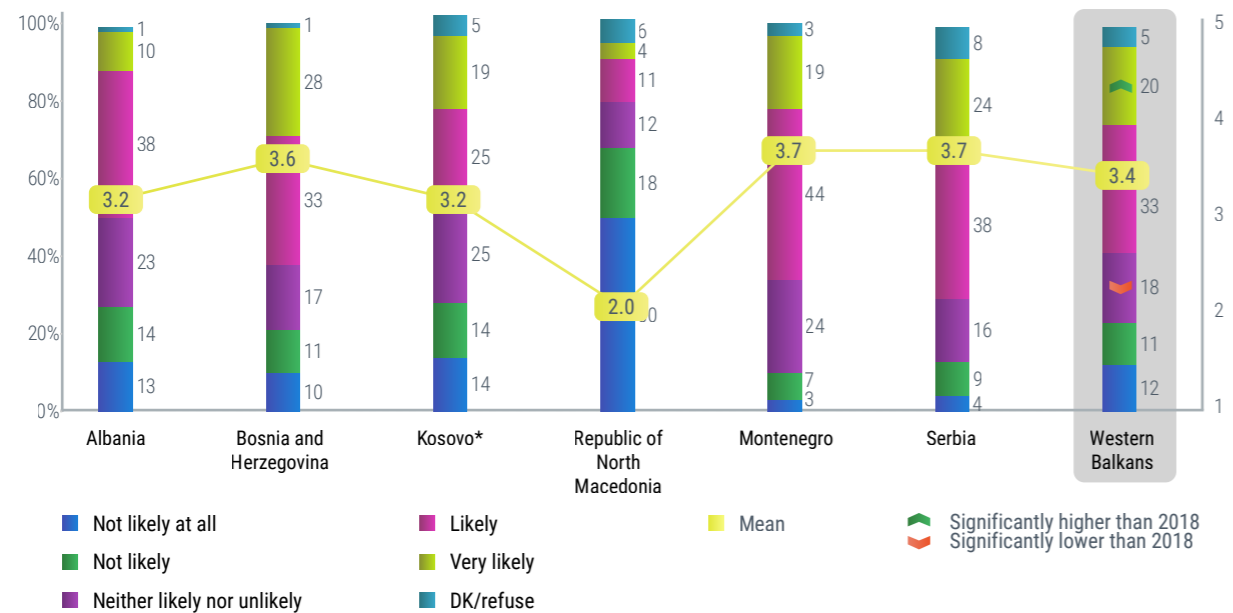


Figure 136: You said that you would employ workers from the WB region in your company, from which economy/economies exactly?*
(Respondents who would likely employ workers from the region, N=594, %)

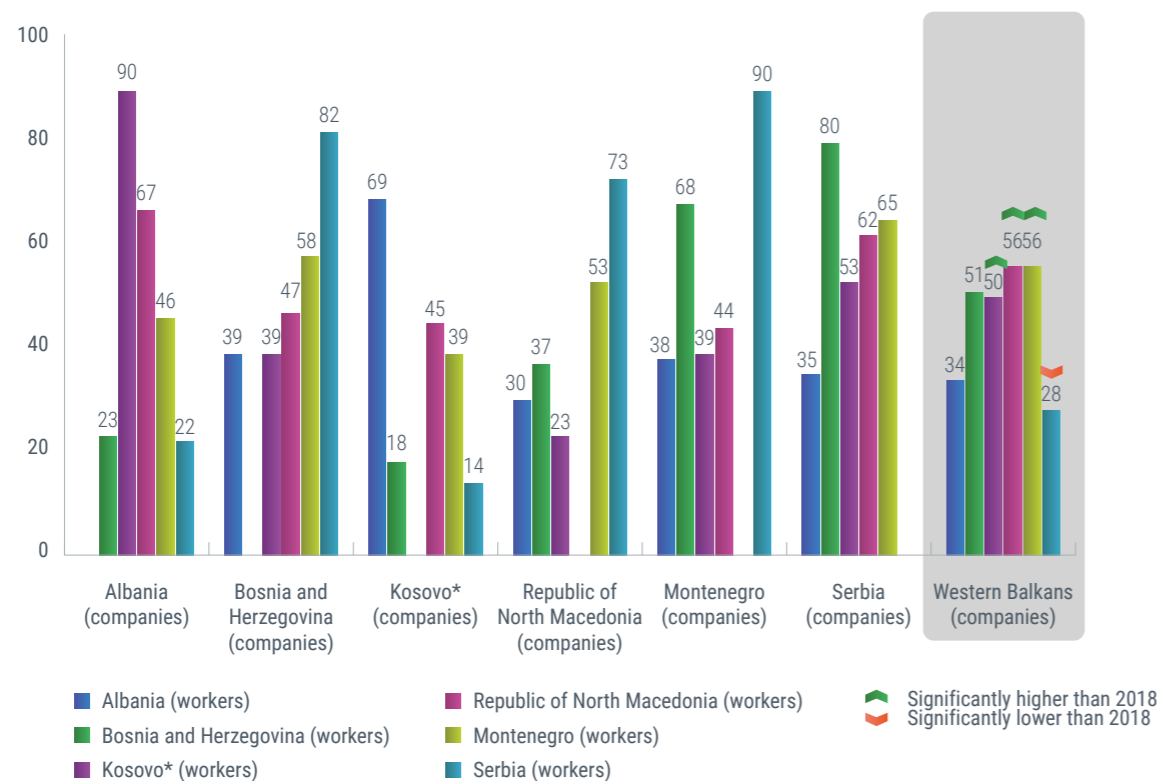
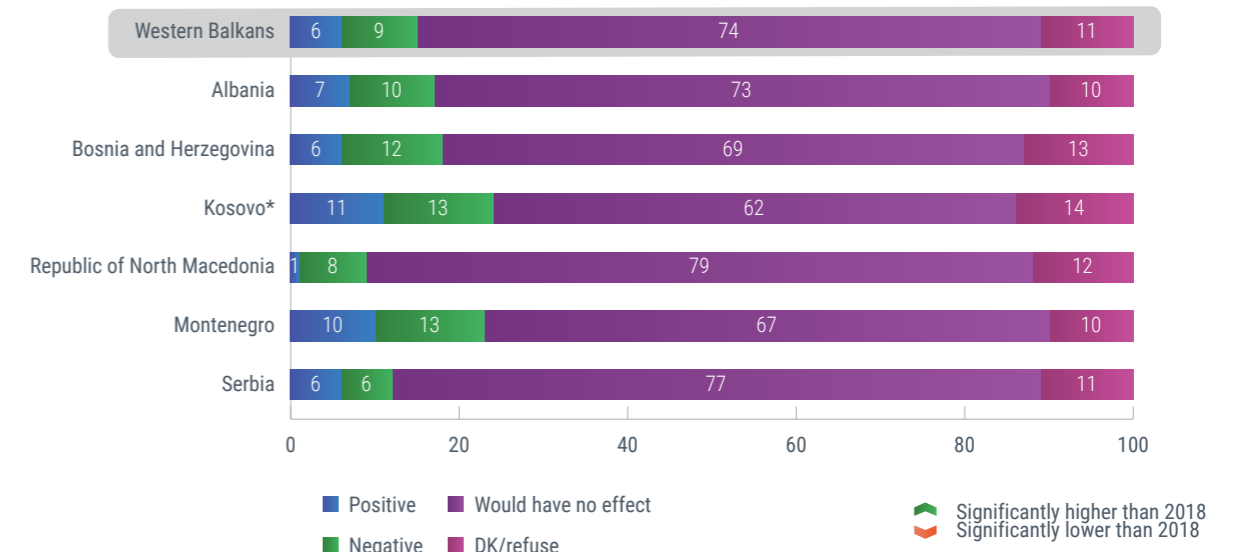


Figure 137: Do you think that employing Roma persons would affect company sales or the working environment in a positive or a negative way?*
(All respondents - N=1215, share of total, %)



hire workers from abroad accounts for more than half of the respondent population across all of the other five economies.

As expected, more than 80% of large and foreign-owned companies would employ workers from abroad.

Managers in the Western Balkans only slightly favour workers from the region to foreign workers in general. More than half of surveyed managers would employ a worker from another Western Balkans economy, while almost a quarter would not. This indicates only a slim preference for regional arrivals over foreign ones in general (3.4 for regional arrivals vs. 3.3 for foreign arrivals in general).

Montenegro and Serbia are the only two economies more likely to take on a worker from the region than elsewhere in the world (3.7). In Montenegro in particular, 63% of companies would employ from the Western Balkans, while only 53% would hire from abroad in general.

Meanwhile, the Republic of North Macedonia occupies a position at the other end of the spectrum with a mean of 2.0 – in this economy, a full half of all respondents would not consider hiring from within the region.

More than half of Western Balkans managers surveyed would employ workers from Montenegro, the Republic of North Macedonia, Bosnia and Herzegovina and Kosovo*; meanwhile, workers from Serbia and Albania are less popular as recruitment targets. Similar to the perceptions of market openness, these results are very economy-specific.

Namely, managers from Montenegro, Bosnia and Herzegovina and the Republic of North Macedonia clearly favour workers from Serbia. At the same time, managers in Albania and Kosovo* consider Serbian workers the least popular. Meanwhile, Albanian companies express a strong preference for workers from Kosovo*, and vice versa. As in the past, a large majority of managers from Bosnia and Herzegovina and Serbia would be very happy to exchange workers – 82% of Bosnian managers would hire Serbian workers, while 80% of Serbian managers would hire from Bosnia and Herzegovina.

Largely in keeping with last year's results, just under three-quarters of Western Balkans companies feel that hiring Roma would have no effect on company sales or the working environment. Worryingly, however, close to one in ten companies in the region feel that employing a Roma person would negatively affect their business. Prejudice about the Roma community is less prevalent in Serbia and the Republic of North Macedonia than elsewhere in the Western Balkans.

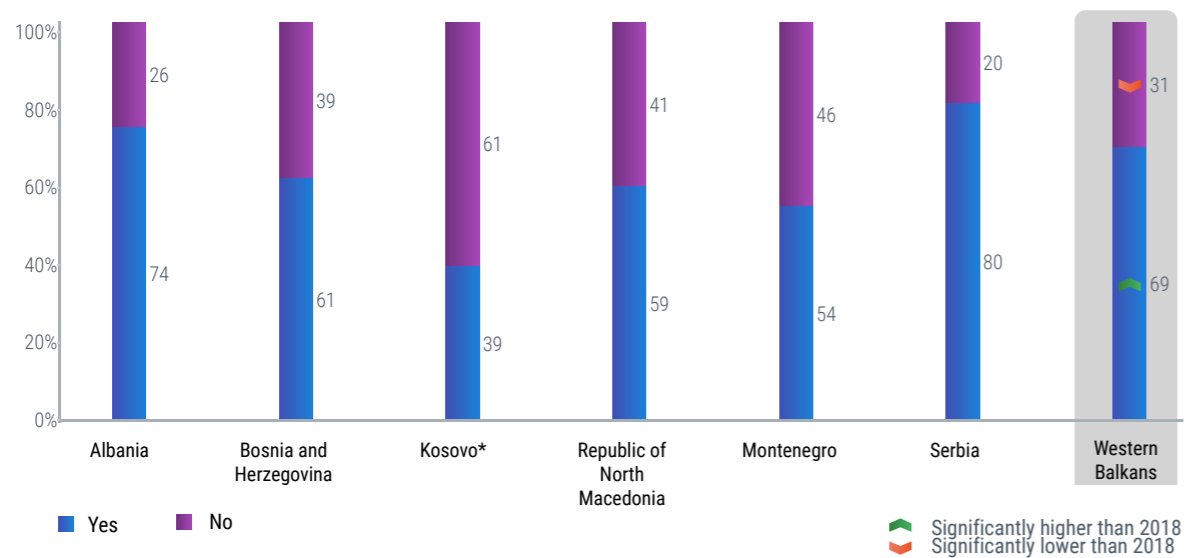
Awareness of the Regional Cooperation Council (RCC) is much greater than in previous years. Namely, close to 70% of regional corporate leaders are aware of its existence, compared to 52% in 2018.

Serbian businesses are the most likely to be informed about the RCC's work out of all the six regional economies, and as reported by 80% of executives there. Meanwhile, Kosovo* exhibits the lowest level of awareness in the region (39%).

**The figures might not add to 100% due to rounding.

**The figures might not add to 100% due to rounding.

Figure 138: Have you heard of the Regional Cooperation Council?
(All respondents - N=1215, share of total, %)



The RCC has recorded a significant hike in awareness across both Albania and the Republic of North Macedonia, likely due to the recent developments on their path to EU accession. Since last year, the share of managers to have heard of the RCC nearly tri-

pled in Albania and doubled in the Republic of North Macedonia.

FOCUS ON LARGE COMPANIES

For the purposes of this report, any enterprise that employs more than 250 people is referred to as a large enterprise.

Large companies employ a significant chunk of an economy's workforce and account for a sizable share of its economic activity. When well-integrated into their economies of residence, large companies help their smaller counterparts connect and grow, acting as catalysts of development across the board.

Large companies usually emerge as a consequence of the economy of scale, or reduction in unit costs through an increase in output. To fully harness the economy of scale, they usually specialise in the production of less customised (more standardised) products. Needless to say, greater production capacity, apart from the workforce, comes from greater capital.

Because of their size, large companies have several advantages, especially cheaper and easier financing, capacity for research and development and export capacities. Nevertheless, they are much less flexible than smaller companies, and sometimes find it harder to fill vacancies, especially in economies with depleting workforce basins.

Perception of the General Business Environment and Economic Trends

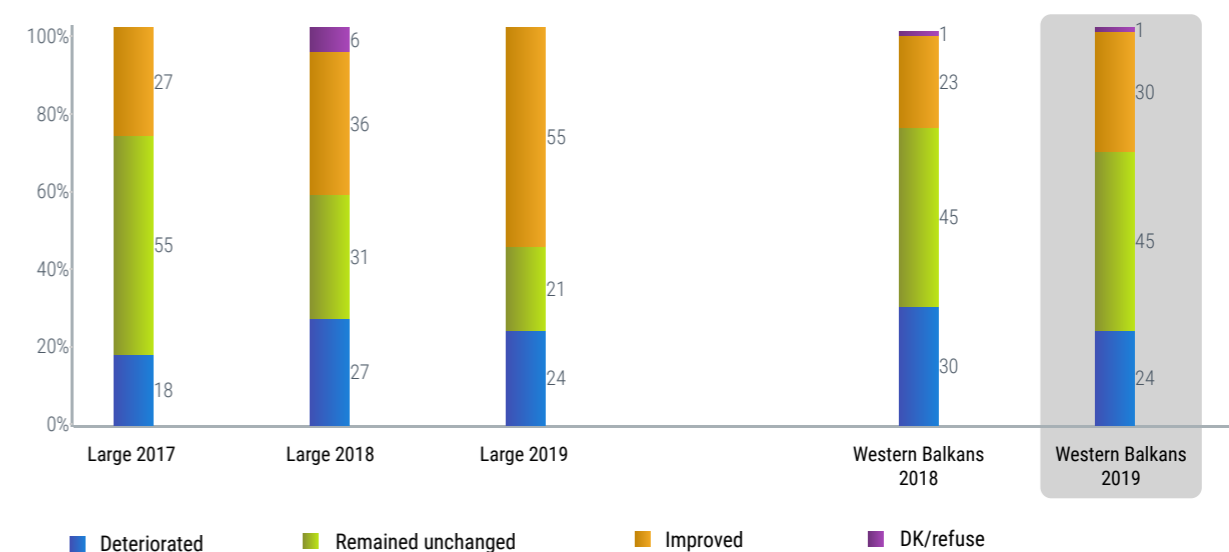
Over the past three years, large companies' perception of the situation in their economy has improved significantly. The share of executives reporting improvements in the economy has grown by close to 20 points since last year (from 36% to 55% in 2019). At the same time, a quarter of respondents described the situation as deteriorating over the past 12 months. Compared to their SME peers, large companies' executives are much more satisfied with the general economic situation.

Satisfaction with the business situation increases with company size. An overwhelming majority of large companies have had a good business year, as 71% reported an improved business situation, against only 33% for micro-companies. Compared to 2018, there is an increase of 20 points in the share of large companies reporting improved business results. Meanwhile, medium enterprises remain at the same level as in the previous year, while there is a slight decrease in the share of small and micro-companies reporting an improved business situation.

An overwhelming majority of Western Balkans companies expect the general economic situation to either improve or remain unchanged over the next 12

Figure 139: How has the general economic situation in [ECONOMY] changed over the past 12 months? Has it deteriorated, remained unchanged or improved?*

(All respondents - N=1215, share of total, %)



**The figures might not add to 100% due to rounding.

Figure 140: How has your business situation developed over the past 12 months? Has it deteriorated, remained unchanged or improved?*

(All respondents - N=1215, share of total, %)

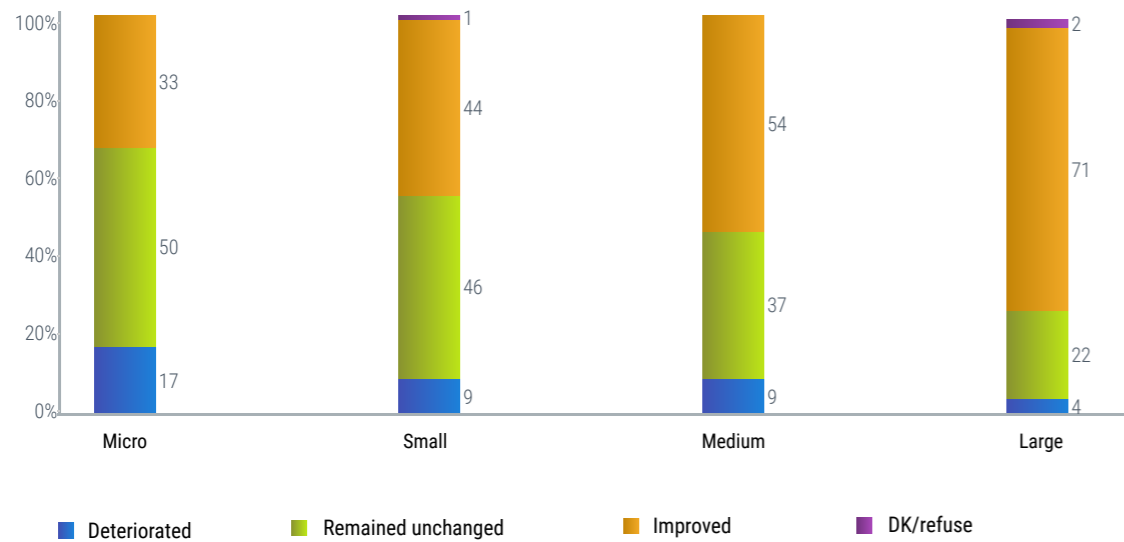
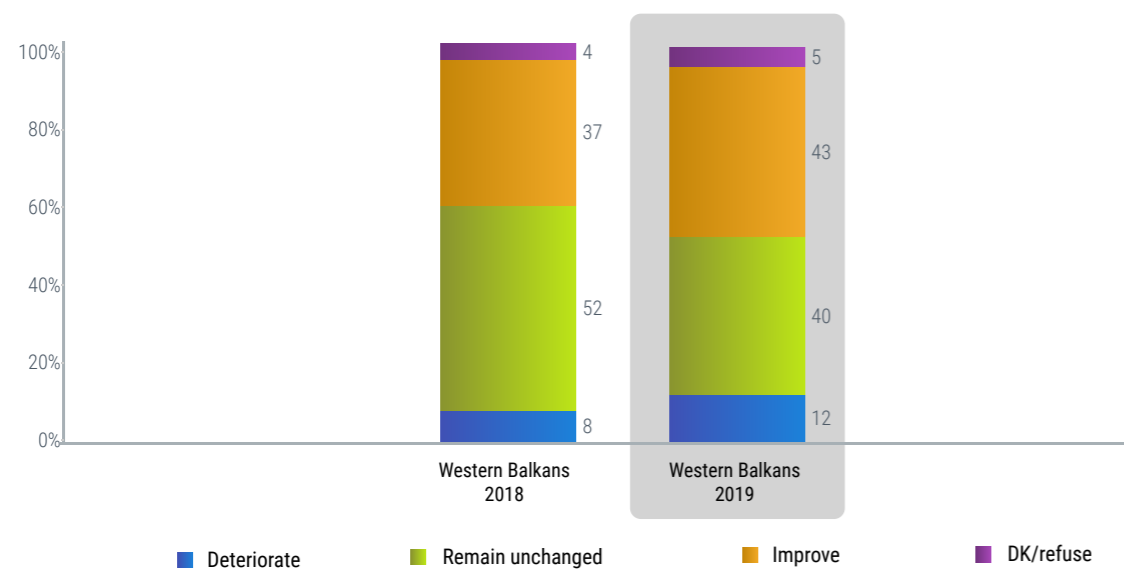


Figure 141: How do you expect the general economic situation in [ECONOMY] to develop over the next 12 months? Will it mostly deteriorate, remain unchanged or improve?*

(All respondents - N=1215, share of total, %)



months. Meanwhile, more than half of medium- and large-sized companies fully anticipate the situation to improve.

Driven by a good business year, 60% of large companies expect to increase their number of employees. The situation is similar with medium-sized enterprises, as 50% of them expect to employ more workers. Meanwhile, micro- and small businesses will largely keep what they have.

The quality of regional cooperation is perceived as important or very important by 84% of large companies' leaders in the Western Balkans (vs. 62% for SMEs). EU membership is believed to be a good thing by 88% of large companies, while smaller businesses also largely perceive it as positive, but to a lesser extent (69% of SMEs).

**The figures might not add to 100% due to rounding.

Business trends in the Western Balkans

Probably due to increased demand for their products and services, as reported by 71% of large companies, an overwhelming majority of business leaders believe that demand will further improve in the following year (83%). Meanwhile, prospects of increased demand are fuelling expectations of a rise in

employment for most large companies in the Western Balkans.

Figure 142: How do you expect the number of people employed in your company to change over the next 12 months?*

(All respondents - N=1215, share of total, %)

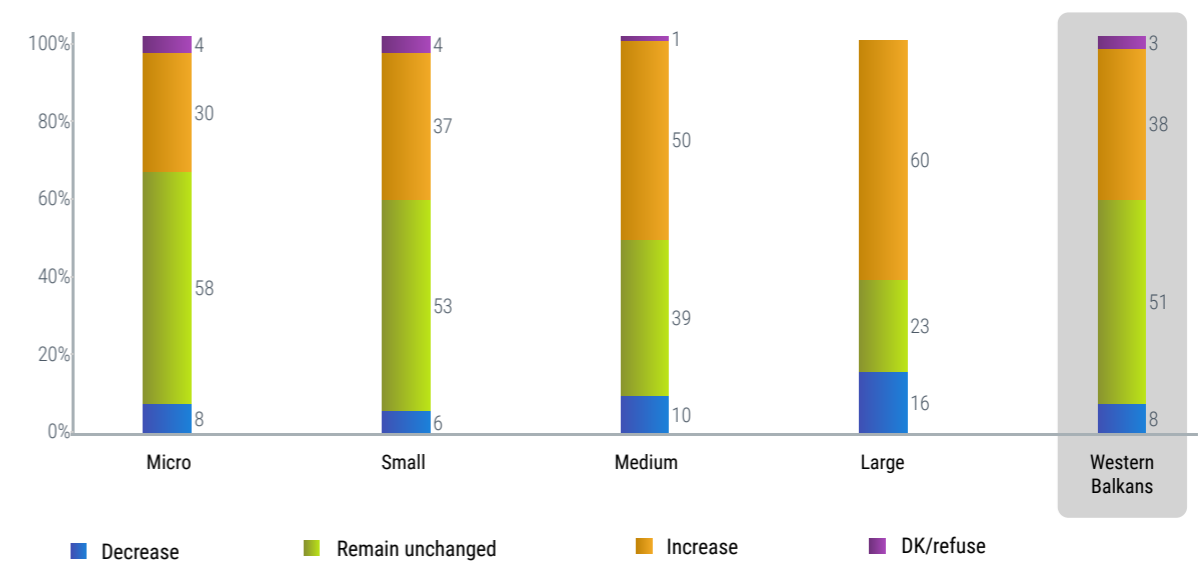
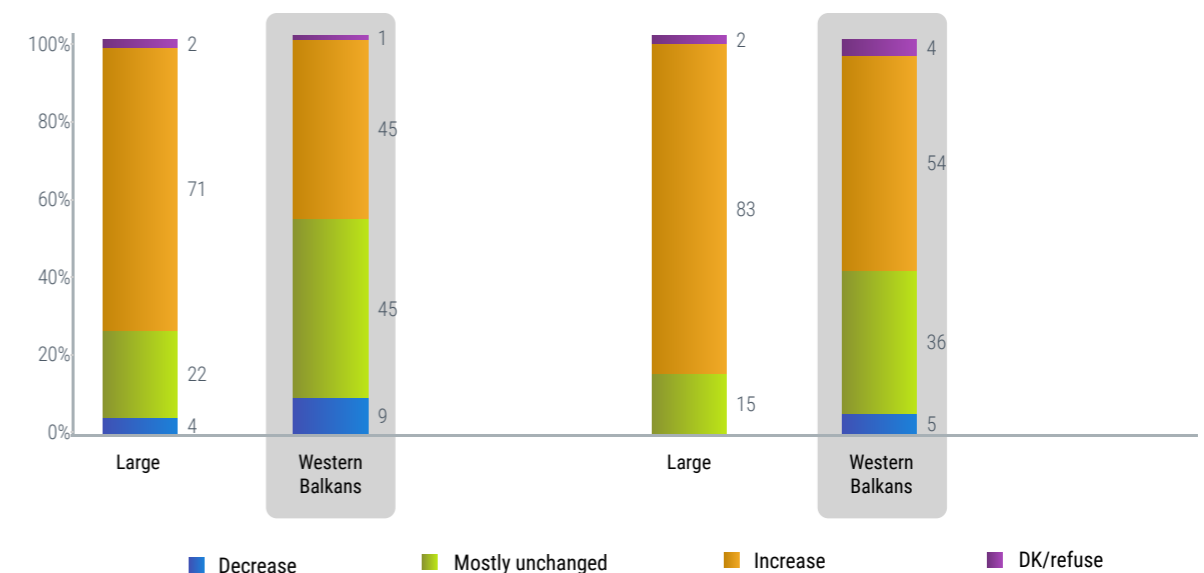


Figure 143: (left) How has the demand for your company's products/services changed over the past 12 months? Has it deteriorated, remained unchanged or improved?*

(All respondents - N=1215, share of total, %)



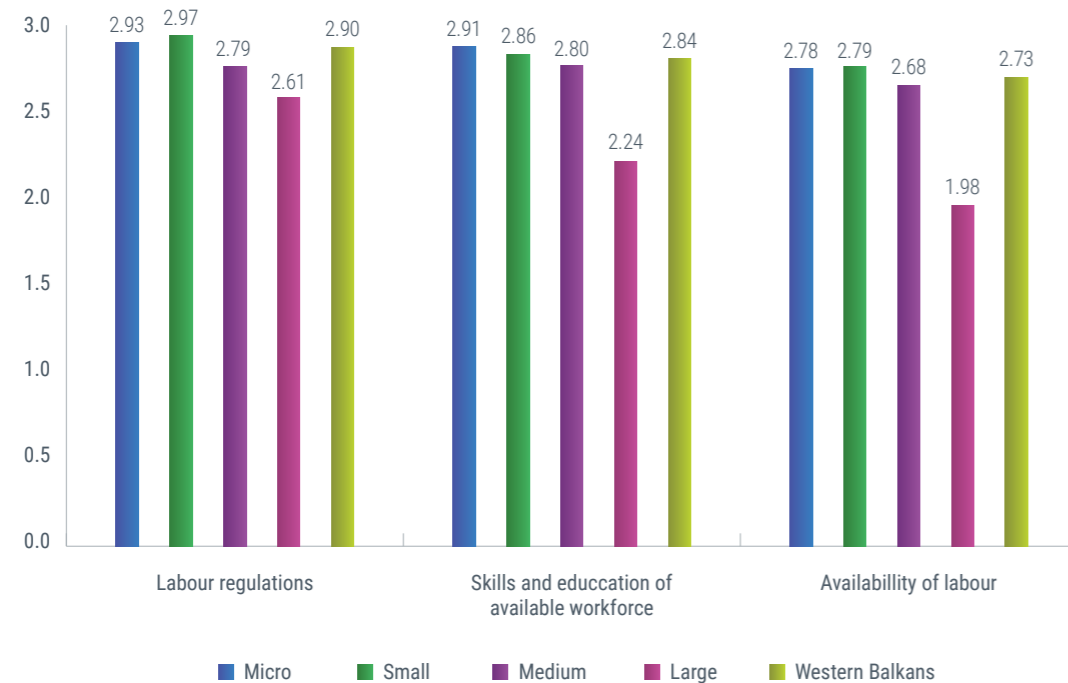
(right) How do you expect the demand for your company's products/services to change over the next 12 months? Will it decrease, remain mostly unchanged or increase?*

(All respondents - N=1215, share of total, %)

**The figures might not add to 100% due to rounding.

Figure 144: Can you tell how problematic are these different factors for the operation and growth of your business? Can you please rate each?

(All respondents - N=1215, scores are on a scale of 1 to 4 where 1 means major obstacle, 2 moderate obstacle, 3 minor obstacle and 4 no obstacle, mean)



In terms of their investment, large companies tend to focus most on property, plant and equipment, although to a slightly lesser extent than in the previous instalment (52% from 60% in 2018). Some 20% of annual investment by large companies is directed to long-term financial investments.

Encouragingly, 95% of large-sized companies have made at least some attempt to reduce their environmental footprint, with medium-sized companies not far behind, with 85%. Meanwhile, only 62% and 75% of micro- and small companies, respectively, report having taken measures to mitigate their environmental impact.

Business Environment in SEE

Large companies mostly share the concerns with their SME peers. Macro-economic instability, and customs and trade regulations are much more of an obstacle for large companies than for smaller enterprises.

The labour market is not particularly favourable to companies of any size, although large corporations tend to fare better than others. Labour regulations are a major or moderate obstacle for 52% of large companies (vs. 32% for SMEs) in the region. Skills and education of available workforce often fail to meet the needs of large companies, according to 52% of managers surveyed (vs. 33% for the SMEs). The availability of labour is becoming a serious con-

straint for businesses in the region, but especially for large companies, as their needs tend to be greater due to their size. Accordingly, close to three-quarters of large companies surveyed flag availability of labour as a barrier (vs. roughly a third of SMEs).

Executives of large-sized companies rated governance, transparency, predictability, stability and effectiveness of public authorities either equal to or less positively than SMEs.

The combination of availability, quality and affordability of road, railroad, waterway and air transport is rated almost identically by companies of all sizes, if only slightly worse by large-sized enterprises.

Legal and Regulatory Framework

Executives of large companies are much more content with their concerns being taken into account by the government than their peers from smaller-sized companies. Only 20% of smaller businesses feel their concerns are taken seriously compared to 44% for large companies. When it comes to being involved in policymaking, large companies (60%) feel significantly more satisfied than their SME peers (30% or less). Meanwhile, satisfaction with laws and regulations is similar among companies of all sizes, while in the previous survey instalment large companies' executives expressed more dissatisfaction than the rest. Large enterprises tend to be happier with public services, with the exception of the costs

**The figures might not add to 100% due to rounding.

involved with getting information from the government.

Only 7% of large-sized companies decided not to take part in a public tender or procurement procedure even though they could have offered the goods or services solicited. Meanwhile, the practice of skipping public procurements is much more common among SMEs (30% on average decide not to take part).

While bureaucracy is an obstacle for all corporations, large companies display some variation. Taxation-related regulations are cited most frequently by large companies (59% vs. 40% of the SMEs), with a similar discrepancy in attitude with regards to employment regulations (42% of large companies vs. 20% of SMEs). At the same time, health and safety regulations are an issue for 12% of SMEs and only 3% of their large counterparts. Also, minimum wage regulations are more of a barrier to companies employing fewer than 250 workers (21% vs. 15% for large companies).

Court appearances are becoming significantly less common for large companies, as only 16% reported having cases in arbitration courts over the past three years, compared to 41% in the last survey instalment.

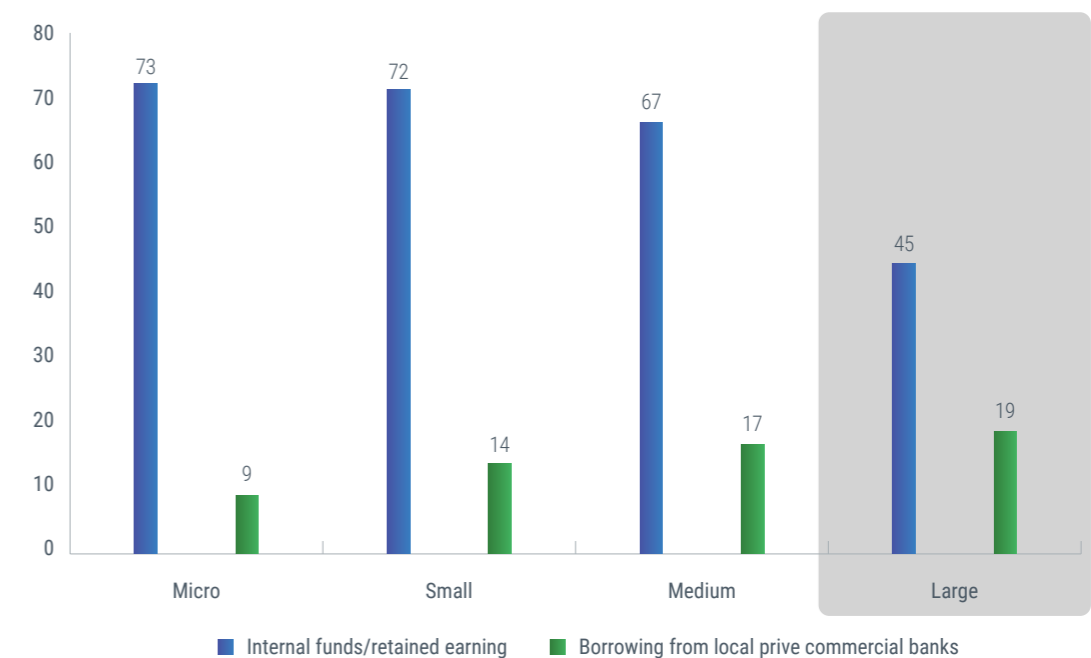
Accessibility of Loans

The dominant share of business operations is financed from internal funds and retained earnings in companies of all sizes, but again to a lesser extent for large ones. In large-sized companies, it finances 45% of investment on average, while this share is significantly higher for their SME peers. Commercial bank loans finance 19% of business operations in large companies on average, while medium-sized companies are just behind, with 17%. However, the share of operations financed from bank loans in large companies has decreased since last year (33% in 2018).

Large companies (28%) have applied for a loan less frequently over the last three years than small (32%) and medium-sized companies (33%). However, the outcomes of the loan approval process cannot be scrutinised with reliability due to insufficient sample size.

Figure 145: 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?

(All respondents - N=1215, share of total, %)



**The figures might not add to 100% due to rounding.

Corruption

The topic is a sensitive one for all Western Balkans corporate leaders, though, executives of larger companies are more open to discussing it than executives of their smaller counterparts (5% non-response rate for large vs. 12% for the SMEs).

The perception of corruption is much higher among managers of large companies; as many as 55% of large companies' leaders feel that additional payments are necessary "to get things done", in comparison to fewer than 20% of managers of smaller companies. Accordingly, business leaders of large companies claim to know the cost of bribes beforehand in 50% of the cases.

However, a much greater proportion of large companies' executives would report wrongdoing to the authorities than their SME counterparts (63% vs. 43%). At the same time, only 7% of large companies' executives believe that wrongdoing cannot be stopped effectively (vs. 29% of the SMEs executives).

Executives from large-sized companies are also much more likely to believe that digitalisation of public services is an effective deterrent to corruption than their SME peers (71% vs. 40%).

Trade and investment

Large companies are much more likely to invest abroad. Almost 60% of large companies from the Western Balkans have either invested abroad or plan to do so in the next 12 months, compared to fewer than 10% of SMEs.

Large companies generate a majority of their sales through export, unlike their smaller counterparts (58% vs. 31% for medium-sized, 13% for small and only 7% for micro- companies). The EU remains the dominant market for all Western Balkans exporters.

Nevertheless, large companies also import more, as they source only 45% of their inputs from the domestic market (compared to SME's 75%).

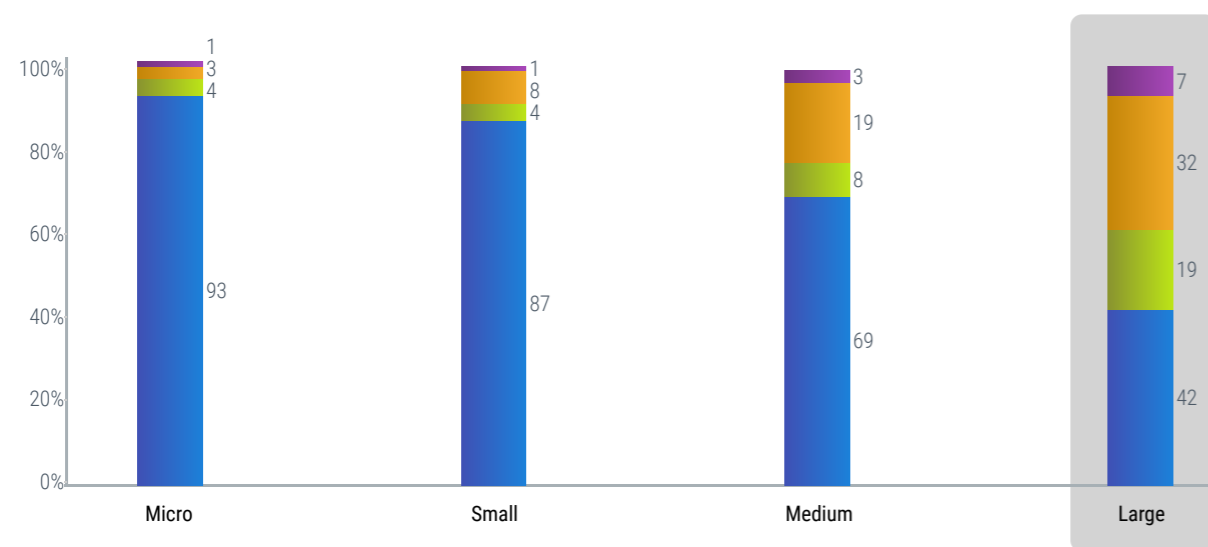
Close to two-thirds of large companies' executives exhibit a high level of confidence when facing global competition. Tellingly, they are even more confident when asked how their companies measure up to regional competitors (80%). Generally, companies of all sizes express a similar level of confidence.

Large companies in the Western Balkans are very confident in the quality of their products and services, as a vast majority believe that they can compete effectively with competitors from both the EU and the Western Balkans. After a slight dip across both markets in 2018, large companies' confidence in their products rebounded fully in 2019.

As expected, managers of large companies feel they have benefited more from the CEFTA Agreement, as they tend to both export and import more than their smaller counterparts. Two-thirds of large companies report benefiting from CEFTA, but to a lesser extent than in the previous survey instalment. Managers of micro-companies are also more likely to experience the benefits of regional free trade, even though they source and sell most of the products domestically.

Figure 146: What percentage of your company's sales are made domestically, exported to the SEE region, to the EU or to the third countries? **

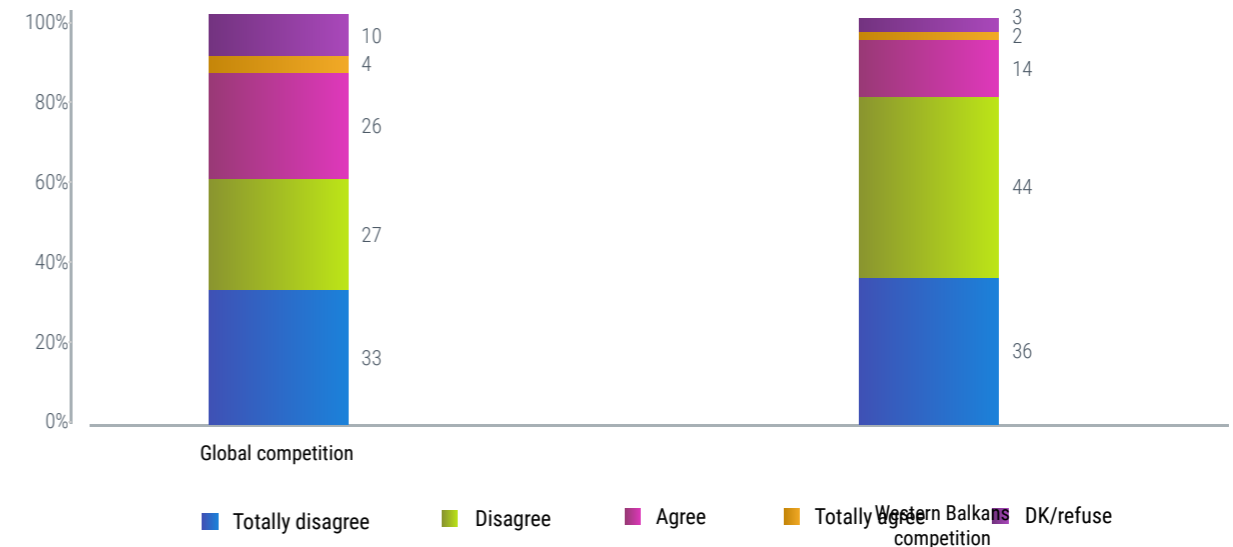
(All respondents - N=1215, share of total, %)



**The figures might not add to 100% due to rounding.

Figure 147: (left) To what extent do you agree that your company is threatened by global competition? **

(All respondents - N=1215, share of total, %)

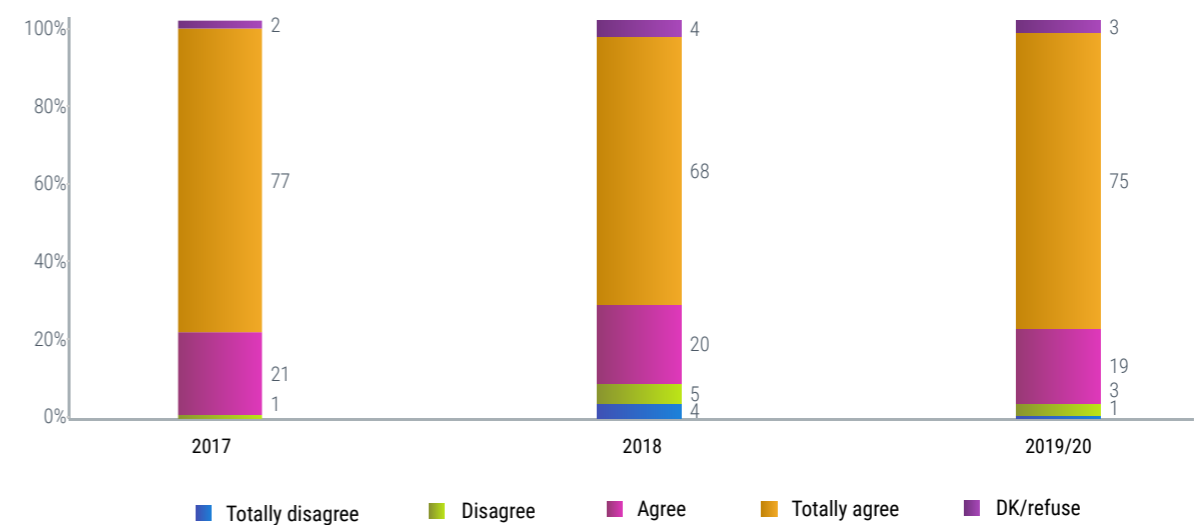


(right) To what extent do you agree that your company is threatened by competition from the Western Balkans region? **

(All respondents - N=1215, share of total, %)

Figure 148: To what extent do you agree with the following statements - My company's products, goods and services can compete well with products, goods and services from the Western Balkans? **

(Large companies - N=37, share of total, %)



**The figures might not add to 100% due to rounding.

Figure 149: To what extent do you agree with the following statements - My company's products, goods and services can compete well with products, goods and services from other EU countries?*

(Large companies - N=37, share of total, %)

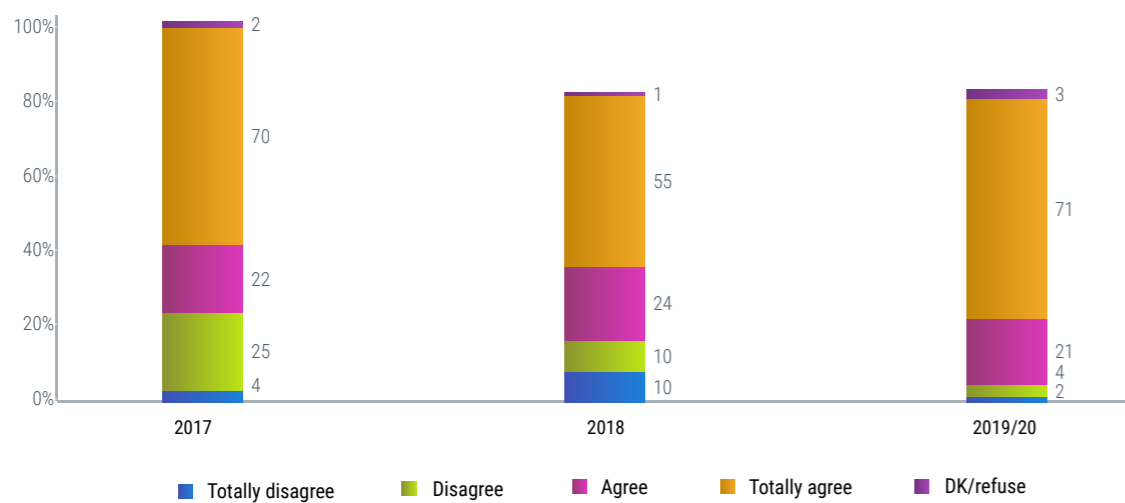


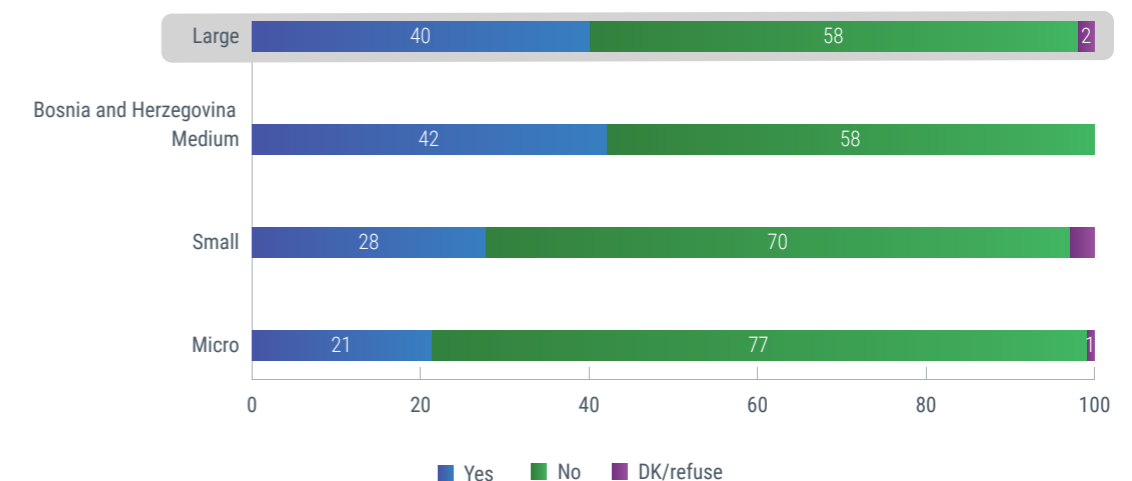
Figure 151: Does your company use the Internet for...?*

(All respondents - N=1215, share of total, %)



Figure 152: Have you introduced new or significantly improved products and/or services in the past 12 months?*

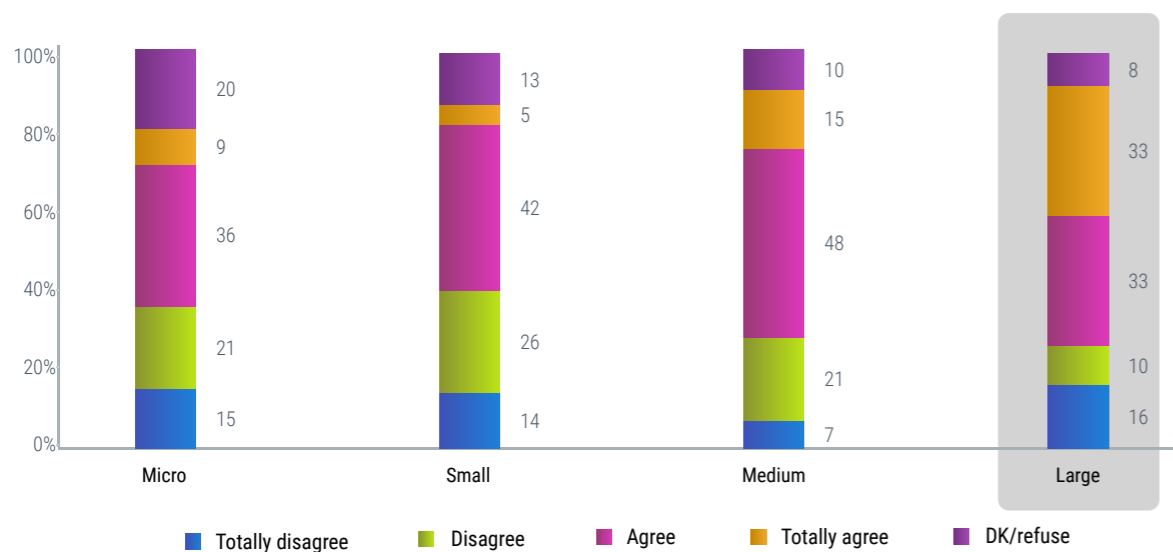
(All respondents - N=1215, share of total, %)



**The figures might not add to 100% due to rounding.

Figure 150: To what extent do you agree with the following statements - "My company has benefited from the regional free trade agreement (CEFTA 2006)"?*

(All respondents - N=1215, share of total, %)



Innovation and Technology

Less than 3% of all Western Balkans companies surveyed do not use the Internet and almost all of them are micro or small in size. Meanwhile, all large companies employ it, and as expected, as companies grow in size so does the usage of the Internet.

Other than communication, which is the main form of Internet use for companies of all sizes, a majority of large companies use it to research for new trends and ideas, and to provide customer services and on-

line support. In addition, website presentation is another common form of Internet use, although more medium-sized companies use web portals for business purposes. Online banking services are gaining popularity among all types and sizes of enterprises. There is no significant difference among the size categories when it comes to selling and purchasing goods online, except maybe for micro businesses, which are the least likely to sell their products online.

Large companies experience more Internet security problems than smaller enterprises, with attacks

**The figures might not add to 100% due to rounding.

on their networks and computer viruses especially prevalent. With speed and bandwidth the two most important features, 90% of large companies are satisfied with their Internet connection.

Innovations are most likely in medium- and large-sized companies. Even though companies of all sizes mostly develop new services or products by themselves, larger enterprises more frequently cooperate with other entities than their SME counterparts.

Skills needs

The larger the company, the harder it is for it to meet its workforce needs, with 49% struggling with hard-to-fill posts versus “only” 30% for smaller companies. Consequently, large companies tend to provide more internship opportunities for youth compared to small and medium-sized companies (63% vs. 28% for the latter).

Given the high importance of the Internet and digital skills for large companies, it does not come as a surprise that they devote more resources to improve digital skills of their employees. Namely, around 9 out of 10 large companies consider the digital skills as important and organise trainings. These trainings are most often organised as on-the-job trainings.

Employment practice

Placing advertisements in newspapers or online is the most trusted way of identifying new hires among large companies, with recruitment through employment agencies the second most commonly employed; both are used less often by smaller sized companies. Also, recruitment straight from educational institutions is a lot more common for large companies.

A large majority of companies of all sizes would likely retain their current staffing levels, even if all labour-related restrictions were removed. Meanwhile, 13% of large companies would reduce their number of staff, if given the opportunity.

Hiring Roma, provided they have the relevant educational profile and requisite experience, would not be an issue for 75% of medium-sized and large companies. An overwhelming majority also feel that Roma hires would have no impact on their working environment. Gender biases are also not as prevalent in large companies, as 75% of their executives have reported that they have no preference for male or female employees, although 24% would still rather hire a man. For comparison, some 60% of executives from the SME sector stated no preference against some 30% who would rather hire male employees.

Figure 154: If you could change the number of full-time workers your company 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 retain the same level of employees?*

(All respondents - N=1215, %)

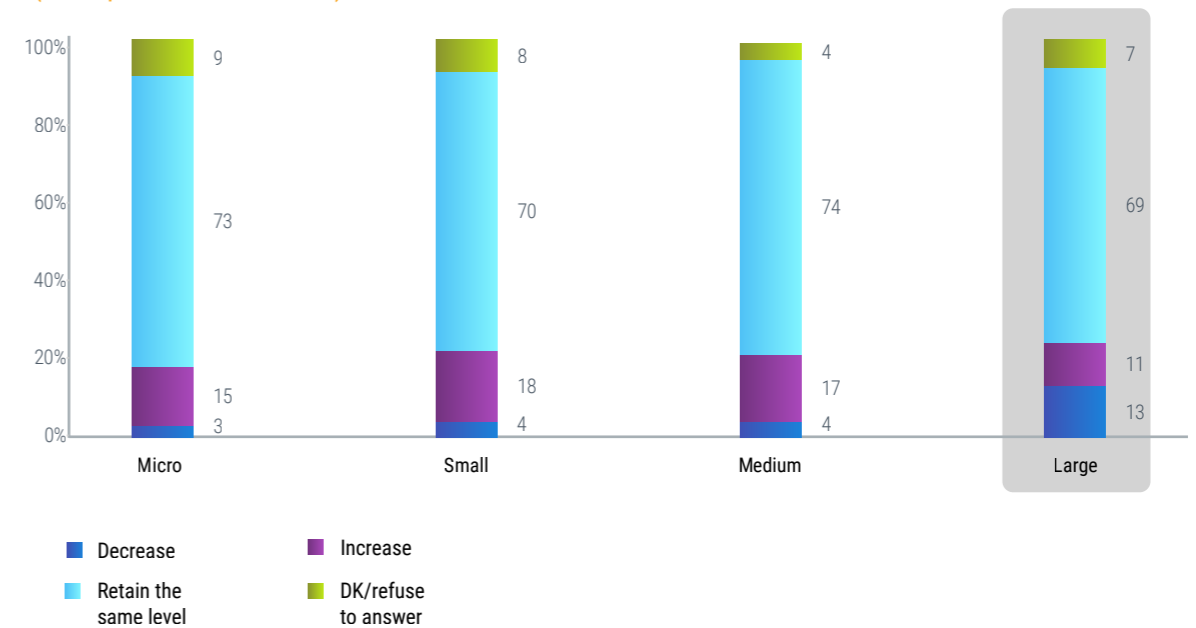


Figure 155: Do you have somebody from below mentioned vulnerable groups working in your company?*

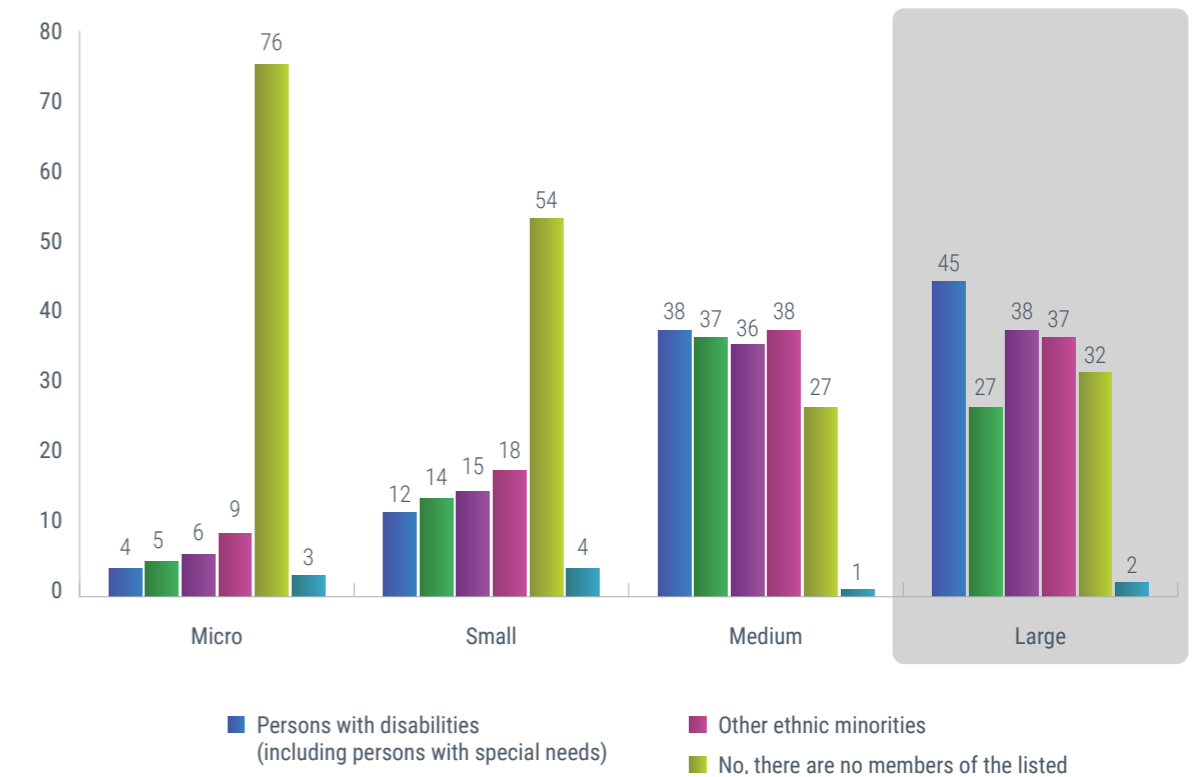
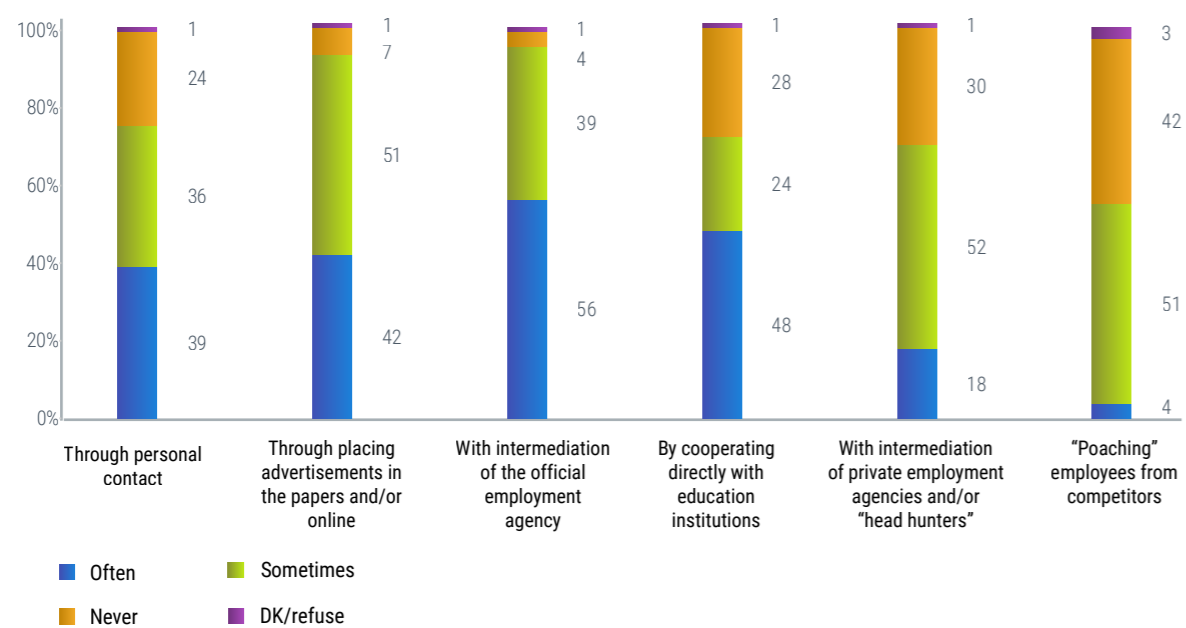


Figure 153: How often do you use the following when hiring new employees? Please mark each of the following methods with 1 often, 2 sometimes or 3 never.**

(Large companies- N=37, %)

Large companies



**The figures might not add to 100% due to rounding.

**The figures might not add to 100% due to rounding.

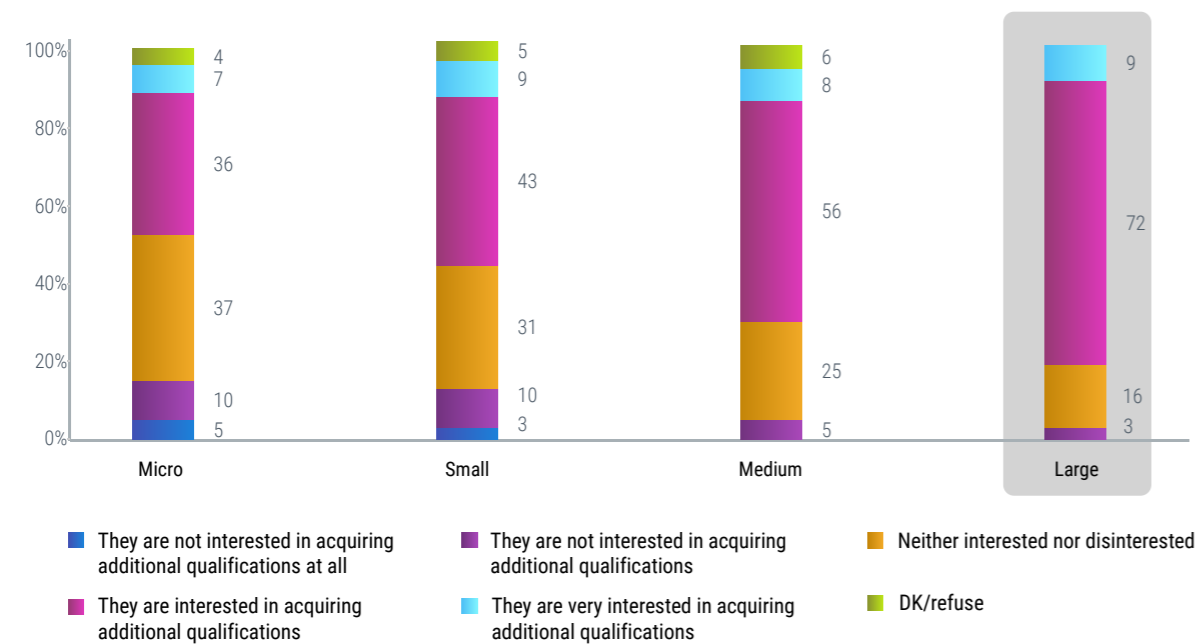
According to the survey results, medium- and large-sized companies are the most likely employers for individuals from vulnerable backgrounds. Just under a half of large companies report having socially excluded individuals on the payroll. Meanwhile, medium sized companies are the most likely to hire displaced persons or refugees. Micro- and small enterprises employ a significantly smaller share of vulnerable individuals.

The survey findings suggest that employees in large companies are more likely to readily take on new skills and abilities than their SME peers.

Meanwhile, close to 70% of all business leaders in the Western Balkans are aware of the Regional Cooperation Council. As may have been expected, representatives of large companies are better informed, with close to 90% having heard of the RCC, against just 56% of micro-companies.

Figure 156: How would you assess the readiness of employees in your company to acquire additional qualifications in order to advance and get promoted?*

(All respondents - N=1215, share of total, %)



**The figures might not add to 100% due to rounding.

FOCUS ON EXPORTERS

Export-oriented companies offer their goods and services on foreign markets and are important not only as a source of sales revenue but also as a driver of competitiveness and innovation in the face of international competition. In addition, exporters usually tend to place more on regional cooperation and relevant trade agreements.

Perception of the General Business Environment and Economic Trends

Over the past 12 months, the general economic situation has largely been assessed as unchanged by both exporters and non-exporters (45% for both). More managers from exporting companies, however, have noted improvements in the economic situation compared to domestic-facing enterprises (35% vs. 27%). Meanwhile, non-exporters are more likely to report a deterioration in the economic situation than exporters (27% vs. 19%).

Export-oriented companies are also far more optimistic about the future, as 51% feel that the situation will improve in the next 12 months, compared to just 9% for non-exporters.

Last year was especially good for export-oriented businesses. Slightly more than half (51%) have noted that the situation has improved year-on-year,

against just 39% for non-exporters. Compared to the last instalment of the survey, both categories have noted improvements.

Regional cooperation is significantly more important to exporters, as close to 80% of them have described it as either important or very important, compared to just 46% for non-exporters. EU membership is clearly seen as a good opportunity by exporters to develop or consolidate shares in new markets, as 75% support accession, compared to just 56% for non-exporters.

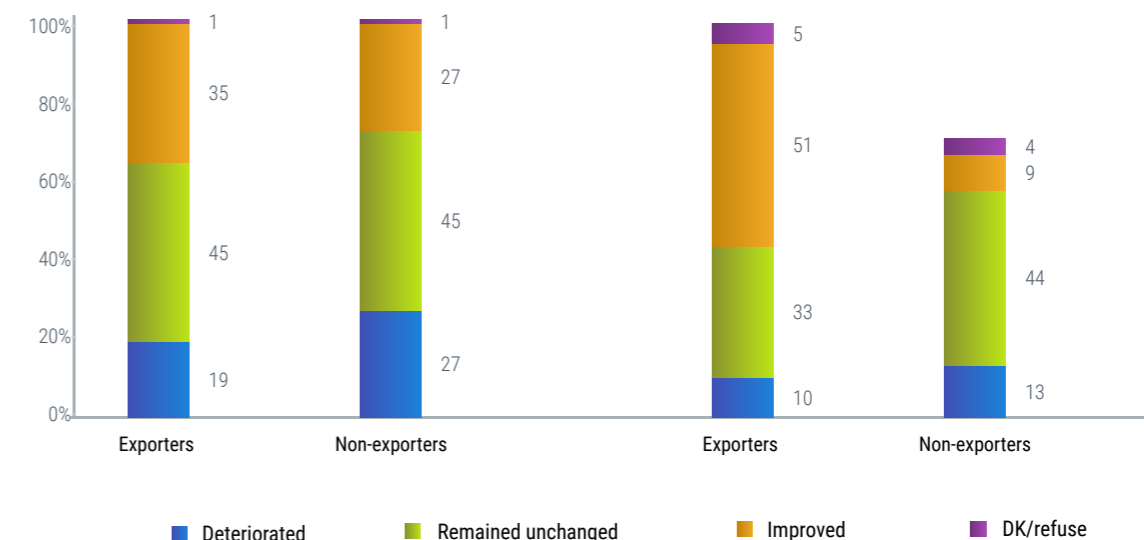
Business trends in the Western Balkans

Exporters have seen demand for their goods and services improve to a greater extent than non-exporters. While a majority of surveyed exporter companies reported an increase in demand (56%), this was the case for only 39% of non-exporters. Few respondents across either of the groups reported a decline in demand, with exporters doing better in this category as well (6% vs. 11%).

The outlook for the future is more optimistic among the exporter community; two-thirds believe that demand for their products will improve over the coming 12 months, compared to just under a half of non-exporters.

Figure 157: [Left] How has the general economic situation in [ECONOMY] changed over the past 12 months? Has it deteriorated, remained unchanged or improved?*

(All respondents - N=1215, share of total, %)



**The figures might not add to 100% due to rounding.

Figure 158: How has your business situation developed over the past 12 months? Has it deteriorated, remained unchanged or improved?***

(All respondents - N=1215, share of total, %)

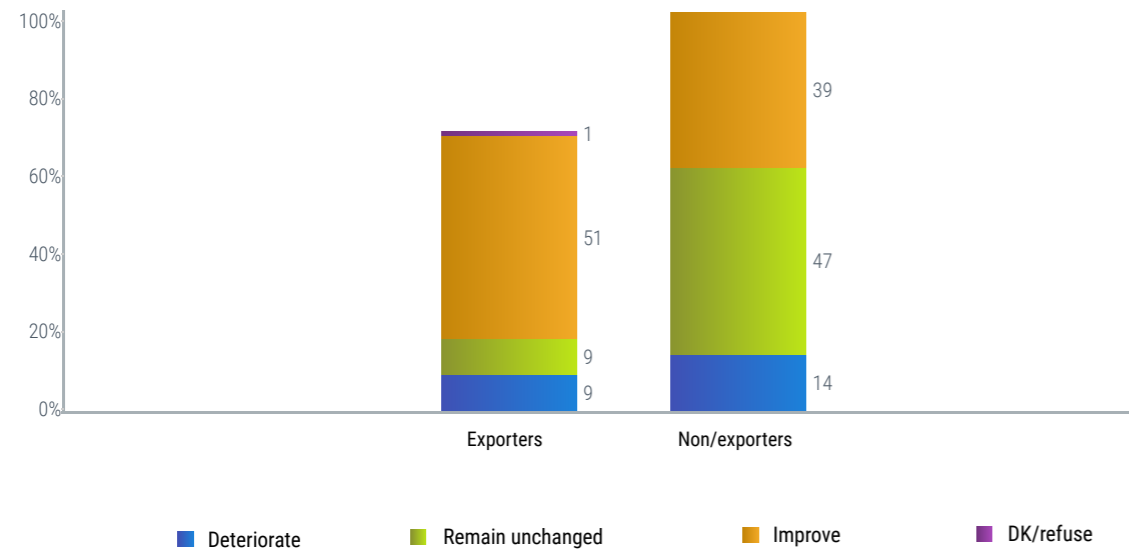


Figure 160: How has your company's total employment changed over the past 12 months?***

(All respondents - N=1215, share of total, %)

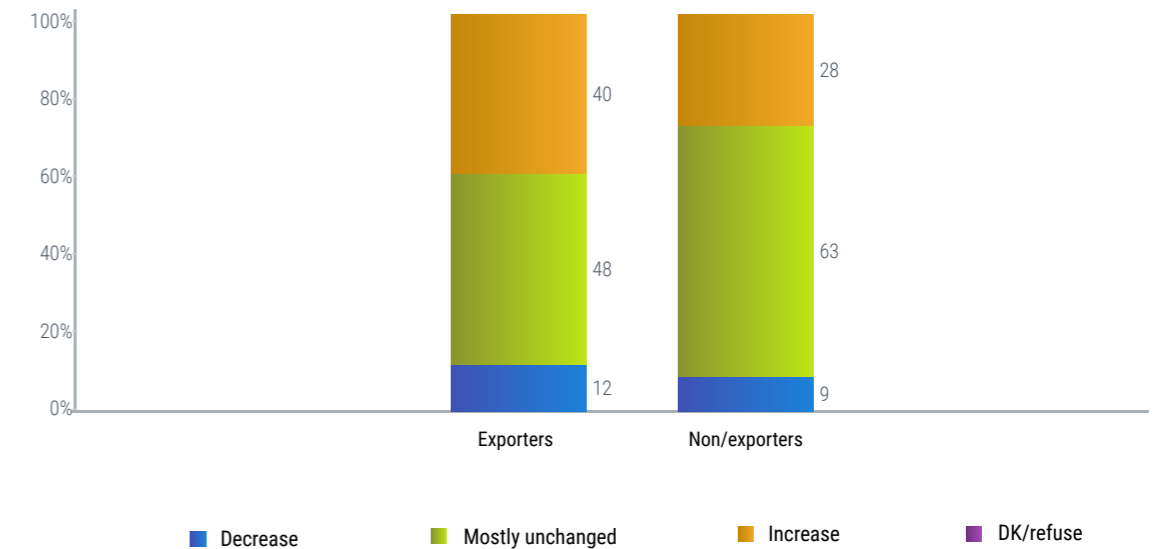


Figure 159: [Left] How has the demand for your company's products/services changed over the past 12 months? Has it deteriorated, remained unchanged or improved?***

(All respondents - N=1215, share of total, %)

[Right] How do you expect the demand for your company's products/services to change over the next 12 months? Will it decrease, remain mostly unchanged or increase?***

(All respondents - N=1215, share of total, %)

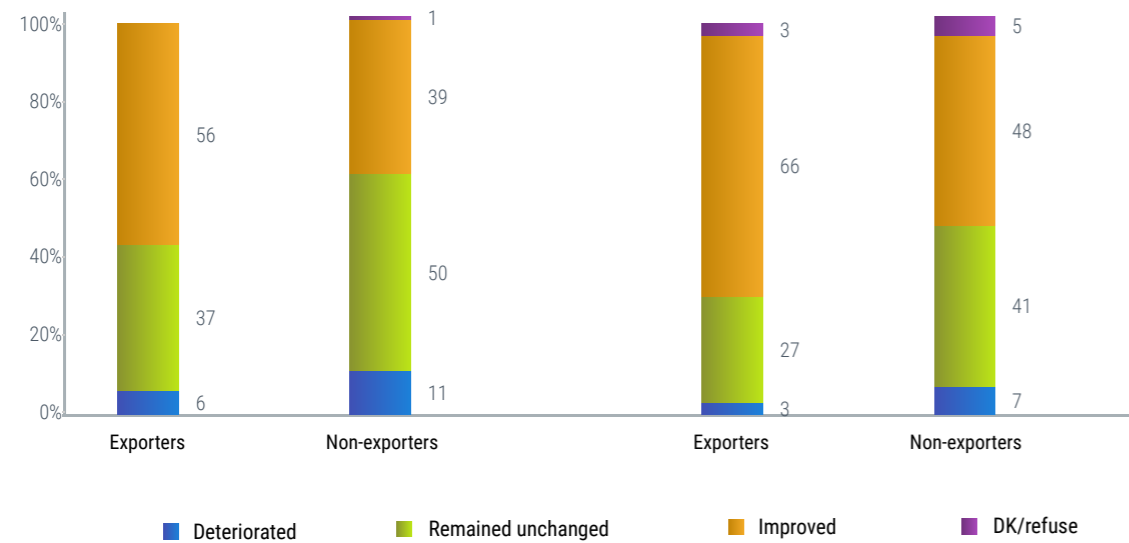
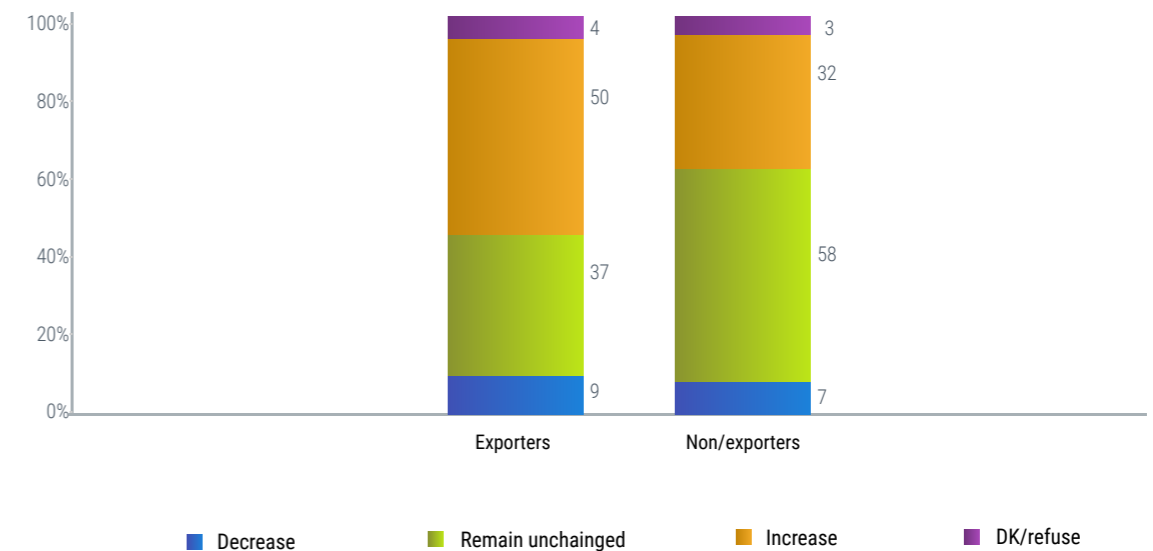


Figure 161: How do you expect the number of people employed in your company to change over the next 12 months?***

(All respondents - N=1215, share of total, %)



Four out of ten export-oriented companies have increased the number of employees over the past year, while fewer than three out of ten non-exporters have followed suit. At the same time, 12% of exporters reported a decrease in the number of staff, against 9% for non-exporters. This indicates that while they tend to fare better, exporter companies

are also somewhat more unstable and more prone to fluctuations as a result of changes outside the home economy.

Spurred on by a good year, 50% of export-oriented companies expect to expand their number of employees over the next year. Meanwhile, in line with their business situation and expectations for the

future, 32% of non-exporters plan to increase their workforce, as a majority of 58% plan to keep what they have. At the same time, lay-offs are projected by 9% of exporters and 7% of non-exporters.

sets (55% and 60%, respectively). Meanwhile, exporters report making more of an effort to reduce their environmental footprint compared to non-exporters (82% vs. 69%).

Both exporters and non-exporters put the highest share of their total annual investment into fixed as-

***The figures might not add to 100% due to rounding.

***The figures might not add to 100% due to rounding.

Business environment in the Western Balkans

There are no significant differences in the perception of the business environment between exporters and non-exporters. Both categories are mainly concerned about the informal economy, anti-competitive practices of their competition and macro-economic instability. Political and social instabilities, as well as corruption and tax administration, are also flagged as barriers to business growth across both categories. As expected, exporters find customs and trade regulations much more problematic than non-exporters.

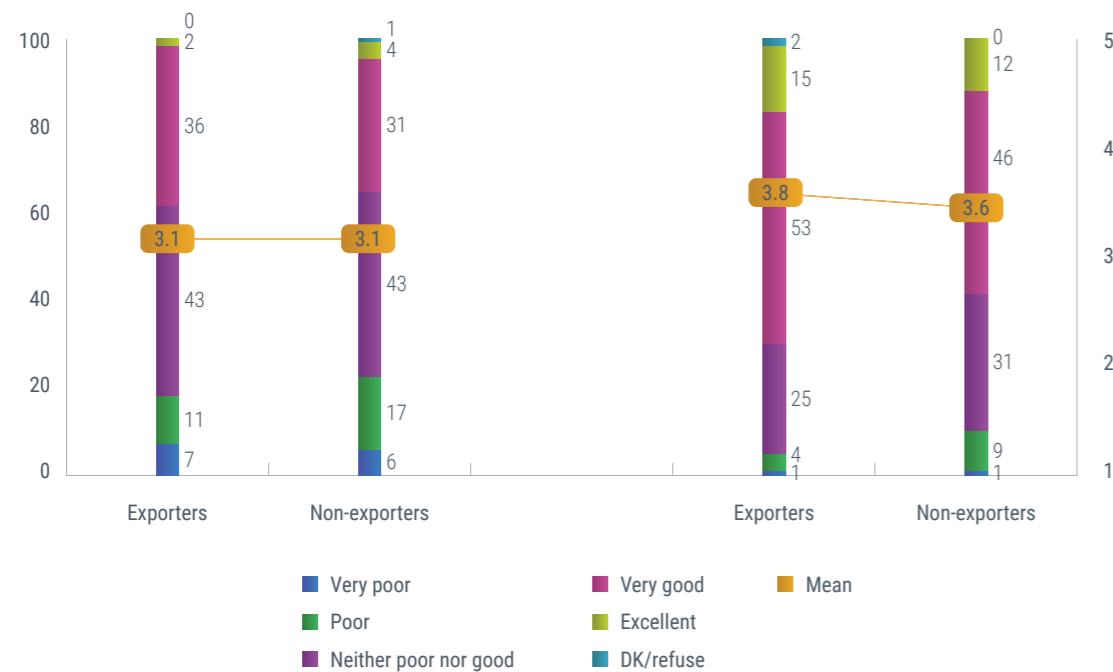
Changes in the business environment are almost identically perceived by the two categories of enterprises. Exporters, in particular, praise the changes in market size and potential, macro-economic stability, and availability of financial capital in the domestic markets more than non-exporters.

When it comes to the transport network, both exporters and non-exporters are moderately satisfied. A slightly higher share of exporters is largely satisfied with the availability, quality and affordability of different transportation modes than non-exporters (38% vs. 35%). Most of the managers from both categories are neutral on the issue, however.

When it comes to availability, quality and affordability of electricity, gas and water supply, exporters tend to be more satisfied (68%) than non-exporters (58%). The share of respondents who rate these services as poor or very poor is 10% among non-exporters and only 5% among exporters.

Exporter companies also tend to benefit more than non-exporters from the adoption of the Regional Roaming Agreement (62% vs. 34%).

Figure 162: [Left] For your business purposes, how would you rate the combination of availability, quality and affordability of road, railroad, waterway and air transport in [ECONOMY]? [Right] For your business purposes, how would you rate the combination of availability, quality and affordability of electricity, gas and water supply in [ECONOMY]?**
(All respondents - N=1215, share of total, %)



**The figures might not add to 100% due to rounding.

Legal and regulatory framework

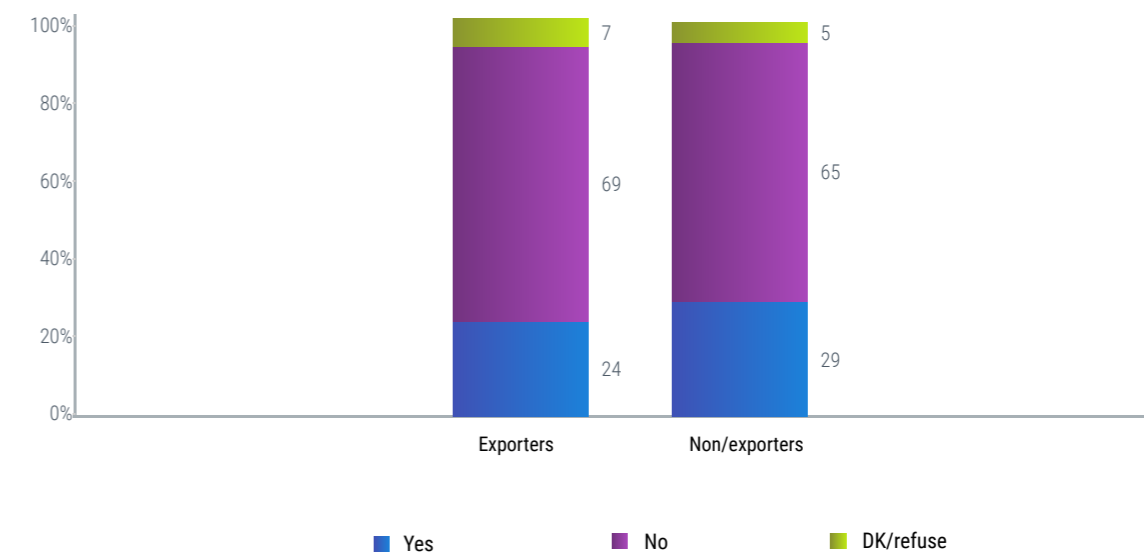
Although a smaller number of exporters feel ignored by their respective governments than non-exporters (71% vs. 79%), there is not much difference in satisfaction with public authorities' conduct between the two groups, with around 50% of companies at least moderately satisfied with the relevant legal and regulatory framework.

The practice of avoiding tenders is present across both categories to a similar degree. A slightly greater share of non-exporters (29%) than exporters (24%) choose not to take part in public tenders or procurements even though they could offer the goods and services solicited.

A slightly higher proportion of exporters use guidelines and manuals produced by national procurement authorities than non-exporters (53% vs. 44%), while their utility was rated the same by both categories (score 3.5). Exporters also tend to be more in touch with public procurement entities than non-exporters (52% vs. 43%).

When it comes to regulatory obstacles, both exporters and non-exporters, for the most part, share key concerns, including tax-regulations, as well as minimum wage and employment legislation. Exporters, however, are more concerned with environmental regulations than non-exporters (15% vs. 9%).

Figure 163: In the past three years, has your company decided not to take part in a public tender or a public procurement procedure even though you could have offered the goods or services solicited?*
(All respondents - N=1215, share of total, %)



Accessibility of loans

When it comes to the structure of financing for their investments and everyday operations, market orientation does not play an overly significant role. Internal funds remain the most commonly used source of financing, while reliance on the commercial banking sector is only slightly more prevalent among exporters.

More than a third of exporters and around a quarter of non-exporters have applied for a loan in the past year, similar to the previous edition of the survey, albeit with a slightly higher share of loan applications among non-exporters. In terms of outcomes, loan applications were rejected for 4% of exporters and 10% of non-exporters.

**The figures might not add to 100% due to rounding.

Corruption

Exporters need to rely on bribes more often than non-exporters “to get things done” (24% vs. 16%). It is interesting that bribes given to clear customs explain only a portion of the difference between the two categories.

Around half of all exporters on average never make unofficial payments for any of the purposes listed. Compared to 2018, however, there is a 10-point decrease in the number of companies who report never making informal payments, an indicator of worsening corruption perceptions in the region.

Exporters are somewhat more optimistic when it comes to the effectiveness of anti-corruption efforts. More exporters would report wrongdoing through official channels than their non-exporter counterparts (46% vs. 42%). Moreover, fewer exporters feel that there is no effective way to curb corruption in their economy, compared to non-exporters (22% vs. 31%).

Figure 164: Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often would they make payments/gifts for the following purposes?*
(Exporters only - N=333, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)

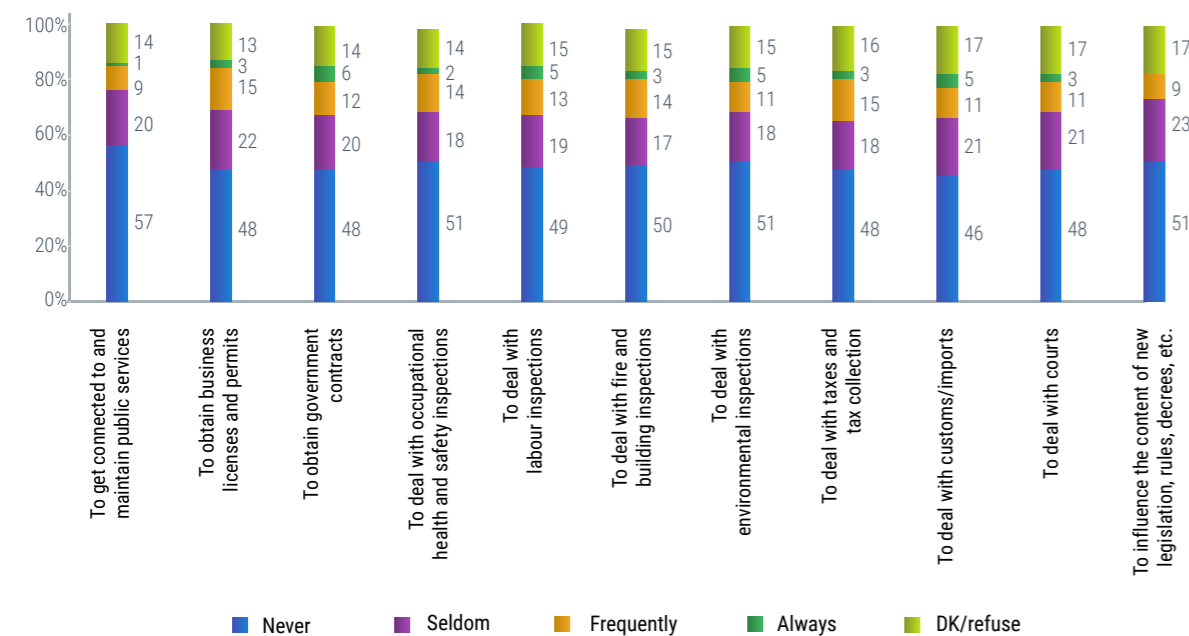
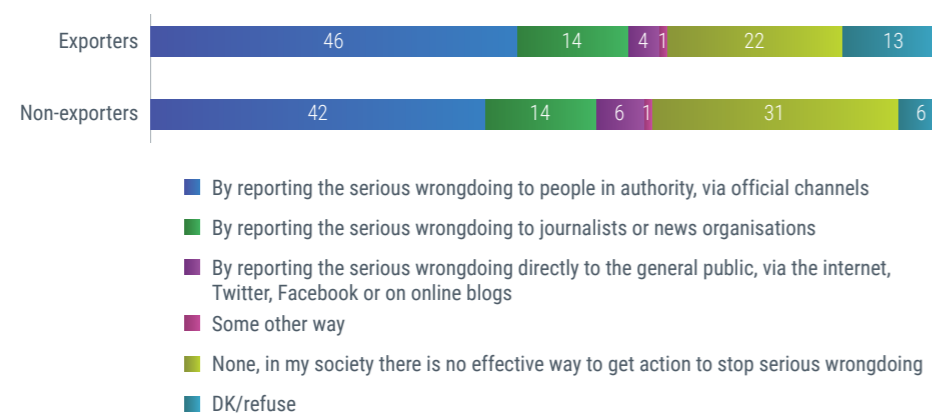


Figure 165: In different societies, there are different views on the most effective way to get action to stop serious wrongdoing. Which one of these do you think is the most effective way in your society?*
(All respondents - N=1215, share of total, %)



**The figures might not add to 100% due to rounding.

Trade and Investment

As may be expected, exporters are more willing to invest abroad than their non-exporting counterparts. The share of exporters that invested outside their home economy has increased significantly in the space of a single year (from 12% in 2018 to 24% in 2019). However, this practice is still not widespread in the Western Balkans, as only 10% of all companies from the region invested abroad in the past 12 months.

Exporters usually invest in the Western Balkans (57%) and the EU (62%). The main reason for investing abroad is to secure access to a new market, while the integration of the company's value chain comes in second. When investing, exporters pay the most attention to the market size and potential (score 4.4), macro-economic stability and favourability of the exchange rate (4.3), and technological innovation and capabilities (4.3). Physical infrastructure (4.2) and talent and skill of labour force pool (4.1) are also deemed highly important.

Exports account for 48% of the Western Balkans exporters' total sales. Compared to last year (22%), this year's share is significantly higher. Most of the export turnover comes from the EU (56%), with 33%

coming in from the region and the rest from third countries.

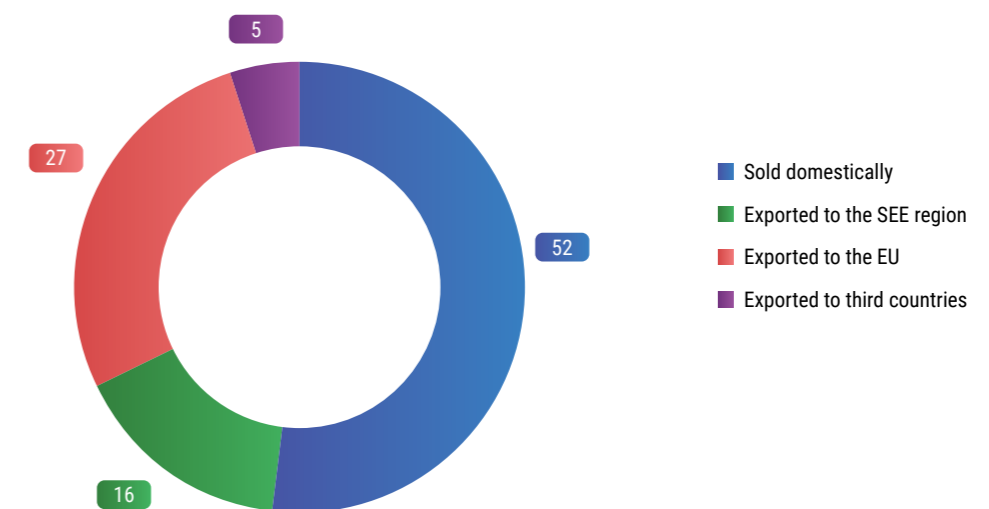
Exporters are more likely to import than non-exporters, as they source 34% of their inputs from either the EU or other economies in the region, while non-exporters mostly rely on domestic markets, with the imported supply share of only 13%.

It usually takes up to 2 days to clear goods through customs for both imported materials and exported products; nevertheless, exporters would highly benefit from free movement of goods and services (initially through “Mini Schengen” and ultimately through EU membership).

A slightly greater share of export-oriented companies noted that it is easier to export to the EU (22%) than to the CEFTA region (20%), while for 45% there is no difference. The share of exporters that have seen at least some benefits from the regional free trade agreement is 60% (vs. 37% of non-exporters), an increase on last year.

In terms of public procurement, 77% of non-exporters and 66% of exporters believe that local suppliers should be given priority.

Figure 166: What percentage of your company's sales are made domestically, exported to the Western Balkans, to the EU or to the third countries?*
(Exporters only- N=333, share of total, %)



**The figures might not add to 100% due to rounding.

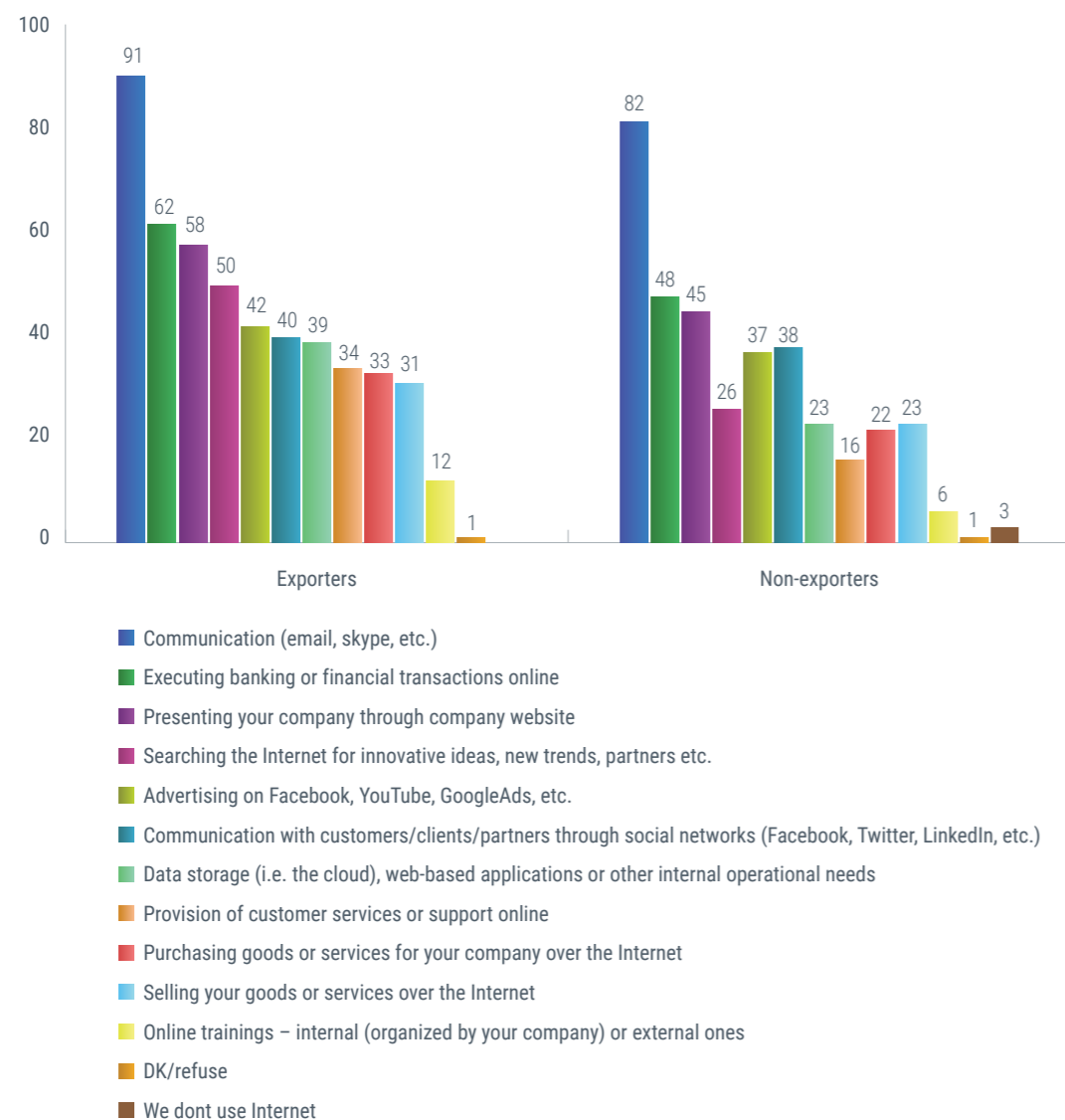
Innovation and technology

Exporters utilise the Internet more than their non-exporting peers. The vast majority of businesses from both categories use it for communication, with banking services and website presentation the next most commonly employed forms of Internet use. The difference between the categories is notable in the share of companies that use the Internet for research, as 50% of exporters use it to search for innovative ideas, new trends, partners, etc. against only 26% for non-exporters. Also, more exporters store data and provide customer services and online support (39% and 34%) than non-exporters (23% and 16%).

In terms of the Internet connection, 90% of exporters are quite satisfied with the quality and few have experienced Internet security issues, with those largely related to computer viruses.

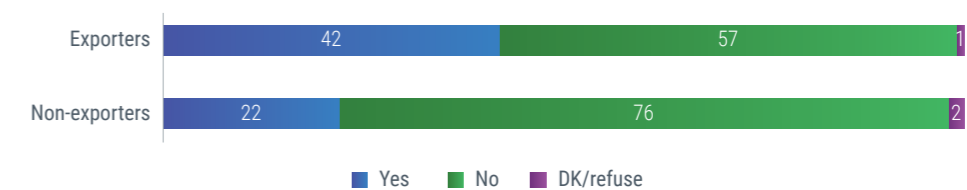
Exporters are more likely to innovate than non-exporters. The share of exporters that have introduced new, or significantly improved existing, products and/or services in the past 12 months is 42%, while for non-exporters the share is 22%. Both export and non-export companies innovate mostly on their own. It is, however, more common for non-exporters (24%) than exporters (12%) to cooperate with other enterprises or organisations in the innovation process. Innovations by 27% of export-oriented compa-

Figure 167: Does your company use the Internet for...?*
(All respondents - N=1215, share of total, %)



**The figures might not add to 100% due to rounding.

Figure 168: Have you introduced new or significantly improved products and/or services in the past 12 months?*
(All respondents - N=1215, share of total, %)



nies and 24% of domestic-facing companies were first-to-market only in their own economy. More exporters (42%) have introduced innovative production or service delivery processes than companies that do not export (21%).

Skills needs

As 87% of exporters find digital skills at least somewhat important, it is no surprise that 70% have taken concrete measures to improve their employees' competencies in the relevant subject areas through on-the-job trainings, online courses or conferences.

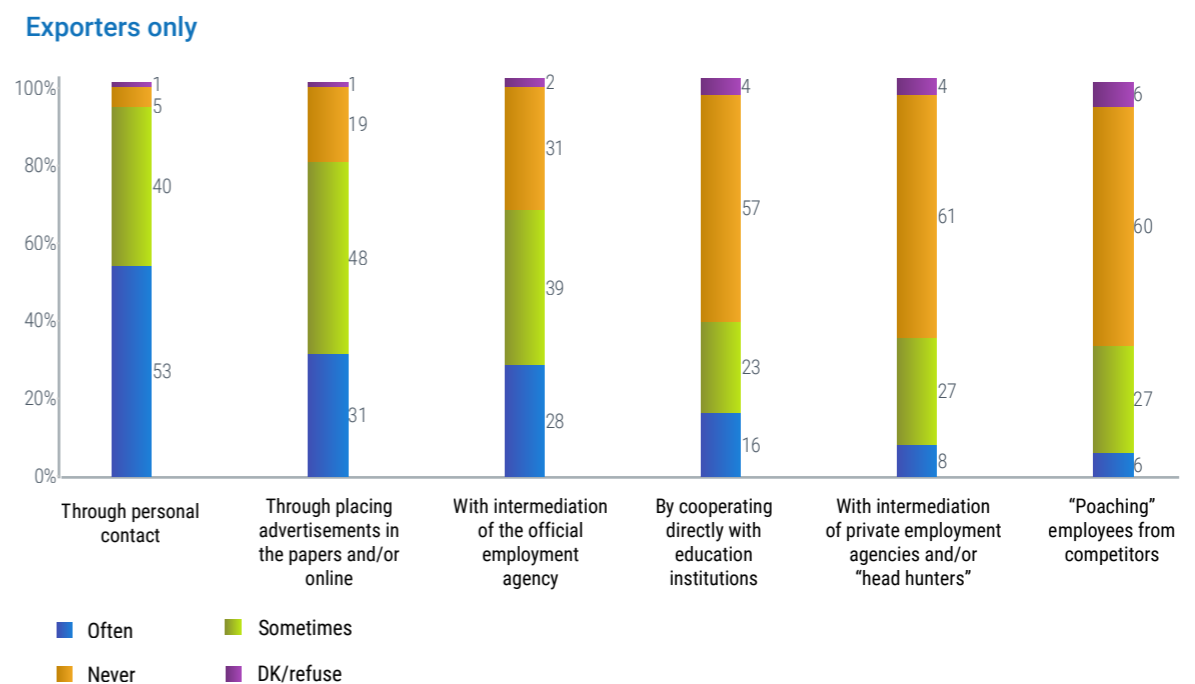
Due to higher demand for labour, 34% of exporters reported having vacancies that are hard to fill (vs. 25% of non-exporters), mostly due to a lack of skills by applicants.

Employment practices

When it comes to hiring, exporters tend to rely mostly on personal contacts. Vacancy announcements in newspapers or online are also commonly utilised while "poaching" employees from competitors is the least popular method of hiring new staff (although 27% of companies do it sometimes). Cooperation with education institutions and private employment agencies, as well as "head-hunters", are on the rise although all are still used relatively sparingly.

Most exporter and non-exporter companies would retain the same number of employees even if all labour restrictions were to be lifted, while 20% of exporters and 12% of non-exporters would increase the size of their staffs.

Figure 169: How often do you use the following when hiring new employees? Please mark each of the following methods with 1 often, 2 sometimes or 3 never. **
(Exporters Only- N=333, %)



**The figures might not add to 100% due to rounding.

Figure 170: (left) How likely would you employ workers from abroad in your company? (right) How likely would you employ workers from the region in your company?*
 (Exporters only - N=333, %)

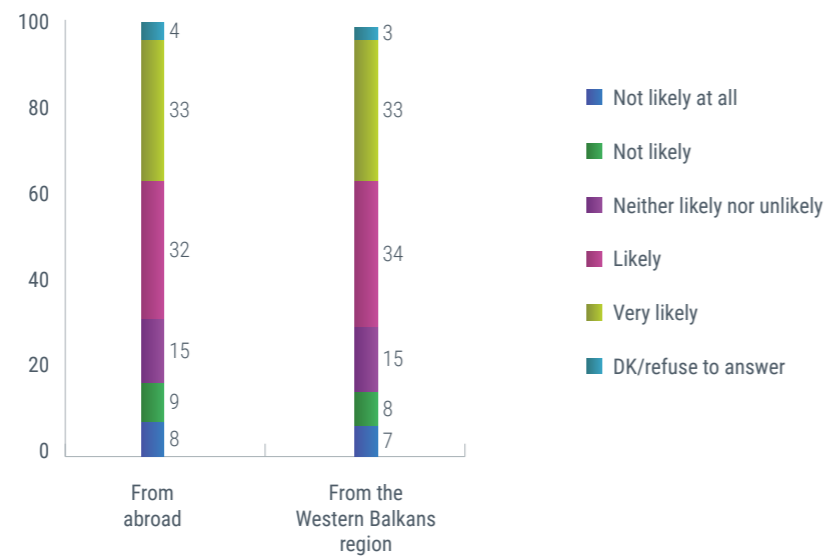
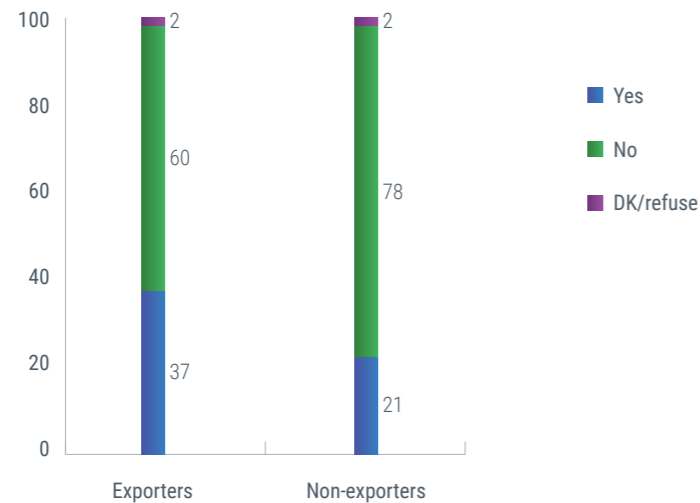
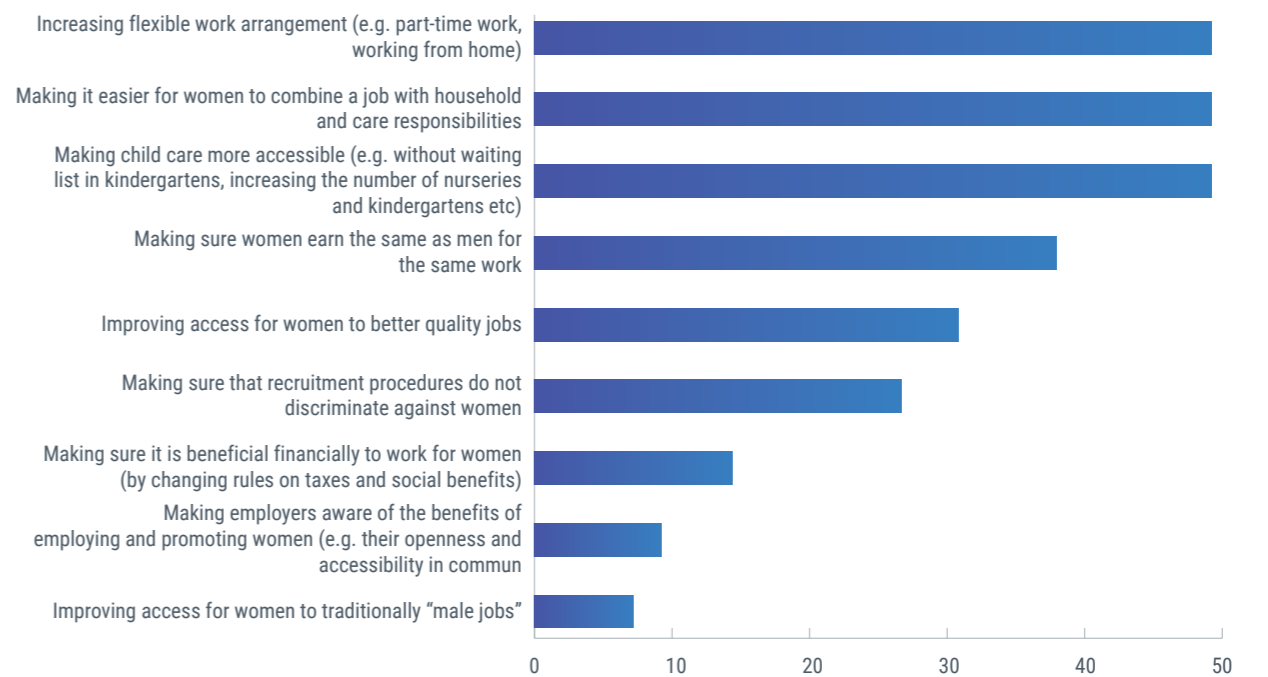


Figure 171: Over the past 12 months, has your business funded or arranged any training and development for staff in the organisation, including any informal on-the-job training, except training required by the law? **
 (All respondents - N=1215, %)



**The figures might not add to 100% due to rounding.

Figure 172: In your opinion, what are the most effective ways to increase the number of women in the labour market?*
 (Exporters only- N=333, share of total, %)



When it comes to hiring workers from vulnerable groups, exporters are likely to be more inclusive as 73% would have no problem with hiring Roma with the requisite education profile and skills needed for the post (vs. 62% for non-exporters). Persons with disabilities and refugees are also more likely to be employed by export-oriented companies, with the present share of companies employing either 28%, against some 10% for non-exporters.

Gender biases exist across both categories, as 32% of exporters and 31% of non-exporters would rather hire men, while this share is significantly lower for women – 7% and 8%, respectively.

Exporter companies have no discernible preference between workers from abroad and those coming from the region, with a near-identical breakdown in preferences. More than half of export-oriented companies would not have a problem with hiring a person from either the Western Balkans or elsewhere in the world. There are still some 17% of executives who resist hiring outside of their economy, however.

Exporters have provided more training and development opportunities for their staff than non-exporters in the past year, likely owing to the highly competitive nature of international sales. In fact, exporters are twice as likely to offer staff training than non-exporters. There is no significant change in this regard to the last year.

In order to enhance participation of women in the labour market, most exporters believe that it is necessary to introduce more flexible work arrangements, make it easier for women to combine their jobs with household responsibilities, and make child care more accessible. Removing the gender pay

gap is an effective way to boost women's participation in the workplace, according to just over a third of exporters; interestingly, this was last year's top-ranked inclusion strategy for executives in this category of enterprises.

**The figures might not add to 100% due to rounding.

CONCLUSIONS AND RECOMMENDATIONS

This years' Balkan Business Opinion Barometer draws a reassuring conclusion that the businesses have managed to continue growing, while governments have not generally made much progress.

The region desperately needs higher economic growth rates in order to catch up with the rest of Europe. For this to occur, settling both the regional and internal differences through setting common goals and initiatives seems to be the only viable option. This is both the precondition and the tool for building a democratic society.

The sentiment of businesses towards their respective governments for the most part goes between moderate dissatisfaction and moderate satisfaction.

When being asked about their governments' conduct, ethics, transparency, accountability or willingness to include them into decision-making process, they tend to express dissatisfaction. On the other hand, the businesses do recognise efforts on digitalisation of public services, technological and innovation capabilities and improvements in physical infrastructure. Perception of corruption is still high, and confidence in official channels much lower (44%) than in digitalisation of processes (83%).

The crisis caused by COVID-19 is a unique opportunity for the governments to demonstrate genuine concern and care for the private sector by taking charge and putting down measures that will promote risk-sharing between the public and private sectors. It is a balancing act between ambition and prudence. Without an appropriately sized and well-thought-through set of measures, there is a high risk of long-term economic downturn and social and economic crisis. On the other hand, if governments unleash spending that is far beyond their fiscal capacity, the spiralling public debt could eventually have a devastating effect.

In spite of the relatively high perception of corruption and limitations of the business environment, businesses have managed to grow both in terms of the number of employees and sales, although primarily on the domestic markets. Thus, it is not unreasonable to assume that the performance would be much improved if those negative factors were alleviated.

Businesses should be encouraged and incentivised to behave less insulated - to invest and export more than they do at the time.

Cross-border investing in the region requires mutual confidence and partnership between the governments and enterprises. Underlying factors why companies do not export their products even though they consider them competitive enough requires deeper understanding as well.

Potential for incentivising innovative activities of SMEs should be explored.

Only one in ten companies on average gets financial support for innovative activities, however, these more often target large companies than SMEs (42% vs. 9%).

As labour force availability becomes more constraining, economies should put in more effort in active labour market policies, as there are still almost a million unemployed with low activity rates in the region, while companies usually cite that applicants lack appropriate sets of skills.

NOTE ON METHODOLOGY

Methodology used for Business Opinion Survey was quantitative research and data collection method was CAPI (Computer-Assisted Personal Interviewing). The survey was conducted via personal household interviews carried out by trained interviewers from Indago between December 2019 and January 2020 in Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, the Republic of North Macedonia and Serbia.

As part of project set-up phase, some preparations and adjustments were undertaken as necessary for the successful implementation of the survey:

Questionnaire

The survey questionnaire was provided by the RCC. The Business Opinion Survey questionnaire was composed of 95 questions, including those on business demographics.

The questionnaire was originally written in English and subsequently translated into related local languages. In Kosovo*, both Albanian and Serbian versions of the questionnaire were used, and in the Republic of North Macedonia, the questionnaire was translated and used in Macedonian and Albanian. RCC reviewed and approved all the translations of the questionnaires.

Since the CAPI methodology was used in the research, all questionnaires were converted to a digital form and installed on interviewers' laptops/tablets. The programmed questionnaires were reviewed by a responsible person in each economy.

Interviewers

The survey was conducted by experienced interviewers in all economies. All interviewers were given written instructions containing general description of the questionnaire, of the method of selecting a companies and of the respondent selection method. In addition to the written instructions, all interviewers were trained to understand research goals, interviewing method and eligible respondent selection (a member of a company's management board/team). In addition, project coordinators reviewed the entire digital questionnaire jointly with the interviewers and emphasised some important elements (especially the need to read individual answers where one or more answers were possible, etc.).

Sample

The Business Opinion Survey was conducted among minimum N=200 respondents – business owners, managers and senior executives, in each economy, with a total of 1,215 respondents for the entire Western Balkans region. Companies in majority state ownership were not included in the sample.

The survey encompassed:

- companies of various sizes – micro (4 – 9 employees), small (10 - 49 employees), medium-sized (50 - 249 employees) and large (more than 250 employees),
- various business areas (21 business fields according to the NACE classification),
- companies which are not majority publicly owned or by government,
- companies established prior to 2017.

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

a) Company selection

The selection of the companies was performed randomly across various regions, sectors, sizes and ownerships structures. Official data provided by national statistical offices of six 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. The lists contained the company's name, address and telephone number and, in some cases, the name

of a contact person. The lists of companies in each economy, i.e. sampling frames were provided to RCC prior the fieldwork.

b) Telephone recruitment

The target groups in the Business Opinion Survey were members of the companies' managing boards/teams. Considering the fact that persons in leadership positions have a lot of responsibilities and are probably very busy, telephone recruitment was organized. This was the first step of the fieldwork, which increased the response rate and therefore led to a successful implementation of the interviewing process. During the telephone conversations, the interviewer presented the idea and the objectives of the survey to the 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. 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

Table 4: Sample structure by size of settlement

Economy	Size of settlement	%
Albania	Up to 2,000	17.6
	2,001 – 10,000	24.8
	10,001 – 50,000	16.5
	50,001 – 100,000	9.7
Bosnia and Herzegovina	Over 100,001	31.4
	Up to 5,000	57.5
	5,000 – 19,999	18.6
	20,000 – 49,999	7.5
Kosovo*	50,000 – 99,999	5.8
	Over 100,000	10.5
	Up to 2,000	23.5
	2,001 – 5,000	24.3
Republic of North Macedonia	5,001 – 10,000	15.8
	Over 10,001	36.4
	Up to 2,000	24.6
	2,001 – 5,000	17.2
Montenegro	5,000 – 10,000	14.3
	Over 10,001	43.9
	Up to 5,000	38.1
	5,001 – 10,000	19.1
	10,001 – 20,000	14.5
	20,001 – 30,000	5.9
	30,001 – 50,000	4.7
	50,001 – 70,000	0.8
70,001 – 100,000	2.9	
Serbia	Over 100,000	14.0
	Up to 5,000	28.4
	5,001 - 10,000	4.2
	10,001 - 20,000	7.9
	20,001 - 50,000	10.5
	50,001 - 100,000	16.8
	100,001 - 150,000	7.0
	150,001 - 250,000	5.2
Over 250,000	20.1	

Sample Structure

Figure 173: Sample structure by respondent's position

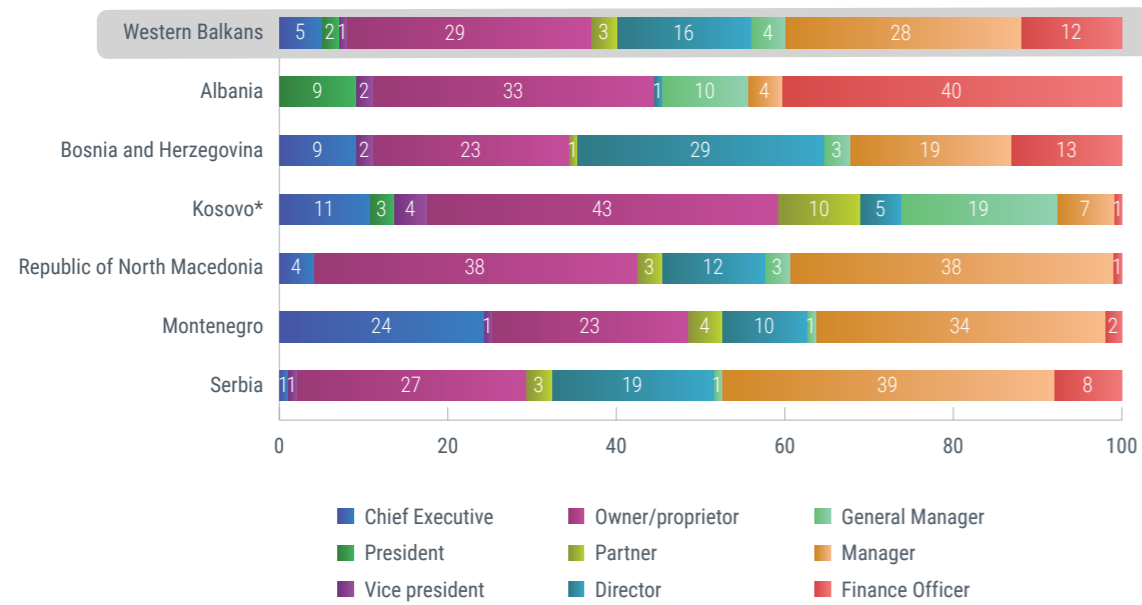


Figure 174: Sample structure by number of employees

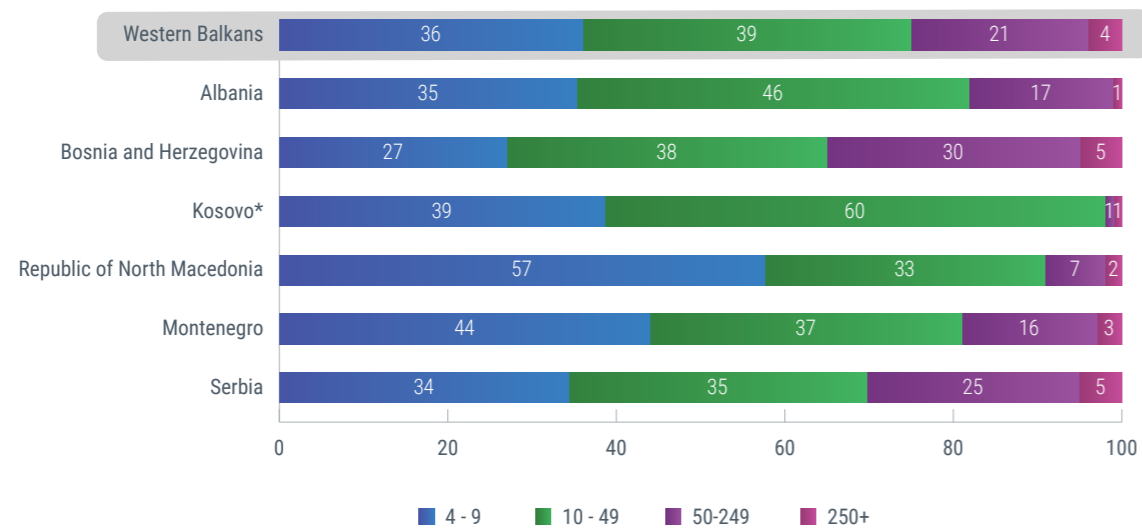


Figure 175: Sample structure by largest shareholder

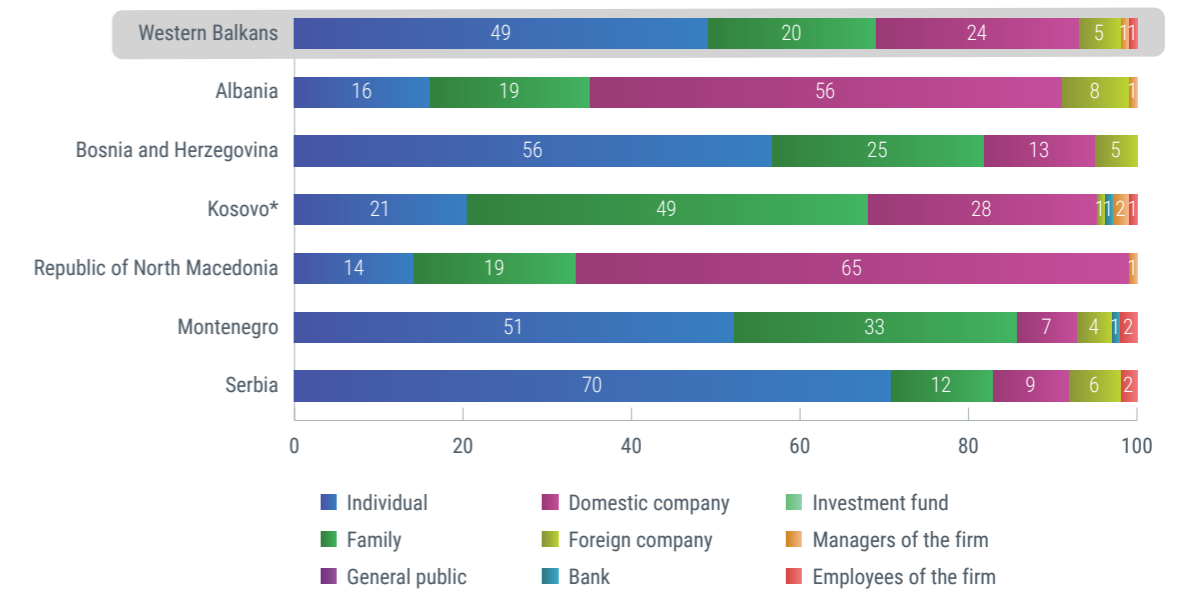
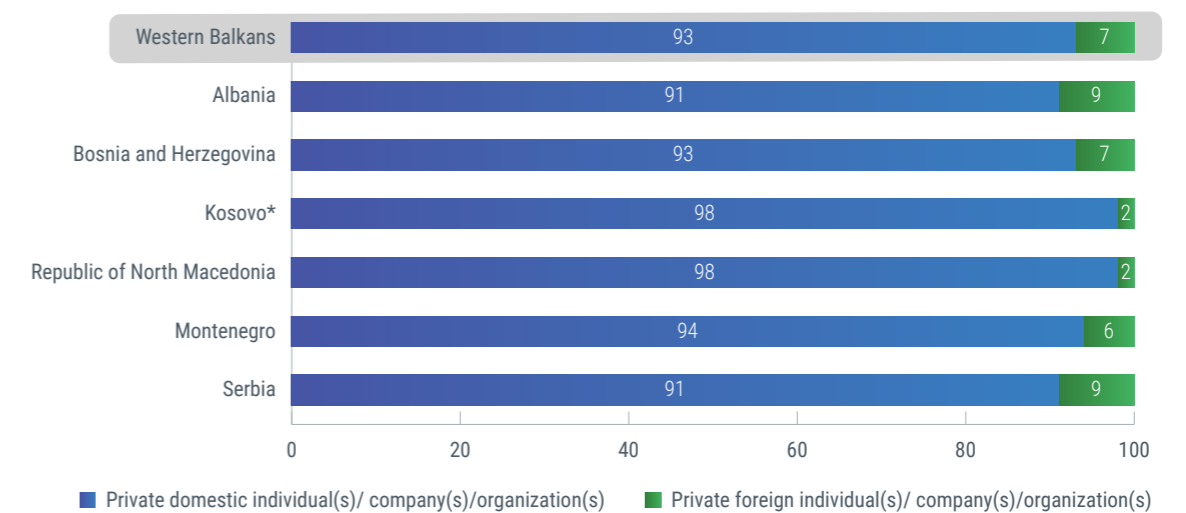


Figure 176: Sample structure by business area



Figure 177: Sample structure by ownership





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