



BALKAN BAROMETER 2016 - BUSINESS OPINION SURVEY



BUSINESS OPINION SURVEY

Balkan Barometer 2016



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RegionalCooperationCouncil



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SEE 2020 SERIES

Balkan Barometer 2016

Business Opinion Survey

Analytical report

Group of authors - GfK

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Foreword



It is with great pleasure that I present to you the Balkan Barometer 2016, an annual survey of attitudes, experiences and perceptions across the economies covered by the SEE 2020 Strategy for Jobs and Prosperity in a European Perspective.

The Balkan Barometer is a powerful tool that rounds up the views of general public and the business community on a variety of issues addressed by SEE 2020 Strategy. It provides

a range of useful comparative statistics on the South East European (SEE) economies, enabling direct comparison with the previous year's survey, as well as insights which can help us to analyze the main socioeconomic trends in the region, to identify issues and to shape future policy.

The Balkan Barometer has an ambition to keep regional cooperation high on the SEE agenda and to become a driver for a positive change in the SEE region, through providing valuable inputs for the political elites, policy makers, analysts and the general public.

This year the Balkan Barometer has been expanded to include general public and the business community of Moldova and the business community of Slovenia. Our intention is to provide greater understanding of similarities and differences between Moldova and Slovenia on one hand, and the SEE 2020 economies on the other, with the aim of bringing their markets closer to each other.

While the Balkan Barometer 2016 provides slightly better news for the sentiments and the expectations, it reaffirms the view that the main concerns of the SEE general public are unemployment and economic situation. Corruption is the one issue that has grown in importance for SEE; at the regional level 27%

mention corruption as one of the top problems, up from 15% in 2014.

The most often-cited answers to Balkan Barometer's questions asking businesspeople to name the main obstacles for business operation and growth were tax rates, cost of financing and anti-competitive practices. The overall legal and business environment still presents significant problems.

The business community is more observant of the benefits from the accession of their economy to the EU compared to the general public. But there is one issue where both general public and the business community agree: both groups are very supportive of regional cooperation and regional free trade, although internationalization of SEE businesses overall is very low. It is also worth emphasizing that

both groups of interviewees continue to have more confidence in themselves or their businesses, than in their economies.

We are welcoming the fact that the SEE economies started to recover. However, the messages from the Balkan Barometer 2016 are very clear. The region has a lot of work to do to address the many important issues highlighted by the respondents so as to keep the economies growing.

The preparation of this publication has involved the dedication, skills and efforts of many individuals, to whom I would like to thank.

I hope you will enjoy reading this report and benefit from its findings.

Goran Svilanovic, PhD
Secretary General
Regional Cooperation Council

Introduction

The 2016 edition of the Balkan Barometer follows mostly in the footsteps of last year's report. The publication was compiled based on the results of a comprehensive survey commissioned by the RCC on attitudes, experiences and perceptions of the general public and the business community in SEE. This year's report features also an addendum detailing the public and business sentiments of Moldova and business attitudes in Slovenia, in an effort to provide a broader overview and enable comparisons with the larger SEE region.

The Balkan Barometer is envisioned as an integral part of the annual monitoring process of the SEE 2020 Strategy. The SEE 2020 Strategy, adopted by Ministers of Economy of seven SEE economies¹ on 21 November 2013, is in its third year of implementation. Inspired by the EU's 2020 Strategy it seeks to boost prosperity and job creation and to underscore the importance of the EU perspective to the region's future through coordinated cooperation across a number of important policy areas. The adoption of SEE 2020 Strategy was an explicit recognition by the SEE governments of the need for a "change of gear" in the region. While the region experienced a surge of

economic growth during the 2000s, the global economic crisis reversed several of the positive achievements. It also clearly revealed that many of the economic problems in the region are structural in nature. In some cases, they reflect sub-optimal growth patterns and all are exacerbated by an unfinished reform agenda.

SEE 2020 Strategy seeks to provide a pathway to accelerating socio-economic reform and speeding up measures to modernise and re-industrialise the SEE economies, create more jobs and deliver better living standards for the population. Like the EU's 2020 Strategy it is based on a set of interlinked development policy pillars that seek to stimulate long-term drivers of growth.

- **Integrated growth:** through the promotion of regional trade and investment policies and linkages that are non-discriminatory, transparent and predictable.
- **Smart growth:** by committing to innovate and compete on value added rather than labour costs.
- **Sustainable growth:** by raising the level of competitiveness in the private sector,

¹Albania, Bosnia and Herzegovina, Croatia, Kosovo*, Montenegro, Serbia and The Former Yugoslav Republic of Macedonia.

*This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

enhancing connectivity through infrastructure development and encouraging greener and more energy efficient growth.

- **Inclusive growth:** by placing greater emphasis on developing skills, creating employment, inclusive participation in the labour market and health and wellbeing.
- **Governance for growth:** by enhancing the capacity of the public administration to strengthen the rule of law and reduce corruption, the creation of a business-friendly environment and delivery of public services necessary for economic development.

The perceptions revealed through the Balkan Barometer complement other data on quantitative and qualitative indicators being collected by the RCC, national administrations and regional and international partners, used to track progress on SEE 2020 Strategy implementation. This provides the region with a fuller picture on SEE 2020 Strategy implementation and the results felt on the ground.

Balkan Barometer's role is to engage directly with the region's citizens and businesses to get their views on topics covered by the SEE 2020 Strategy and thus inform the overall implementation effort. This year's

survey results are presented in two publications - the Public Opinion Survey, a survey of 8,000 citizens (1,000 respondents per each economy, including Moldova) and the Business Opinion Survey, a survey of 1,800 businesses (200 respondents per each economy, including Slovenia and Moldova). All interviews were conducted face to face and a technical note concerning the methodology of the survey is annexed to this report.

Compared to 2015, this year's questionnaires have been slightly amended to introduce new questions while some of the questions used in the previous survey were dropped in 2016. Approximately 70% of the questions in the Public Opinion Survey and 84% of the questions in the Business Opinion Survey remained unchanged enabling comparisons year-to-year. With this flexibility in the approach, the Balkan Barometer results remain highly relevant while at the same time enable tracking of dynamic developments across different years and various categories. Similarly, the structure of the report is different compared to the previous edition, as it does not follow simply the five pillars of the SEE 2020 Strategy, but rather groups related questions together, making it for an easier read.

Main Findings

Changes in the sentiment and the expectations are mostly consistent with the economic developments and forecasts. Last year all economies in the region came out of recession and forecasts for the next couple of years indicate further economic improvement. Short-term expectations are again ahead of satisfaction with the current state of affairs. Economies which have not done so well last year, e.g. Serbia and Albania, are still less positive than average, while economies which face political challenges, e.g. The Former Yugoslav Republic of Macedonia and Bosnia and Herzegovina are more pessimistic now than they were a year ago. Croatia has seen significant improvements in both satisfaction with the current state and in expectations, which is consistent with the improved performance and perspective of its economy. Kosovo* is significantly more optimistic than average, which is consistent with good economic performance and with improved chances for further opening of trade and travel with the EU. Overall, sentiments seem to be closely reflecting economic performance and political risks.

Employment is still not improving much. Assessments of labor markets also reflect forecast economic development. The mood is a bit more positive in most economies, except for Serbia and Bosnia and Herzegovina. Kosovo*

again seems to be expecting significant increases in employment, which is in line with its forecast trend of economic improvement.

When it comes to investment, larger economies are more critical. Croatia in particular, but also Bosnia and Herzegovina, and Serbia are not enthusiastic regarding investments in their economies. In addition, companies with business experience in foreign markets are more critical towards their economy as a place for investment, regardless of where they come from. Given that investments are generally low and need to be the main source of future growth, there is clearly a lot to be done to improve the overall business framework.

Regional cooperation is seen as important mostly in proportion to the volume of business activities in the region. Smaller economies are more positive, while Croatia shows less of an interest in regional cooperation, which is consistent with the fact that it is less prominent in the region, both economically and politically. Albania shows a higher interest than its economic relations with the region would suggest. Serbia, on the contrary, sees regional cooperation as less important than its widespread economic presence in the region would suggest.

Euroscepticism is stronger in economies where this has become more of a political issue in recent times. There is a sizeable political opposition to EU membership in Serbia, Bosnia and Herzegovina, and Montenegro. This is less of a reflection of business interest in the proper sense of the word, and is more indicative of political opposition in these economies. Some of this opposition is not directed at the EU but at changes which accession to the EU would bring.

Business indicators are mostly consistent with sentiments and with economic trends. Demand is expected to increase, with economies which are doing better being more optimistic. The situation is similar with regard to employment and investment. Interestingly enough, wages and other costs are reported to have been on the rise, even though most of the region has experienced deflation or very low inflation. This is, however, to be expected in a deflationary environment where sales are not increasing, while costs are not declining. It does not seem that the decline in oil and gas prices has already been felt to a significant degree by businesses.

The business environment is considered tough. The reason for this does not lie so much in the inadequate physical infrastructure, but can predominantly be found in institutional, legal, and policy frameworks. Taxes, corruption, unfair competition, legal uncertainty and macroeconomic instability are among the main complaints.

Roads rule. When it comes to infrastructure, roads are essential and are particularly considered to be in need of repair. Croatia does better than other economies, and so does Kosovo*. It is not, however, clear how much of the existent infrastructure presents an obstacle for businesses. Companies do not report major dissatisfaction, while there is increased

emphasis on infrastructure investments, both domestically and as part of the Berlin Process.

Governments tend not to be responsive to the business community. This goes against the perception that business interests have an undue influence on governments in this region. The Former Yugoslav Republic of Macedonia and Albania seem to have closer relations between their businesses and their government, while Serbian, Kosovar* and Bosnian and Herzegovinian governments do not seem to pay a lot of attention to what business people have to say.

The overall legal environment still presents significant problems. There are complaints regarding the accessibility of information, responsiveness of the governments, and about the predictability of laws and regulations affecting their businesses. Also, regulatory changes have some negative effects of businesses. More specific complaints have to do with taxes and labor regulations. Kosovo*, Croatia, and Serbia report more problems than the other economies, but the average is very high as it is.

Taxes returns are generally truthful. Though there is a general belief that there is a lot of tax evasion, only Kosovo* seems to be aware of this. This is in conflict with the common findings that informal economy (which, by definition, is tax evading) is widespread in this whole region. Numbers as high as 30 or 40 percent of GDP have been reported.

Businesses finance their investments mainly from retained earnings. The reason seems to be eligibility when it comes to profitability and adequate collateral. A correlation seems to exist between the reliance on credit and the severity of the liquidity problem in most economies, and in particular in Croatia, Bosnia and Herzegovina and Serbia. Altogether,

access to credits seems tight and particularly problematic in economies where there has been more reliance on borrowing to finance businesses in the past (these are economies which have more pronounced liquidity problems as well).

Corruption is found where discretionary decisions are made. The perception of corrupt practices is not very high, at least compared to the prevailing opinion in the press. However, incidences of corruption are found where discretionary decisions can be made. Interestingly enough, economies which stand out are Albania, Kosovo*, and Serbia. Also, in Bosnia and Herzegovina and Serbia, 40 and 37 percent of respondents respectively think that nothing can be done about this.

Internationalization of businesses is very low. Most sale revenues come from the domestic markets. Also, trade data shows most economies export more to the EU than inside the region, except for Serbia, Montenegro, and Kosovo*. The main barrier to exports is that they produce non-tradable goods and services. Imports, however, play a more significant role, those from the EU in particular, except in Montenegro where imports from the region are more important. Another aspect of internationalization, i.e. the amount of sales to multinationals or foreign affiliates - is also quite small, with a somewhat larger share in Montenegro, Croatia, and Bosnia and Herzegovina. In Kosovo*, the public sector is an important customer. Finally, obstacles to trade do not seem to be all that high, e.g. in terms of time needed to clear customs for imports and exports. It is simply that there is not that much to export.

Competition from abroad could be a problem, while competitiveness of products is not. On average, foreign competition, including from inside the region, is not seen as particularly

threatening on average, though Kosovo* and The Former Yugoslav Republic of Macedonia feel the pressure more than other economies. By contrast, there is a widespread perception that domestic products are competitive with those from the region and from the EU. Kosovo* stands out with improved optimism about the competitiveness of its products in the last year.

CEFTA is mostly beneficial. Most economies have a positive attitude towards CEFTA, though not as strong in some cases as one would expect (e.g. Serbia). Also, most economies find that it is easier to export to the CEFTA Parties than to the EU. This does not apply to Croatia and applies less to Albania, but does cover all the other economies which are major traders in the region.

Protectionist interests are strong. Except for Albania, support for preferential treatment of domestic suppliers is present in all other economies. On average, three-quarters of respondents support domestic government bias.

Serbian market is the most open. Serbia is the main exporter inside CEFTA, while Bosnia and Herzegovina is the main importer. The perception, however, is that it is easier to access the Serbian market, while it is much more difficult to access the market of Bosnia and Herzegovina. That might be because the latter is a more competitive market, particularly in comparison to the Serbian market.

Businesses recognize the importance of innovation, technological and educational upgrading. About half of respondents report that they have introduced new products and introduced innovations in production. Also, the need for skilled laborforce is recognized, and so is the need for supporting further education. However, cooperation with universities and research institutions is very low, even though

a mismatch in skills is reported (i.e. it is not easy to find qualified people). In addition, the quality of education seems not to be seen as a problem, in fact, it is reported to be quite adequate in Kosovo* and Albania and quite good in The Former Yugoslav Republic of Macedonia and Serbia. The experience, however, is important in Kosovo* and Albania, while this is less true in other economies. What can be considered a warning fact is that companies which export their products or services (and are more open to attacks of international competition) are significantly less satisfied with how their needs are met by the educational system in their local economy.

Labor markets are less than functional. Personal connections play a more important role than labor market intermediation consultancy. Advertisements and official labor

agencies do play a role, but this applies to private agencies only, in the role of head hunters. Kosovo* is an exception when it comes to cooperating with educational institutions and using private agencies. Most businesses would prefer more flexibility when it comes to hiring and firing, and claim that they would increase the number of employees if they could change the number of full time employees. Women make up about one third of total employees. People with special needs and refugees make up a significant portion of the workforce in Bosnia and Herzegovina, Serbia, Kosovo* and Croatia. Businesses seem to be ready to invest in skills (up to 50 percent of companies), with demand also coming from the employees themselves. Finally, public sector jobs are preferred for reasons of job safety, while the private sector ones are more desired for their better salaries.

Regional Overview

Overall, economic performance is improving throughout the region slowly. Growth has turned positive and labour markets are recording increases in employment while unemployment rates are mostly declining. The forecasts are for sustained and accelerated improvement of both indicators. The regional

economy should reach and possibly exceed growth rates of 3 percent in the medium term. Smaller economies in the region are already there, while the three largest ones continue to drag down regional growth, especially Serbia and Croatia (see Regional Overview in Public Opinion Survey).

Table 1: Structure of GDP

(Demand, 2014, %)

| | Albania | Bosnia and Herzegovina | Croatia | The Former Yugoslav Republic of Macedonia | Montenegro | Serbia |
|-------------|---------|------------------------|---------|---|------------|--------|
| Consumption | 90 | 110 | 80 | 88 | 100 | 93 |
| Households | 79 | 90 | 60 | 70 | 80 | 75 |
| Government | 11 | 20 | 20 | 18 | 20 | 18 |
| Investment | 26 | 20 | 17 | 25 | 20 | 15 |
| Exports | 35 | 30 | 46 | 50 | 40 | 45 |
| Imports | 54 | 60 | 44 | 63 | 60 | 55 |

Source: wiiw, Eurostat, the World Bank

Growth is mostly driven by exports and investments, with consumption expected to start increasing only later and more slowly. The gross domestic product (GDP) in most SEE economies predominantly reflects private and public consumption. Investments tend to be small, especially compared to the needs for development, while exports are also rather limited, especially as these are all small, open

economies. This consumption based economic strategy has proved to be unsustainable since 2008, though this has been historically true, too. Thus, economies of this region were hit hard by the crisis partly because they needed to adjust the structure of their GDP. Table 1 details the aggregate demand and supply structures of some of the economies in the region.

Table 2: Structure of GDP

(Supply, 2014, %)

| | Albania | Bosnia and Herzegovina | Croatia | The Former Yugoslav Republic of Macedonia | Montenegro | Serbia |
|----------------|---------|------------------------|---------|---|------------|--------|
| Industry | 10 | 15 | 17 | 15 | 12 | 20 |
| Manufacturing | 5 | 10 | 12 | 10 | 7 | 15 |
| Energy, mining | 5 | 5 | 5 | 5 | 5 | 5 |
| Agriculture | 20 | 8 | 3 | 9 | 10 | 8 |
| Construction | 5 | 5 | 8 | 5 | 5 | 5 |
| Services | 65 | 72 | 72 | 71 | 73 | 67 |

Source: wiiw, Eurostat, the World Bank

Consumption, private in particular, is way too high in most economies (it is even higher in Kosovo*, but comparable data is lacking). Investments are low, except in The Former Yugoslav Republic of Macedonia and Albania. These have mostly grown in 2015, though levels have not changed all that much. Importantly, trade balances have improved, though deficits are still quite large, except in Croatia, where imports have plummeted. On the supply side, the key weakness is low or very low share of manufacturing. During the crisis, however, industrial production has recovered, exports of goods and services has grown strongly, except in Croatia, and investments have started to recover, particularly in 2015. Going forward, investments, exports, and manufacturing should prove to be the drivers of growth in the region.

External imbalances are being corrected and foreign debts are not growing as strongly as in the past. The key imbalance, outside of labour markets, has been a high trade deficit, and this has led to the growth of foreign debt. The levels of foreign debt were particularly troubling in Croatia, Serbia, and Montenegro. Slow growth or even decline of imports and increase of exports have pulled the break on growth of foreign debts. This has taken a toll on consumption, private as well as public. This

constraint will continue to exert its influence in the medium term, which is why growth and employment need to be generated from exports and investments.

Investments have started to recover and are expected to continue to support growth in the medium term. In a number of economies, public investments have been supportive of economic activity (e.g. in The Former Yugoslav Republic of Macedonia, but also in Albania and Kosovo*). The rest of the region is expected to join in the effort, in part supported by the Berlin Process which emphasises regional infrastructure projects. However, in a number of economies, e.g. Serbia and Croatia, private investments have also recovered and are expected to continue to grow by a rate of around 6 percent in real terms.

The corporate sector has continued to consolidate with nonperforming loans still being elevated. Investments have been growing slowly and have started to recover convincingly only since last year, due to financial consolidation in corporate sectors and in banks. As a consequence, credit growth has been mostly negative or quite moderate. Thus, most of the recovery of investments is generated from retained profits rather than from the credits. This should change gradually in the medium

term. By and large, corporate and the household sectors are not highly indebted (Croatia is an exception). Thus, the prospects for the corporate sector are not bad, once financial consolidation takes place and the balance sheets are cleaned of nonperforming loans, and liquidity is improved.

Public debts are facing risks of sustainability in Serbia and Croatia. There is some uncertainty about fiscal data in some economies in the region, but public debt development is particularly problematic in Croatia and Serbia (and partly in Albania). These economies will have to continue to pursue measures of fiscal austerity, which is why their growth performance is somewhat less optimistic than in the rest of the region, at least in the medium term. In the rest of the region, public consumption will also have to be closely monitored. The upshot is that the corporate sectors and the labour force need to look more to private markets than to public spending and employment.

The overall prospects for EU economies are improving, albeit slowly. As growth returns to Europe, demand for exports should rise, as should foreign investments. This makes it imperative for economies in the region to improve their institutional frameworks and to work on all the risk factors, with the political and regional ones being particularly important (see more in the Region Overview in the Public Opinion Survey).

Regional cooperation remains important from the point of view of the foreign investors. The Berlin Process, which pushes regional infrastructure projects, reflects the importance which foreign investors put on regional markets rather than national ones. A regional free trade zone is the first step to a regional investment zone, which will then support a development strategy based on investments and exports.

Balkan Business Sentiment Index

In order to monitor the present business sentiment and optimism changes over time, GfK 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?

BBSI contains questions related to the current/recent respondents' experience on the

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

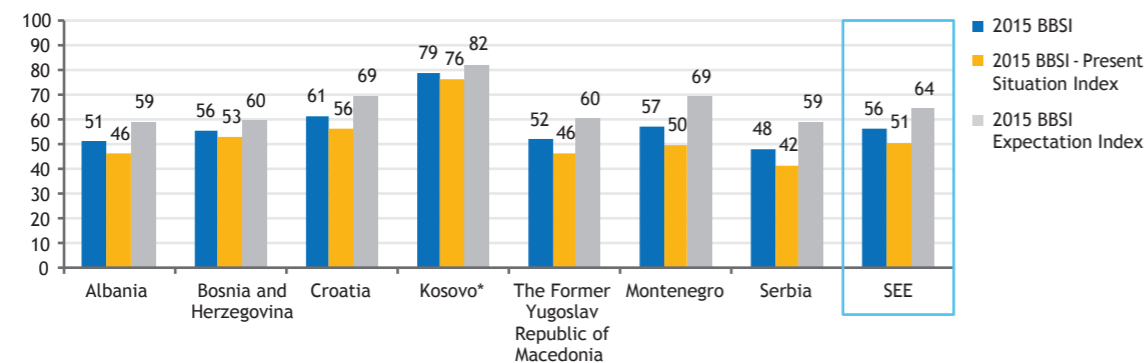
Therefore, the index is constructed from answers on the above-mentioned questions. Answers are scored as follows: better - 100 points, worse - 0 points, the same - 50 points. After responses are recoded, the average value is calculated for the whole SEE region as well as for each economy separately (see the Figure 1). The index values are expressed on a scale of 0 to 100.

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

- a) BBSI - Present Situation Index
- b) BBSI - Expectation Index

Figure 1: Balkan Business Sentiment Index

(Scores are on a scale of 0 to 100)



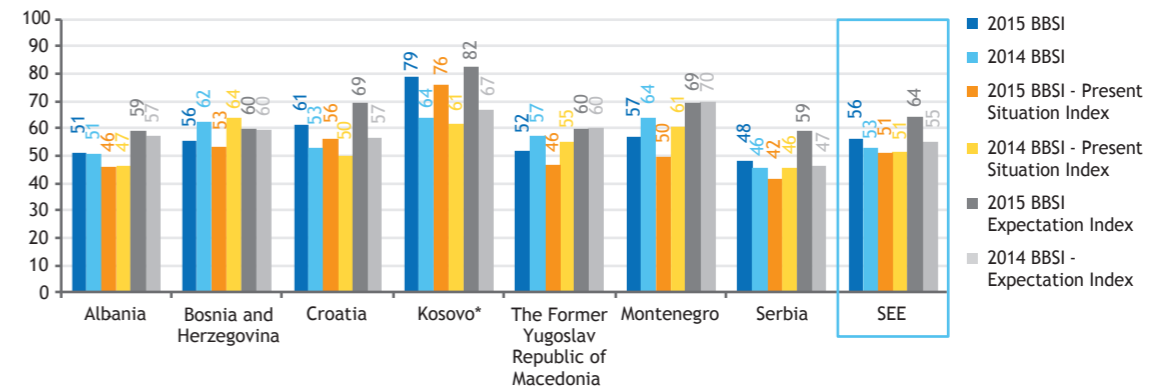
It can be concluded that the overall sentiment of the SEE business community improved slightly (56 in 2015 vs. 53 in 2014). It is above 50 yet again (meaning that there are more positive than negative evaluations of both the present situation and future expectations). As was the case with the survey for 2014, it is remarkably higher (by 19 index points) than the Balkan Public Sentiment Index (BPSI). This is understandable, considering the difference in the perspective and position of leaders of private companies and the general public. Similar to the general public index (BPSI), the growth is caused by more optimistic expectations towards the future (64 in 2015 vs. 55 in 2014) and not by the improvement of the current situation (as the assessment of the present situation has remained almost unchanged).

Growth in the Expectation Index (9 index points vs. 2014) is a very positive indicator of growing optimism across the region. Expectations of improvement may drive further investments and consequently the growth of employment. Obviously, there have been some positive movements in the region which have not yet been reflected in the improvement of the present situation of companies but may represent potential for future growth.

If we look into economies separately, Kosovo* again stands out with the highest BBSI score (79). It is followed by Croatia (62), Montenegro (57) and Bosnia and Herzegovina (56). In Albania (51) and in The Former Yugoslav Republic of Macedonia (52) the BBSI is slightly above 50 (meaning that there are more positive than negative opinions about the past and present situations, as well as more positive expectations about the future). Serbia is once more at the negative end, with the lowest rate of BBSI (48) which is mainly driven by the negative evaluation of the present situation - businessmen who think that their business situation, demand for their products as well as the overall economic situation has deteriorated noticeably outnumber those with the opposite opinion. However, positive signs can also be seen in Serbia, since there is evident growth of optimism reflected in the significant growth in the Expectation Index. The biggest difference between the evaluation of the present situation and future expectations is recorded in Montenegro (50/69) meaning that Montenegrin businessmen have the highest expectations for the future, while Kosovo* records the smallest one (76/82).

Figure 2: Balkan Business Sentiment Index - comparison 2014/2015

(Scores are on a scale of 0 to 100)



The figure above shows all three indexes for both waves of the survey (lighter colored columns refer to 2014). Despite the growth of the SEE BBSI, comparison with the survey for 2014 divides the region into two groups. The first one involves Kosovo* and Croatia, where BBSI has significantly increased (Kosovo* 79 in 2015 vs. 64 in 2014; Croatia 62 in 2015 vs. 53 in 2014). Serbia could also be considered here with a BBSI growth of 2 points compared to the previous year (48 in 2015 vs. 46 in 2014).

On the other hand, there are economies where the BBSI deteriorated vs. the previous year - in Bosnia and Herzegovina (56 in 2015

vs. 62 in 2014), Montenegro (57 in 2015 vs. 64 in 2014), and The Former Yugoslav Republic of Macedonia (52 in 2015 vs. 57 in 2014) business sentiment has become significantly worse than 2014.

Specific situations in each economy should also be taken into consideration: at the time of research, after years of stability, there were opposition demonstrations on the streets; in The Former Yugoslav Republic of Macedonia after opposition demonstrations during the summer, early elections were announced for June 2016.

SENTIMENT INDICES COMPARISON (BBSI/BPSI)

For the region as a whole, the Business Sentiment Index (BBSI) has improved by about 3 percentage points (pp). The Public Sentiment Index (BPSI) has also risen by about 3 pp, but there is still a difference of about 20 pp in favour of the BBSI. The BBSI rise is driven by improved expectations, rather than satisfaction with the present situation, and the same is practically true of the BPSI; expectations have, however, increased more in the BBSI (around 12 pp) than in the BPSI (6 pp.). Also, when it comes to expectations,

they have either improved or stayed virtually the same in all economies. Regional BPSI expectations have increased, but not in Albania, where the decline is 7 pp. The assessment of the present situation, however, has deteriorated in the BBSI for Bosnia and Herzegovina, The Former Yugoslav Republic of Macedonia, and Montenegro, and remained the same in Albania; the BPSI assessment has declined in The Former Yugoslav Republic of Macedonia and Albania.

Perhaps the main discrepancy between the BBSI and the BPSI, aside from the sentiment score, is that intra-regional polarization cannot be observed for the BBSI. Serbian businesses continue to be less optimistic than all other economies, while in terms of the BPSI, the three larger economies (Serbia, Croatia, and Bosnia and Herzegovina) are still scoring worse than the rest. Outliers in both indices are Kosovo* and Croatia.

The Kosovo's* public is feeling better about the current state of affairs, but is still on the low side of satisfaction. However, businesses feel very positive about the current situation and have very high expectations for the future. Kosovo's* BPSI index was already the highest of all the economies in 2014, but that was entirely driven by very high expectations. In 2015, Kosovo* still has the best BPSI sentiment reading, but that is now based on a better assessment of the present situation. In addition, in BBSI, both satisfaction with the present situation and expectations for next year are higher than the previous year and are significantly higher than in all other economies.

In Croatia, however, the overall sentiment as measured by the BPSI is still relatively low, but the feeling about the present situation and expectations have both improved, the latter by 14 pp. The results of the BBSI are even better, with both assessment of the present situation and the expectations for the near future having increased significantly.

Businesses from The Former Yugoslav Republic of Macedonia, by comparison, have become more pessimistic and so has the public feeling. Interestingly, Montenegro's public feels better than its business people do.

This discrepancy can be understood with the overall economic situation and political developments in mind. The main economic problem is unemployment, and that is certainly felt more strongly by the public than the businesses. In addition, the prospects for improvement, especially regarding incomes and consumption, are limited. When it comes to businesses, prospects for growth are most important, and these are improving across the board. They are still more subdued in Serbia, which is why the assessment of this year's present state has deteriorated, but expectations have improved. The public is also not overly encouraged by the last year's improvement, but has somewhat higher expectations for the next 12 months.

We need to add political risks to this, as these have increased throughout the region. They account for the lack of improvement in public perceptions in The Former Yugoslav Republic of Macedonia and Albania and among the business people in Bosnia and Herzegovina, The Former Yugoslav Republic of Macedonia, Montenegro, and Albania, even though forecasts for their economic performance in 2015 and beyond are not worse and are arguably better than in most other economies in the region.

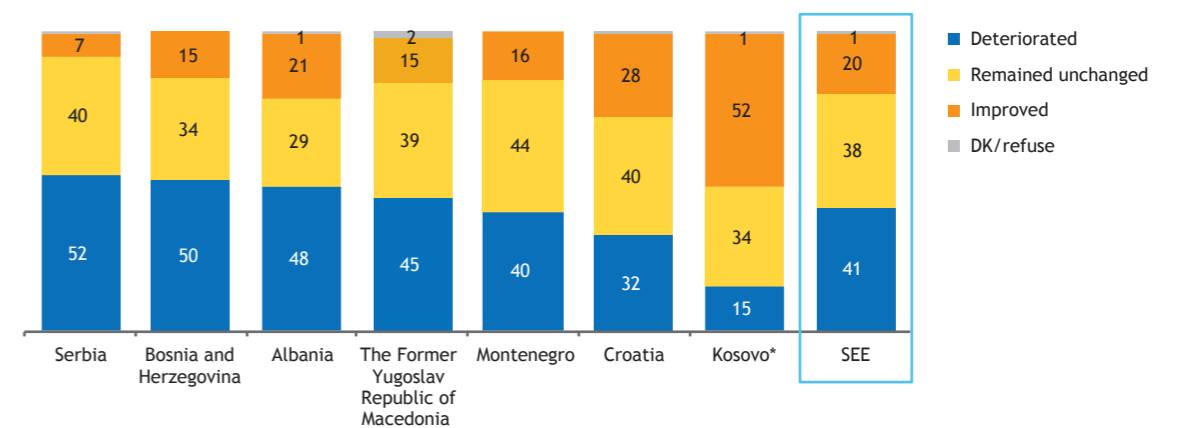
Perceptions of the General Business Environment and Economic Trends

Expectations are more optimistic than the assessment of the current economic situation, especially in larger economies (except Croatia), and satisfaction with own business is better than satisfaction with the economy, partly due to poor evaluation of the investment climate, while improved confidence is reflected in plans for increased employment - albeit within the context of an overall rather unsatisfactory assessment of the state of business and economy.

Regional cooperation is seen as being good for business, though less so in economies with weaker regional economic ties (Croatia and Albania) or with a larger economy (Serbia); EU integration is seen as either mostly good or very good for business, though this does not seem to matter to a lot of business people in Serbia, Bosnia and Herzegovina and Montenegro.

Figure 3: How has the general economic situation in your economy changed over the past 12 months?

(All respondents - N=1404, share of total, %)



In most economies in the region (except Kosovo*) the negative opinion on the overall economic situation in their own economies for the previous 12 months prevails: two fifths of the business representatives from the SEE

region share the opinion that the general economic situation in their economy has deteriorated over the past 12 months. Serbian businessmen seem to be under the biggest pressure - more than half of them share this opinion.

Small and medium sized companies are significantly more disappointed with the current economic environment.

Although the opinion that the situation has deteriorated is most widely accepted, there

are some positive signs in comparison with the survey for 2014. In general, business leaders are more satisfied with the way things are going - those who think that the situation deteriorated are fewer, i.e. more executives report improvement.

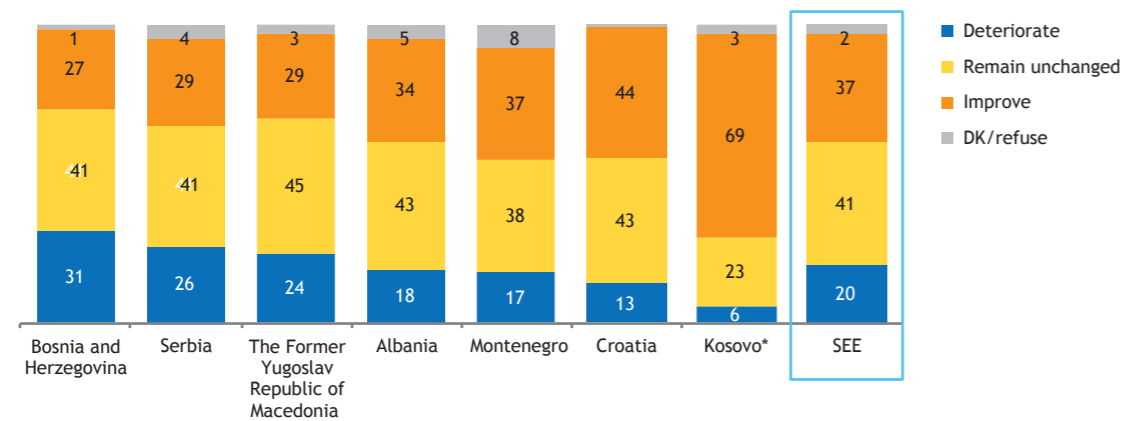
Table 3: Assessment of the general economic situation in the past 12 months (2014 vs. 2015)

(Share of total, %)

| | 2014 | 2015 |
|--------------------|------|------|
| Deteriorated | 68.2 | 41.4 |
| Remained unchanged | 24.5 | 38.1 |
| Improved | 6.12 | 20.0 |

Figure 4: How do you expect the general economic situation to develop over the next 12 months?

(All respondents - N=1404, share of total, %)



Despite the fact their attitude towards recent economic development is not too positive, SEE business people have fairly optimistic expectations, as there are more of them who expect improvement. Company leaders from Kosovo* are again more optimistic than all others - as much as 69% hope it will be better, followed by Croatia (with noticeable optimism growth vs.2014, when 1 in 3 expected deterioration,

this number is now only about 1 in 10). Bosnia and Herzegovina is the only economy where pessimism prevails. Similar to progress during the previous year, mature companies are more pessimistic than young ones. Compared to 2014, businesses are significantly bolder on the issue of economic development in the following year.

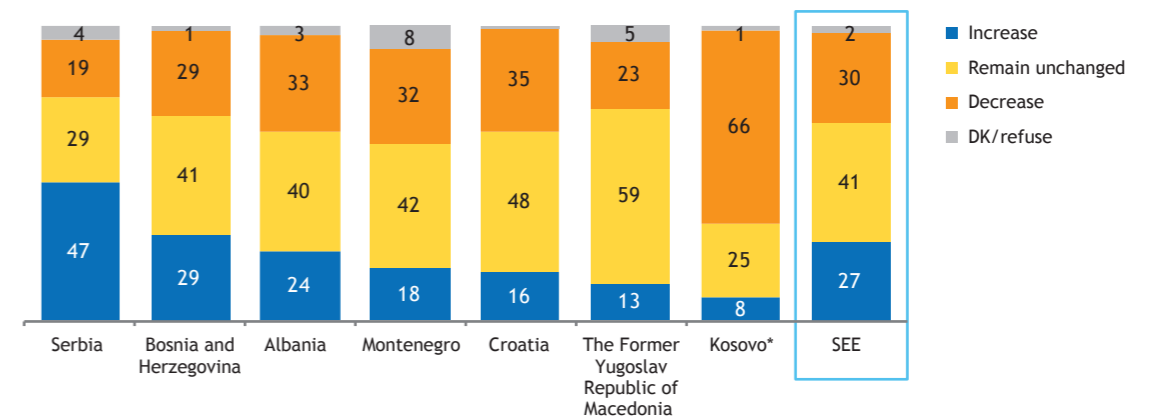
Table 4: Assessment of general economic situation in the next 12 months (2014 vs. 2015)

(Share of total, %)

| | 2014 | 2015 |
|------------------|------|------|
| Deteriorate | 34.0 | 19.6 |
| Remain unchanged | 34.6 | 41.0 |
| Improve | 28.3 | 36.9 |

Figure 5: How do you expect the number of people employed to change over the next 12 months?

(All respondents - N=1404, share of total, %)



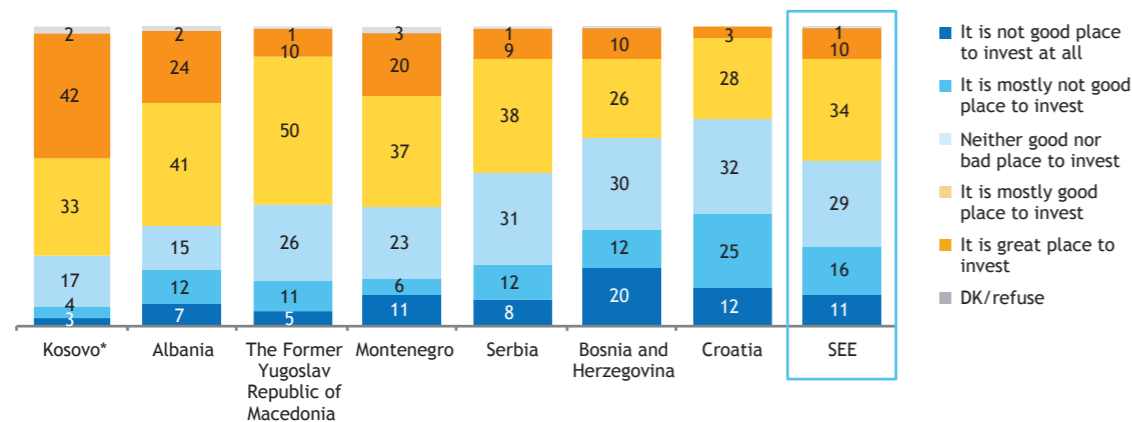
Among the SEE business community, the highest percentage (41%) think that the number of employees will not change over the next 12 months, which is, again, a slight improvement in expectations. 30% believe in an increase, while slightly less (27%) are of the opposite opinion. Similar to the survey for 2014, Serbia stands out with a significantly larger percentage of those who believe that workforce numbers will drop (47%). There is a completely different situation in Kosovo*, where businessmen are the most convinced

of an employment rate growth (66%). An interesting fact is that managers from companies which export their products or services (i.e. are not only oriented towards domestic markets) are more pessimistic than managers from locally oriented companies. The situation is the same among mature firms.

Overall, it seems that the SEE region has more faith in unemployment reduction than was the case in the previous year.

Figure 6: Do you believe that your economy is a good place to invest?

(All respondents - N=1404, share of total, %)



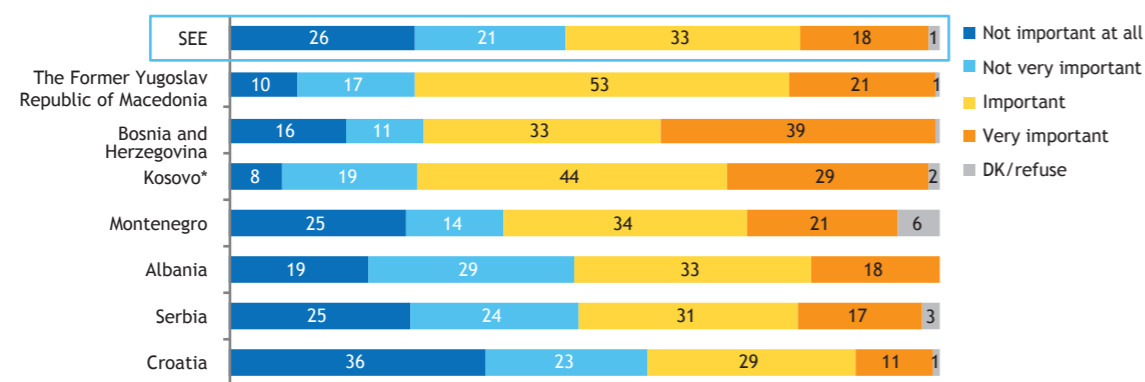
At the regional level, 44% of business representatives perceive their economy as a good place to invest, 29% are not sure of this, while 27% would not recommend investing there. Similar to the previous survey, Kosovars and Albanians believe in their economies - the majority claimed that their economies were a good choice for investments (as they did in the survey for 2014). Contrary to this, managers from the most developed economy in the region - Croatia, are the most critical and

divided: a third of them think that their economy is a good place for investment and a third are of the opposite opinion.

Companies founded after 2003 state more frequently that investing in their economy would not be a mistake. Respondents with business experience in other markets are more critical towards their local economy as a place for investment.

Figure 7: How important is the quality of regional cooperation in SEE to your business?

(All respondents - N=1404, share of total, %)



Opinion on regional cooperation is quite divided, but still slightly more respondents (51%) find it important for their business. Those from Bosnia and Herzegovina (72%)

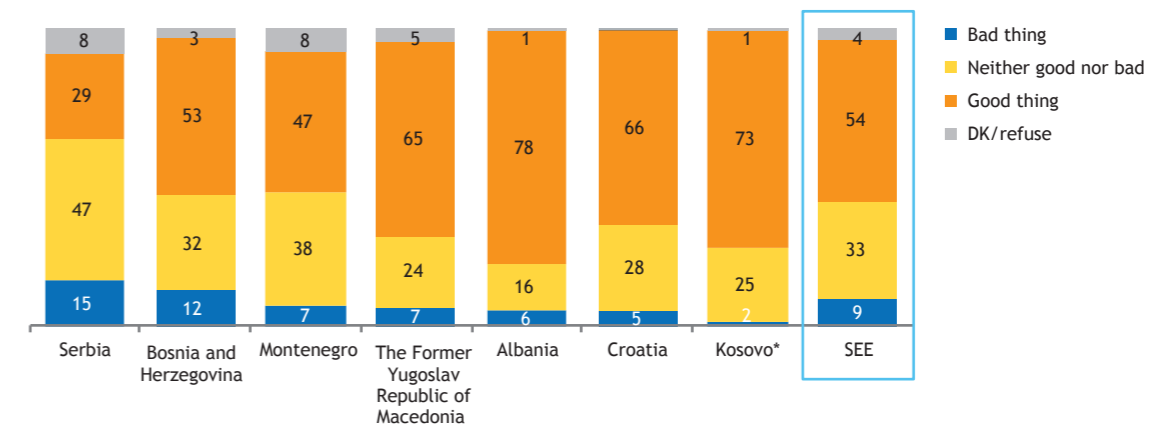
and Kosovo* (73%) are convinced of its positive impact more than their colleagues from Croatia (40%), Serbia (48%), Albania (51%) and Montenegro (55%). The most probable

explanation for lower importance placed on regional cooperation by Croatian businessmen is that they are, as an EU member, increasingly dependent on and influenced by the overall situation in the EU.

As expected, the high quality of regional cooperation means more to exporters. Larger firms recognize its value more clearly than smaller ones. The same could be said for industries relying on the exchange of goods (e.g. industrial production, trade, etc.).

Figure 8: Do you think EU membership would be/is a good thing, a bad thing, or neither good nor bad for your company?

(All respondents - N=1404, share of total, %)



In terms of European Union membership, the situation remains the same as the previous year. The majority of business representatives (54%) believe the accession would affect their company positively, a third take a neutral position while 9% consider membership as something bad.

This is comparable to the general public opinion.¹ On the other hand, compared to all others except Kosovo*, Albania is a leader in the number of those who positively evaluate EU accession (78%).

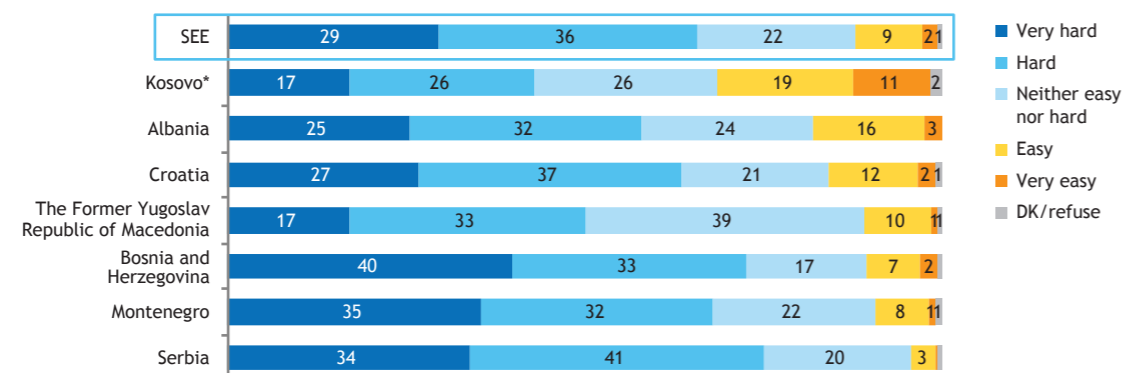
Those who think membership would not be good are still significantly more numerous in Serbia (15%) than in other neighbouring economies, except Bosnia and Herzegovina (12%).

Mid-sized firms are more inclined towards the EU than those with 250 and more employees. The difference can also be noticed in comparison of young and mature companies - with the latter ones having a more positive attitude towards membership.

¹Given that the Balkan Barometer survey targets two different population groups, namely the business community and the general public, it would be interesting to see and compare the views of the two groups on the same topics. For a comparative viewpoint of the issues and topics set in the same form for both groups, look at "A Comparison of Some Results of Public and Business Opinion Surveys" in Public Opinion Survey for 2016.

Figure 9: How easy or hard is it to start a private business in your economy?

(All respondents - N=1404, share of total, %)



One of the facts confirming there is still significant room for improvement in the region is the opinion on the ease of starting private businesses: as much as two thirds of the SEE company leaders maintain that it is difficult to start a private business in their respective economies, and this, in addition to other factors, may prohibit them from making entrepreneurial moves. There are differences in economies: although a prevailing number of businessmen think starting a private business is difficult, Kosovo* leads in the number of

businessmen who are of the opposite opinion (every third one thinks it is easy to launch a start-up), as opposed to Serbia, where there are 10 times less company leaders who share this opinion about their economy. An encouraging fact is that young companies (with recent start-up experience), when compared to mature ones, are slightly more positive.

Factors such as company size, main business activity or exporting have no impact on the perception of ease of starting a business.

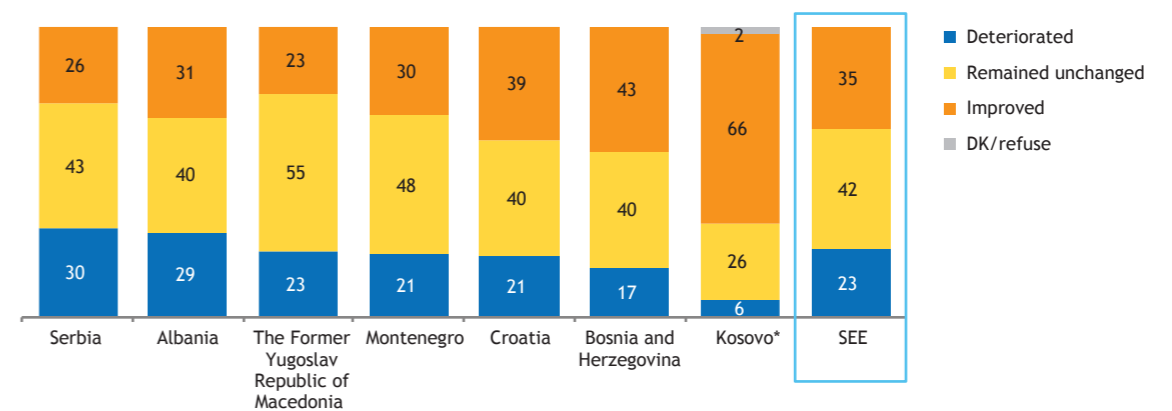
Business Trends in SEE

Opinions on business trends in the region reflect improved economic performance and better prospects in the near future, which is supported by investments and increased

employment, though roughly half of the economies face inflationary pressures, which is inconsistent with the mostly deflationary tendencies throughout the region.

Figure 10: How has your business situation developed over the past 12 months?

(All respondents - N=1404, share of total, %)



35% of company leaders report improvement in their business situation over the past 12 months, which is a significant growth in comparison to the survey for 2014. Majority of the respondents (42%) have not noticed any changes, while 23% claim deterioration (in 2014, 30% of managers were of this opinion). Similar to the survey for 2014, companies are more negative about events in their economic environment in the past 12 months than about the situation in their businesses: they are more positive about the environment they control (their companies) than about the

environment they do not control (domestic economies).

Bearing in mind the already confirmed optimism, it is not surprising that companies in Kosovo*, according to their management, have prospered more than others (66%), but it seems that those in Bosnia and Herzegovina (43%) have also improved more than those in The Former Yugoslav Republic of Macedonia (23%), Serbia (26%), Montenegro (30%) and Albania (31%). The situation in Bosnia and Herzegovina is interesting, with the largest discrepancy

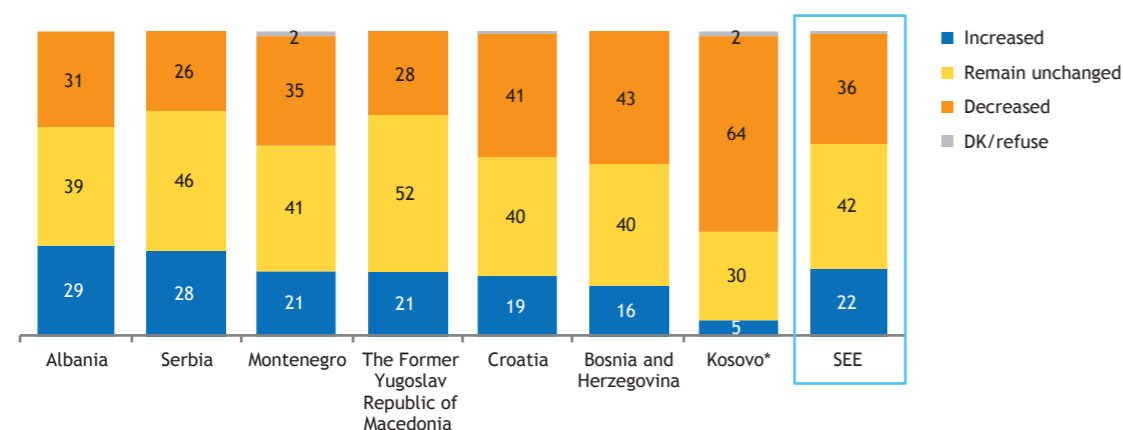
between the evaluations of improvement in the overall economy and of their own companies in the previous 12 months: half share the opinion that the general economic situation has deteriorated, but at the same time, only less than a fifth claim that the business situation in their companies deteriorated. This discrepancy is the main reason of decline in

the Present Situation Index and consequently the overall BBSI in Bosnia and Herzegovina.

Satisfaction with the own business situation grows in proportion to the company size. Furthermore, companies which are active outside the borders of their own economy are more content, and so are the young ones.

Figure 11: How has the demand for your company's products/services changed over the past 12 months?

(All respondents - N=1404, share of total, %)



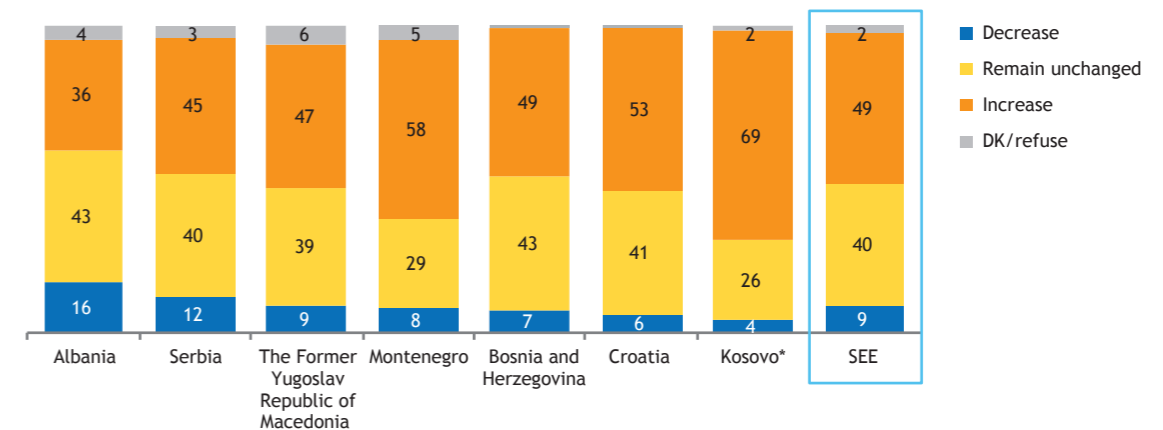
More than a third of the SEE companies (36%) state that demand for their products/services has increased over the past 12 months. If results are compared with the previous year - an increase in demand is evident: there are more companies which noticed an increase than those which noticed deterioration, and there is a statistically significant decline in the number of those which faced a drop in demand (31% in 2014, 22% in 2015). Similar to the previous year, although with evident improvement in 2015, Kosovo* is the leader, as the economy with a significant increase in demand (64%), compared to the rest of the

region. The only economy where companies which faced a drop in demand outnumber those which experienced an increase in demand is Serbia - although, again similar to the whole region, improvement can be noticed as opposed to the previous year (i.e. there is a reduction in those which faced a decrease in demand).

Further analysis shows exporters, medium and young companies experienced increased demand, as opposed to those who operate only within their own economy, and small and mature firms.

Figure 12: How do you expect the demand for your company's products/services to change over the next 12 months?

(All respondents - N=1404, share of total, %)



As much as half of SEE business leaders believe in demand increasing over the next 12 months; and just about 1 in 10 have a pessimistic attitude. The largest discrepancy is observed between Albania and Kosovo*. In the former economy, a third expect demand to increase, while in Kosovo* more than two thirds hope to face an increase in demand.

growth of optimism - a statistically significant increase in the number of companies with optimistic expectations about the next 12 months (increased demand) in 2015 vs. 2014. This indicator might be one of the most important components of their overall sentiment as investment decisions are more influenced by this factor (as it impacts business much more directly) than by the overall economic situation.

Again, companies which are active in more than one market have more optimistic expectations. There is an evident and encouraging

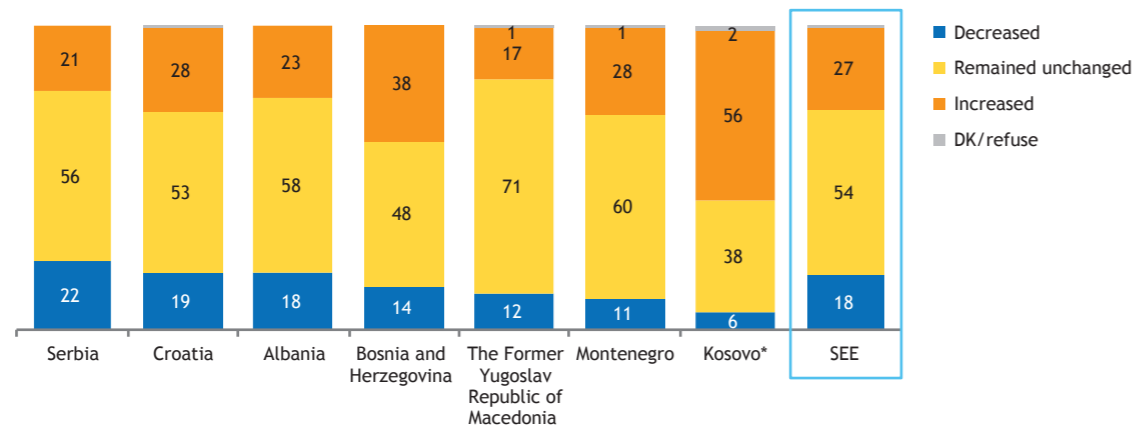
Table 5: Assessment of future demand for products and/or services (2014 vs. 2015)

(Share of total, %)

| | 2014 | 2015 |
|------------------|------|------|
| Decrease | 16.1 | 8.9 |
| Remain unchanged | 38.8 | 39.8 |
| Increase | 42.6 | 49.2 |

Figure 13: How has your firm's total employment changed over the past 12 months?

(All respondents - N=1404, share of total, %)



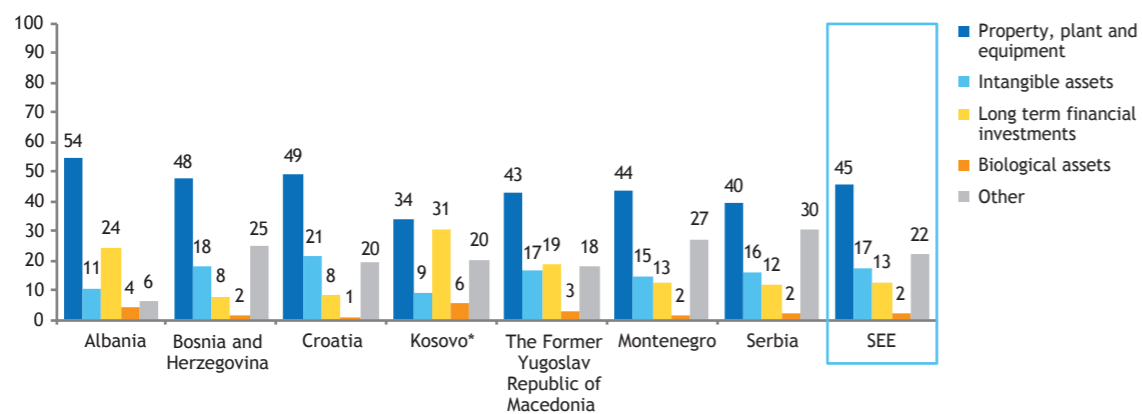
Most SEE companies (54%) have not seen changes in the level of total employment over the past year and there is no significant change compared with the previous year. Although it represents a minority, companies where the number of employees increased (27%) outnumber companies where it decreased (18%). Again, Kosovo* significantly differs from other economies: in order to respond to increased demand, more than half of the companies increased employment. At the other end is

Serbia - it stands out with a significantly larger number of companies which have reduced their total employment (22%), compared with Kosovo* (6%), Montenegro (11%), The Former Yugoslav Republic of Macedonia (12%) and Bosnia and Herzegovina (14%).

When it comes to company size, unlike small companies, medium ones have increased their number of employees, and so have exporters.

Figure 14: Could you please tell what percentage of your total company investment in 2015 went into each of the following?

(Respondents who did not mark DK/refuse to answer - N=1160, %)



In 2015, SEE companies mostly invested in property, plant and equipment (45%), followed

by investments in intangible assets (17%) and long term financial investments (13%). In

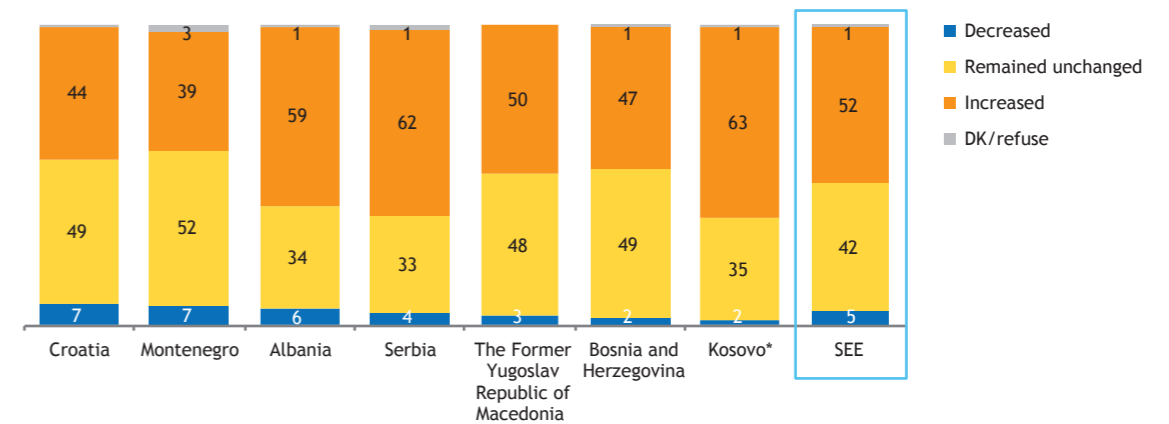
Albania (24%) and Kosovo* (31%), long term financial investments were higher than SEE average.

investment: companies which operate internationally invested more in intangible assets, while those limited to their own markets made more long term financial investments.

Comparing exporters to non-exporters, there is a noticeable difference in the types of

Figure 15: How has your labour and other costs (e.g. energy, etc.) changed over the past 12 months?

(All respondents - N=1404, share of total, %)



More than half of the companies (52%) report an increase in their costs over the past year, i.e. there is almost no change compared with the previous year. Companies in Kosovo* (63%), Serbia (62%) and Albania (59%) are under a noticeably higher burden of growing costs than companies from other economies.

Representatives of medium companies emphasize the burden of high costs more often than those who lead small firms.

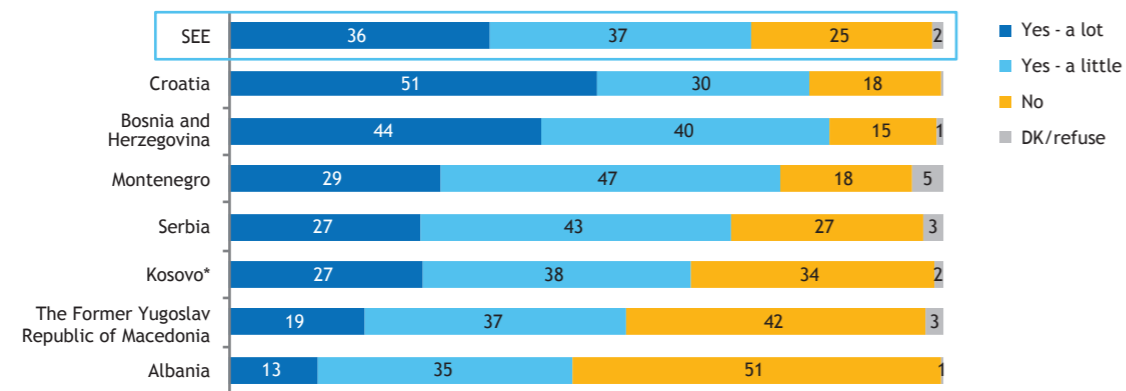
Table 6: Changes in labour and other costs in the past 12 months (2014 vs. 2015)

(Share of total, %)

| | 2014 | 2015 |
|--------------------|------|------|
| Decreased | 9.5 | 4.9 |
| Remained unchanged | 37.7 | 42.3 |
| Increased | 52.4 | 51.9 |

Figure 16: 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?

(All respondents - N=1404, share of total, %)



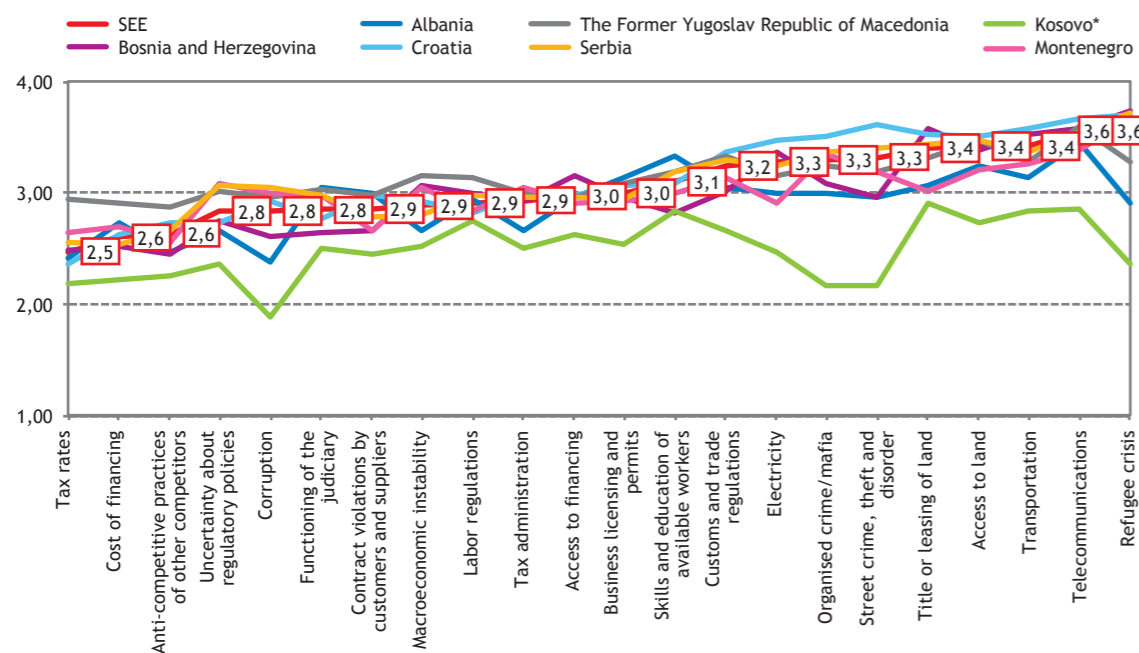
According to the results, the SEE region is quite environmentally aware - almost three quarters (73%) of companies take at least small steps to reduce the harmful impact they make. But 25% of firms still do nothing concerning this issue (51% in Albania). Ecological awareness is at a significantly higher level in

Croatia, which is the only EU economy, than in other economies, followed by Bosnia and Herzegovina.

Large companies try harder than others to protect the environment. The same can be said for export companies.

Figure 17: Can you tell how problematic these different factors are for the operation and growth of your business? Can you please rate each?

(All respondents - N=1404, 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)



Compared to the survey for 2014, three main obstacles for business operation and growth have remained the same: tax rates, cost of financing and anti-competitive practices of their competitors. However, the improvement is noticeable - the number of those who perceived these three factors as major or minor obstacles has dropped. The refugee crisis (3.6) and telecommunications (3.6) are recognized as the least problematic factors.

Similar to 2014, business people from Kosovo* are distressed more than others about most of the issues, especially corruption, organized crime and street crime.

In Bosnia and Herzegovina and Croatia, tax rates are perceived as a more serious problem

than in other parts of the region except Kosovo*. Regardless of this, company leaders from Bosnia and Herzegovina state anti-competitive practices of competitors as the biggest problem. Their like-minded peers are managers from The Former Yugoslav Republic of Macedonia and Montenegro. The cost of financing causes most difficulties to Serbian companies, while Albanian ones see their main barrier in tax rates.

In general, large companies are less worried about all these issues. Exporters are afraid of a lack of possibilities of finding skilled and educated employees, but also find customs and trades regulations more worrisome than non-exporters do.

Business Environment in SEE in Detail

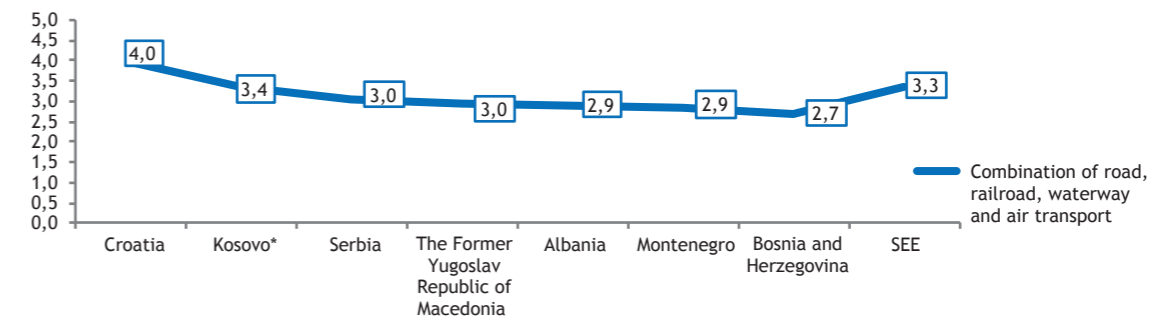
The business environment is mostly assessed as being average, even though launching of businesses is not easy and costs of doing business are seen as being high.

Road transport rules once again. The majority of businesses would greatly appreciate improvements in roads, as they expect this would have a positive impact on their business.

INFRASTRUCTURE

Figure 18: 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=1404, scores are on a scale of 1 to 5 where 1 means very poor and 5 excellent, mean)

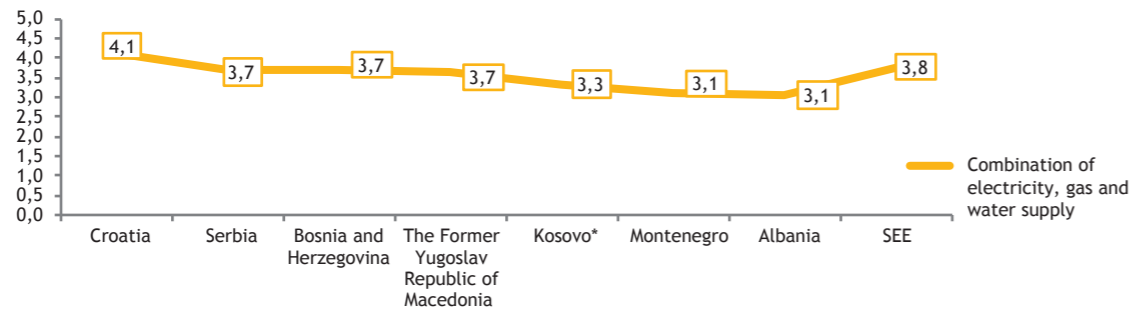


General satisfaction of SEE business respondents with available transport modes is slightly above average (on a scale from 1 to 5), the average score is 3.3, and there is still

room for significant improvement. Companies from Croatia (4.0) are significantly more satisfied compared to all others, followed by Kosovo*(3.4).

Figure 19: 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=1404, scores are on a scale of 1 to 5 where 1 means very poor and 5 excellent, mean)



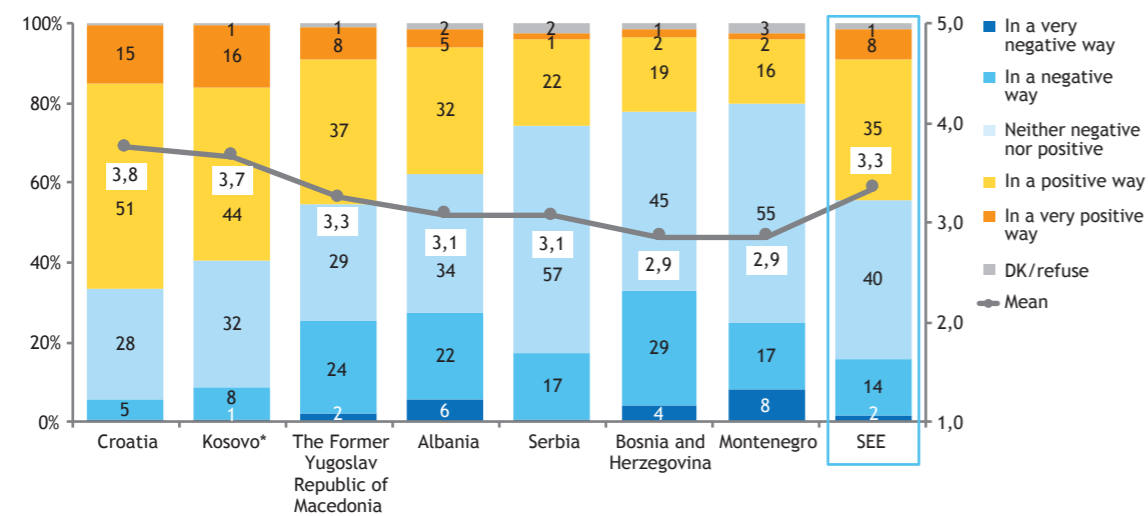
The combination of availability, quality and affordability of electricity, gas and water supply has been evaluated higher than roads, railroads, waterways and air transport by SEE business representatives – the average score is 3.8. Croatia again stands out as the most satisfied (4.1) and, on the other side, Albania

(3.1), Montenegro (3.1) and Kosovo* (3.3) have the lowest level of satisfaction in SEE.

Firms with 250 and more employees have more difficulties with said infrastructure than smaller ones, similar to non-exporters as compared to export companies.

Figure 20: In what way does infrastructure in general (transportation and communication means, supply) impact your business?

(All respondents - N=1404, share of total, %)



With regard to the entire region, infrastructure in general impacts business more positively than negatively (the average score is 3.3), but this score is lower than it was in the survey for 2014 (3.4). Bearing in mind that the

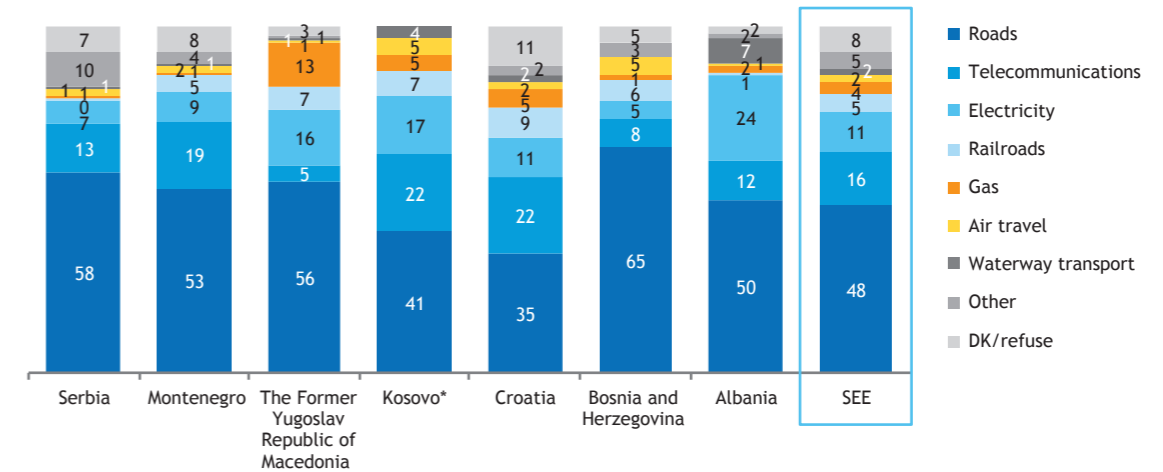
opinion about the infrastructure in their economy is better, it is not surprising that Croats emphasize its positive impact (3.8) on their business more often than others, followed by Kosovo* (3.7).

The fact that there is still significant room for improvement in SEE is obvious when the needs of big companies are analysed: as much as 41%

claim infrastructure impacts their business negatively, and consequently believe it to be more harmful than useful.

Figure 21: According to your opinion, which infrastructure upgrades would have the highest positive impact on your business?

(All respondents - N=1404, share of total, %)



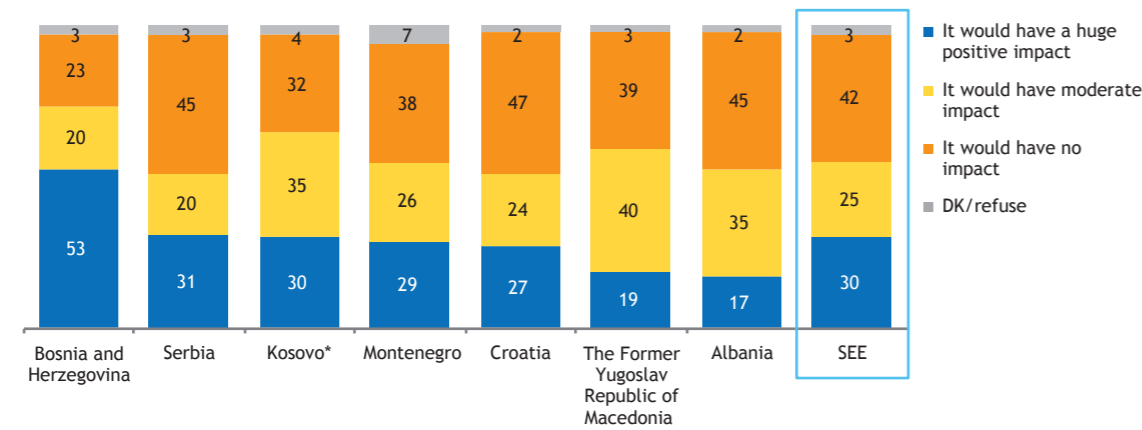
Almost half of SEE business representatives (48%) believe improving roads would affect their business most positively. With exception of this field which is rated by far as a priority, improvements in telecommunications are significant for the relatively high number of firms (16%), while 11% stress the importance of electricity upgrades. Areas of priority differ from economy to economy. Compared to others, with the exception of Serbia (58%), upgrade of roads is most often emphasized in Bosnia and Herzegovina (65%). Albanian companies support the improvement of electricity more than others (24%), as well as waterway means of transport (7%), while upgrading supply of gas is especially important to firms from The Former Yugoslav Republic of Macedonia (13%). Croatia (22%)

and Kosovo* (22%) agree telecommunications require further development, and this is significantly different from the opinions stated in The Former Yugoslav Republic of Macedonia (5%), Bosnia and Herzegovina (8%), Albania (12%) and Serbia (13%).

Investing in roads has more supporters among medium firms and those established before 2004.

Figure 22: Would the removal of mobile phone roaming charges when travelling to SEE have a positive impact on your business?

(All respondents - N=1404, share of total, %)



More than half of business leaders (55%) believe the elimination of mobile phone roaming charges would be useful for their business, and even 30% emphasize huge positive impact of that act. Those who do not see the benefits (42%) probably manage companies oriented towards their own national markets for which these charges are insignificant. However, for large companies which could be the engines of growth of the entire region (as much as

53% of them), elimination of roaming charges would have a huge positive impact, while almost three quarters of them consider it to be at least moderate. Understandably, it is exporters who are very convinced of the positive impact of the elimination of roaming charges.

Managers from Bosnia and Herzegovina claim the impact would be very positive (53%) significantly more than others.

Table 7: Impact of the removal of mobile phone roaming charges in SEE (2014 vs. 2015)

(Share of total, %)

| | 2014 | 2015 |
|----------------------|------|------|
| Huge positive impact | 38.3 | 30.0 |
| Moderate impact | 23.0 | 25.0 |
| No impact | 34.8 | 42.2 |

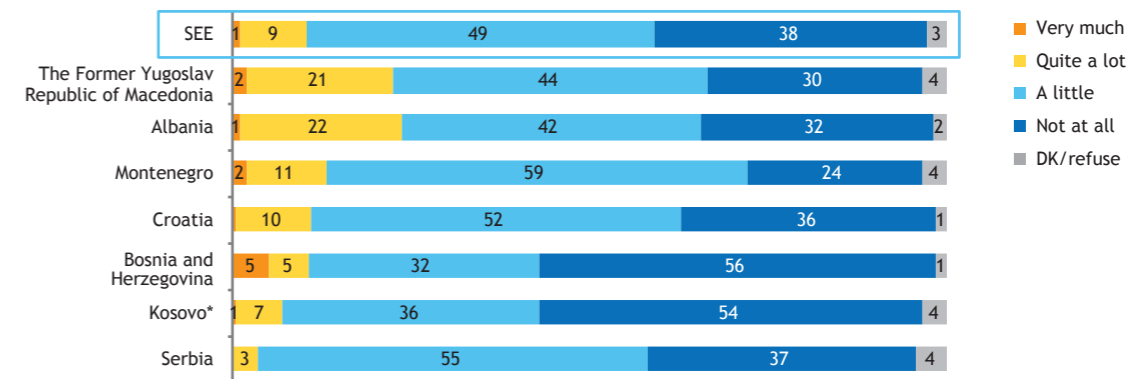
LEGAL AND REGULATORY FRAMEWORK

Responsiveness of governments to business interests is low, changes in regulations tend to have negative effects on businesses, and discretionary decision making and lack of

transparency are problems. While businesses do not tend to evade taxation to any significant degree (Kosovo* is the exception), taxes and regulations are obstacles to doing business.

Figure 23: How much do you feel the government takes into account the concerns of businesses?

(All respondents - N=1404, share of total, %)

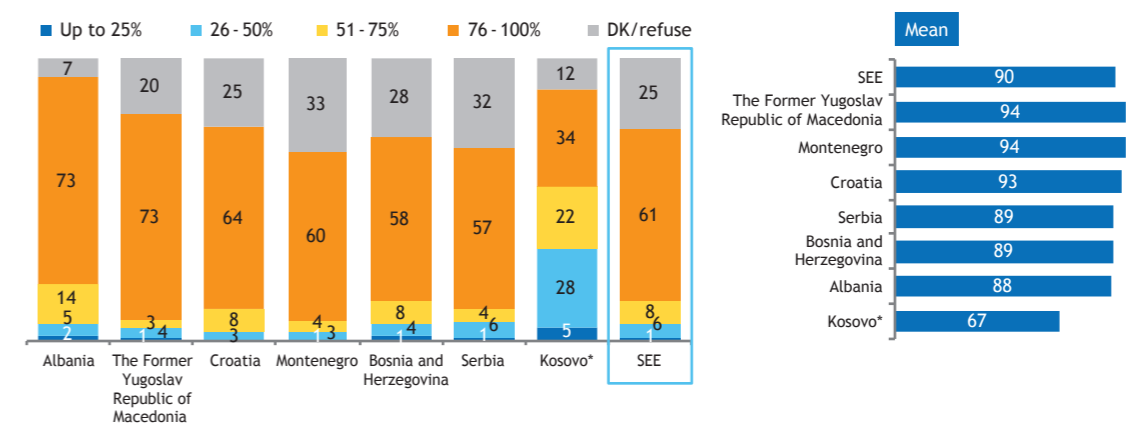


Half of SEE companies agree the government takes care of businesses to a small degree. However, the worrying fact is that almost two fifths (38%) think that government pays no attention at all to their businesses. Negative opinion on government activities is more noticeable in Kosovo*, Serbia, and Bosnia and Herzegovina.

There is no statistically significant influence of company size, age, export or main activity on assessment of the relation between the government and businesses.

Figure 24: What percentage of total annual sales would you estimate a typical firm in your line of business reports for tax purposes?

(All respondents - N=1404, share of total, %)

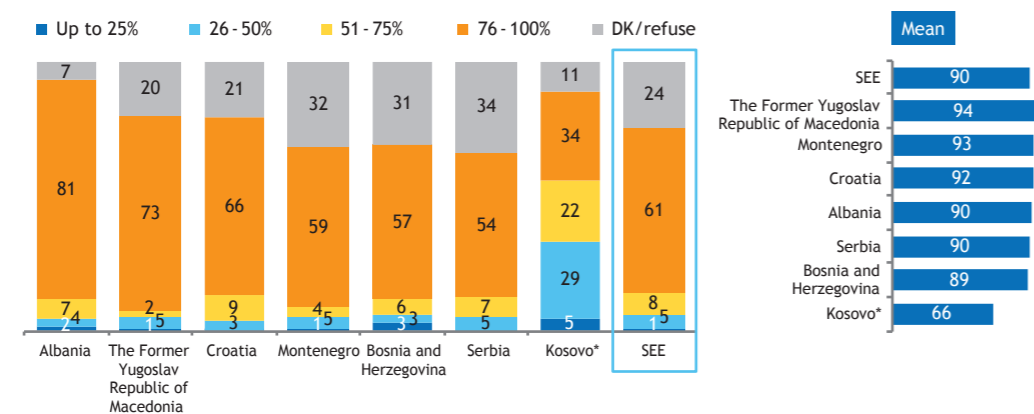


Taking into account the whole region, business representatives claim a typical firm reports 90% of its total annual sales for tax purposes. Companies from Kosovo* estimate that about a third of the turnover still remains unreported (an indicator of the highest share in grey economy in the region), followed by Albanian companies (with 12% unreported).

Companies in production industry/mining/construction or education/science/culture sectors assume a higher percentage of annual sales to be reported (91% to 92% of sales) than transport/trade/tourism firms (who think 85% is reported). This is similar to the ratio between exporters (89%) and those who don't export (86%).

Figure 25: What percentage of the actual wage bill would you estimate a typical firm in your line of business reports for tax purposes?

(All respondents - N=1404, share of total, %)

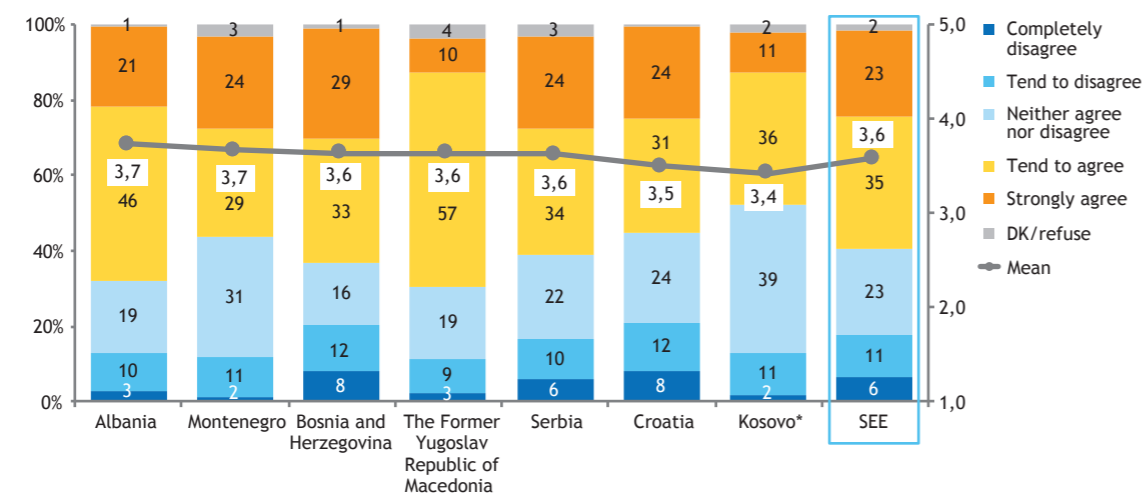


Similar to annual sales, business leaders believe 90% of the actual wage bill is reported for tax purposes. Again, this number is significantly lower in Kosovo* (where businessmen think only 66% is reported) than in all other

economies. The difference can also be noticed between industry/mining/construction(91%) and education/science/culture companies (90%) on the one hand, and transport/trade/tourism firms (85%) on the other.

Figure 26: To what extent do you agree with the following statement - Information on laws and regulations affecting my firm is easy to obtain?

(All respondents - N=1404, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, mean)

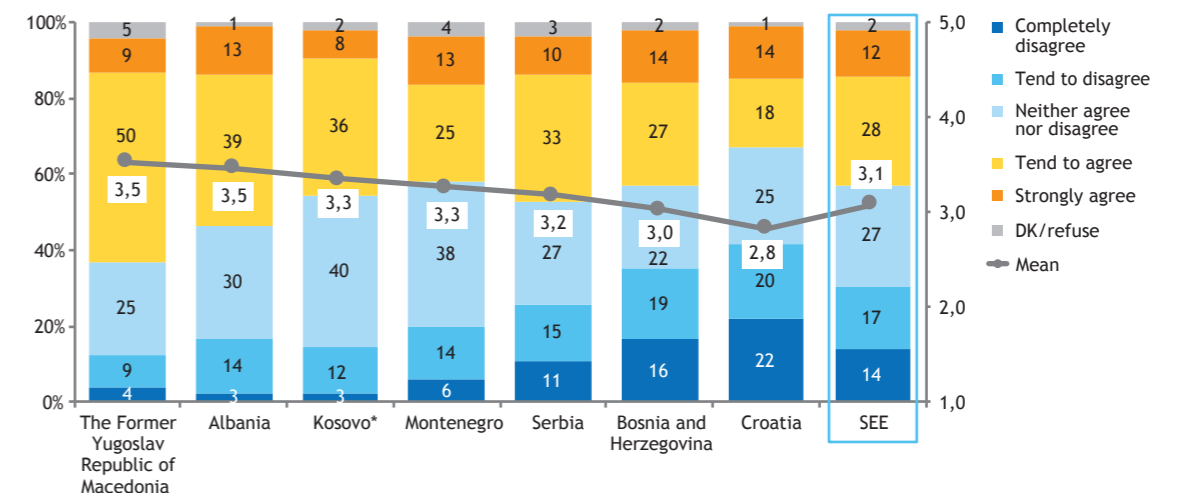


Business leaders in the SEE region can get information on laws and regulations relevant for their company (the average score is 3.6) more easily than they did last year (3.4). There is no statistically significant difference between economies regarding this issue.

It seems the necessary information is more available to mature companies than the young ones (probably due to more experience), and to those of medium size rather than small companies.

Figure 27: To what extent do you agree with the following statement - Interpretations of laws and regulations affecting my firm are consistent and predictable?

(All respondents - N=1404, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, mean)



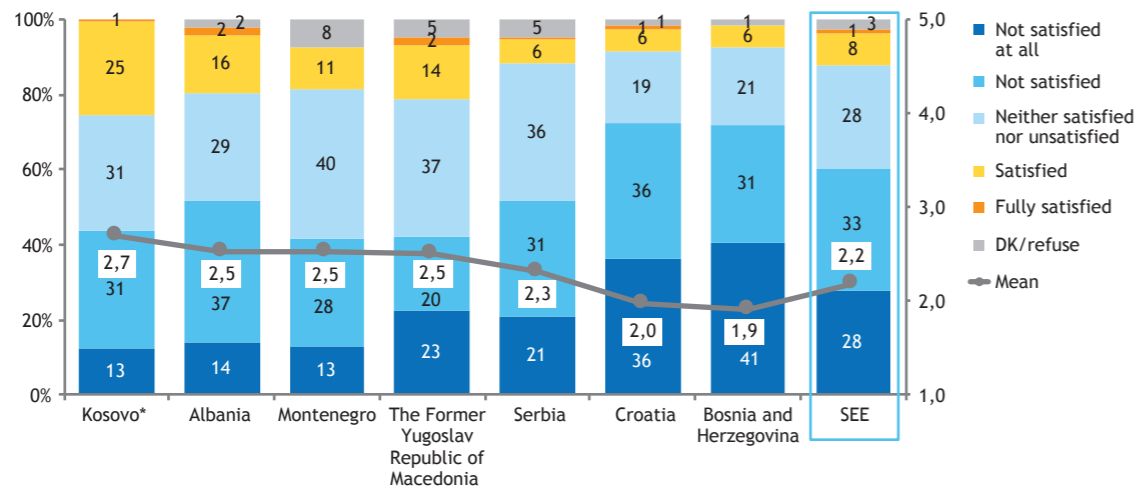
Compared with the survey for 2014 (the average score was 2.9), business people in the region are more satisfied with the predictability and consistency of interpretations of relevant laws and regulations (the average score is 3.1).

There are no statistically significant differences between different sized companies, exporters and non-exporters in their attitude towards this issue.

Observing economies separately, Croatian companies are the least content (2.8) and every fifth firm completely disagrees with the statement that the interpretations of laws and regulations affecting their company are consistent and predictable.

Figure 28: To what extent are you satisfied with how the government consults and involves the private sector in the process of drafting new laws and regulations relevant for doing business?

(All respondents - N=1404, scores are on a scale of 1 to 5 where 1 means not satisfied at all and 5 fully satisfied, mean)

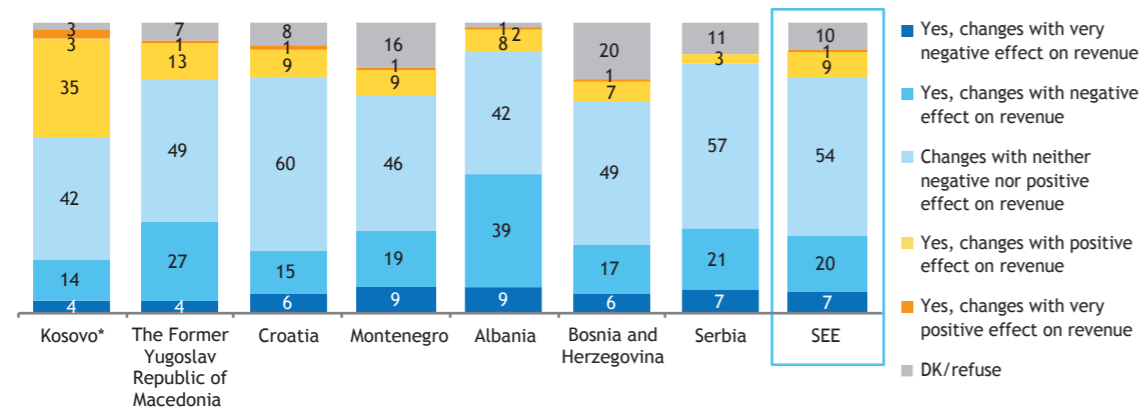


Considering the regional mean which is below average, 2.2 on a scale from 1 to 5, the SEE private sector would like to be much more involved in the process of drafting new laws and regulations relevant for business as they are mostly not satisfied with the current situation. Bosnia and Herzegovina (1.9) and Croatia (2.0) are especially dissatisfied with the existing circumstances.

A detailed analysis shows firms founded after 2003, as well as those which are not active internationally (non-exporters) are more satisfied with the current situation - i.e. there is great need for improvement in the connection between governments and private companies which export.

Figure 29: Have there been any changes (in practice or in laws and regulations) that have affected your revenues in the last 12 months?

(All respondents - N=1404, share of total, %)



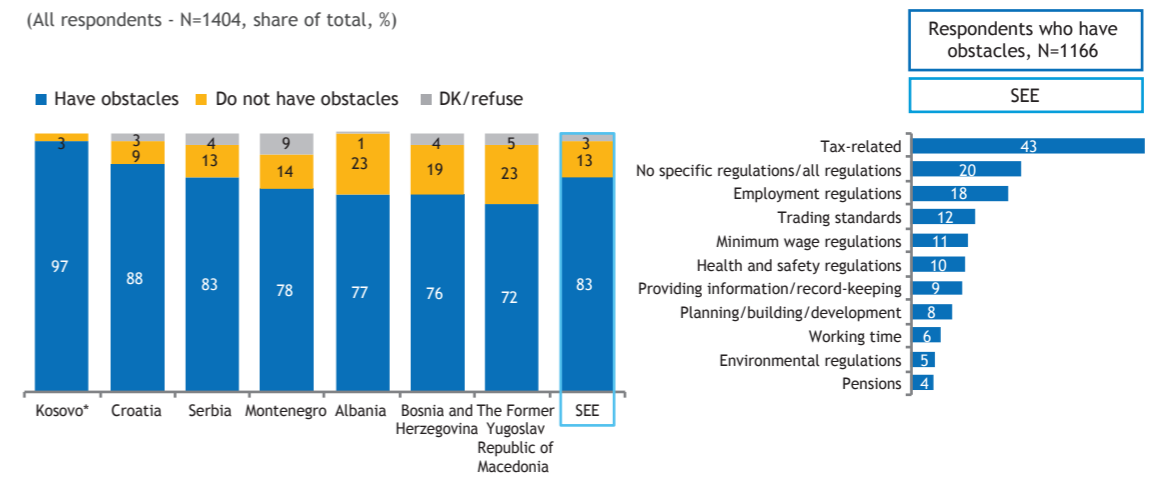
It seems that the past 12 months have brought some positive changes (in practice and laws and regulations) for firm revenues. That is, a significantly smaller number of respondents mention the negative effects of changes (27%) than was the case in 2014 (34%). Improvement is mostly felt in Kosovo*. On the other hand, changes with negative effects (39%) are mentioned in Albania more frequently than in other economies. Since the number of companies which experienced negative effects on their revenues due to changes in laws and

regulations in the past 12 months still outnumber those which were positively impacted, it can be concluded that there is significant room for improvement across the SEE region.

According to the results, non-exporters are more positively impacted by changes in laws and regulations than exporters. Governments should promote measures to help exporters advance their position. The same could be said for young companies, when compared to mature ones.

Figure 30: Which regulations do you consider to be an obstacle to the success of the business? Please choose two answers.

(All respondents - N=1404, share of total, %)



Only 13% of SEE companies (N=188) do not consider the listed regulations to be an obstacle to their business success. More than two fifths of the majority which are of the opposite opinion find tax-related regulations

to be the biggest barrier. This is followed by the view that no specific regulations, i.e. all of them, cause problems (20%), or that employment regulations are the obstacle to success (18%).

Table 8: Regulations considered to be an obstacle to the success of the business (for each economy)

(All respondents - N=1404, share of total, %)

| | Tax-related | No specific regulations/all regulations | Employment regulations | Trading standards | Minimum wage regulations | Health and safety regulations | Providing information/record-keeping | Planning/building/development | Working time | Environmental regulations | Pensions |
|---|-------------|---|------------------------|-------------------|--------------------------|-------------------------------|--------------------------------------|-------------------------------|--------------|---------------------------|----------|
| SEE | 43 | 20 | 18 | 12 | 11 | 10 | 9 | 8 | 6 | 5 | 4 |
| Albania | 45 | 15 | 11 | 20 | 13 | 6 | 8 | 12 | 2 | 4 | 3 |
| Bosnia and Herzegovina | 43 | 19 | 18 | 8 | 10 | 18 | 4 | 2 | 3 | 3 | 3 |
| Croatia | 48 | 20 | 21 | 13 | 9 | 7 | 14 | 7 | 9 | 4 | 2 |
| Kosovo* | 62 | 3 | 15 | 16 | 14 | 15 | 10 | 17 | 9 | 8 | 19 |
| The Former Yugoslav Republic of Macedonia | 23 | 23 | 16 | 11 | 9 | 8 | 12 | 7 | 8 | 5 | 3 |
| Montenegro | 28 | 25 | 19 | 13 | 12 | 8 | 4 | 8 | 4 | 4 | 7 |
| Serbia | 40 | 24 | 16 | 9 | 12 | 11 | 6 | 7 | 2 | 5 | 6 |

* Weighted data on the basis of GDP

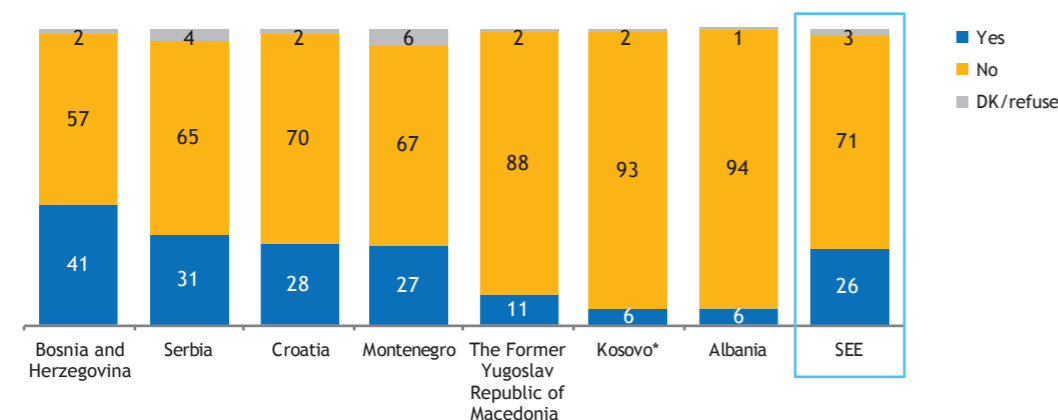
If we take a look at each economy, we can see that, in most of them, the issues mentioned above are recognized as being the main obstacles. Tax regulations came in first everywhere, but it seems businessmen in Kosovo* (62%) are especially concerned about them. This economy also perceives the pension system (19%) as a bigger obstacle than other economies. Employment regulations are more problematic

in Croatia (21%), Montenegro (19%) and Bosnia and Herzegovina (18%) than in Albania (11%).

Analysis by company size shows the biggest companies are most worried by planning/building/development, as well as employment regulations. Furthermore, exporters seem more environmentally aware than non-exporters.

Figure 31: Has your firm had any cases in arbitration courts in the last 36 months?

(All respondents - N=1404, share of total, %)

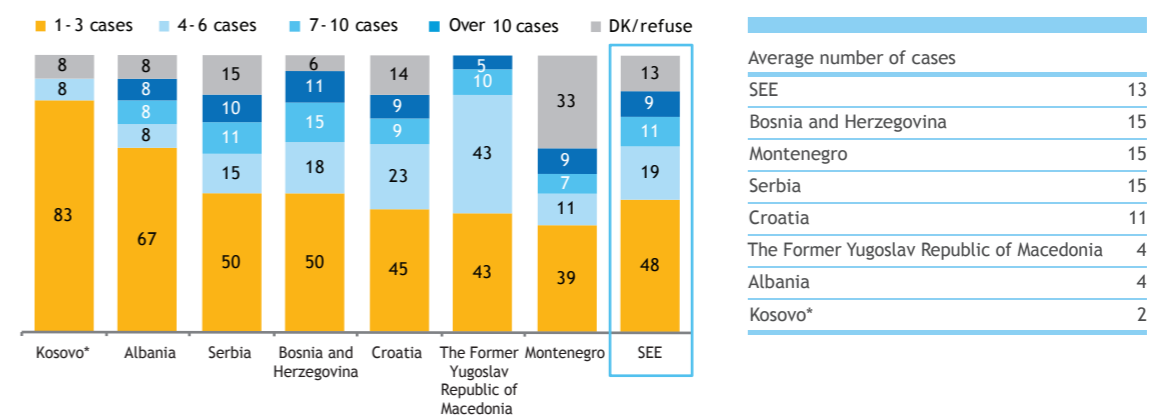


A quarter of the SEE companies have had cases before arbitration courts in the past 3 years. This number is significantly larger in Bosnia and Herzegovina (41%) than in other economies, but also in Serbia (31%), Croatia (28%) and Montenegro (27%) in comparison with Albania (6%), Kosovo* (6%) and The Former Yugoslav Republic of Macedonia (11%).

Court cases are significantly more frequent among the largest companies. Firms active outside the borders of their own economy have been compelled to solve problems through the courts more frequently. A similar conclusion can be made when companies in industry/mining/construction sectors are compared with transport/trade/tourism or education/science/culture companies.

Figure 32: How many cases in civil or commercial arbitration courts have involved your firm, either as plaintiffs or as defendants, in the past 36 months?

(Respondents who had cases in arbitration courts - N=368, %)



The regional average for cases processed in the past 36 months is 13. The largest number is recorded in Bosnia and Herzegovina,

Montenegro and Serbia (15 on average) while Kosovo* had the least number of cases (2 on average).

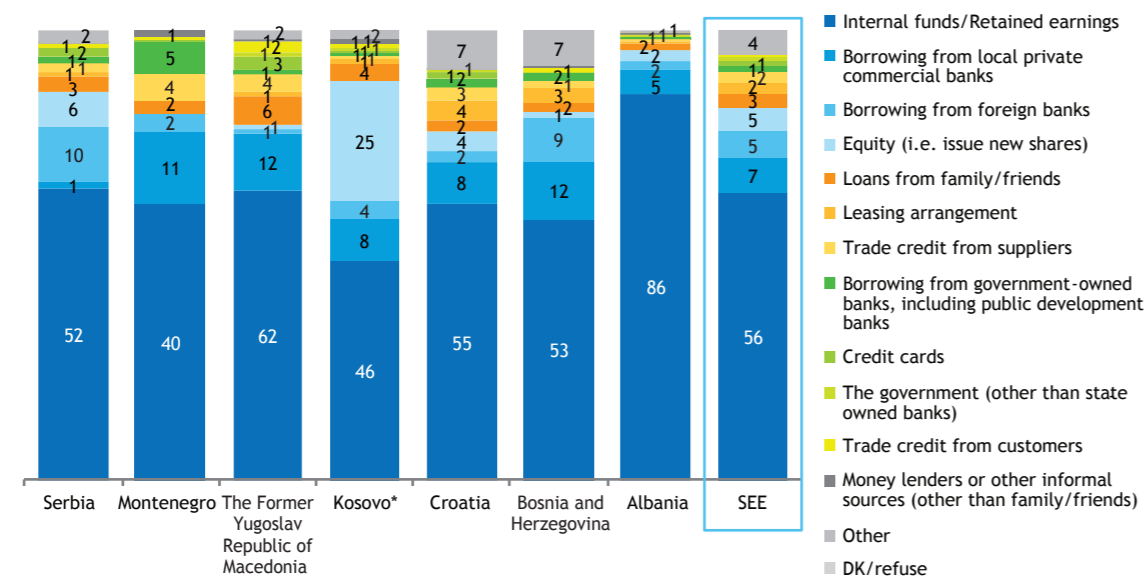
FINANCIAL ISSUES: ACCESSIBILITY OF LOANS AND OVERDUE PAYMENTS

Retained earnings are the preferred source of financing investments, while larger economies and Montenegro rely more on bank loans; lack of collateral and profitable business plans are major obstacles to obtaining loans.

Insolvency tends to be more of a problem in business and legal terms in larger economies, which have been doing worse throughout the current crisis, while credit is more used to pay for purchases in larger economies, which are also financially more developed.

Figure 33: 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=1404, share of total, %)

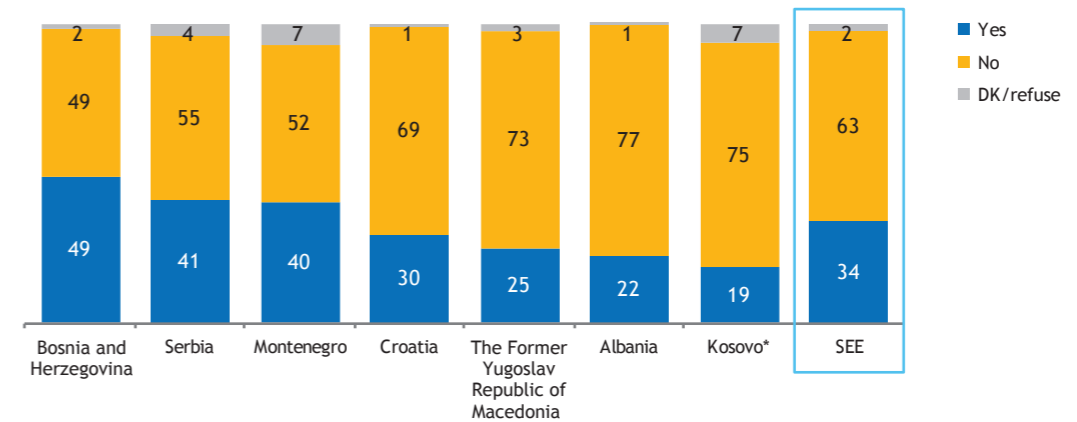


Considering the entire SEE region, over the past year, 56% of companies' working capital and new fixed investment were financed from internal funds i.e. retained earnings. The share of this source is higher than in 2014 (52%), so it seems companies rely more on their own resources than on external support for obtaining working capital and investments. Bearing in mind the growth of positive expectations which may affect an increase in investments, a situation where companies primarily rely on their own resources can be an obstacle for growth.

In addition, this is considerably more common in Albania (86%) than in other economies in the region. Loans from local private commercial banks are still the second main source of financing (7%), albeit with a lower share than last year (9%). Borrowing from foreign banks is in third place, and is more common in Serbia (10%) and Bosnia and Herzegovina (9%). In terms of company size, bank loans are used more by the medium than by smaller companies. The same applies to exporters, as opposed to non-exporters. Also, exporters opt for leasing arrangements more frequently.

Figure 34: Did your company take out a loan from the bank in the past 12 months?

(All respondents - N=1404, share of total, %)

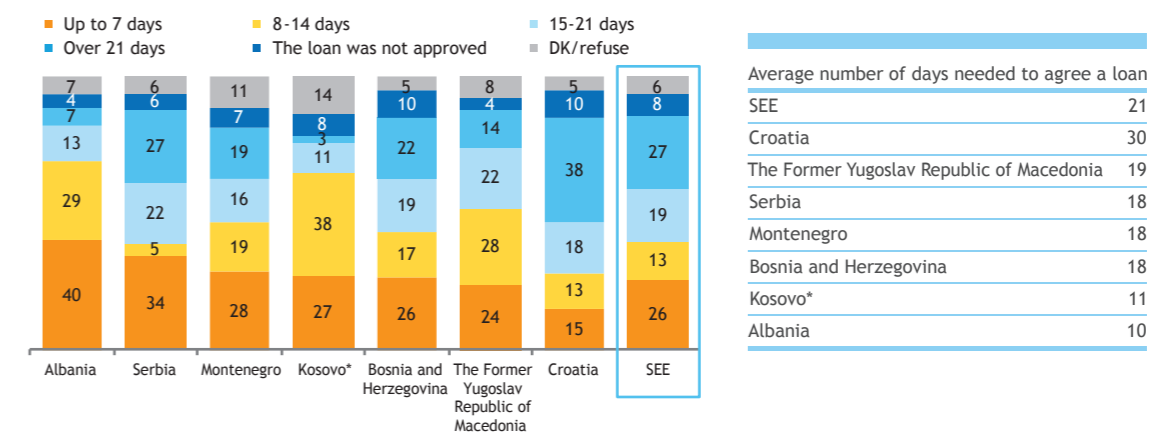


Every third company in the SEE region took out a bank loan in the past 12 months. Those from Bosnia and Herzegovina (49%), Serbia (41%) and Montenegro (40%) applied for financing more than others. More loan users

can be found among bigger companies and exporters. Businesses established before 2004 borrow from banks more frequently and so do companies in industry/mining/construction sectors.

Figure 35: How many days did it take to obtain the loan with the bank from the date of application?

(Respondents who had a loan application - N=478, %)

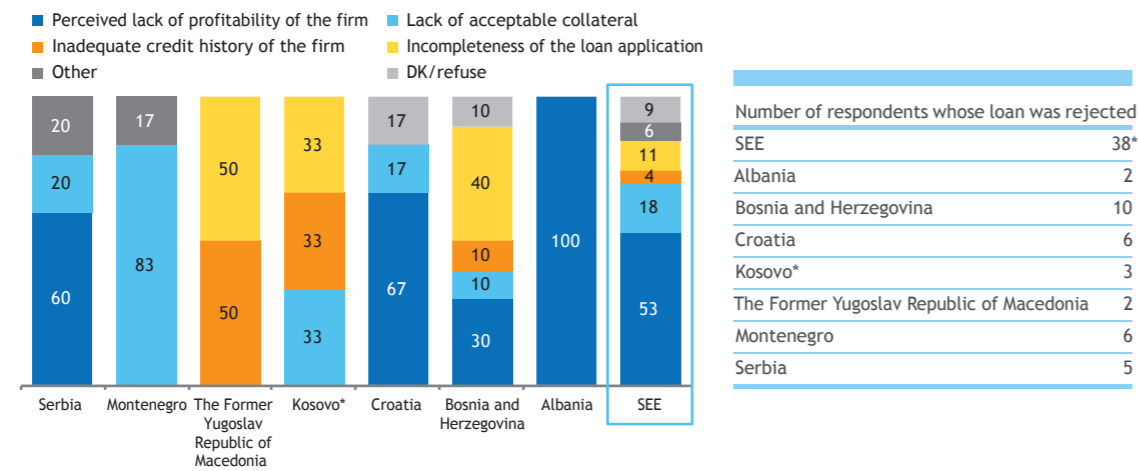


At the regional level, the loan approval process takes an average of 21 days. The time needed for completion of this procedure is

significantly longer in Croatia (30 days) than in Albania (10 days) and Kosovo* (11 days).

Figure 36: You said that your firm's loan application was rejected, what was the main reason?

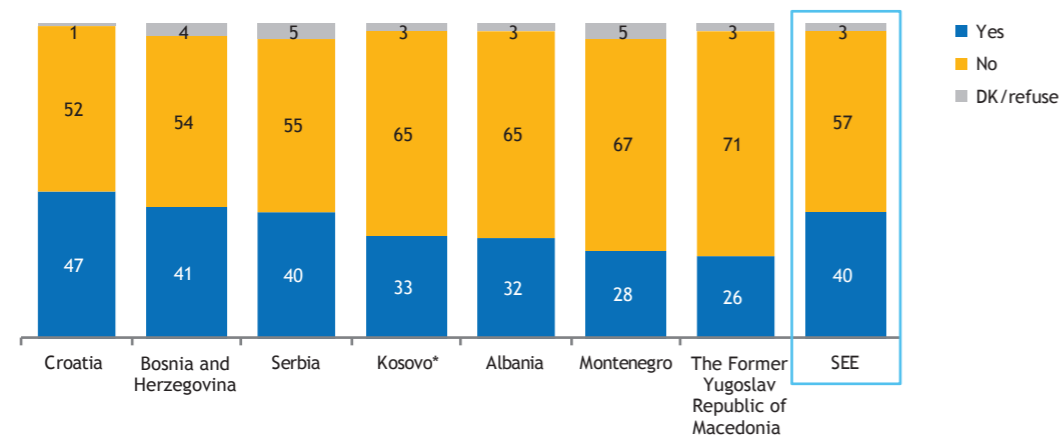
(Respondents whose loan was not approved - N=38, %)



8% of respondents who applied for the loan were denied. The main reason for rejection was a perceived lack of firm profitability, followed by lack of suitable collateral.

Figure 37: Have you had to settle any overdue payments in the last 12 months (regardless of whether they were caused by your firm or another company)?

(All respondents - N=1404, share of total, %)

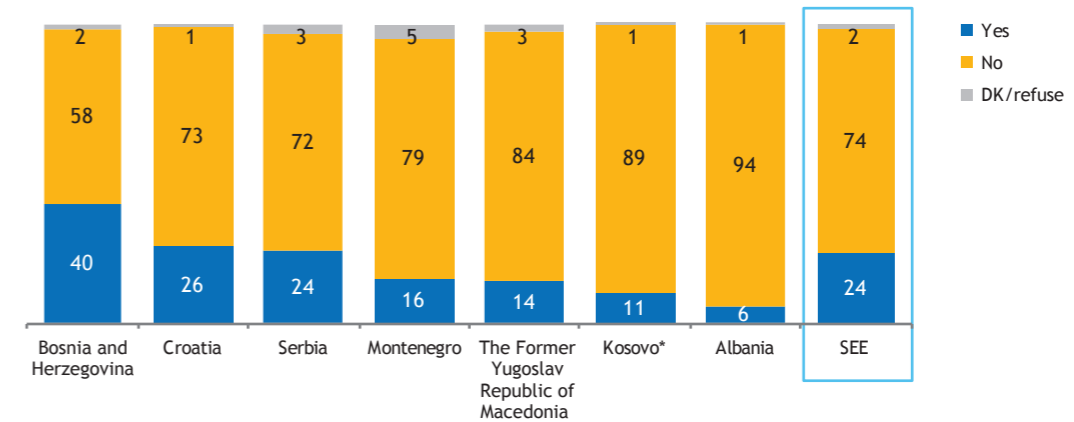


2 out of 5 business representatives report that their company had to deal with overdue payments over the previous year. The percentage of companies which had to settle overdue payments is highest in Croatia (47%) - significantly higher than in Kosovo*, Albania, Montenegro and The Former Yugoslav Republic of Macedonia.

Problems related to overdue payments grow in proportion to company size. Also, this causes more problems for mature companies and companies in the industry/mining/construction sector and service providers.

Figure 38: Have you had to initiate court proceedings to settle an overdue payment (regardless of whether they were caused by your firm or another company)?

(All respondents - N=1404, share of total, %)

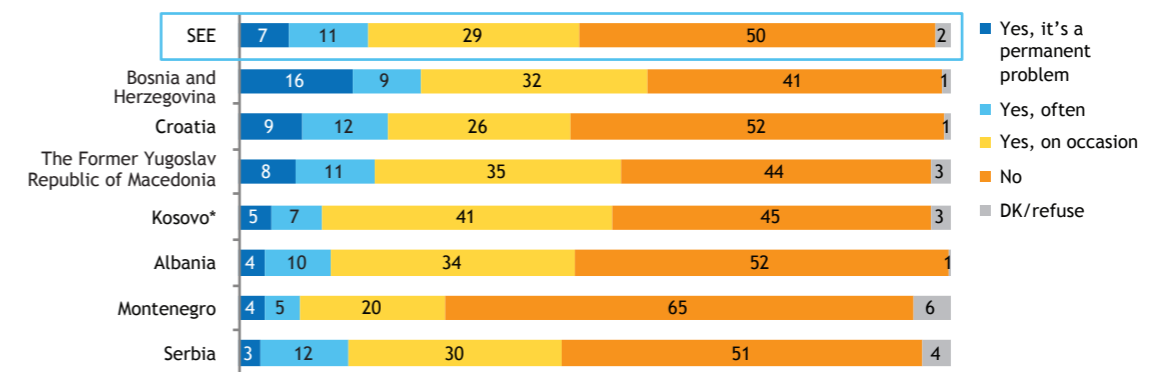


A quarter of the SEE businesses had to initiate court proceedings in order to settle overdue payments. Such cases are most common in Bosnia and Herzegovina where as much as 40% of companies tried to resolve problems through the courts. Bosnia and Herzegovina is followed by Croatia (26%) and Serbia (24%).

Further analysis shows that larger firms ask courts for assistance more frequently, and so do exporters, mature businesses and industry/mining/construction companies.

Figure 39: Has the problem of late payment caused your business to experience cash flow problems?

(All respondents - N=1404, share of total, %)



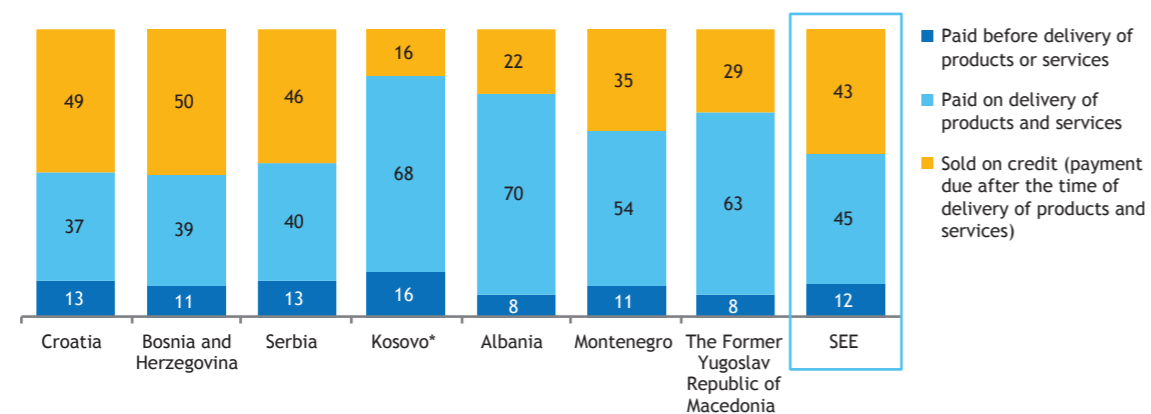
Half (50%) did not experience cash flow problems as a consequence of late payment; 29% faced such problems occasionally while a fifth of them have this type of difficulties often, or even constantly.

Companies from Bosnia and Herzegovina experience more serious complications due to overdue payment (25%) than the rest of the region.

Unfortunately, it seems that companies which can be drivers of faster growth, big companies, exporters and mature firms, suffer more because of late payments.

Figure 40: What percentage of your firm's sales' to customers in value terms in the previous 12 months were:

(Respondents who did not mark DK/refuse to answer - N=1318, %)

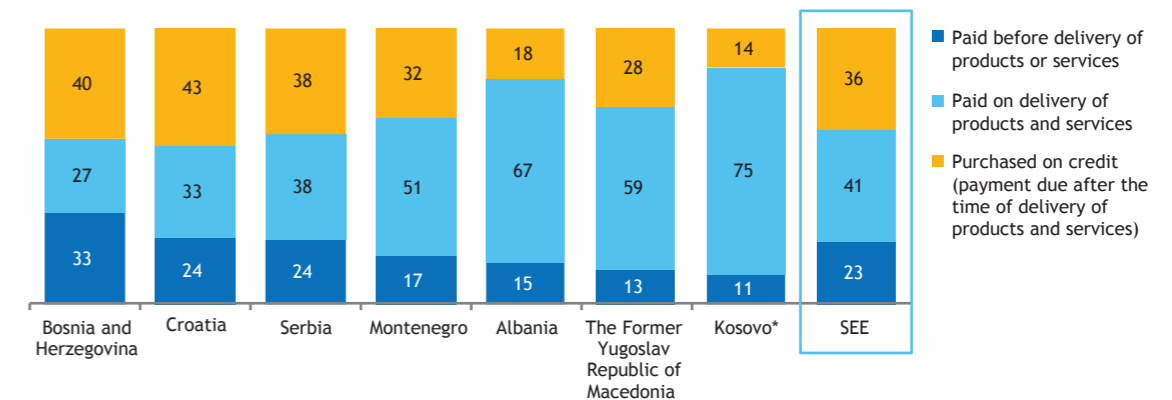


Similar to the survey for 2014, almost the same percentage of SEE sales to customers was paid on delivery of products and services (45%) and sold on credit (43%). Payment in advance was received for 12% of total sales. Paying on delivery is especially prevalent in Albania (70%) and Kosovo* (68%), while customers are credited primarily in Bosnia and Herzegovina (50%) and Croatia (49%). Croatia and Bosnia and Herzegovina, followed by Serbia, are not only under pressure by less favourable payment terms (prevailing payment practices in these economies), but also under the biggest pressure of overdue payments. It can be concluded that companies in these economies need significant support in solving their liquidity issues.

Half of all sales in export companies constitute sales on credit, creating a significant burden on their liquidity. If we also take into consideration that a significant number of exporters (41%) is afflicted with overdue payments, while more than a quarter needed to initiate court proceedings to resolve overdue payments, we can conclude that export companies are under enormous pressure to protect the cash flow stability. Although almost 60% of exporters expect an increase in demand for their products/services, their problematic cash flow situation may prevent them from taking advantage of all the opportunities arising from growing demand.

Figure 41: What percentage of your firm's purchases of material inputs or services in value terms in the previous 12 months were:

(Respondents who did not mark DK/refuse to answer - N=1318, %)



Most purchases (41%) are paid on delivery of products and services and there is no change compared with the previous year. The second most common way of payment is on credit (36%), and almost a quarter (23%) were paid in advance. The least favourable payment method is an especially prevalent practice in companies in Bosnia and Herzegovina (33% supplies were pre-paid).

Again, Bosnia and Herzegovina, Croatia and Serbia are in a less favourable position: on the one hand, credit constitutes a major part (about half) of their sales, and on the other, they tend to credit their suppliers (a quarter to a third of their supplies are pre-paid).

Businesses in Kosovo* (75%) pay their raw materials and services on delivery considerably more often than most others. Similar to what happens to their sales, export firms also pay their purchases before delivery, more frequently than non-exporters. Service providers pay on delivery more often than others.

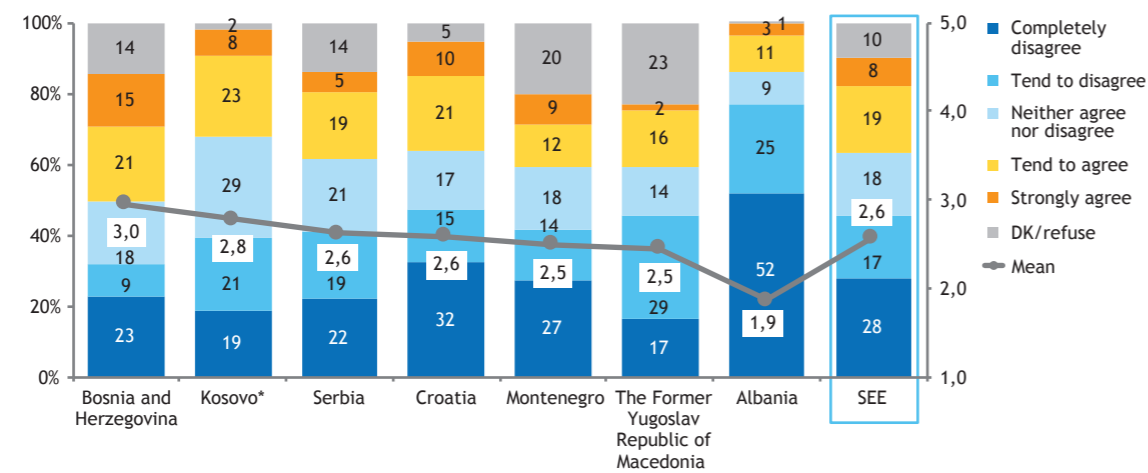
CORRUPTION

Corruption plays an important role in securing government contracts and in tax evasion, and quite a few business people think that nothing can be done about this.

Figure 42: Thinking about officials, to what extent would you agree with the following statement?

(All respondents - N=1404, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, mean)

It is common for firms in my line of business to have to pay some irregular “additional payments/gifts” to “get things done”



Compared to last year, a significantly greater number of business people in the SEE region is certain of the existence of irregular “additional payments or gifts” to “get things done” (the average score is 2.6 compared to 2.3 in 2014).

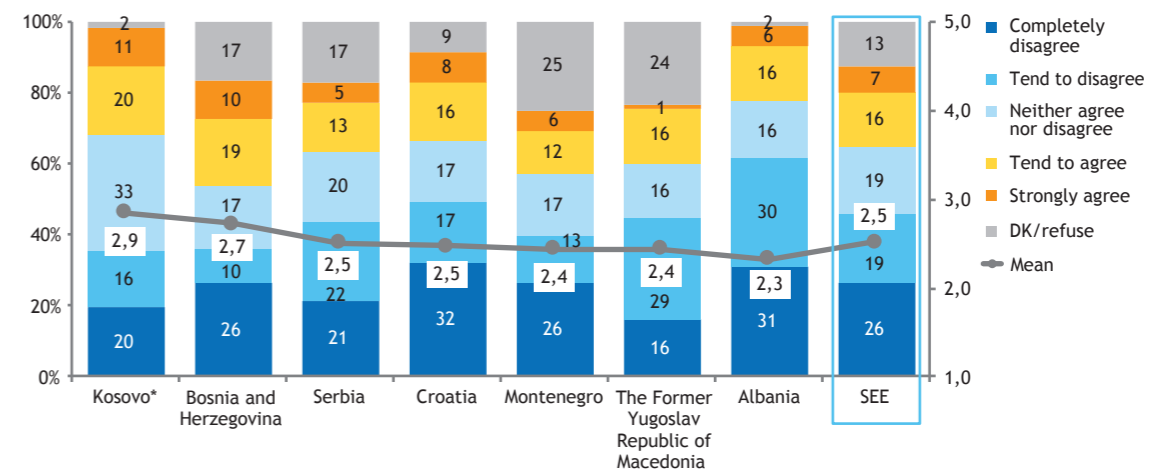
Albania (1.9) stands out as the economy with the least number of those who share this opinion, while respondents in Bosnia and Herzegovina (3.0) mention corruption as a problem more often than their colleagues in the already mentioned Albania, The Former Yugoslav Republic of Macedonia (2.5) and Montenegro (2.5).

Company size, age, export or main activity does not influence the perception of corruption.

Figure 43: Thinking about officials, to what extent would you agree with the following statement?

(All respondents - N=1404, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, mean)

Firms in my line of business usually know in advance about how much this “additional payment/gifts” will cost

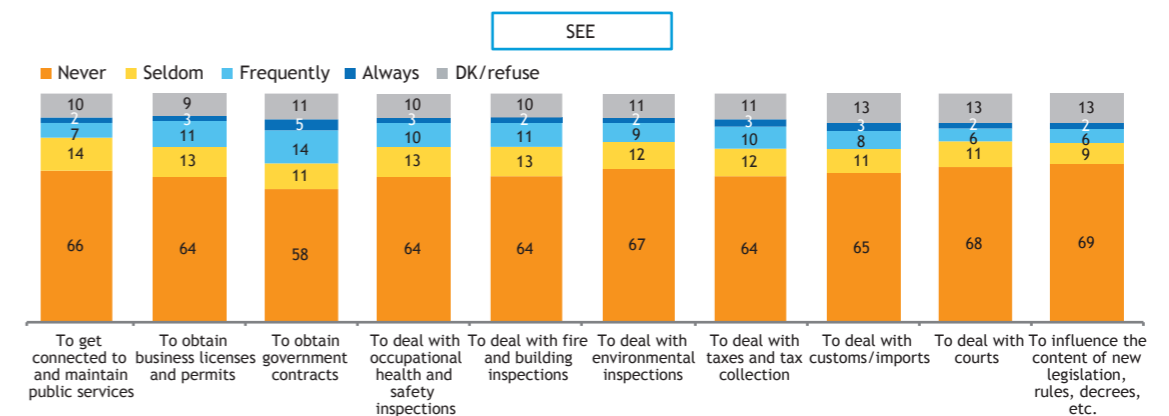


Similar to the previous question, a higher percentage agrees that the sum for “additional payments/gifts” is known in advance than was the case in 2014 (the average score is 2.5 compared to 2.2 in 2014). At the economy level, the biggest discrepancy is observed between Albania (2.3) and Kosovo* (2.9).

Comparing sizes, small companies (with less than 50 employees) know the sum for the additional “fee” they need to pay to get things done in advance more often than big companies do.

Figure 44: When it comes to unofficial payments/gifts that firms like yours make in a year, could you please tell me how often payments/gifts are made for the following purposes? (Results at the SEE level)

(All respondents - N=1404, scores are on a scale of 1 to 4 where 1 means never and 4 always, mean)



This question also confirmed the opinion that corruption is on the rise: the number of businessmen who think that companies have to make unofficial payments has grown. This especially pertains to obtaining government contracts, for which now almost 20% agree that corruption is frequent or permanent, as compared to 7% in 2014.

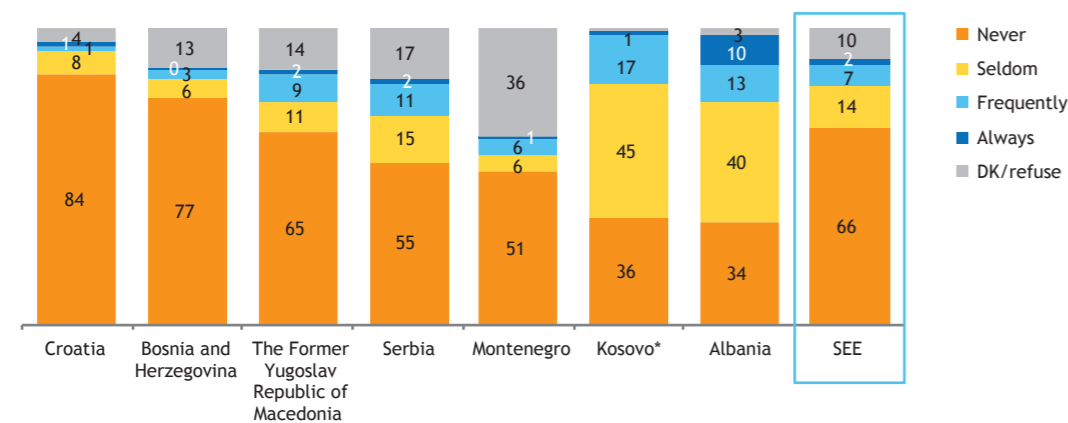
Considering all seven economies, it can be concluded that leaders from Albania, followed by Kosovo*, claim more often than others that giving irregular payments or gifts is a constant or frequent practice, for all suggested purposes. On the other hand, according to

business representatives, the level of corruption is significantly lower in Croatia (the only EU member) than in the rest of the region. These two extremes can be even more accurately illustrated - the percentage of business representatives who are convinced of the incorruptibility of various institutions, inspection bodies, etc. ranges from 28% to 44% in Albania and from 79% to 89% in Croatia. If we compare the other five economies with these two, Serbia and Kosovo* are closer to Albania, while Bosnia and Herzegovina is more similar to Croatia. Montenegro and The Former Yugoslav Republic of Macedonia fall somewhere in between.

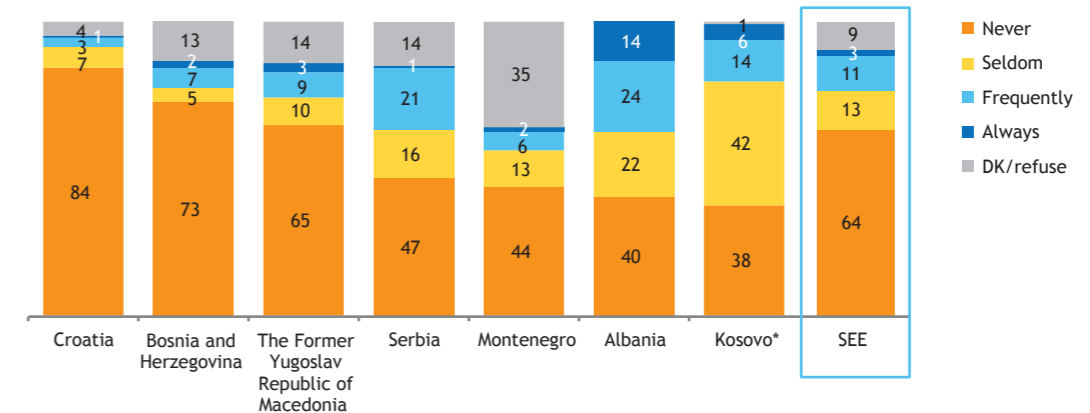
Figure 45: When it comes to unofficial payments/gifts that firms like yours make in a year, could you please tell me how often payments/gifts are made for the following purposes? (Results by economies)

(All respondents - N=1404, scores are on a scale of 1 to 5 where 1 means never and 4 always, mean)

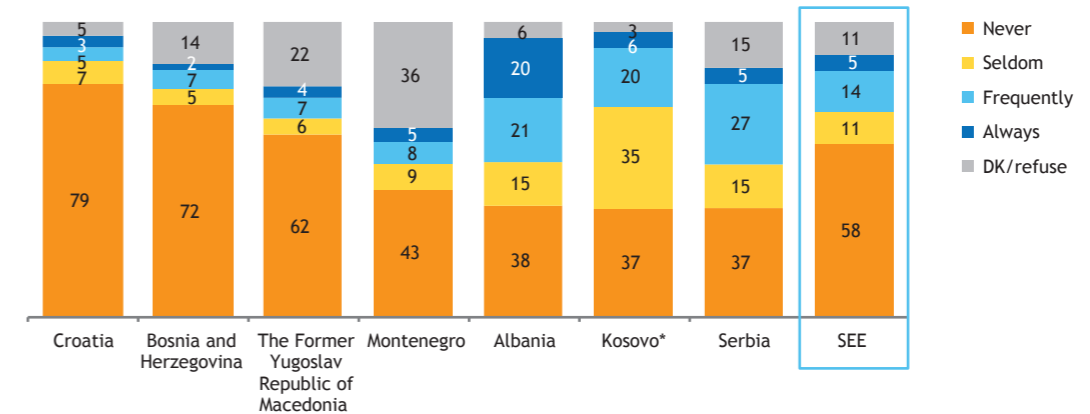
To get connected to and maintain public services



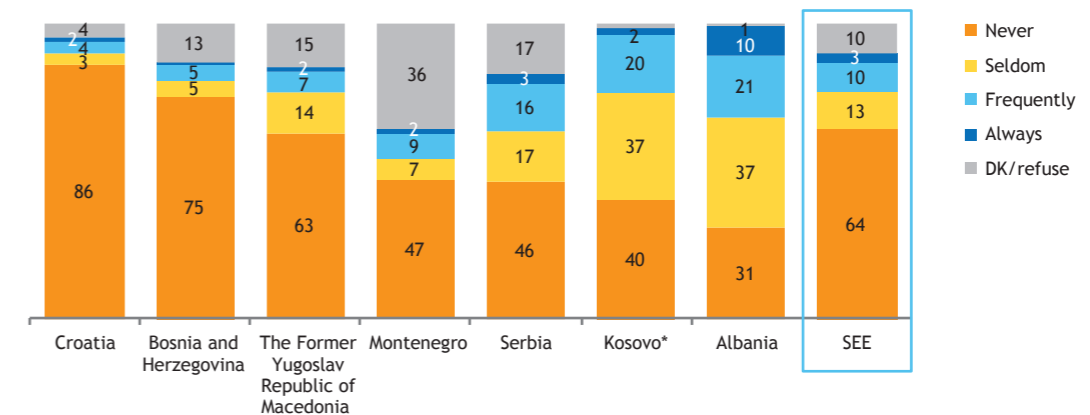
To obtain business licenses and permits



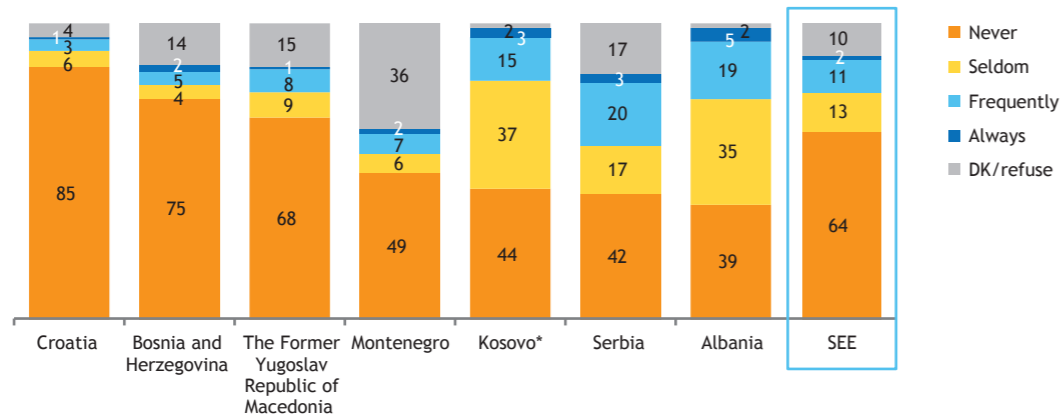
To obtain government contracts



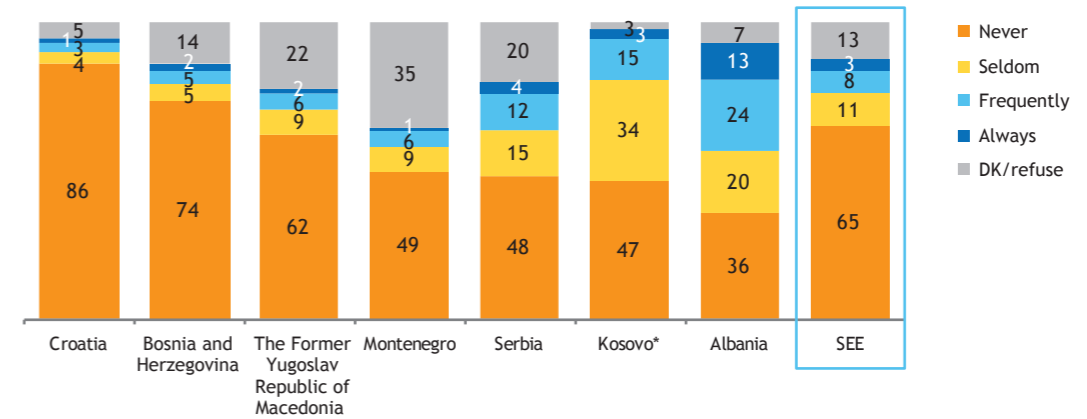
To deal with occupational health and safety inspections



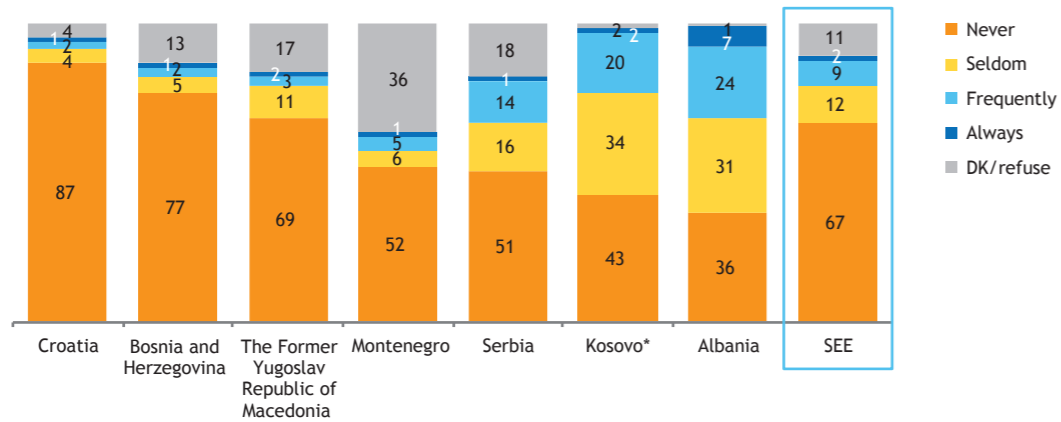
To deal with fire and building inspections



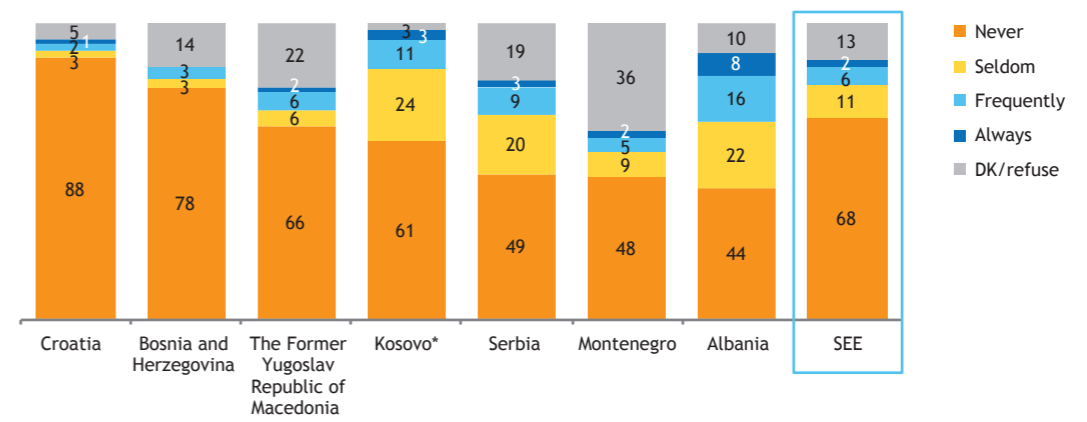
To deal with customs/imports



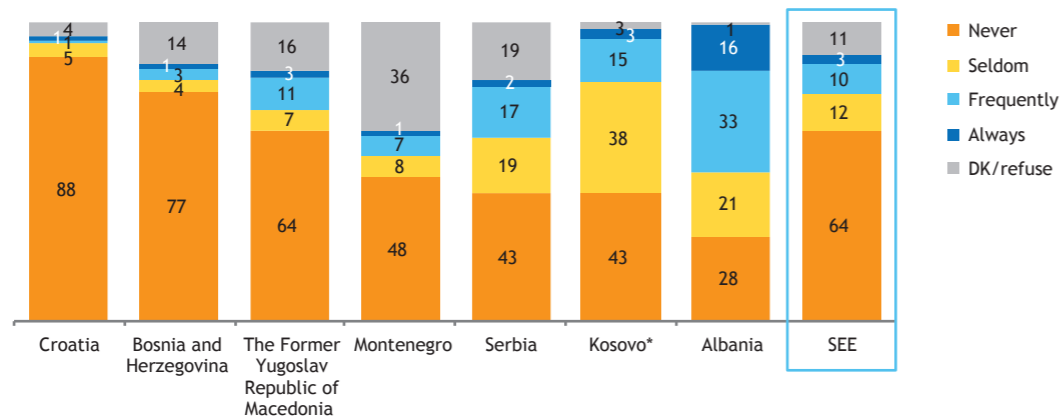
To deal with environmental inspections



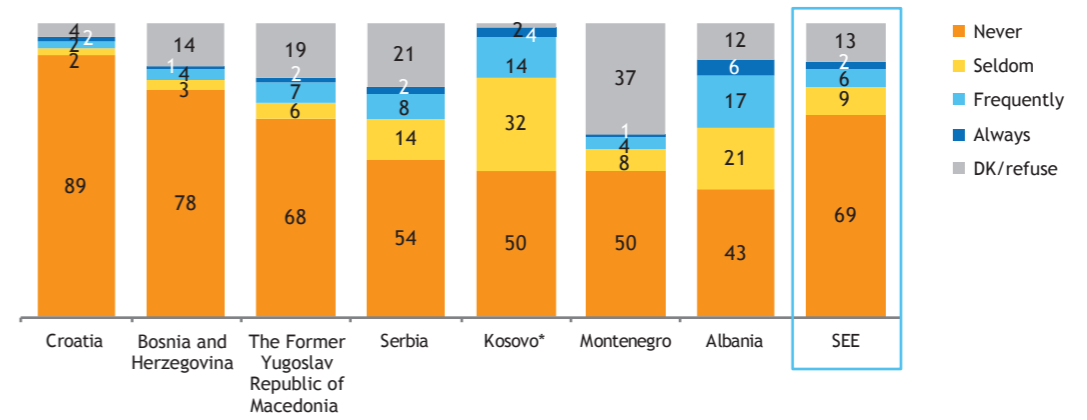
To deal with courts



To deal with taxes and tax collection



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

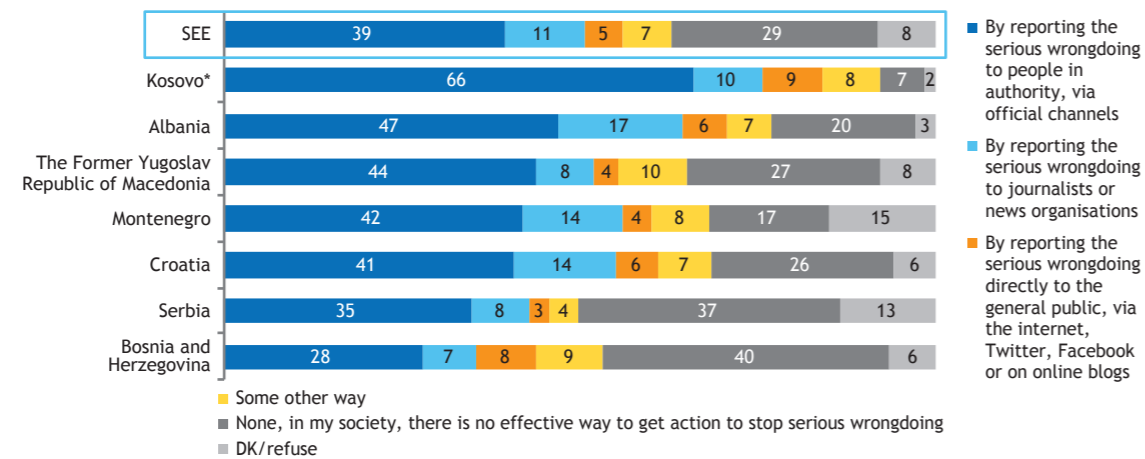


Further analysis shows that exporters face some type of corruption more rarely than non-exporters, with the exception of dealing with customs/imports. In addition, businesses

in the industry/mining/construction sectors have had less experience with unofficial payments than service providers.

Figure 46: 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=1404, share of total, %)



Most SEE managers (39%) believe that reporting wrongdoing to people in authority, via official channels, is the most efficient way to fight corruption. Supporters of this opinion are most numerous in Kosovo*. On the other hand, 29% of business leaders think that nothing can stop misconduct in their society, which is a quite discouraging fact. This attitude is more

present in Bosnia and Herzegovina (40%) and Serbia (37%) than in other parts of the region. The idea of reporting serious wrongdoing to journalists or media is recognized as the second most effective way and it is backed by 11% of respondents, more in Albania (17%) than in other economies, with the exception of Croatia (14%) and Montenegro (14%).

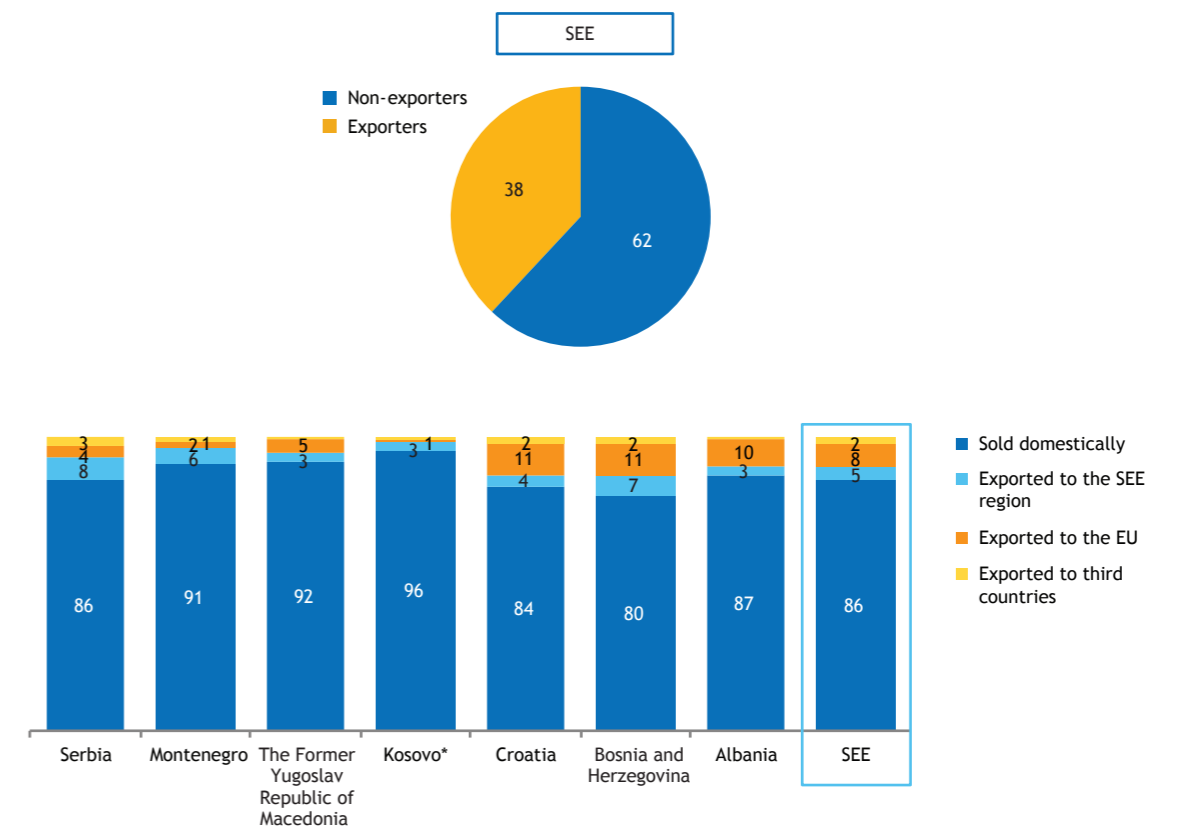
Export and Import of SEE Businesses

SEE economies are quite closed (in terms of the amount of goods and services they export), though the opinion is that they have competitive products, not only within the SEE market,

but also in the EU; the main reason for the low volume of exports is the structure of the economy, where non-tradable goods and service dominate.

Figure 47: What percentage of your firm's sales are sold domestically, exported to the SEE region, exported to the EU and exported to third countries?

(All respondents - N=1404, share of total, %)



More than a third of all interviewed companies in SEE export their goods and services and, similar to the survey for 2014, the majority of companies are oriented solely towards the domestic market.

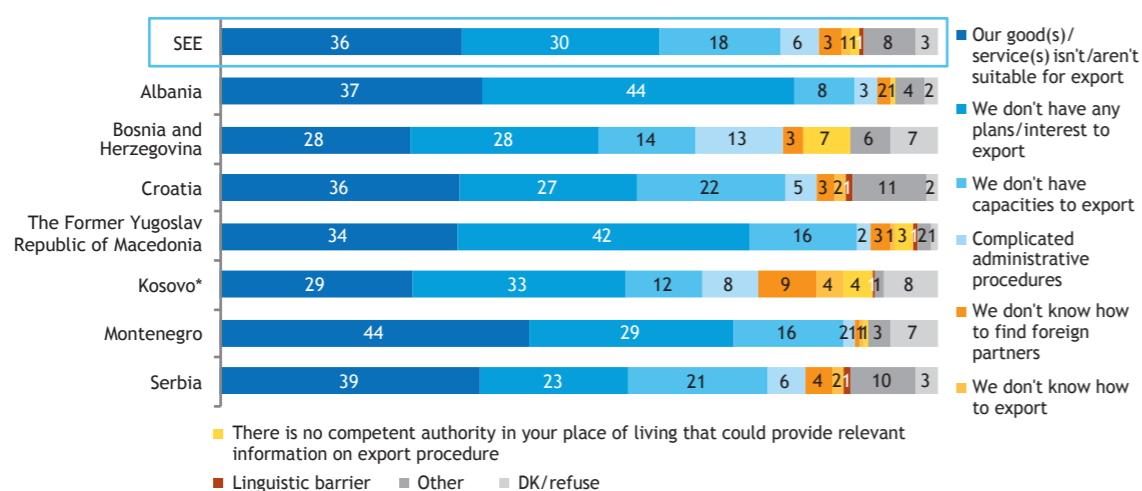
If we take into consideration total sales achieved by companies in the sample, similar to 2014, 86% of total sales in SEE happen locally, with exports mainly going to the EU (8%). Kosovo* still leads with domestic sales

(96%); Serbia (8%) exports more to the SEE than Albania (3%), Kosovo* (3%), The Former Yugoslav Republic of Macedonia (3%) and Croatia (4%), while Bosnia and Herzegovina (11%) and Croatia (11%) export to the EU more than all other economies except Albania (10%).

As expected, export activity grows in importance in proportion to company size. It is also more developed in industry/mining/construction companies than in service providers.

Figure 48: Why doesn't your company export?

(Respondents who do not export - N=855, %)



Taking into account the entire region, the main reason for not dealing with export is the inadequacy of goods and services, reported by 36% of respondents. Lack of interest/plans is the second most common reason, stated by 30% of non-exporters. It may therefore be concluded that for two thirds of all non-exporters, regardless of government stimulation or support, export is not an option, due to limitations in what they produce or their intention or interest.

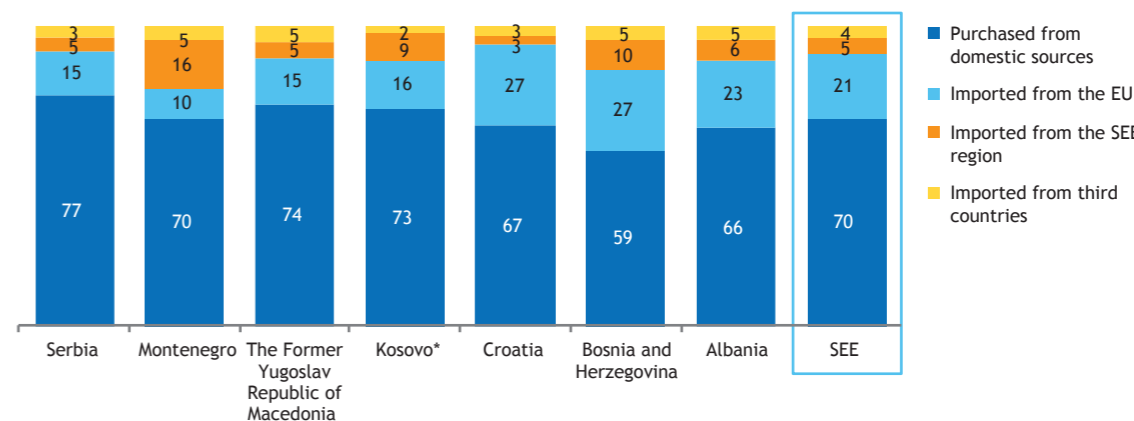
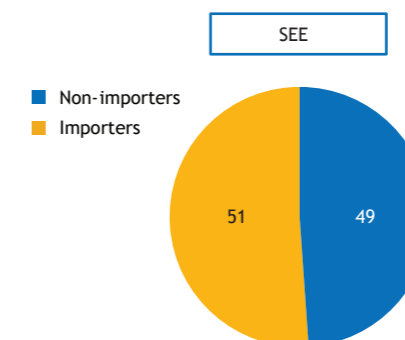
Still, for the rest of non-exporters (about a third) there are different types of obstacles: lack of export capacity (18%), complicated administrative procedures, lack of knowledge on how to find partners etc.

Companies in Albania show less interest in export (44%) than the rest of the region, except for The Former Yugoslav Republic of Macedonia (42%). In contrast to most others, respondents from Kosovo* find it harder to connect with foreign partners (9%), while those from Bosnia and Herzegovina perceive administrative procedures as a bigger obstacle (13%).

Analysis of firms by sector shows that those from the agricultural and industrial (with related fields) sectors more often cite a lack of capacity as the biggest barrier to export.

Figure 49: What percentage of your firm's raw materials and supplies are:

(All respondents - N=1404, share of total, %)

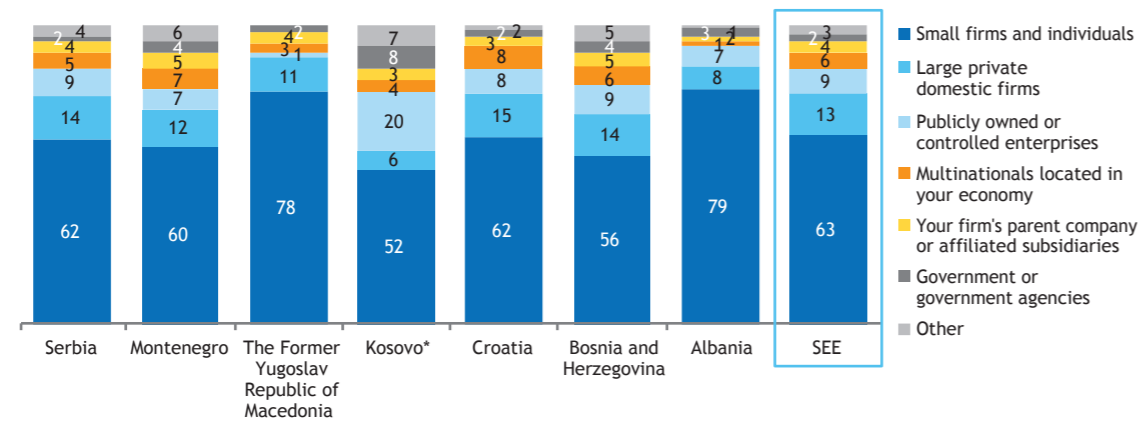


Similar to the survey for 2014, a major portion (70%) of SEE inputs and supplies are bought from domestic sources. A fifth is imported from the EU, while the rest is divided between SEE (5%) and third country sources (4%). Compared to all others, Montenegro is the main importer from the SEE region (16%), while Bosnia and Herzegovina (27%) and Croatia (27%) stand out in terms of purchasing in EU countries.

Larger companies, as well as exporters, are especially dependent on imported inputs (about two fifths or even more of their raw materials are imported).

Figure 50: What percentage of your domestic sales goes to:

(All respondents - N=1404, share of total, %)



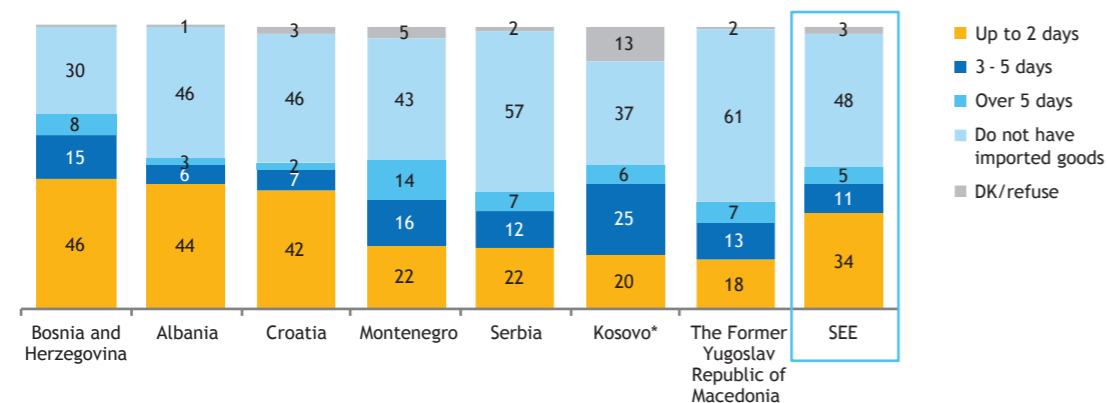
At regional level, almost two thirds (63%) of total domestic sales are made to small firms and individuals. Large private domestic firms are marked as the second biggest purchaser (14%), while 9% is sold to publicly owned or controlled enterprises. Compared to all others, Kosovo* has significantly more buyers among publicly owned enterprises (20%) as well as the Government or government agencies (8%). Companies from Albania (79%) and The Former Yugoslav Republic of Macedonia

(78%) supply small firms and individuals more often than others.

Sales to parent companies or affiliated subsidiaries and large private domestic firms grow in proportion to company size. Non-exporters sell to small firms and individuals more than exporters. Industrial companies and companies from related sectors sell to large private domestic firms more than service providers do.

Figure 51: If you have imported goods over the past 12 months, what is the average number of days it took for imported goods to clear customs?

(All respondents - N=1404, share of total, %)



Half of the SEE companies have imported goods over the past year, what is more than in 2014 (40%). This number is significantly lower

in The Former Yugoslav Republic of Macedonia (38%) and Serbia (41%) than in neighbouring economies. A third of importers say that the

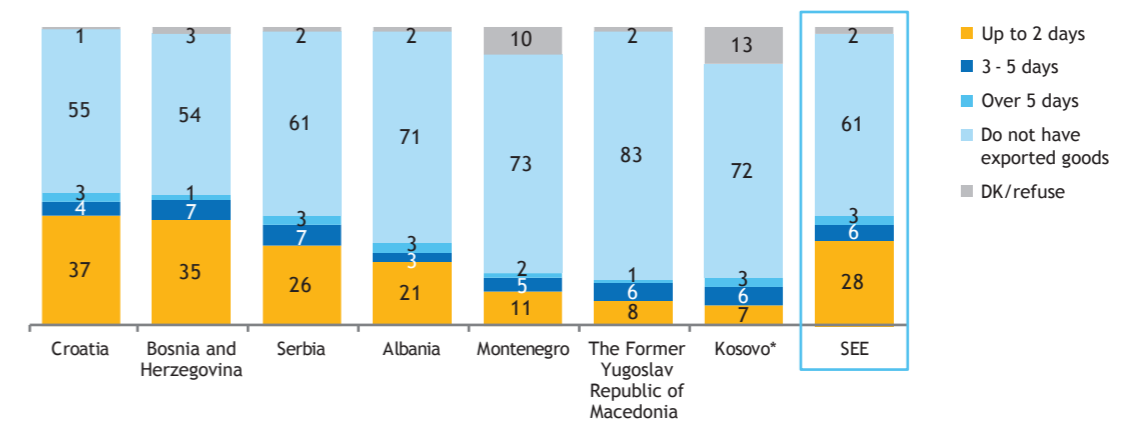
customs procedure takes up to 2 days, while 11% (which is more than a fifth of all importers) say it lasts between 3 and 5 days.

It seems that the largest companies have more problems with import procedures - their

representatives cite an average duration of over 5 days more often. Experienced firms complete customs clearance more quickly than young ones. The same can be said for industry/mining/construction companies, compared to other sectors.

Figure 52: If you have exported goods over the past 12 months, what is the average number of days it took for exported goods to clear customs?

(All respondents - N=1404, share of total, %)

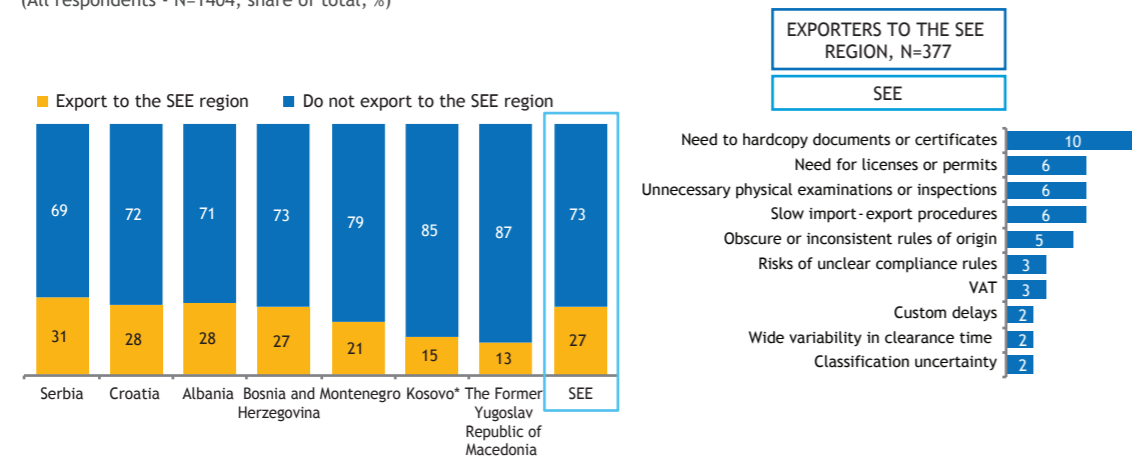


As already mentioned, there is a significant difference in the number of exporters at the regional level compared to the survey for 2014- 38% in 2015 vs. 26% in 2014. In addition, export procedures have apparently become faster over the past year -more companies state they take up to 5 days (34% in 2015 vs. 24% in 2014). In terms of discrepancies among economies, it seems that companies in Croatia spend the least time to clear customs (except Bosnia and Herzegovina) - 37% of their exporters say that procedures last up to 2 days. Similar to importers, those who don't deal with export are most numerous in The Former Yugoslav Republic of Macedonia (83%).

Heads of the largest companies, more often than others, state that the average time for export custom procedures is between 3 and 5 days. Firms operating in industrial and related sectors again cite a shorter duration of customs clearance.

Figure 53: If your company exports to the SEE region, what are the main obstacles for exporting?

(All respondents - N=1404, share of total, %)



27% (N=377) of SEE companies export to other economies in the region. Again, the number of regionally active firms is significantly lower in The Former Yugoslav Republic of Macedonia (13%), followed by Kosovo* (15%).

for exporting to the neighbourhood, a trend similar to the survey for 2014, and growing. This is followed by the need for licenses or permits (6%), physical examinations or inspections (6%) and slow import-export procedures (6%); it is interesting that all these barriers are perceived as being more problematic than they were in the previous year.

The need to hardcopy documents or certifications is recognized as the main obstacle

Table 9: Obstacles for exporting to the SEE region (for each economy)

(All respondents - N=1404, share of total, %)

| | Need to hardcopy documents or certificates | Need for licenses or permits | Unnecessary physical examinations or inspections | Slow import-export procedures | Obscure or inconsistent rules of origin | Risks of unclear compliance rules | VAT | Custom delays | Wide variability in clearance time | Classification uncertainty |
|---|--|------------------------------|--|-------------------------------|---|-----------------------------------|-----|---------------|------------------------------------|----------------------------|
| SEE | 10.0 | 6.2 | 5.8 | 5.6 | 4.9 | 3.1 | 2.7 | 2.5 | 2.1 | 1.7 |
| Albania | 3.0 | 4.0 | 9.0 | 7.0 | 2.5 | 1.5 | 1.0 | 12.5 | 3.0 | 5.0 |
| Bosnia and Herzegovina | 9.5 | 3.5 | 6.0 | 6.0 | 3.5 | 4.0 | 3.0 | 3.5 | 2.5 | 1.5 |
| Croatia | 8.9 | 6.9 | 8.4 | 6.9 | 6.4 | 2.0 | 0.5 | 2.0 | 2.0 | 1.5 |
| Kosovo* | 4.5 | 5.0 | 3.0 | 2.0 | 2.0 | 0.5 | 5.5 | 1.5 | 1.0 | 2.0 |
| The Former Yugoslav Republic of Macedonia | 4.5 | 4.0 | 2.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.0 | 1.0 |
| Montenegro | 13.0 | 7.5 | 1.5 | 3.0 | 3.0 | 2.0 | 1.5 | 0 | 1.0 | 0 |
| Serbia | 15.4 | 7.5 | 3.0 | 5.0 | 5.5 | 5.5 | 6.0 | 0.5 | 2.5 | 1.5 |

* Weighted data on the basis of GDP

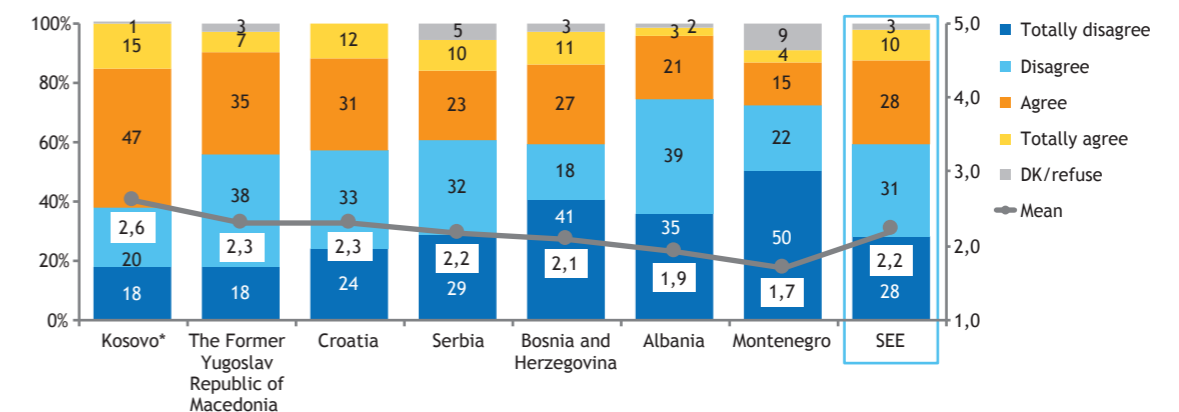
— Main obstacles — Small base for valid conclusions

It is important to note that analysis did not include The Former Yugoslav Republic of Macedonia because the base of exporters is not large enough to provide relevant conclusions. In all economies except for Albania, the two major obstacles for exporting to the SEE region are the need to hardcopy documents or certifications and required licenses or permits. Compared to others, the former problem creates most difficulties for companies in Serbia

(15.4%). In addition to Kosovo*, where VAT is the biggest problem (5.5%), Serbia is also more concerned about that tax issue (6.0%) than others. Business leaders from Albania find that customs delays are the main barrier to trading with neighbouring markets (12.5%). This is followed by unnecessary physical examinations or inspections (9.0%), which is, at the same time, the third biggest barrier in Croatia (8.4%).

Figure 54: To what extent do you agree that your company is threatened by competition from abroad?

(All respondents - N=1404, scores are on a scale of 1 to 4 where 1 means totally disagree and 4 totally agree, mean)



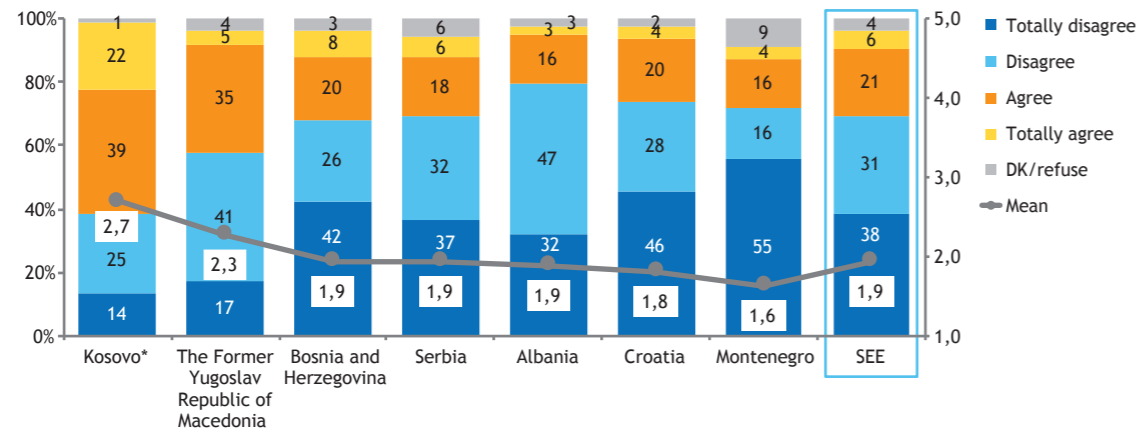
The SEE companies are quite convinced of their own superiority, almost 60% of them do not feel threatened by international competition (the average score is 2.2). Firms in Kosovo* are less confident than all others (2.6); followed by Croatia (2.3) and The Former Yugoslav Republic of Macedonia (2.3). Montenegrins are the least threatened by international competition (1.7).

look at companies by their main activity, we can see that representatives from the education/culture/science sector are less worried about rivals from abroad.

Companies that export their products or services perceive international competitors more seriously (2.3) than non-exporters (2.1). If we

Figure 55: To what extent do you agree that your company is threatened by competition from the SEE region?

(All respondents - N=1404, scores are on a scale of 1 to 4 where 1 means totally disagree and 4 totally agree, mean)

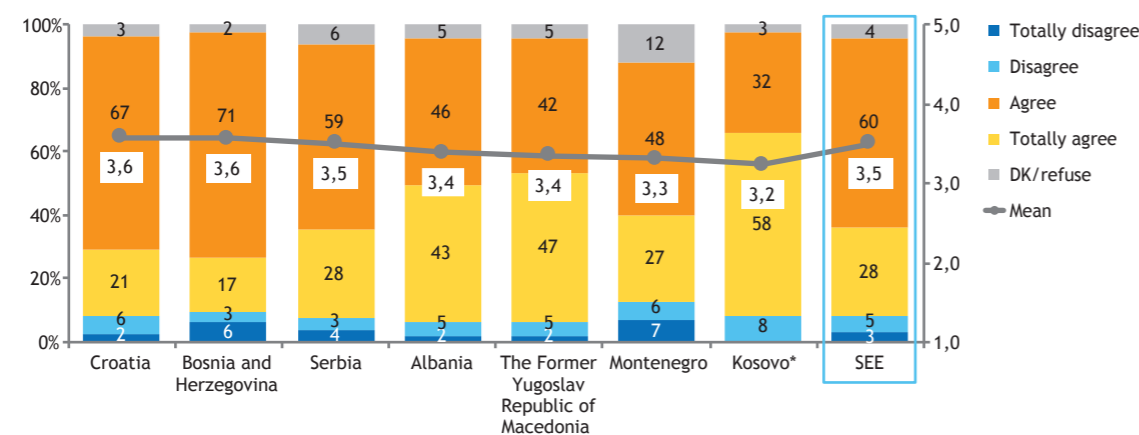


The majority of businessmen do not recognize competitors from neighbouring economies as a threat (mean is 1.9). However, the situation varies by economy: respondents from Kosovo* (2.7) do not agree with this view, they perceive a higher risk than others, followed by The Former Yugoslav Republic of Macedonia (2.3).

Similar to the competition coming from international rivals, companies in the field of education and related sectors feel safer than others.

Figure 56: To what extent do you agree with the statement “My company products, goods and services can compete well with products, goods and services from SEE”?

(All respondents - N=1404, scores are on a scale of 1 to 4 where 1 means totally disagree and 4 totally agree, mean)



At the regional level, a vast majority of company leaders (88%) believe that their products measure up against goods made in other SEE economies (the average score is 3.5 similar to the previous year). Among them,

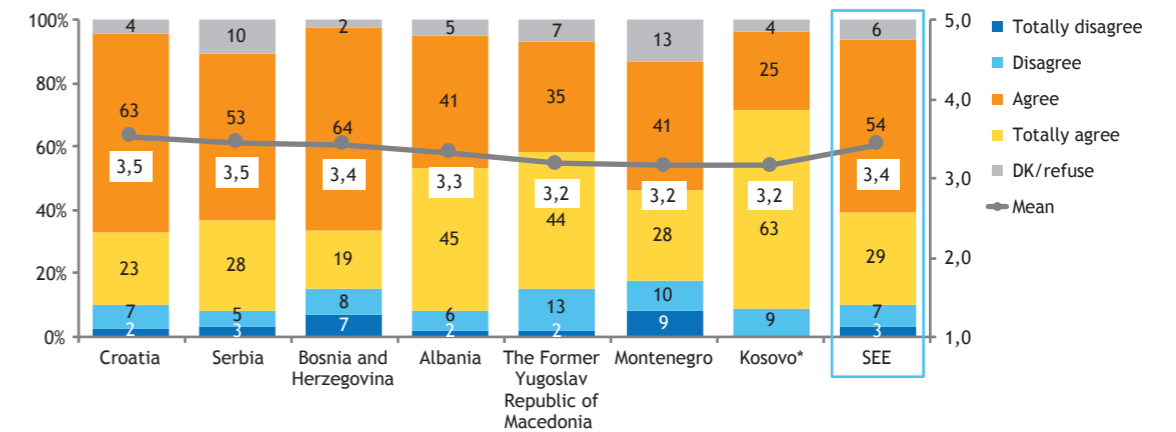
as much as 60% completely agree with that opinion. Croatia (3.6) is certain of the quality and potential of their own products, more so than Kosovo* (3.2), Montenegro (3.3) and The Former Yugoslav Republic of Macedonia (3.4).

Exporters are more self-confident than those who are not active internationally. In terms of company main area, the same conclusion

can be made for firms in the industrial and related sectors, as compared to transport/trade/tourism firms.

Figure 57: To what extent do you agree with the statement “My company products, goods and services can compete well with products, goods and services from other EU countries”?

(All respondents - N=1404, scores are on a scale of 1 to 4 where 1 means totally disagree and 4 totally agree, mean)



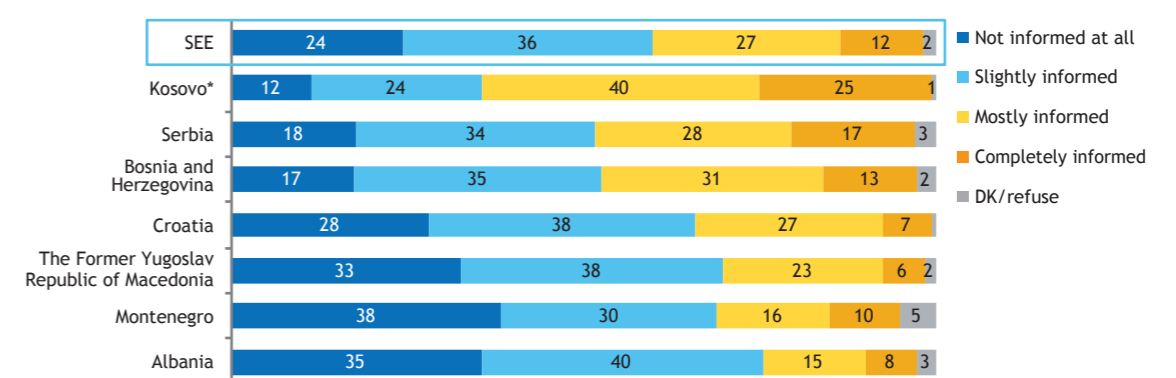
83% of the respondents believe that domestic products can adequately compete with those coming from the EU, while more than half (54%) totally agree with this claim (the regional average score is 3.4). The level of faith in own products is especially high in Croatia (3.5) and Serbia (3.5). Companies in Kosovo* have the least confidence in their own products, although there is an improvement in self-confidence compared to the survey for 2014.

Firms operating in more than one market again stand out with a larger number of leaders who stress their own competitiveness, similar to heads of industry/mining/construction enterprises.

Perception of own competitiveness is not influenced by company size or years of experience.

Figure 58: To what extent do you think that you are informed about the regional free trade agreement (CEFTA 2006)?

(All respondents - N=1404, share of total, %)

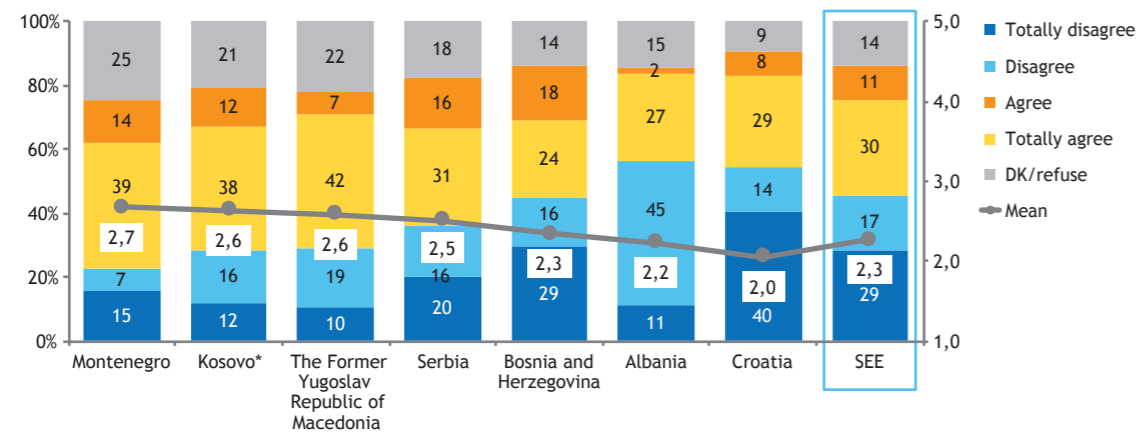


Two fifths of the SEE business leaders consider themselves to be informed about the free trade agreement (CEFTA 2006). Slightly more than a third (36%) admit they do not know enough about it, while a quarter are not informed at all. Businessmen from Kosovo* perceive themselves to be the best informed in the region. Besides Kosovo*, Serbia (45%) and Bosnia and Herzegovina (46%) are also better informed than the rest of the region.

Interest in CEFTA, its goals, and benefits the agreement can provide, grow with company size. As expected, exporters are much more informed than non-exporters, and so are companies with activities which are suitable for exchange (e.g. industry, trade and similar).

Figure 59: To what extent do you agree with the statement “My company has benefited from the regional free trade agreement (CEFTA 2006)”?

(All respondents - N=1404, scores are on a scale of 1 to 4 where 1 means totally disagree and 4 totally agree, mean)



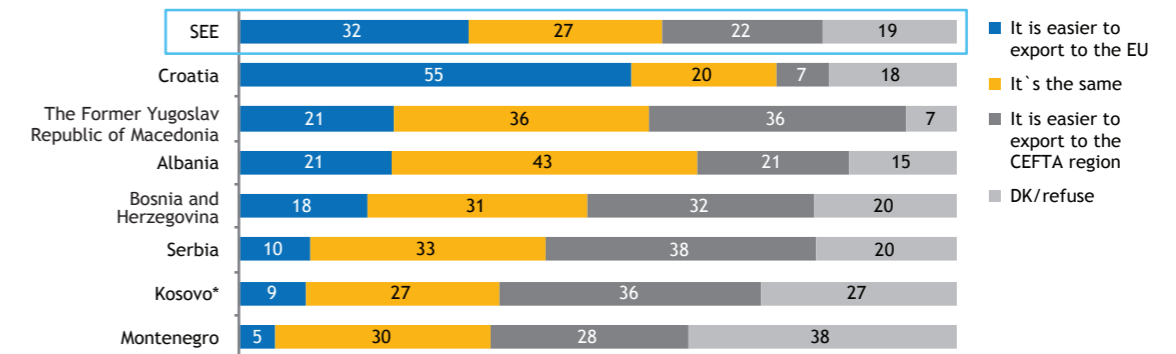
Two out of five businessmen who export their products or services and/or import material inputs think that their company has benefited from the regional free trade agreement (CEFTA 2006); the regional average score is 2.3. Croatia has the lowest number of those who share this opinion (the average score is 2.0), which is understandable, bearing in mind that this economy is a member of the EU, and is no longer in the CEFTA region. On the other hand, Montenegro is most satisfied with the opportunities provided by CEFTA (2.7). More than half of the respondents (53%) confirm that (but there are quite a few of those, 25%,

who cannot evaluate the benefits of CEFTA for their companies). However, there are still more companies which did not experience the advantages of the Agreement (46%).

Furthermore, it can be said that the CEFTA's efforts are more appreciated by medium firms than small ones, and by those who export their products or services than by non-exporters.

Figure 60: If your company is an exporter, can you tell us whether it is easier to export to the CEFTA region or the EU?

(Those who export and import - N=874, %)

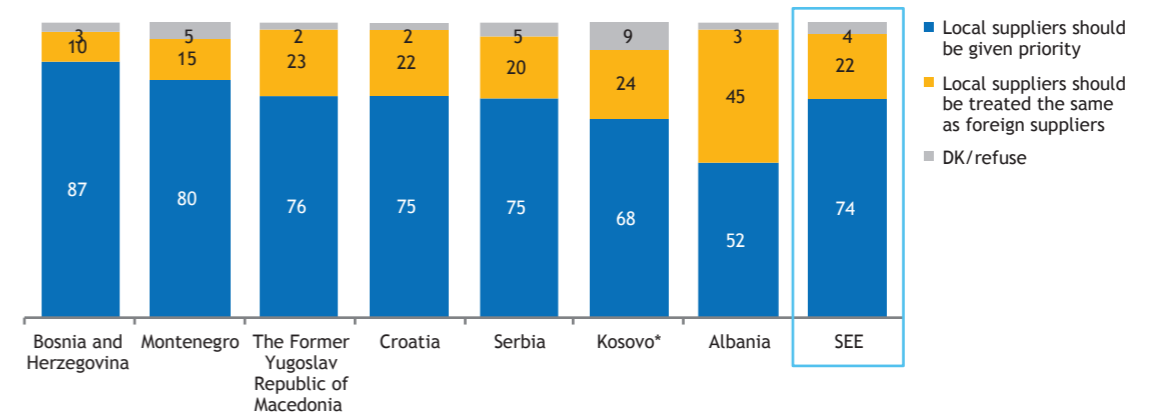


At the regional level, 22% of exporters agree that it is easier to export to the CEFTA Parties; those who are in favour of the EU (32%), however, prevail (this indicator has to be used with caution, as the average is driven by Croatian data, a member of the EU).

An interesting fact is that representatives from medium companies mention advantages of the EU in this context more often than those heading large firms. Compared to educational/cultural/scientific companies, those from the other three sectors more frequently claim it is easier to export to the EU.

Figure 61: 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=1404, share of total, %)



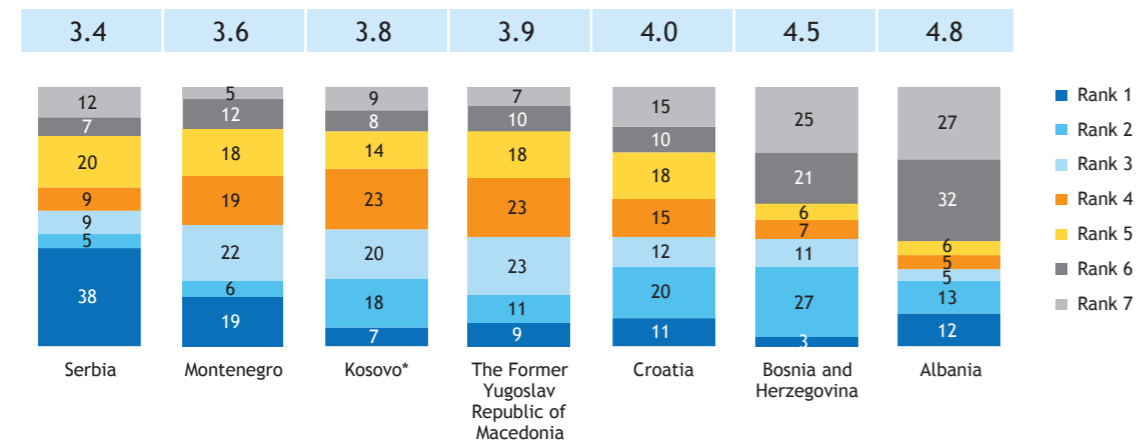
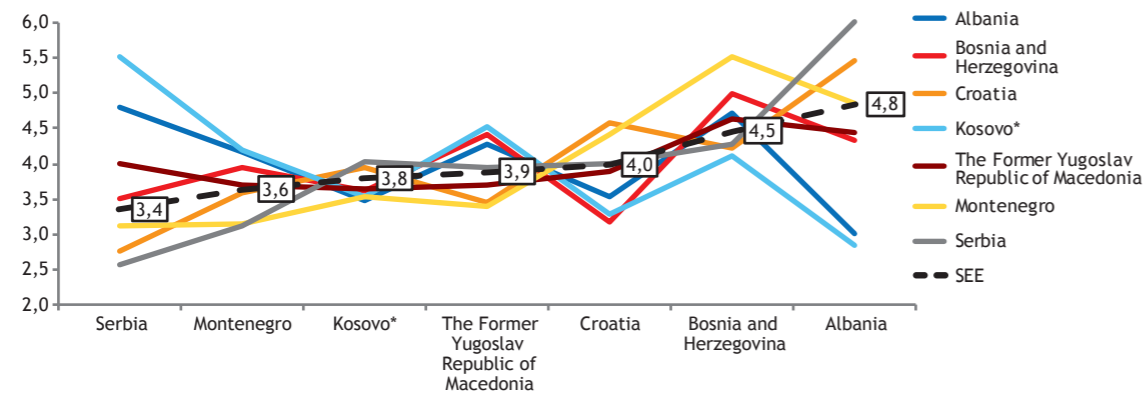
Similar to the previous year, companies ask for protectionism: three quarters of the SEE company leaders approve giving priority to local suppliers in public procurements, while slightly more than a fifth (22%) have a different opinion; 45% of Albanian businessmen think there should be no difference between local and foreign suppliers as opposed to only

10% of respondents in Bosnia and Herzegovina who share this opinion, as the majority supports protectionism.

Heads of companies in the industrial sector and related fields support preference being given to domestic suppliers more than their colleagues from other sectors.

Figure 62: According to your opinion, which market in the SEE region is the most open one? Please give us your opinion regardless of whether you/your company had direct experience with this issue.

(Respondents who can rank - N=568, rank is on a scale of 1 to 7 where 1 means most open and 7 least open, mean)



40% of respondents who were able to share their opinion about openness of some economies perceive Serbia as the most open market in the SEE region (the average score is 3.4), and this helped Serbia to keep its top position, despite the fact that it is the biggest net exporter in the region. In contrast to this, Albania holds the seventh position, being perceived as the least open one (the average score is 4.8), with a decrease in the perception of its openness. Kosovo* made the biggest progress, with openness improving from last to third place (3.8 in 2015 vs. 4.7 in 2014). It is followed by Croatia - businessmen see it as being far more open than it was in 2014 (4.0 in 2015 vs. 4.4 in 2014).

Similar to the survey for 2014, Serbia and Albania are much more closed towards each other than they are towards the rest of the region. Business people from Kosovo* share the opinion of Albanian colleagues regarding cooperation with Serbia, while leaders in Croatia would agree with Serbian views on the openness of the Albanian market.

Interestingly, there is no significant difference on this issue between companies, regardless of their size, age, export or main activity.

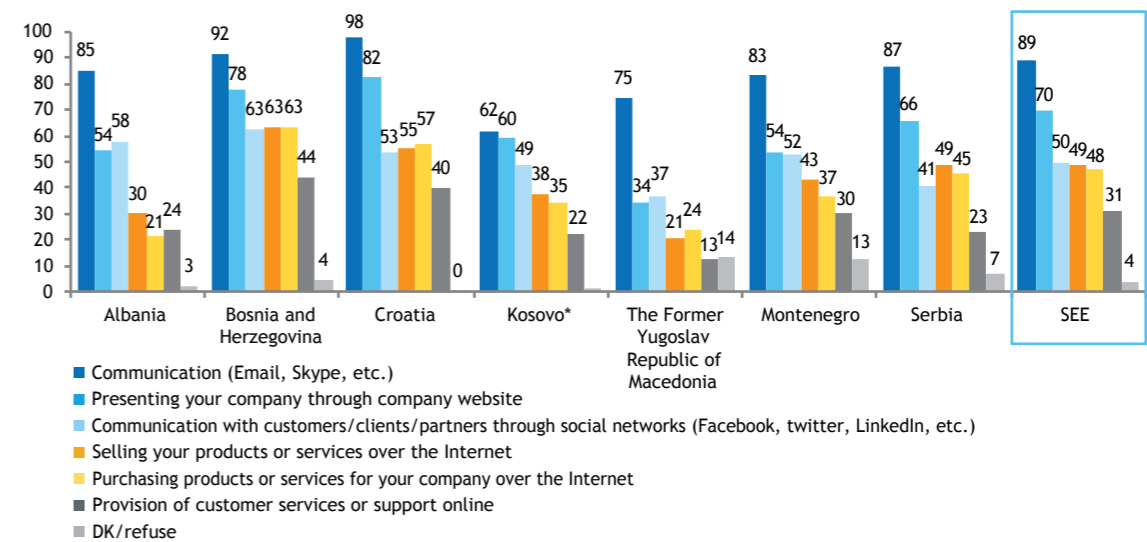
Innovation and Technology

Although about half of the businesses report innovations in the production or delivery of goods and services, these improvements were

not the result of cooperation with universities or research institutions.

Figure 63: Does your company use the Internet for:

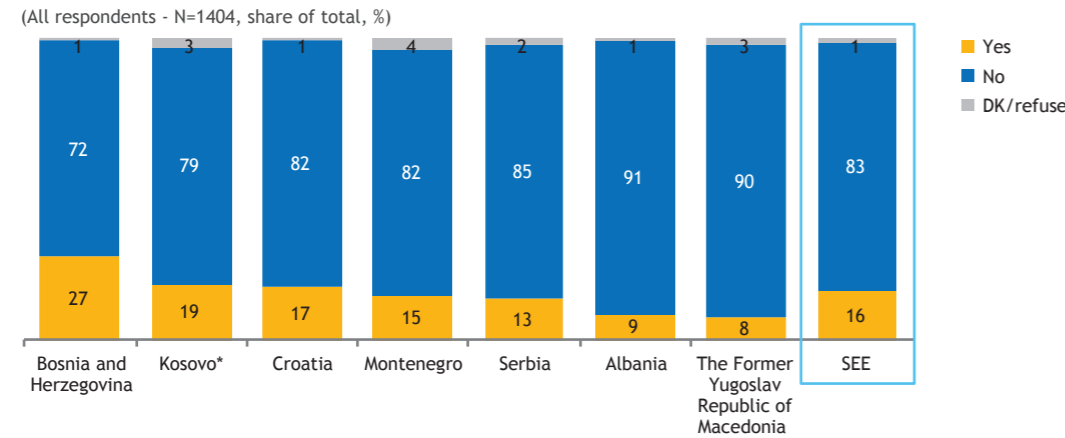
(All respondents - N=1404, share of total, %)



The Internet is primarily used for communication; even 89% of SEE companies use Email, Skype, etc. The second most commonly used element of the Internet is the company website; it is used by 70% of companies. Half of the companies in the region use social networks, followed by selling and purchasing products/services online.

A detailed analysis shows that the Internet is significantly more in use among exporters, larger and more mature companies, while firms in the industrial and related sectors are more likely to create their own website.

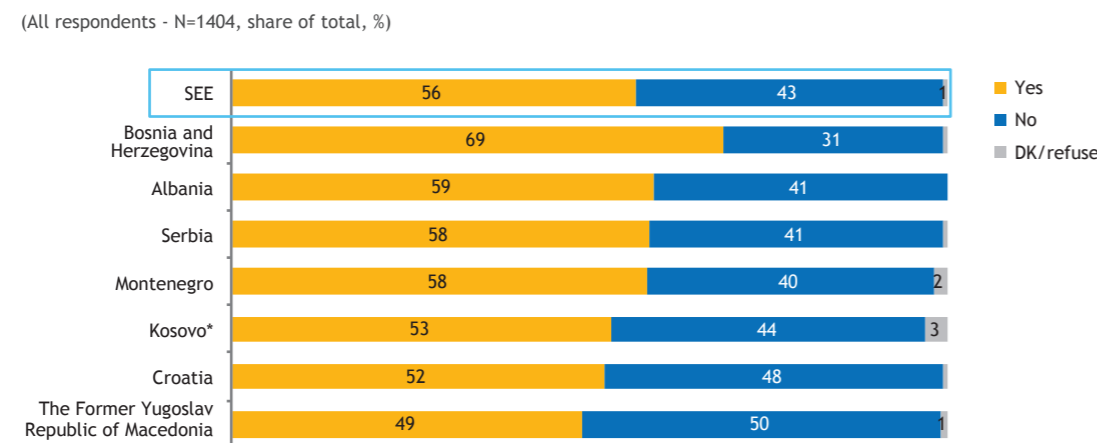
Figure 64: In the past three years, did you cooperate with any universities on research and development (R&D) or technology development projects to develop new products or services?



Approximately every sixth SEE company (16%) has established cooperation with a university over the past 3 years in order to help develop new products or services. The percentage of those who collaborate with scientific institutions is significantly higher in Bosnia and Herzegovina (27%) than in the other economies.

This year's survey confirms findings from the previous one - cooperation with universities is proportional to company size, i.e. the largest firms cooperate with universities more than other ones. A similar conclusion can be made for exporters and firms founded before 2004. When it comes to type of main activity, we can notice that companies operating in service sectors collaborate less with universities for innovation purposes.

Figure 65: Have you introduced new or significantly improved products and/or services in the past twelve months?



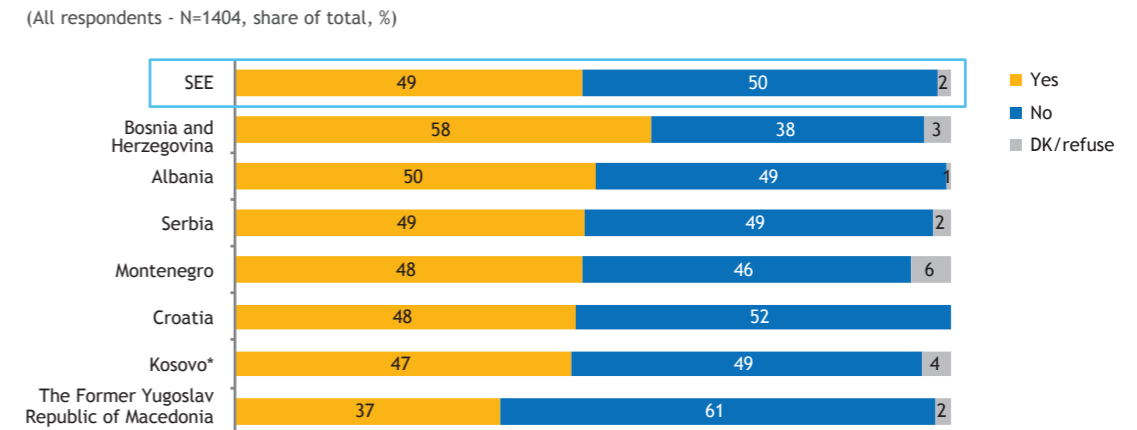
More than half of SEE business leaders (56%) state that their company has made efforts to introduce new products/services or improve current ones in the previous period. In Bosnia

and Herzegovina, as much as 69% of companies have upgraded current outputs or brought something new to the market.

The tendency towards innovations of products increases with company size - more than four fifths of the biggest firms report some kind of improvement. Companies which export their products or services are greater innovators

than those which do not export, and it can therefore generally be concluded that export activities force companies to innovate their offer in order to stay competitive.

Figure 66: Have you introduced new or significantly improved production and/or service delivery processes in the last twelve months?



Production and/or delivery processes have also been improved over the past year in every other company in the SEE region, albeit somewhat less than products/services. Again, Bosnia and Herzegovina (58%) stands out as the economy with better progress than most others; the exceptions being Albania (50%) and Serbia (49%). As opposed to that, 61% of business people in The Former Yugoslav Republic of Macedonia admit that they have done nothing to upgrade production and/or service delivery processes.

Again, largest companies innovate more than others - 89% have significantly improved their processes in the last twelve months. The same refers to exporters and industrial, mining or construction firms.

Human Resources: Needs and Practices

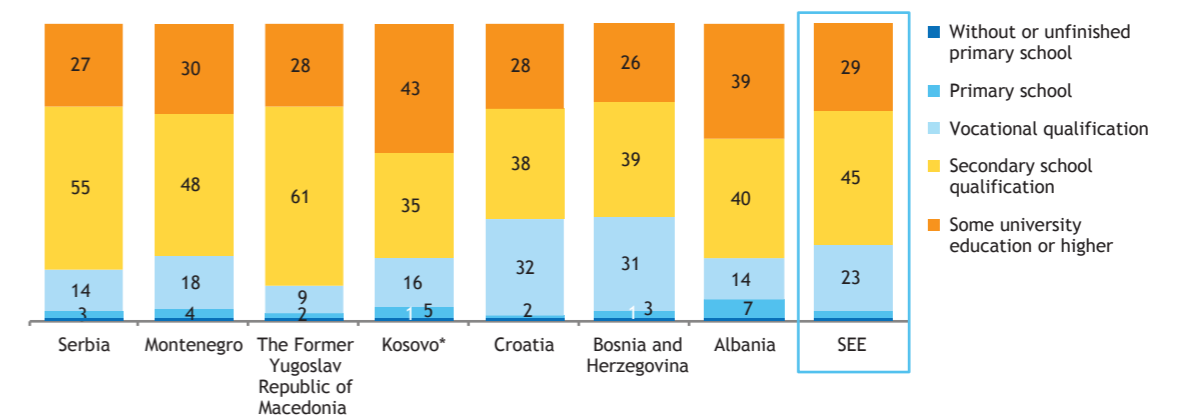
SKILLS NEEDS

Non-skilled persons have a hard time getting jobs. While skill beats experience in hiring, remuneration can be an obstacle to employing adequately skilled persons, especially in

economies with high outward migration; skills taught in the course of education may not be the most adequate for businesses.

Figure 67: What percentage of the workforce at your firm has the following education levels?

(Respondents who did not mark DK/refuse - N=1377, %)

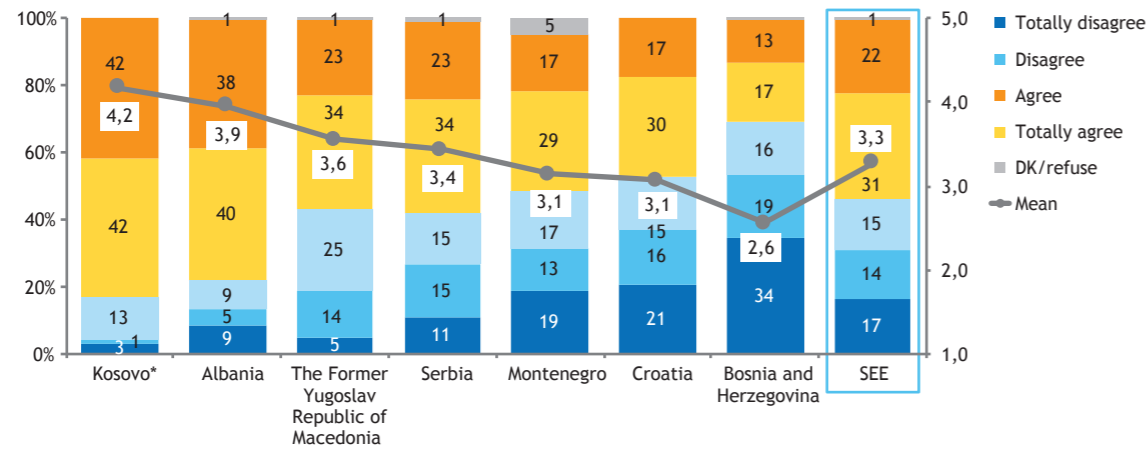


Most employees in the SEE region have completed secondary school (45%). They are more numerous in The Former Yugoslav Republic of Macedonia (61%) than in other parts of the

region, with the exception of Serbia (55%). 29% of the regional workforce holds university degrees.

Figure 68: Would you agree that the skills taught in your local educational system meet the needs of your firm?

(All respondents - N=1404, scores are on a scale of 1 to 5 where 1 means totally disagree and 5 totally agree, mean)

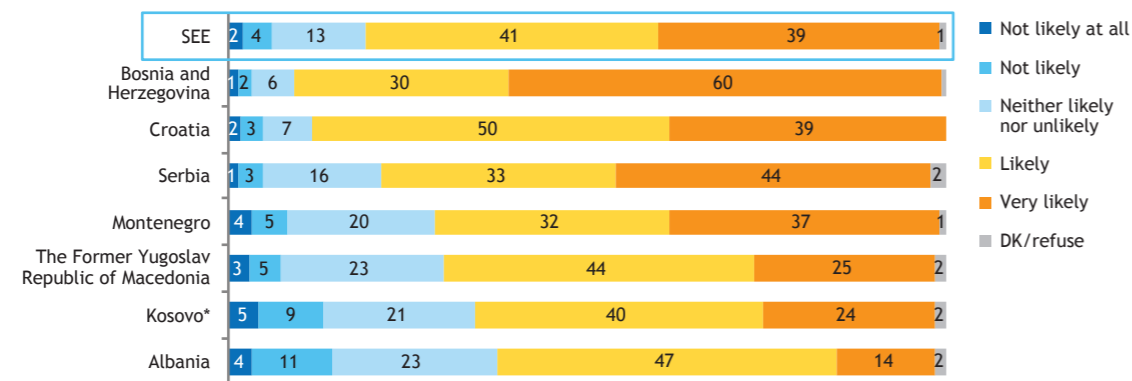


At the regional level, more than half (majority) of the business representatives (53%) are satisfied with the educational system with a view of meeting the needs of their enterprise (the average score is 3.3). In contrast to them, 31% consider the present educational system as unsatisfactory (17% are very firm in this opinion). Kosovo* (4.2) and Albania (3.9) convincingly most appreciate the knowledge and skills which can be acquired through the education system in their economy.

The worrying fact is that companies which export their products or services (and are more open to attacks of international competition) are significantly less satisfied how their needs are met by the educational system in their place of living. Furthermore, this opinion is shared by businessmen from more mature companies (established before 2004) and businessmen from industrial and related sectors.

Figure 69: How likely would you be to hire a young person whose educational profile fully meets your business needs, but who is without work experience?

(All respondents - N=1404, share of total, %)



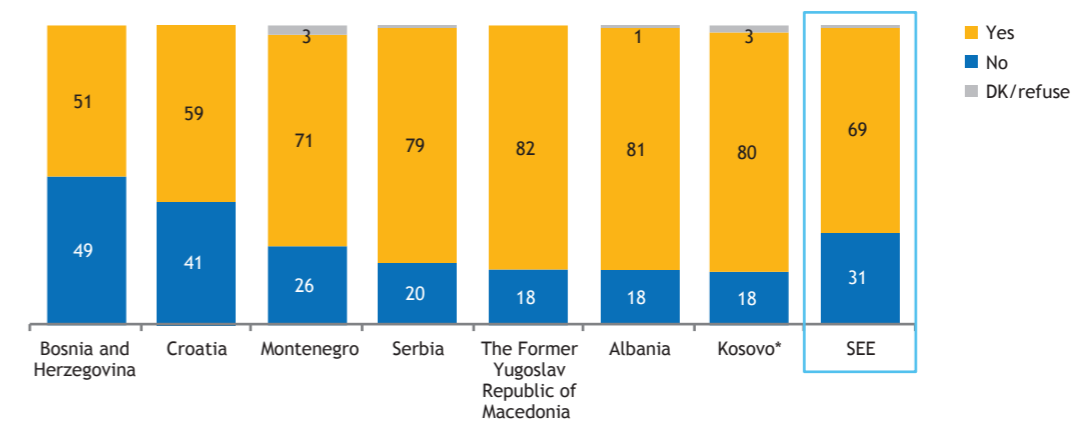
A vast majority (80%) of companies in the region would gladly give a chance to young people with appropriate education, but without work experience. Firms in Bosnia and Herzegovina are most open to people who are at the beginning of their career - as much as 90% are likely to hire them. The second economy where jobs are most available to youth is Croatia (89%).

similar conclusion can be made for exporters compared to those which are active only locally. As we concluded earlier - exporters are less satisfied with the ability of the education system to meet their needs, but are at the same time more inclined to take a risk with educated, inexperienced employees. There might be several explanations for this: export companies can rely on their company training systems to supplement whatever is missing in the regular education process; they might be keen on having fresh viewpoints which Millennials can provide etc.

A detailed analysis shows that larger companies are more willing to open their doors to an inexperienced but educated workforce. A

Figure 70: Did you have any vacancies that proved hard to fill over the past 12 months?

(All respondents - N=1404, share of total, %)



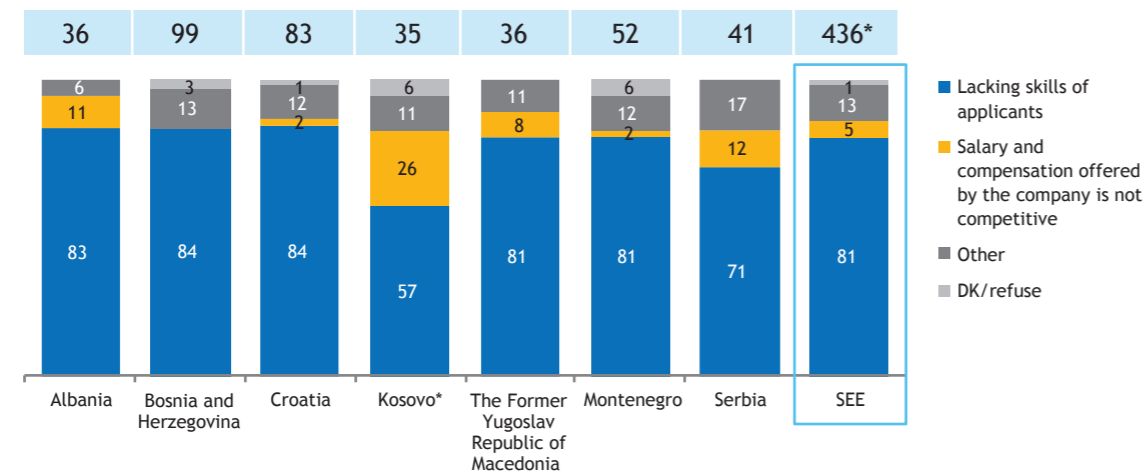
Compared to the survey for 2014, the number of companies that had difficulty in filling vacancies was significantly higher (31% in 2015 vs. 25% in 2014%). Companies from Bosnia and Herzegovina (49%) and Croatia (41%) struggle most with filling open positions.

of small companies agreed). This problem was also emphasized by exporters, more mature firms and industrial, mining and construction companies.

Furthermore, the problem of finding suitable personnel is proportionate to company size (49% of the biggest companies, but only 28%

Figure 71: Why do you think this is the case?

(Respondents who had difficulty in filling vacancies - N=436, %)



* Weighted data on the basis of GDP

Four- out of five respondents which had problems with filling vacancies believe that the reason is insufficient competence of applicants. Taking into account the entire region, the salary offered is stated as being the reason by only 5% of respondents. At the same time, non-competitive compensation is recognized as the main barrier by 26% of business people from Kosovo* and 12% from Serbia, which is a significant difference compared to Montenegro and Croatia, where only 2% of leaders perceive salaries as an obstacle to finding relevant staff.

Mature companies more often find justification in applicants lacking skills, while young ones struggle with remuneration they can offer to candidates.

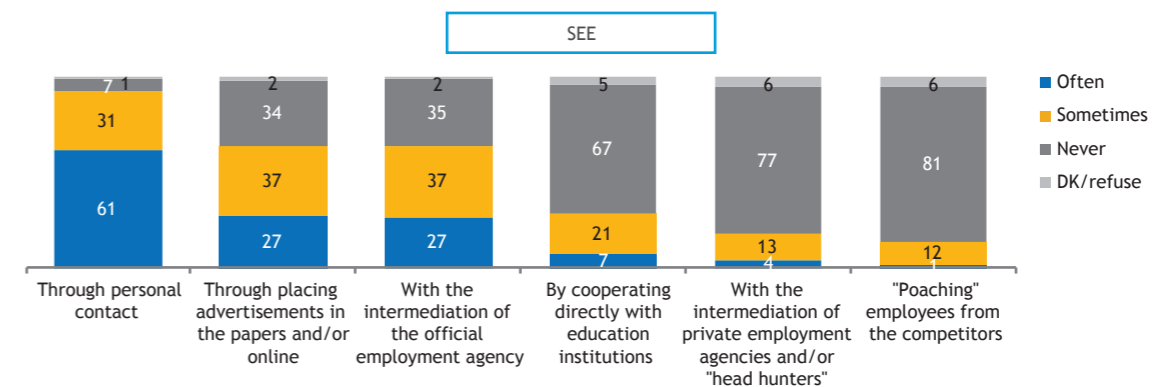
EMPLOYMENT PRACTICES

Personal contacts are important when hiring, men are preferred to women, increased flexibility of dismissal options would increase employment, and skill and salary are more

important than ethnic or national identity; there is also a significant number of refugees among people employed in Bosnia and Herzegovina, Serbia, and Kosovo*.

Figure 72: 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 (Results at the SEE level).

(All respondents - N=1404, share of total, %)



References provided by reliable people are still the most common way of finding adequate employees in SEE - 61% of respondents report they often use them. The level of reliance on personal contacts is especially high in The Former Yugoslav Republic of Macedonia (75%) and Montenegro (71%). Similar to the survey for 2014, recommendations from colleagues or friends are followed by placing advertisements in papers/online (about two thirds of firms practice this at least sometimes). A growing number of companies use employment agencies (27 % in 2015 vs. 18% in 2014). Cooperation with the official employment agency in The Former Yugoslav Republic of Macedonia, Montenegro and Serbia is low, and there is room for improvement. In Croatia, conversely, companies are much more likely to seek intermediation of official employment agency, and this is the standard practice for more than 70% of Croatian companies.

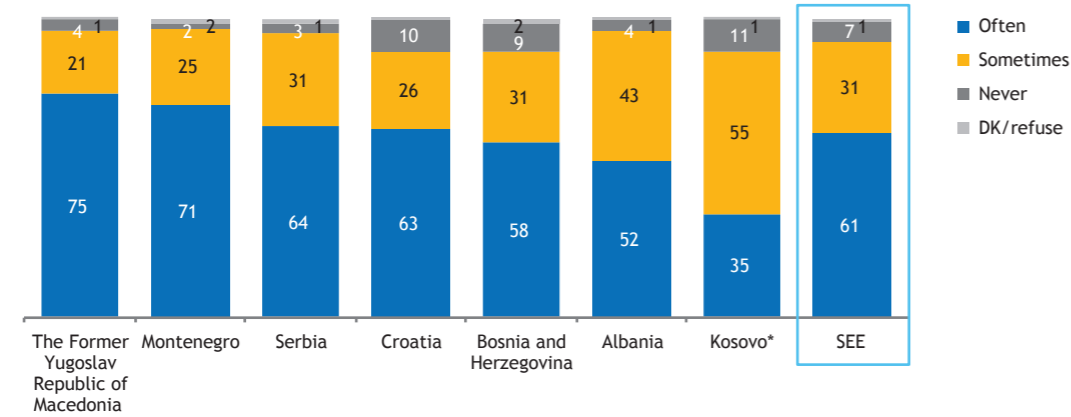
Collaboration with educational institutions in order to employ suitable staff has decreased over the past year - 67% never do this. Despite the regional average, this practice is recognized as important in Kosovo* where 61% of firms contact universities or similar institutions at least occasionally. This economy also stands out from the rest with considerably more cooperation with "head hunters" as well as a higher percentage of those who "poach" employees from competitors.

Analysis by company size confirms last year's findings - when hiring, largest companies more often post advertisements and use services of government-owned or private employment agency. Also, it seems that exporters and representatives of mature companies place more trust in the competency of the official employment agency.

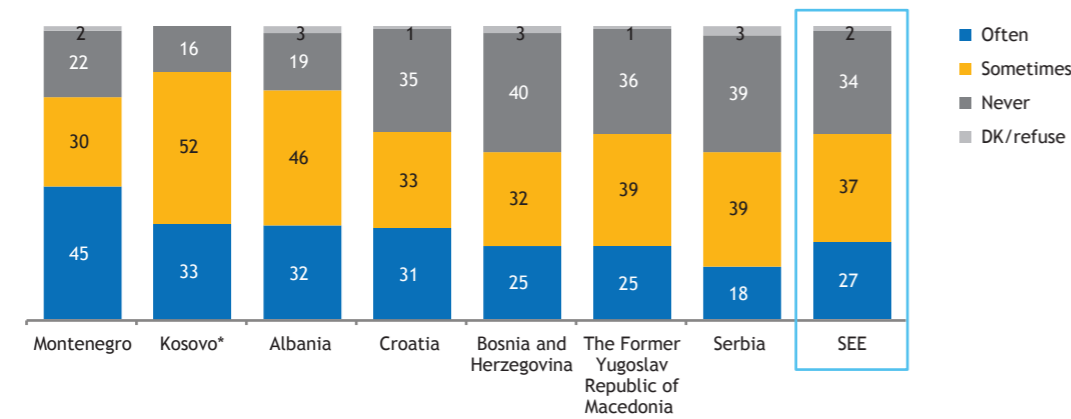
Figure 73: How often do you use the following when hiring new employees? Please mark each of the following methods with 1 often, 2 sometimes or 3 never (Results by economies)

(All respondents - N=1404, share of total, %)

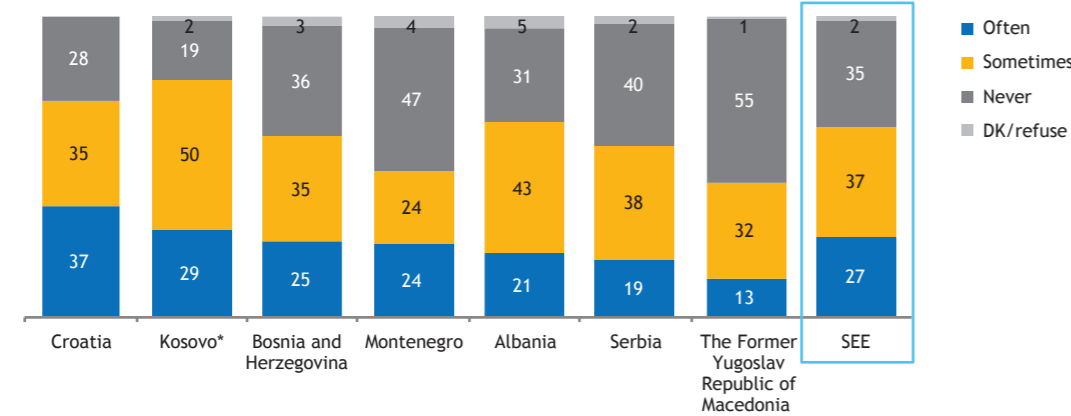
Through personal contact (following recommendations of friends and colleagues)



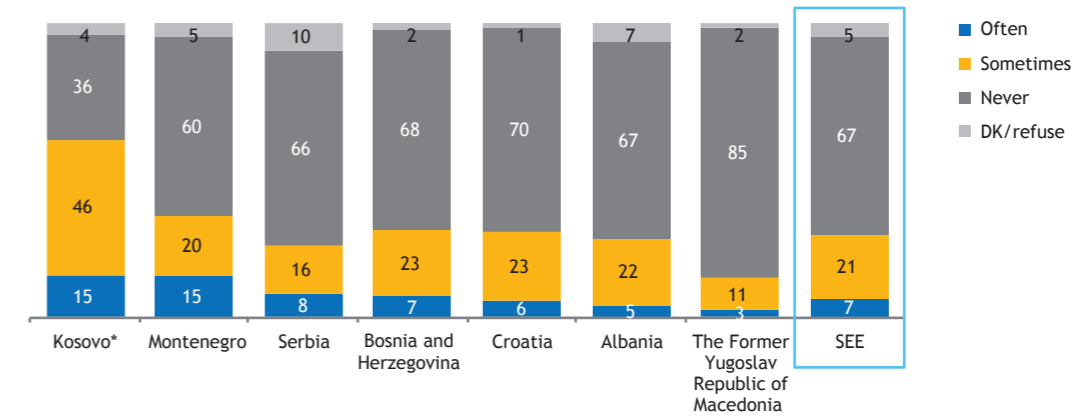
Through placing advertisements in the papers and/or online



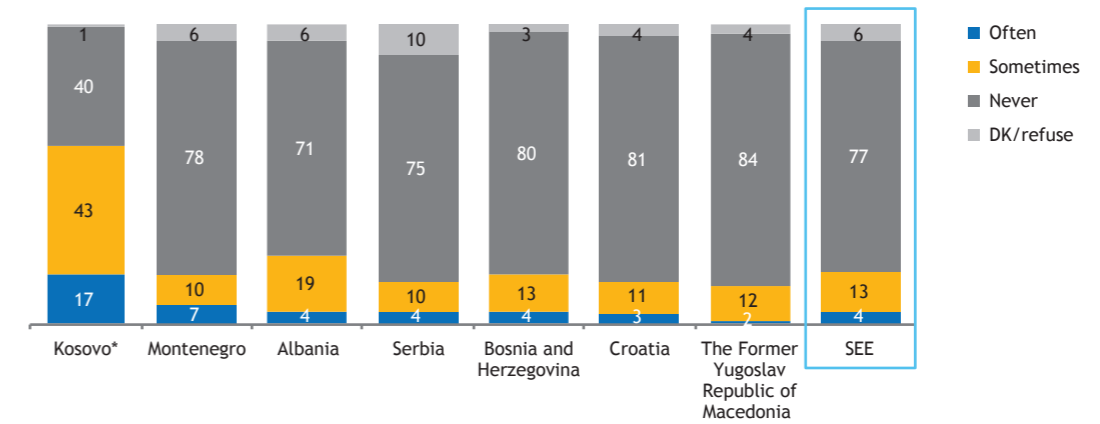
With the intermediation of the official employment agency



By cooperating directly with education institutions



With the intermediation of private employment agencies and/or "head hunters"



"Poaching" employees from the competitors

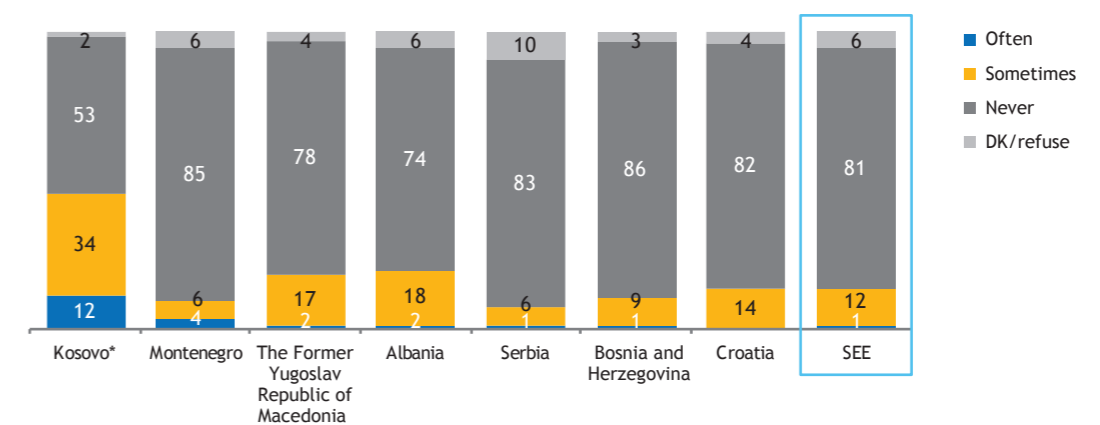
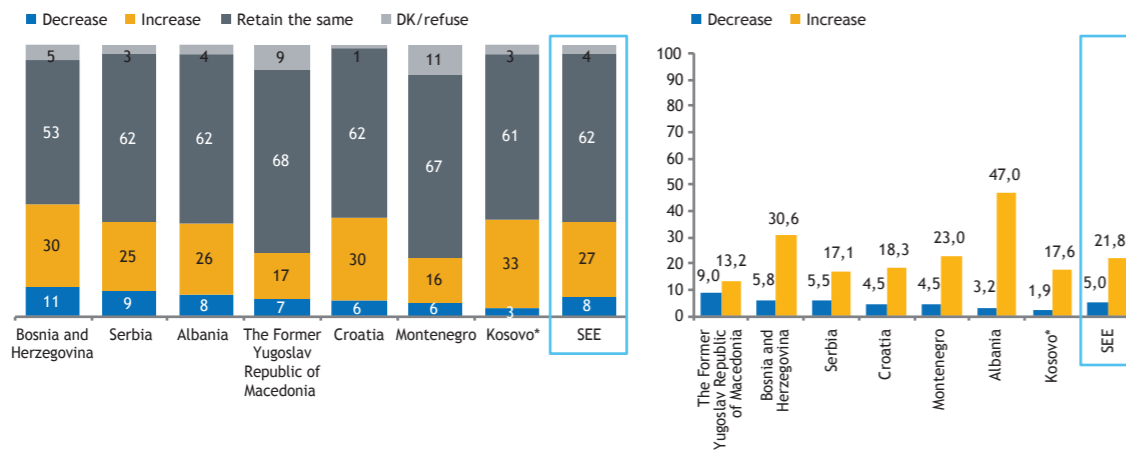


Figure 74: If you could change the number of regular full-time workers your firm currently employs without any restrictions, what would be your optimal level of employment as a percentage of your existing workforce? Would you decrease, increase or retain the same level of employees?

(All respondents - N=1404, share of total, %)



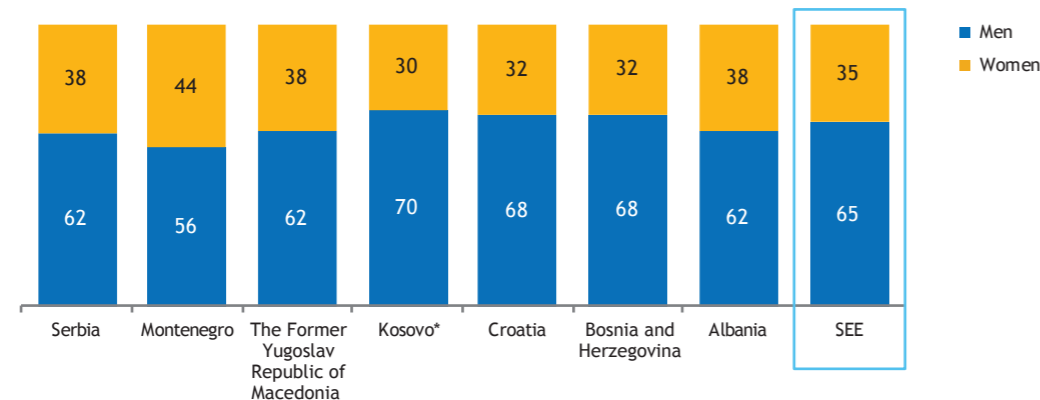
There is almost no change compared to the previous year. If there were no restrictions, 62% of SEE business respondents would keep the same number of employees, 27% would like to increase this number, while 8% admit that they would consider staff reduction. On the regional level, the average percentage of the preferred growth of employment is 21.8%, similar to the previous year. Albanian employers wish they could increase the existing

workforce by 47%. This is followed by Bosnia and Herzegovina, where companies believe they are short of 30% of workers.

Findings based on company age tell us that companies established after 2003 would like to increase their number of employees (if there were no restrictions), more so than those with more years in business - but this is logical, bearing in mind the company life cycle phase.

Figure 75: Of the total number, how many of your employees are men and how many women?

(All respondents - N=1404, share of total, %)



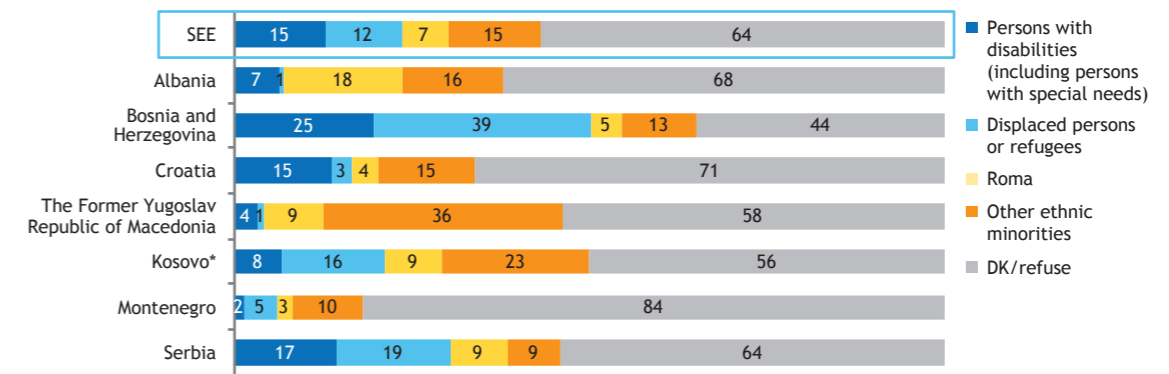
Similar to the previous year, there is still a large gender discrepancy among employees in private companies incorporated in this

research; at the regional level, as much as two thirds of them are men and a third are women.

Firms operating only within their own market, and companies from the educational, artistic, scientific or related sectors employ women more often than others.

Figure 76: Do you have representatives of vulnerable groups mentioned below working in your company?

(All respondents - N=1404, multiple response, share of total, %)



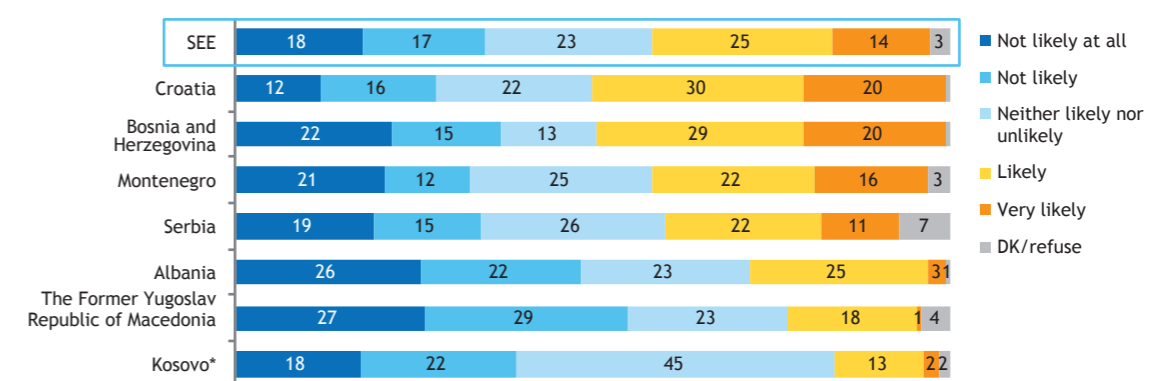
In terms of regional results, the majority (64%) of business leaders are not sure if their firm employs people from vulnerable groups. Low awareness of top management of this subject may indicate a lack of focus on this issue and a lower priority (if someone does focus on this issue in the company, in most cases it is not the top management). Still, 15% of SEE employers state that they hire persons with disabilities and members of ethnic minorities, 12% know that displaced persons or refugees work in their firm, and only 7% can say the

same for Roma. The highest percentage of the employed among people with disabilities and displaced persons is in Bosnia and Herzegovina.

When comparing companies by their size, it is obvious that members of socially vulnerable groups have a considerably better chance of finding work in larger firms. A detailed analysis also shows that export companies, mature firms and those which operate outside the educational and related sectors are much more open to employing vulnerable groups.

Figure 77: How likely would you be to employ workers from abroad in your company?

(All respondents - N=1404, share of total, %)



The opinion on hiring a foreign workforce is quite divided, but there are still more managers (39%) who would be likely to employ workers from abroad than those who would not. There are more supporters of this view among companies in Croatia (50%) than in the rest of the region, with the exception of Bosnia and Herzegovina (49%) and Montenegro (38%). On the other hand, 35% of employers are not willing to employ foreign professionals and 23% are hesitant.

Readiness to strengthen their own business with workers coming from other economies

increases with company size and export activity (understandably - companies active in international markets need international expertise and knowledge). This data should be analysed taking into consideration the overall context - the majority of companies are still active only in domestic markets, where knowledge of the local language and the local environment can be a vital skill.

The results are quite similar when the question concerns the likelihood of employing workers from the region.

Figure 78: How likely would you be to employ workers from the region in your company?

(All respondents - N=1404, share of total, %)

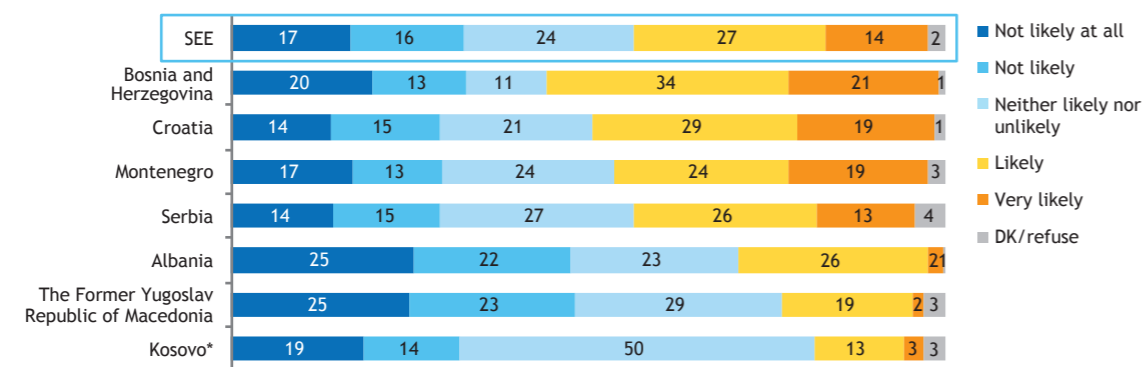
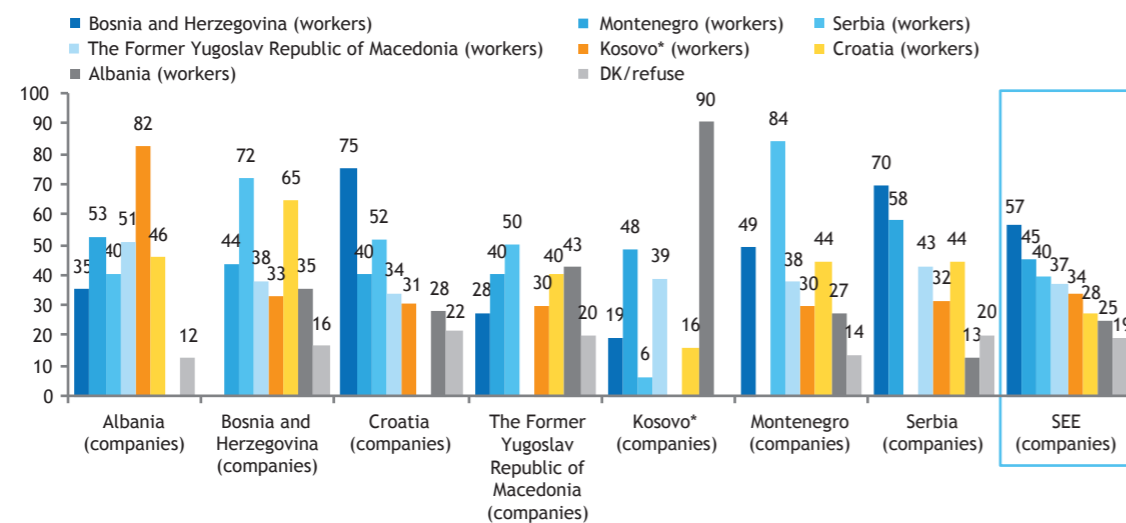


Figure 79: You said that you would employ workers from the region in your company, from which economy/economies?

(Respondents who would likely employ workers from the region - N=578, %)



Two out of five business respondents would gladly hire employees from the region, a third of them are of the opposite opinion and a fourth are neutral. Again, this data should be observed in the context that the majority of companies still operate only in domestic markets.

If we compare economies to each other, it becomes clear that this issue divides the region into two segments. Bosnia and Herzegovina (55%), Croatia (48%), Montenegro (43%) and Serbia (39%) are inclined more than others to accept workers who come from neighbouring

economies. Employees from Croatia are preferred in Bosnia and Herzegovina, those from Serbia in Montenegro, while businessmen in Croatia and Serbia particularly appreciate employees from Bosnia and Herzegovina. Albania and Kosovo* would rather cooperate with each other when it comes to the regional workforce. Again, it is understandable - bearing in mind their shared language.

Similar to the case of foreign workers, larger companies, as well as those which export their products and services are more willing to employ people from the region.

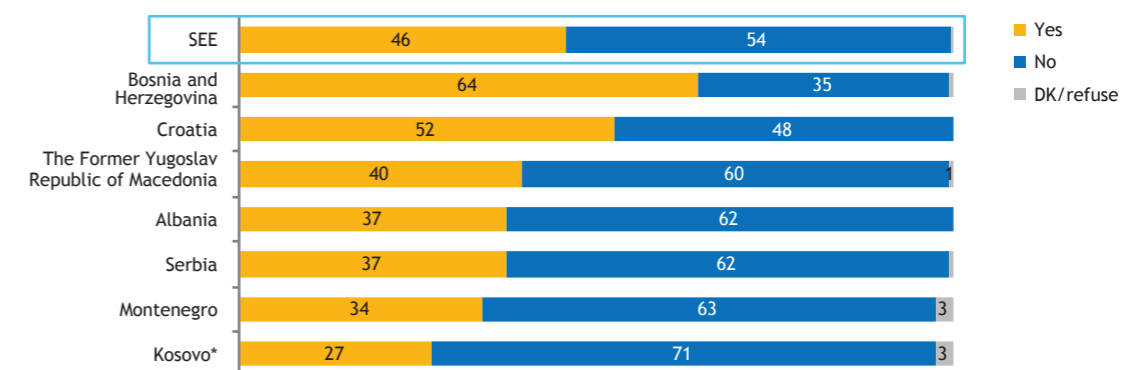
INVESTMENT IN EMPLOYEES

About one half of all employees show an interest in additional education and are supported by the management; security and (more lax) working conditions are incentives in terms of

preference of public employment, while salary and career advancement motivate those who seek employment in the private sector.

Figure 80: Over the past 12 months, has your business funded or arranged any training and development for staff in the organization, including any informal on the job training, except any training obliged by law?

(All respondents - N=1404, share of total, %)



Almost half of the regional business leaders (46%) claim that they have organized additional trainings for their employees in the past year. Compared to the rest, firms in Bosnia and Herzegovina invest more in staff development, 64% confirm that they organized training for their staff, followed by Croatia (52%).

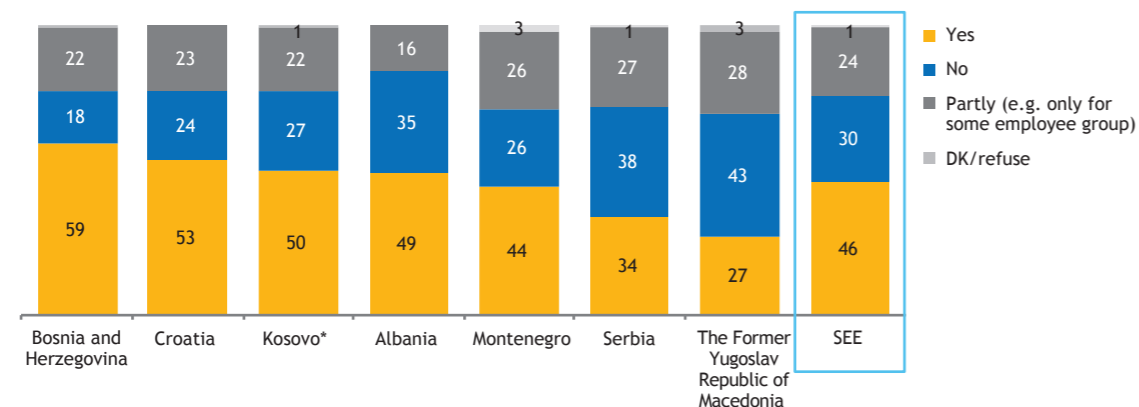
Comparing firms by size, advancing knowledge and skills is far more important to the largest companies - as much as 90% of employers who hire more than 250 workers have provided extra trainings for their staff. Internationally active firms (needing to improve their competences as they operate in more competitive

markets), and more mature companies invest more in their employee training. Companies oriented towards domestic markets are not only less innovative, but also invest less into

their employees' education. In the long run, this makes them more vulnerable to competition coming into domestic markets from abroad.

Figure 81: When it comes to skill requirements in your company, does your company regularly review skill and training needs of individual employees?

(All respondents - N=1404, share of total, %)

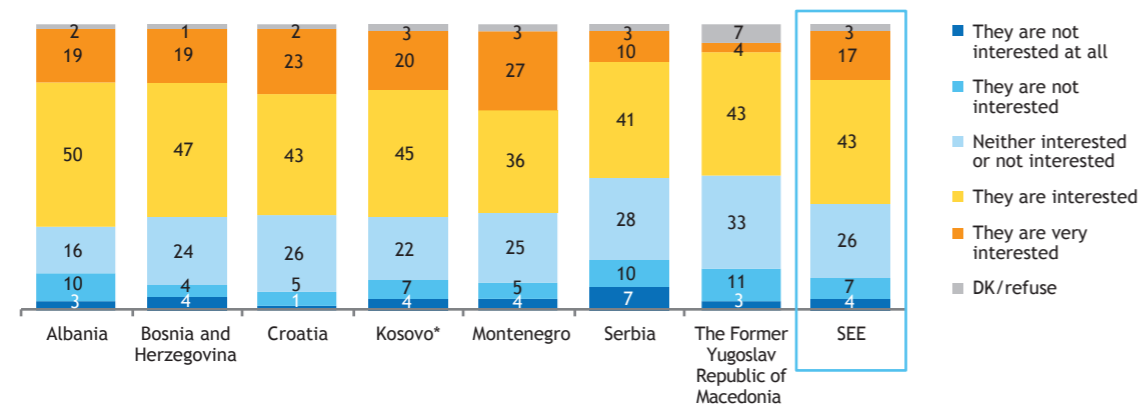


46% of the SEE companies regularly review skill and training needs of individual employees; 30% do not, while 24% evaluate only some groups of employees. The number of those who are devoted to this kind of assessment is significantly lower in The Former Yugoslav Republic of Macedonia (27%) and Serbia (34%) than in Bosnia and Herzegovina (59%).

Reviewing employees' skill and training needs is more frequent among larger enterprises. Also, it is also implemented more often by exporters and companies in the field of education and related sectors.

Figure 82: How would you assess the readiness of employees in your company to acquire additional qualifications in order to advance and be promoted?

(All respondents - N=1404, share of total, %)



46% of the SEE companies regularly review skill and training needs of individual employees; 30% do not, while 24% evaluate only some groups of employees. The number of those who are devoted to this kind of assessment is significantly lower in The Former Yugoslav Republic of Macedonia (27%) and Serbia (34%) than in Bosnia and Herzegovina (59%).

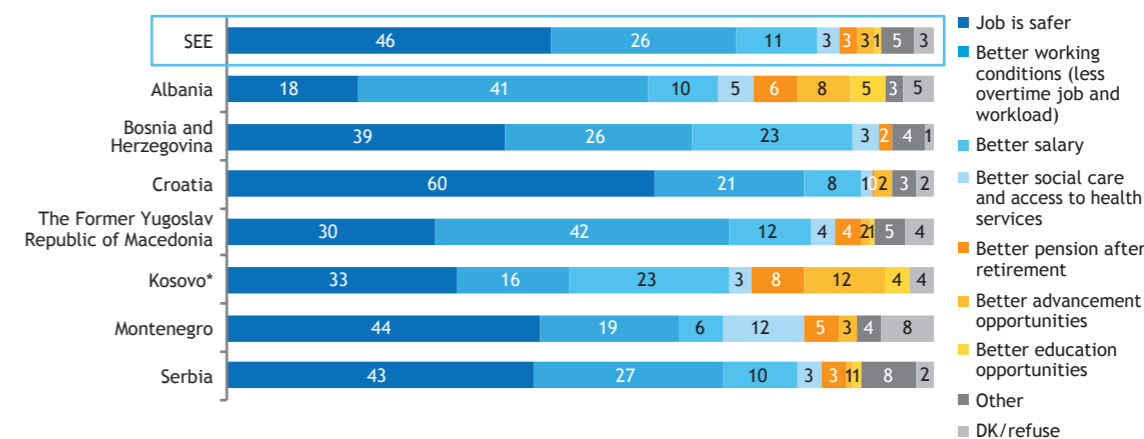
Reviewing employees' skill and training needs is more frequent among larger enterprises. Also, it is also implemented more often by exporters and companies in the field of education and related sectors.

At the regional level, 60% of business leaders agree that their employees are ambitious enough to acquire additional qualifications in order to advance and get promoted, a fourth of them are not sure, while 11% are of the opposite opinion. According to their top managers, workers from Serbia and The Former Yugoslav Republic of Macedonia are less willing to improve their knowledge and skills than others.

In addition, people who work in companies which operate out of their own market are more motivated to advance their positions. The same can be said for service providers, but also for employees in the education/science/culture sectors.

Figure 83: In your opinion, what is the main reason why people prefer to work in public sector?

(All respondents - N=1404, share of total, %)

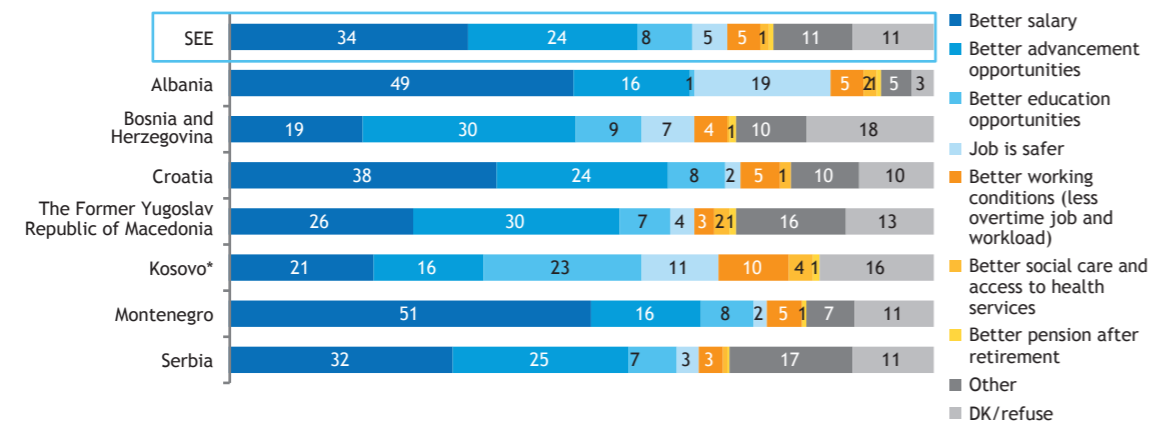


The majority of business respondents (46%) are convinced that people prefer to work in the public sector primarily because of job safety; a fourth of them believe the reason can be found in better working conditions, while 11% claim that a better salary is the main motive. There is a significant difference between economies on this issue. Job security is perceived as the greatest advantage in Croatia (60%); less overtime and a smaller workload are stated most often by companies in Albania (41%), while better remuneration is especially emphasized in Bosnia and Herzegovina (23%) and Kosovo* (23%) - indicating private companies in these two economies are under a lot of pressure.

There is no significant influence of company size, age, export and main activity on the perception of the benefits of the public sector.

Figure 84: Why would someone choose to work in the private sector?

(All respondents - N=1404, share of total, %)



A third of the SEE company leaders think that people would rather choose the private sector because of a better salary, while 1/4 state better career advancement opportunities as the main motive. Respondents from Albania (49%) and Montenegro (51%) report higher remuneration as the main benefit of a private job more often than others.

Representatives of the largest companies, exporters, mature firms and those in the industrial and service sectors especially mention better education opportunities.

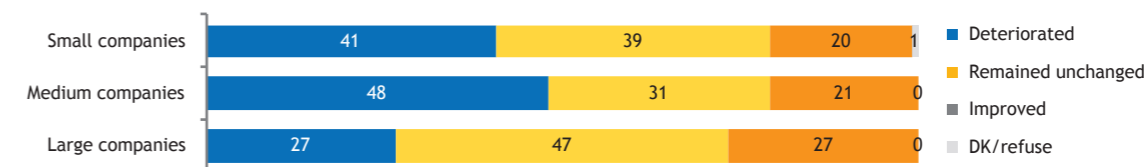
Focus on Large Companies

PERCEPTIONS OF THE GENERAL BUSINESS ENVIRONMENT AND ECONOMIC TRENDS

Representatives of large companies, contrary to their colleagues from smaller sized firms, are less critical in evaluating the overall economic situation in their economy in past 12

months - the number of those who perceive improvement and those who noticed deterioration is balanced:

General economic situation over the past year



When expressing expectations towards the future, the majority expect an improvement in the next 12. Their optimism is at the level

of smaller sized companies - the same number (37%) expects improvement.

| | Deteriorated | Remained unchanged | Improved |
|--|--------------|--------------------|----------|
| General economic situation in past 12 months | 27 | 47 | 27 |
| General economic situation in next 12 months | 30 | 31 | 37 |

A need for stability and good regional cooperation seems to be of major importance to big companies (4 out of 5 think that the quality

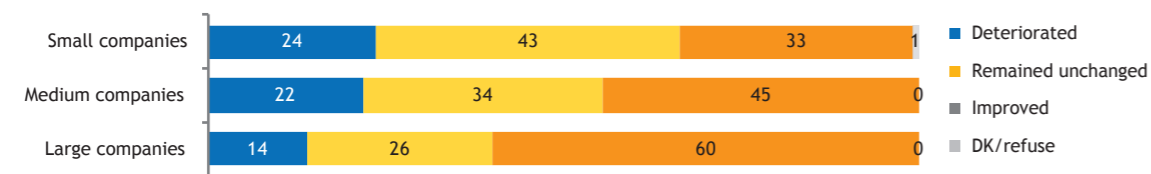
of regional cooperation is important for their business), even more than EU membership.

BUSINESS TRENDS IN SEE

Positive evaluation of the overall economic situation in the past 12 months is probably driven by the positive development of their businesses: 60% claimed that their business

improved (however, a fourth of big companies also claimed to have reduced the number of employees).

General economic situation over the past year



Employers who hire 250 and more people are hopeful with regard to the next 12 months:

more than half expect growth in demand for their products and services.

| | Decreased | Mostly unchanged | Increased |
|--------------------------|-----------|------------------|-----------|
| Demand in past 12 months | 19 | 43 | 38 |
| Demand in next 12 months | 2 | 47 | 51 |

No significant differences were identified between big companies and SMEs in terms of changes in costs and investments for the past 12 months.

Large companies proved to be the most serious (probably also forced by regulations) in their activities to reduce the environmental impacts: almost 70% claim that they already did a lot (twice the regional average).

BUSINESS ENVIRONMENT IN SEE IN DETAIL

As stated earlier, tax rates, costs of financing, competitors' anti-competitive practices, uncertainty of regulatory policies and corruption were distinguished as the top 5 obstacles to growth by all businessmen. Managers of large companies are significantly more concerned about anti-competitive practices by

their competitors and less concerned about the skills and education of the available workforce than managers of small companies are.

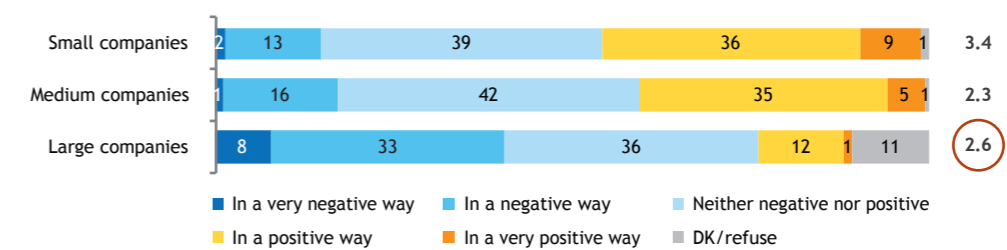
INFRASTRUCTURE

Existing infrastructure could also be considered as an obstacle for business operation and growth, bearing in mind that managers of large companies are generally dissatisfied with available transport modes (the average score is 2.8), while satisfaction with electricity, gas and water supply rate barely above

average (the average score is 3.2), but lower than the SEE region average (3.8).

In line with this, they emphasize the negative effect of the overall infrastructure to their business more often than their colleagues who manage smaller firms:

Infrastructure impact



Another difference when compared to SMEs refers to roaming costs: more than half of managers in large companies think that

eliminating roaming costs would be a huge benefit (compared to only one third, being the regional average).

LEGAL AND REGULATORY FRAMEWORK

There is no influence of company size on managers' estimates of reported sales and wages for tax purposes: this is influenced more by company origin, its industry and export activity.

also rated as satisfactory (the average score is 3.3). Regardless of this, large companies seem to have no privileges when it comes to access to laws and regulations which affect their business and are no better at predicting changes in them.

In terms of relations between the government and businesses, most representatives feel they could be better off if the government paid more attention to their concerns and was to establish closer collaboration when drafting new laws and regulations relevant for doing business. On the other hand, they confirm that information on relevant legal acts is easy to obtain (the average score is 3.8), and consistency of interpretations is

Three fifths of large companies face obstacles in the form of some law or regulation. They also share the majority opinion that primarily tax-related regulations are the ones which can impede business success. However, large companies cited employment regulations as an obstacle, significantly more than smaller companies.

Regulations considered to be an obstacle to the success of the business

| | Tax-related | Employment regulations | No specific regulations/all regulations | Planning/building/development | Trading standards | Minimum wage regulations | Working time | Health and safety regulations | Providing information/record-keeping | Environmental regulations | Pensions |
|------------------|-------------|------------------------|---|-------------------------------|-------------------|--------------------------|--------------|-------------------------------|--------------------------------------|---------------------------|----------|
| Large companies | 36 | 24 | 18 | 9 | 11 | 6 | 8 | 7 | 5 | 1 | 5 |
| Medium companies | 39 | 24 | 10 | 3 | 10 | 10 | 5 | 9 | 4 | 8 | 1 |
| Small companies | 44 | 17 | 14 | 8 | 12 | 11 | 6 | 10 | 11 | 4 | 5 |

— Main obstacles

When it comes to court action, it appears that the largest firms have much more experience

in resolving disputes through arbitration courts than small and medium sized enterprises do.

FINANCIAL ISSUES: ACCESSIBILITY OF LOANS AND OVERDUE PAYMENTS

Similar to SMEs, most of the working capital and new fixed investments in large companies comes from internal funds i.e. from retained earnings. A bank loan is the second most important source, covering 15% of needs. Generally, larger companies (50 and more employees) borrow from banks more often than small ones. 54% of the biggest companies state that their firm applied for a loan in the past 12 months and were not denied, as opposed to small ones: when applying for a loan, 1 in 10 small companies were denied.

As stated earlier, problems related to overdue payments grow with company size and larger

companies (50+ employees) more frequently ask courts for assistance: 45% of the largest companies as opposed to 21% of the smallest firms have initiated court proceedings in order to resolve problems with overdue payments. Regardless of this, late payments do not cause cash flow problems to the majority of the largest companies.

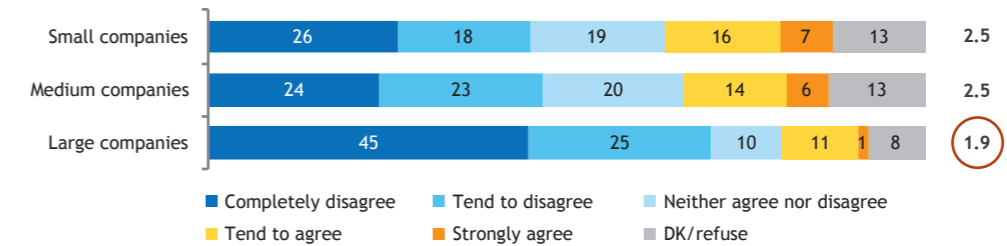
The main portion (51%) of large firms' total sales was sold on credit, but when purchasing they preferred paying on delivery of products and services (46%), similar to other companies.

CORRUPTION

As stated earlier, company size, age, export or main activity does not impact the perception of corruption. Comparing sizes, small companies (with less than 50 employees) know the

sum for the additional "fee" they need to pay to get things done in advance more often than big companies do - for large companies, this mainly remains unknown and unpredictable.

Firms in my line of business usually know in advance about how much this "additional payment/gifts" will cost



There is almost no difference between managers of large and small companies when it comes to their responses about the potential reason for giving bribes; managers of small

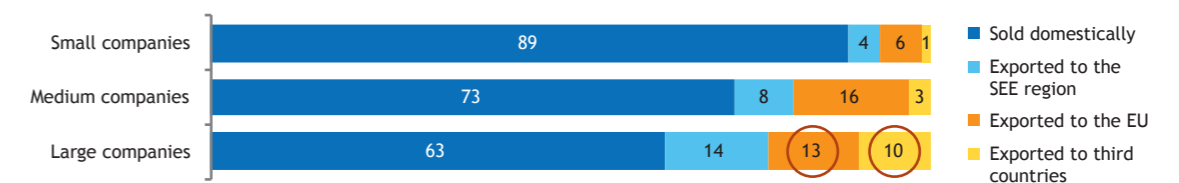
companies, however, more often refuse to answer or don't know (which might indicate their lower readiness to openly share their opinion).

EXPORT AND IMPORT OF SEE BUSINESSES

As might be expected, the largest companies have the most developed export activity. Although they predominately operate in

domestic markets, compared to smaller firms, a more significant part of income from their sales comes from exports:

What percentage of your firm's sales are...?



Large companies, similar to smaller companies, mainly buy their material inputs at domestic markets. However, what is specific in

their import practices is that they buy products from the SEE region more than others (there is a statistically significant difference):

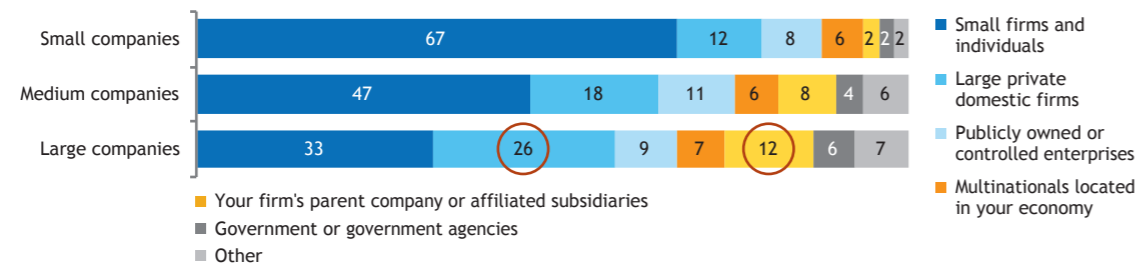
What percentage of your firm's material inputs and supplies are...?



Similar to other types of firms, large companies mostly sell to small firms and individuals (33%), followed by large private domestic companies (26%). As mentioned earlier, sales

to parent companies or affiliated subsidiaries and large private domestic firms grow in proportion to company size.

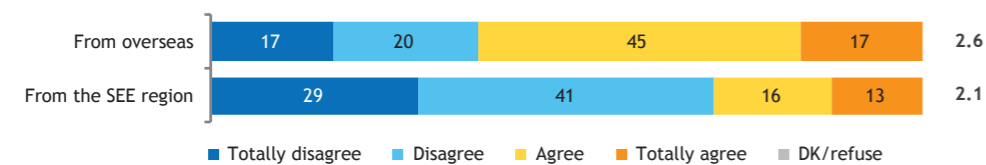
What percentage of your domestic sales are to...?



In spite of having more experience in the international trade, it seems that the largest companies need more time to clear customs, both for importing and exporting goods.

When they were asked to evaluate their position in comparison with the competition, managers from large companies declared they were more threatened by international than by regional competitors.

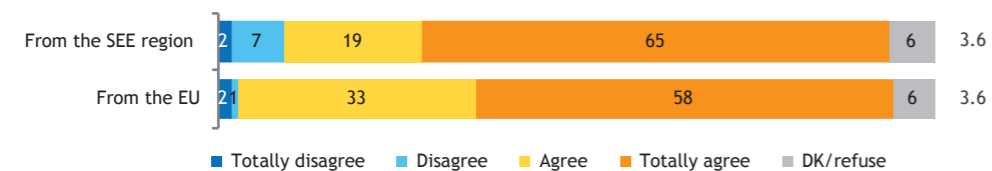
To what extent do you agree that your company is threatened by competition...?



Similar to other types of firms, large companies are also convinced of the competitiveness of their products (services), both in comparison to competitors coming from the SEE region and the EU: 84% of them are sure that

their goods and services can compete well with goods and services from neighbouring economies and even 91% believe the same to be true for products (services) coming from the EU:

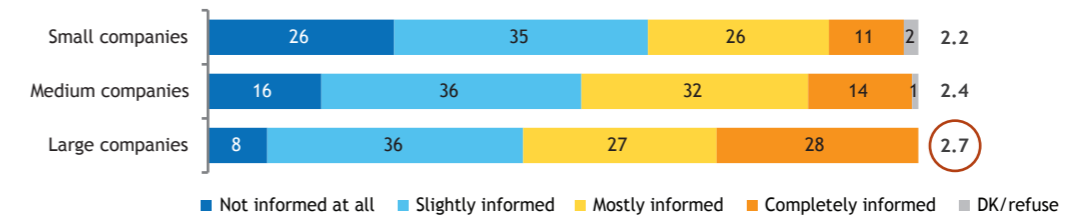
My company's products, goods and services can compete well with products, goods and services ...



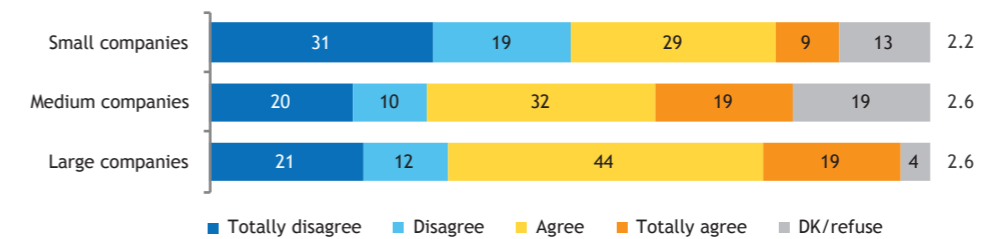
Interest in regional free trade agreement (CEFTA 2006), its goals, and the benefits it creates grow with company size. 55% of leaders

in large companies are mostly and completely informed about the Agreement, and 63% confirm that their company has benefited from it:

To what extent do you think that you are informed about the regional free trade agreement (CEFTA 2006)?



My company has benefited from the regional free trade agreement (CEFTA 2006)



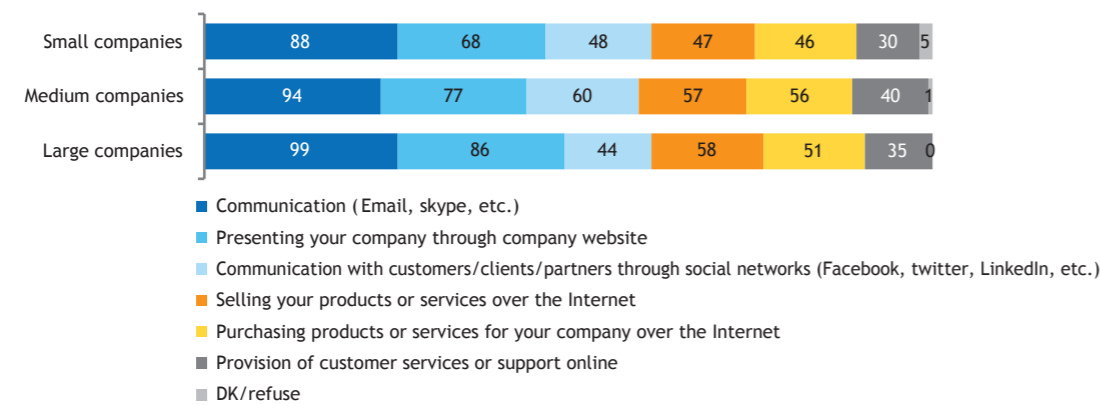
Similar to their colleagues from smaller companies, managers of large companies think that public companies should give priority to local suppliers, although the number of those

who expect equal treatment grows in proportion to the increase in company size.

INNOVATION AND TECHNOLOGY

Large companies use the Internet more than SMEs: all of them use the Internet for daily communication, 86% own a company website, 58% sell online, while half make purchases that way:

Internet usage



Large companies cooperate with universities for their R&D or technology development more than SMEs do. The statistical difference between SMEs and large companies is also noticeable in their innovation activities: 84%

introduced new or improved existing products/services in the past 12 months and 89% introduced new or improved existing production or delivery processes.

| | Yes | No |
|---|-----|----|
| Collaboration with universities | | |
| Small companies | 14 | 85 |
| Medium companies | 22 | 77 |
| Large companies | 34 | 59 |
| Introducing new or improving products/services | | |
| Small companies | 53 | 46 |
| Medium companies | 68 | 32 |
| Large companies | 84 | 16 |
| Introducing new or improving production/delivery processes | | |
| Small companies | 45 | 54 |
| Medium companies | 63 | 35 |
| Large companies | 89 | 5 |

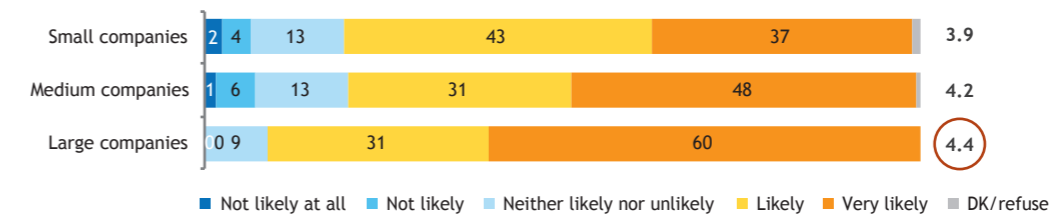
HUMAN RESOURCES: NEEDS AND PRACTICES

Skill Needs

There is almost no difference between large companies and SMEs in the education of their employees. Although the difference is not statistically significant among companies, it is evident that businessmen from large companies are generally more dissatisfied with the schooling system in their economy (the average score is 2.7). That was one of the reasons

why, in the past year, half of them had vacancies which proved hard to fill (small companies had fewest difficulties in this respect, as opposed to medium sized and large firms). However, a vast majority of large companies (91%) would gladly hire inexperienced young people with adequate educational profiles.

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

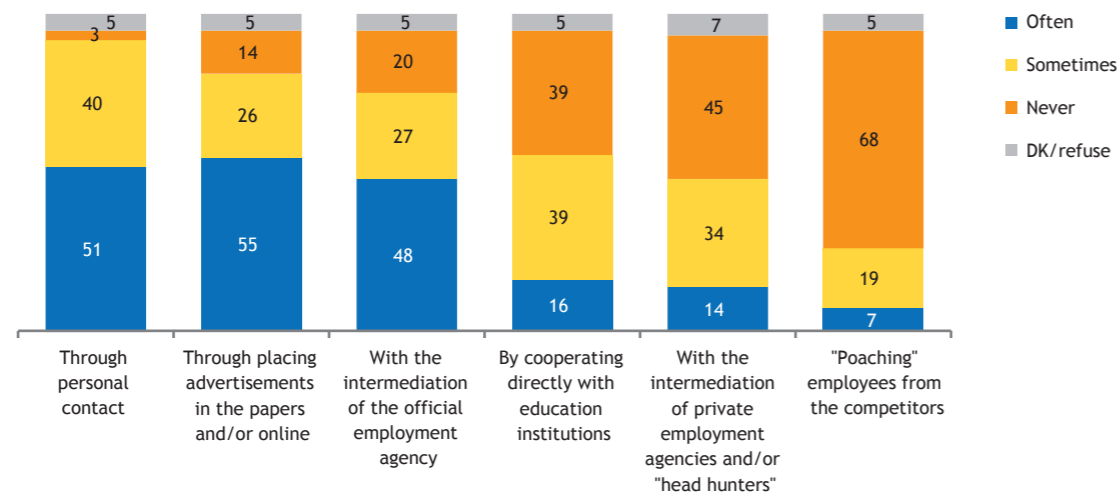


Employment Practices

The employment practices in large companies are similar to SMEs: respondents who manage big firms most appreciate recommendations from close people, and so do SME managers (91% follow up on this kind of personal contact at least sometimes). However, large companies rely on advertisements posted in the papers/online more frequently than SMEs (55% often do that). In addition, compared to

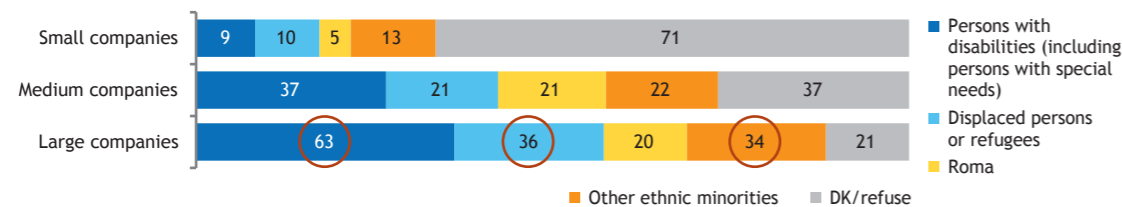
firms with up to 49 employees, they cooperate more with both the government-owned employment agency and private employment agencies.

How often do you use the following when hiring new employees?



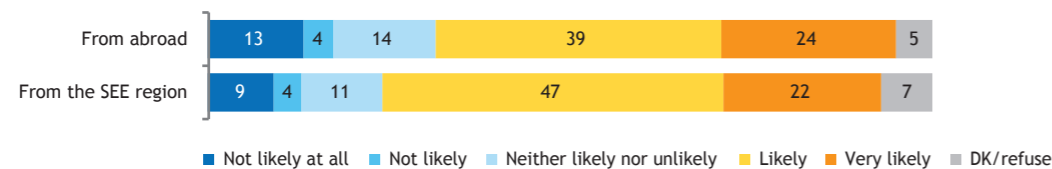
When it comes to the optimal workforce size, half of the leaders would not change their current number of employees, 27% are willing to increase this number, while 14% think staff reductions would be best.

Do you have somebody from below mentioned vulnerable groups working in your company?



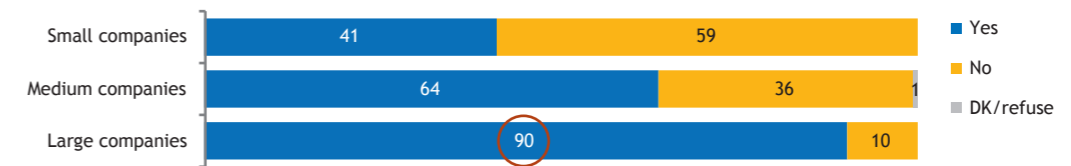
Large companies tend to employ more people from vulnerable groups than SMEs do: persons with disabilities (in most cases stipulated by law), displaced persons or ethnic minorities. As mentioned earlier, the readiness to employ workers from abroad increases with company size, and 63% of employers would gladly hire them. Workers from the region are especially welcome - almost 70% of the big firms would like to build up their capacity this way:

How likely would you employ workers?



Investment in Employees

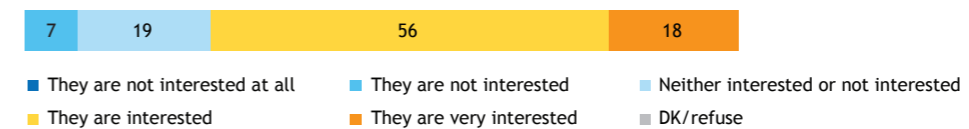
Providing trainings and development for staff in organization



As much as 90% of large firms, a significantly higher percentage than SMEs, invested into their workforce through different courses and trainings. Moreover, 72% of them regularly review the skill and training needs of individual employees.

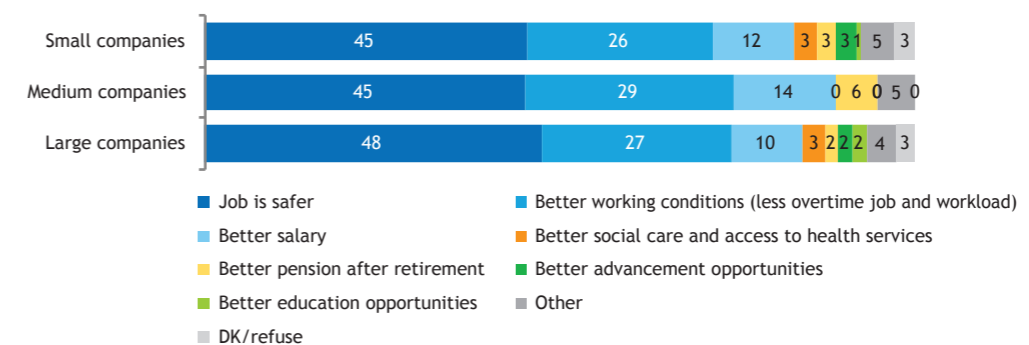
At the same time, they seem satisfied with their employees' reaction to benefits provided and rate their readiness to acquire additional qualifications rather well (the average score is 3.9):

Readiness of employees to acquire new qualifications



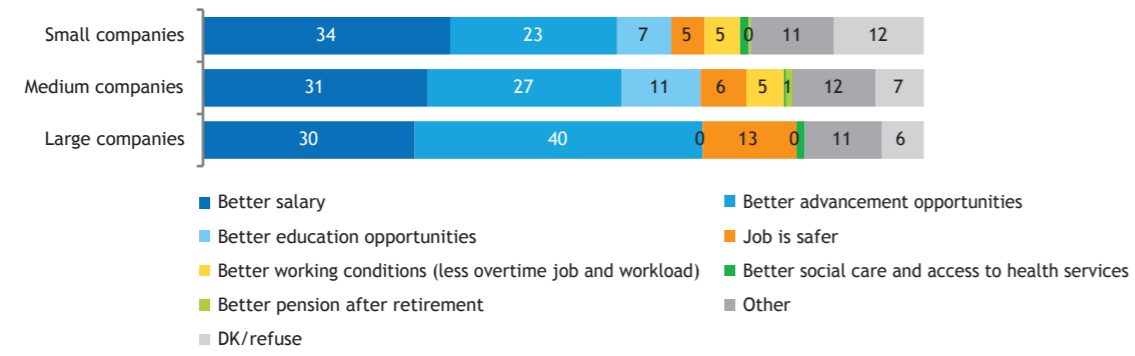
As stated earlier, there is no significant influence of company size on the reasons why employees would prefer the public sector.

Reasons for choosing public sector



On the other hand, managers of large companies believe that employees would choose the private sector because of better career advancement opportunities more than managers of other companies do:

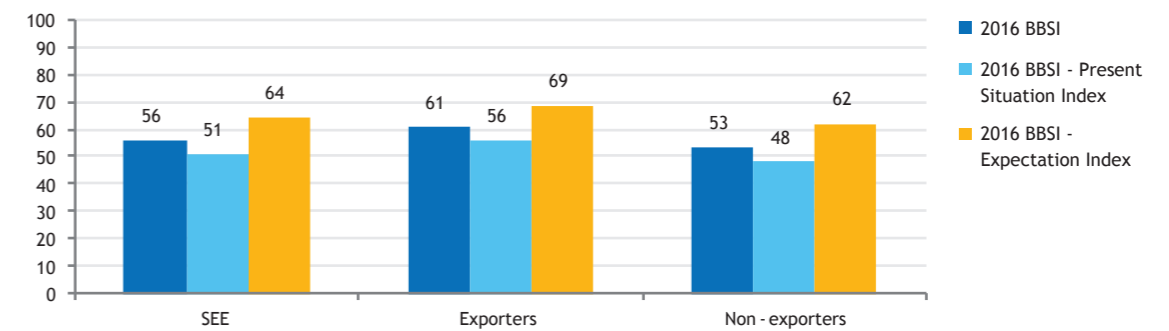
Reasons for choosing private sector



Focus on Exporters

Among surveyed companies, 38% export their products or services.

BALKAN BUSINESS SENTIMENT INDEX



PERCEPTION OF THE GENERAL BUSINESS ENVIRONMENT AND ECONOMIC TRENDS

As can be seen from the chart, both the present situation index and expectation index are higher with exporters. As can be seen from further analysis, higher indices are driven by the better situation of companies which export their products and increased positive expectations for their company in the future (in comparison to non-exporters) - not by the

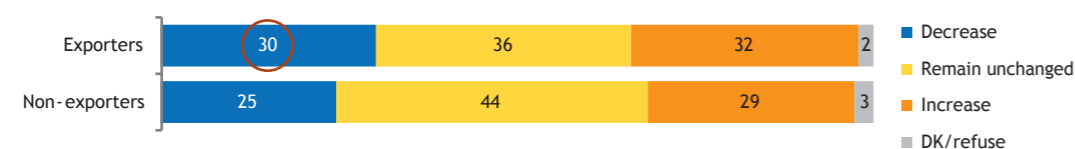
improvement in the overall economic environment (there are no statistical differences between exporters and non-exporters in their evaluation of the situation in economy for the previous 12 months, nor in their overall expectations concerning the general economic situation).

| | Deteriorated | Remained unchanged | Improved |
|--|--------------|--------------------|----------|
| General economic situation in past 12 months | 40 | 38 | 22 |
| General economic situation in next 12 months | 18 | 39 | 41 |

Most exporters (40%), as well as non-exporters, claim that the general economic situation in their economy has deteriorated. On the other hand, the majority of exporters (41%), as well as non-exporters, believe in future improvement of the overall economic situation.

As mentioned earlier, although they believe in an overall improvement of the economy, there are more managers from export companies who also expect employment to decline in their economies. This can be one of the reasons why they are less inclined to evaluate their economy as a good place to invest in.

How do you expect the number of people employed in your economy to change over the next 12 months?



As noted earlier, and as expected - the high quality of regional cooperation in SEE means more to exporters than to non-exporters (70%

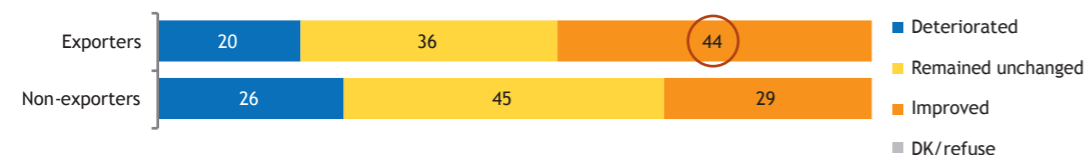
emphasize the importance of regional cooperation). 61% think that EU membership would be good for their company.

BUSINESS TRENDS IN SEE

It seems that the previous year was good for the majority of exporters - as much as 44% claimed that their business improved, which

is more than double compared to those exporters which reported deterioration of their business.

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



The most important reason for improved business in the past 12 months was growth of demand: 44% claimed the demand for their

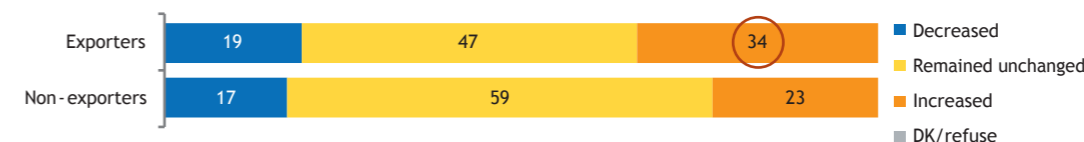
products or services has grown. Almost 60% hope it will be even better in the next 12 months.

| | Deteriorated | Remained unchanged | Improved |
|--------------------------------|--------------|--------------------|----------|
| Demand over the past 12 months | 17 | 38 | 44 |
| Demand over the next 12 months | 6 | 33 | 59 |

Another segment where the difference between exporters and non-exporters is significant is the increased number of employees

- obviously, there was a need to employ additional staff to serve the increased demand.

How has your firm's total employment changed over the past 12 months?



In terms of total investments in 2015, exporters as well as non-exporters were focused on property, plant and equipment (46%) followed by intangible assets. Differences in investment types between these two groups of companies are evident: companies which operate internationally invested more in intangible

assets while those limited to their own markets had long term financial investments.

Exporters seem more ecologically aware - 84% have taken at least small steps to reduce the environmental impact of their business.

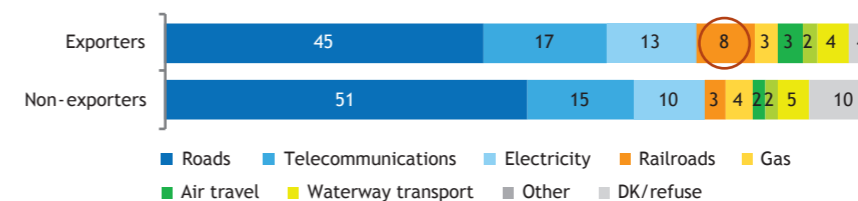
BUSINESS ENVIRONMENT IN SEE IN DETAIL

Exporters as well as non-exporters find that their operations and growth are more threatened by tax rates, then the cost of financing and anti-competitive practices of other competitors. However, what distinguishes exporters from non-exporters is that they are more worried about not finding skilled and educated employees and about customs and trade regulations.

in their evaluation of availability, quality and affordability of road, railroad, waterway and air transport, but exporters seem to be more satisfied with electricity, gas and water supply than non-exporters. When evaluating overall impact of the infrastructure on their business - exporters and non-exporters do not differ. Their economy (i.e. where they operate) has a much greater impact on their opinion about infrastructure than their export activities.

There are no statistically significant differences between exporters and non-exporters

Which infrastructure upgrades would have the highest positive impact on your business?



Exporters agree with non-exporters that improving roads would provide the greatest benefits to their business, while upgrade of railroads would mean more to them than to firms

limited to a single market. Similarly, they are more convinced that elimination of roaming charges would be very helpful.

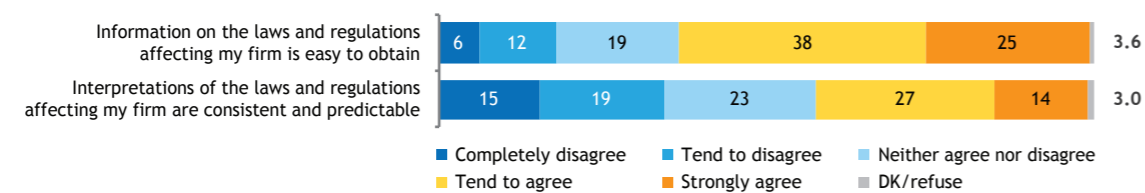
Legal and Regulatory Framework

As stated earlier, there is no statistically significant impact of export activity on assessment of the relationship between the government and the businesses: more than one third think that the government does not take business issues into account. However, when asked more directly - how satisfied they are with how the government consults and involves the private sector into the process of drafting new laws and regulations, exporters show a significantly higher dissatisfaction than non-exporters (66%

are not satisfied) - so there is obvious room for improvement across the region.

Exporters agree with non-exporters (there is no statistically significant difference) on the ease of obtaining information on laws and regulations (63% find it easy), as well as on the consistency and predictability of interpretations of laws and regulations affecting their business (34% disagree with this statement).

To what extent do you agree with the following statement



When assessing the average amount of total annual sales which a typical firm in their region reports for tax purposes, heads of companies operating internationally seem more certain of proper acting (89% on average), than their colleagues from firms which do not export (86% on average). Regarding reported actual wage bill, their estimation is similar and in line with the SEE mean - 88% stated by exporters vs. 87% claimed by non-exporters.

data shows that conditions for exporters were less favourable than for non-exporters: the number of those who were positively affected by changes in laws is higher with non-exporters.

However, the majority (85%) of exporters find that some laws and regulations obstruct their operations and growth. Tax-related issues are recognized as the main obstacle (43%). This is followed by the opinion that no specific regulations (i.e. all of them) cause problems (18%), while those related to employment are marked as the third biggest barrier (17%). In addition, they are more worried about environmental regulations than non-exporters.

Although more than half of the representatives (55%) agree that recent changes in practices and laws and regulations have not affected their business in any way in the past 12 months,

Regulations considered to be an obstacle to the success of the business

| | Tax-related | No specific regulations/all regulations | Employment regulations | Health and safety regulations | Minimum wage regulations | Trading standards | Providing information/record-keeping | Planning/building/development | Environmental regulations | Working time | Pensions |
|---------------|-------------|---|------------------------|-------------------------------|--------------------------|-------------------|--------------------------------------|-------------------------------|---------------------------|--------------|----------|
| Exporters | 43 | 18 | 17 | 12 | 11 | 11 | 9 | 8 | 7 | 7 | 2 |
| Non-exporters | 43 | 22 | 19 | 9 | 10 | 12 | 10 | 7 | 3 | 5 | 6 |

— Main obstacles

When it comes to court cases, one third of exporters say that they had some cases before arbitration courts in last 36 months, which is

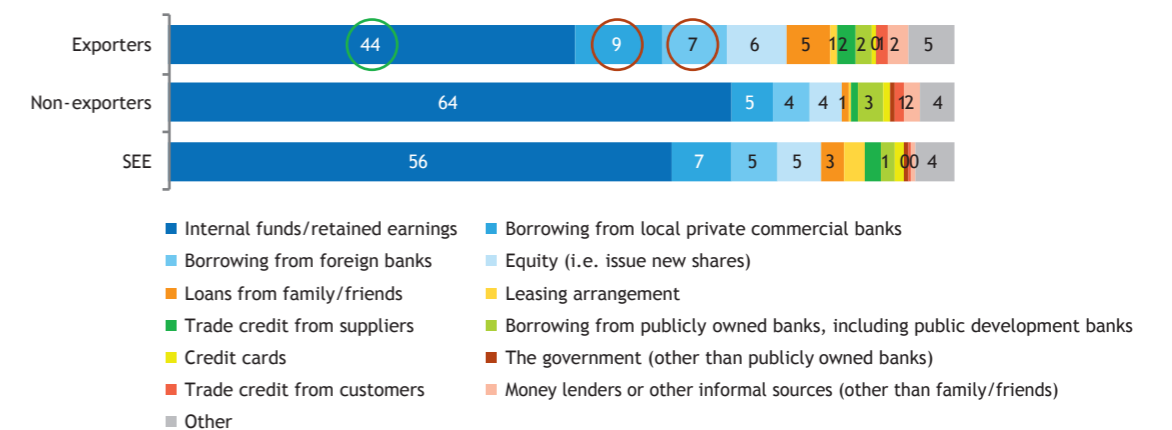
significantly higher than the number of firms which do not operate in foreign markets (22%).

Financial Issues: Accessibility of Loans and Overdue Payments

Just like non-exporters, exporters state internal funds i.e. retained earnings as the main source of financing. However, they use it significantly less than non-exporters as they are

much more open to external support from banks (or banks are more willing to support exporters).

Sources of financing



In line with the above, 44% of exporters (significantly more than non-exporters) have applied for a bank loan over the last year and only 3% report that the application has not been approved. They report that the loan process lasts 23 days on average, which is much

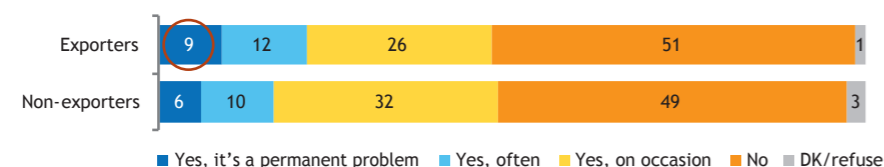
longer compared to non-exporters (15 days on average).

Two out of five representatives of export companies (just like non-exporters) confirm that they were faced with overdue payments

during the previous 12 months, while approximately 1 out of 4 initiated court proceedings to resolve such problems. Compared to companies operating only in the domestic market, exporters are more ready to solve their

overdue payments in court. One of the reasons why this is so is the problem of late payments: the percentage of exporters who had cash flow problems because of late payments is significantly higher than non-exporters.

Has the problem of late payment caused your business to experience cash flow problems?



As concluded earlier - one of the reasons why pressure is higher on the cash flow in export companies is due to significantly less favourable payment terms: 50% of all of their sales revenue comes from credit payments (while this is the case for only 38% of non-exporters). Thus, exporters sell their product and services

mostly on credit, followed by payments on delivery (34%). On the other hand, discrepancies between payment methods when purchasing are not so large: 38% of supplies are bought on credit, slightly less are paid for on delivery (34%), while 29% of supplies are paid in advance.

Corruption

There is no statistical difference between exporters and non-exporters in their perception of corruption needed "to get things done" (those who think that it is not common to bribe prevail - 49%), nor in knowing the level of "fee" they need to pay (48% claim they do not know in advance how much additional gifts would cost).

less often than non-exporters, with the exception of dealing with customs/imports. When questioned about tackling such wrongdoings, they agree with the rest and suggest that reporting to authorities via official channels would be the most efficient way (39%), followed by informing journalists (13%); but one quarter is still doubtful if a right way actually exists.

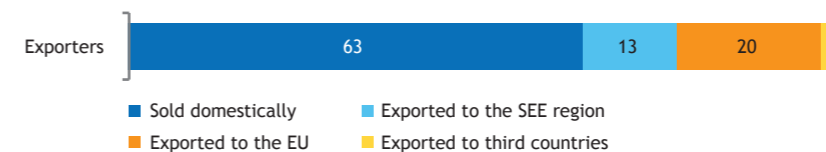
As concluded earlier, further analysis shows that exporters face some kind of corruption

EXPORT AND IMPORT OF SEE BUSINESSES

For exporters, on average, 63% of sales are sold domestically, 20% is sold in the EU market,

and 13% is exported to neighbouring economies, while 4% goes to third countries:

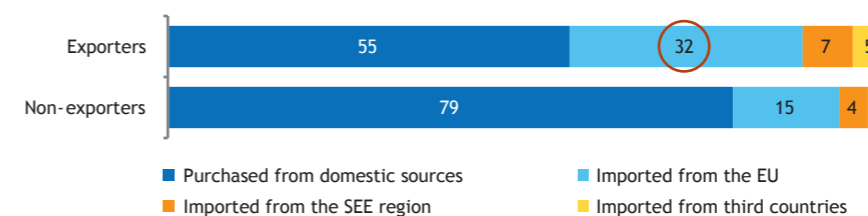
What percentage of your firm's sales are...?



Exporters also import more than non-exporters: only 55% of inputs are supplied from domestic sources (as compared to 79% for

non-exporters) and, compared to non-exporters, a significantly higher percentage of their imports (32%) is imported from the EU:

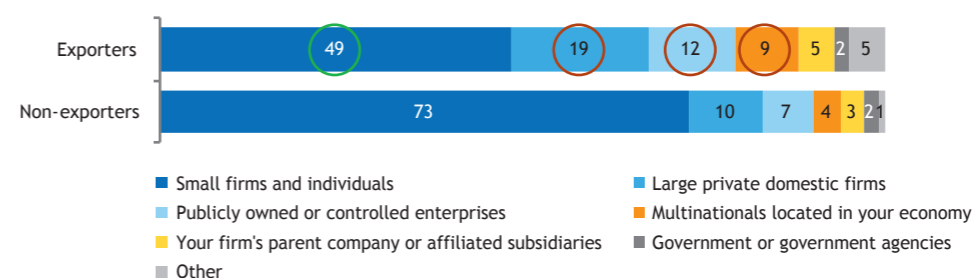
What percentage of your firm's material inputs and supplies are...?



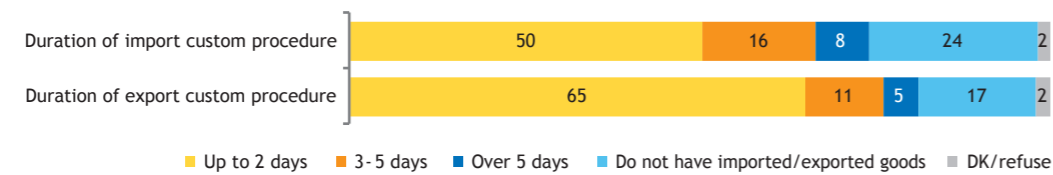
Although the main buyers from both exporters and non-exporters in domestic markets are small firms and individuals, their share in exporters' sales is significantly lower. Exporters

sell to large private domestic firms (19%), publicly owned or controlled enterprises (12%) and multinationals situated in their economies (9%) more than non-exporters.

What percentage of your domestic sales are to...?



Exporters claim that import custom procedures take more time than procedures for exporting products and services.

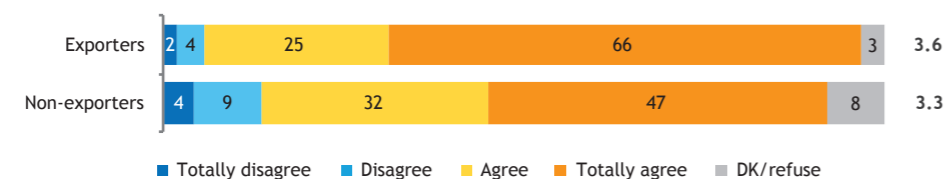


The majority of exporters (close to 60%) export to the SEE region as well. The need to hardcopy documents or certifications is recognized as the main obstacle for exporting, a trend similar to the survey for 2014, and growing. This is followed by the need for licenses or permits, physical examinations or inspections, and slow import-export procedures.

challengers more seriously (42% agree that they are threatened by international competitors) than non-exporters (36% agree that they are threatened by international competitors) perhaps due to being more familiar with the market situation outside their own economy. Regardless of this, a vast majority (91%) is convinced that their products and services present serious competition to those coming from the EU:

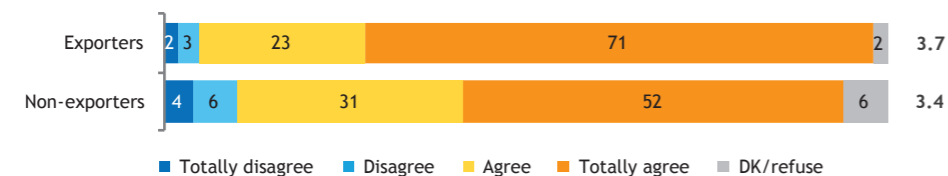
As stated earlier, companies which export their products or services take international

My company's products, goods and services can compete well with products, goods and services from other EU countries



Regarding regional market rivals, exporters show an even higher level of self-confidence.

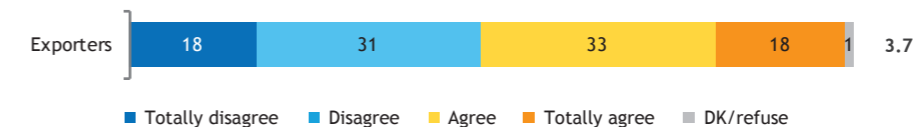
My company's products, goods and services can compete well with products, goods and services from the SEE



As can be expected, exporters are much more informed about CEFTA than non-exporters. Still, about half believe they are not well informed.

CEFTA efforts are more appreciated by exporters than by non-exporters who import material input as there are significantly more exporters who claim that their company benefited from the CEFTA agreement.

My company has benefited from the regional free trade agreement (CEFTA 2006)



When comparing CEFTA Parties and EU members in terms of ease and straightforwardness of exporting, SEE exporters have divided

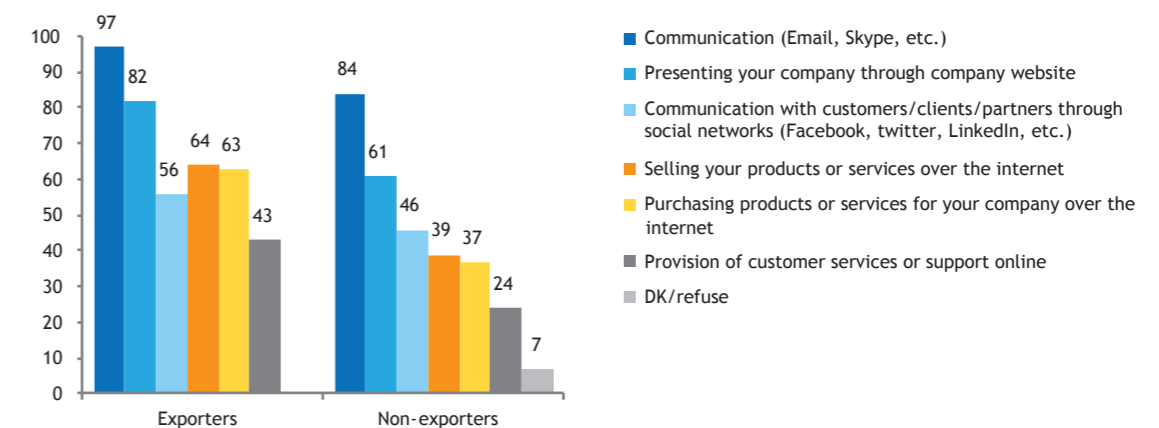
opinions, primarily influenced by the economy they come from.

INNOVATION AND TECHNOLOGY

A general look at the information on innovation and technology indicates that companies which are active in foreign markets use all

aspects of the Internet significantly more than non-exporters.

Internet usage



As stated earlier - exporters are much more active than non-exporters in innovations: they cooperate with universities for their R&D or technology development projects much more

than non-exporters do; they also introduced new or significantly improved their products or services in the past 12 months much more than non-exporters did; and they introduced

new or significantly improved production and delivery processes in the past 12 months much more than non-exporters did (almost

two thirds). Clearly, exporters are investing more into innovation.

| | Yes | No |
|---|-----|----|
| Collaboration with universities | | |
| Exporters | 26 | 73 |
| Non-exporters | 9 | 89 |
| SEE | 16 | 83 |
| Introducing new or improving products/services | | |
| Exporters | 66 | 34 |
| Non-exporters | 50 | 49 |
| SEE | 56 | 43 |
| Introducing new or improving production/delivery processes | | |
| Exporters | 62 | 36 |
| Non-exporters | 40 | 58 |
| SEE | 49 | 50 |

HUMAN RESOURCES: NEEDS AND PRACTICES

Skills Needs

As noted earlier, the worrying fact is that companies which export their products or services (and are more open to attacks of international competition) are significantly less satisfied with how their needs are met by their own

educational systems. However, at the same time, they are more willing to take the risk of employing educated but inexperienced employees.

Did you have vacancies over the past 12 months that have proved hard to fill?



Over the previous year, exporters faced the problem of vacancies that have been hard to fill significantly more often than non-exporters.

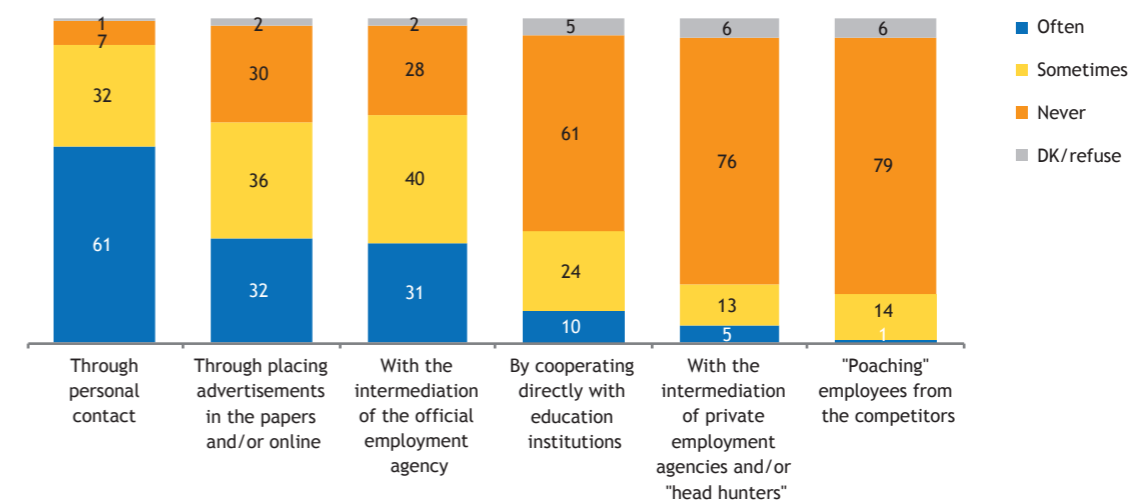
The main reason is that they find applicants lacking skills (85%).

Employment Practices

Regarding methods for recruitment and selection of employees, exporters as well as non-exporters mainly trust recommendations from reliable people - 93% use this at least sometimes, while 61% often do this.

This is followed by advertisements placed in papers/online; exporters trust the abilities of official employment agencies more than non-exporters.

How often do you use the following when hiring new employees?



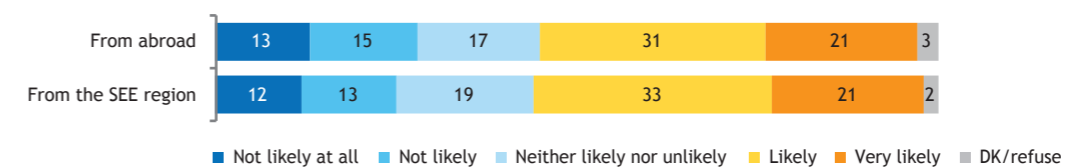
The majority of exporters (57%), as well as non-exporters, would not change their current number of employees, 29% wish they were able to increase it, while 10% have the opposite opinion.

a considerably better chance of finding work in export companies, large firms and mature companies.

As stated earlier, detailed analysis shows that members of socially vulnerable groups (people with disabilities, displaced persons or refugees, Roma or other ethnic minorities) have

Understandably, export companies are more open to employees coming from abroad (and the region) than non-export companies (knowledge of local language and local habits can be crucial for their business):

How likely would you employ workers?

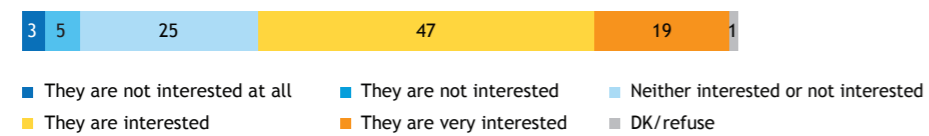


Investment in Employees

It seems that exporters are not only investing more into innovations than non-exporters, they are also investing more into their employees' competencies. Namely, 62% organize additional trainings, while 54% regularly review skills and needs of their employees.

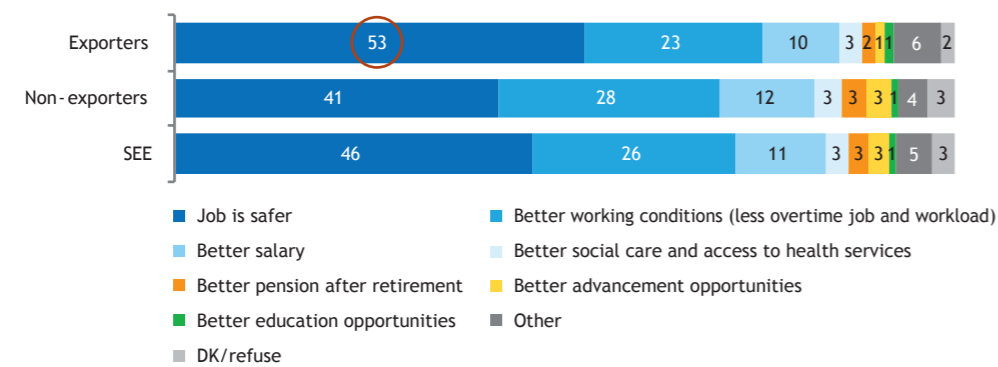
Employees' reaction to these efforts, in terms of readiness to acquire additional qualifications, is rated as being satisfactory (higher than with non-exporters), the average score is 3.7.

Readiness of employees to acquire new qualifications



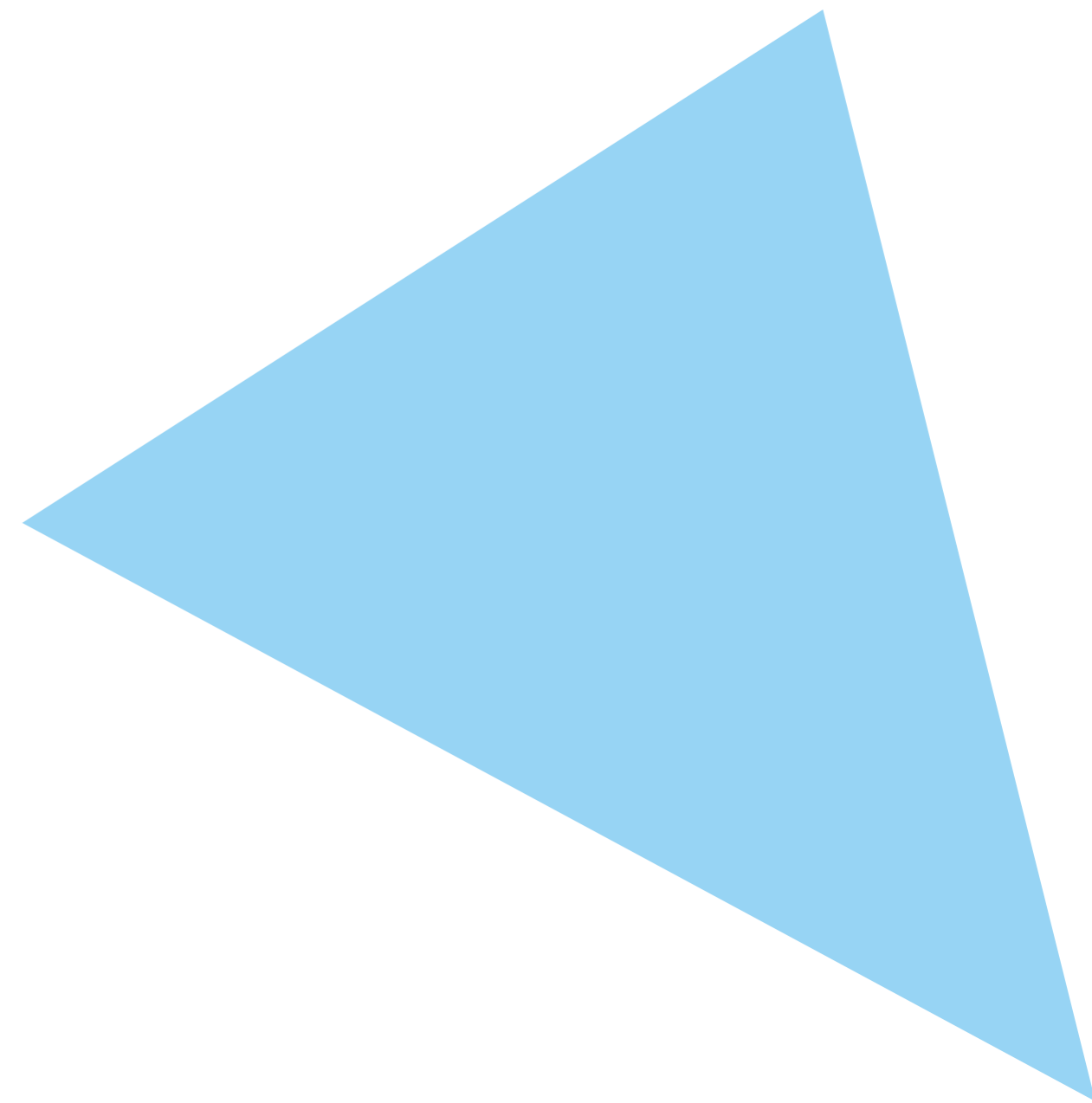
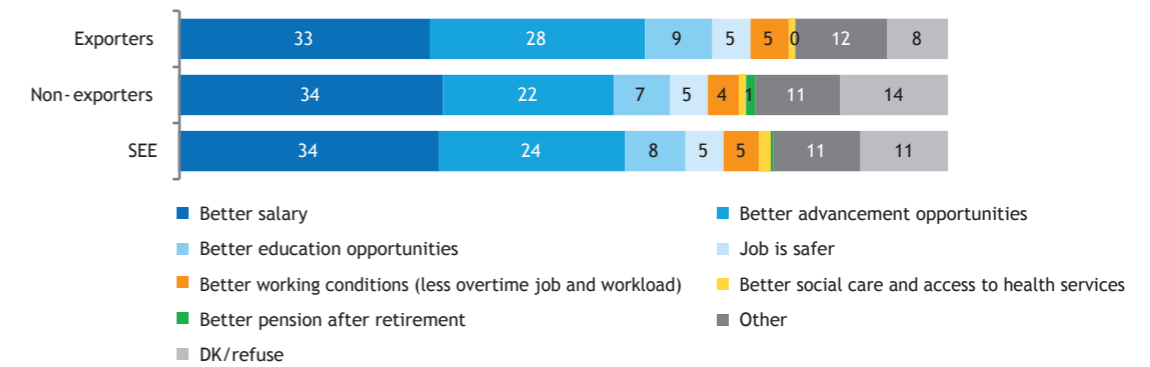
Exporters believe that people are attracted to the public sector primarily because of job security more than others.

Reasons for choosing public sector



On the other hand, the greatest advantage of the private sector, according to them, is a better salary, followed by better career advancement opportunities.

Reasons for choosing private sector



Focus on Slovenia

MAIN FINDINGS

Slovenian businesses are not necessarily happy with their regulatory environment and with the costs of doing business. They also do not feel that they have much of a say in these and in the economic policy matters. Instability and arbitrary decision making are problems. Overall, Slovenian business seems well integrated within the EU and they know how to use the opportunities that the large market offers. There is demand for improved public services, e.g. in infrastructure and in part in the accessibility of information. Corruption, however, seems to be less of a problem.

Interestingly, improved expectations are connected with better demand. This is due to the speed up in the recovery of the home market, but also in the EU. Comparisons of Slovenian economy with those in SEE need to take into account the big difference in the level of openness. Slovenian exports are a much larger share of its GDP than in the SEE economies. Also, even though the SEE market is important for Slovenia, the EU market is much more important, because it accounts for a much larger share of exports. It is important, thus, to note that Slovenian businesses are happy with the integration into the EU common market and also are cognizant of the importance of the SEE market.

It is not unexpected that a developed economy faces more binding constraints when it comes to their infrastructure, energy and gas supplies, and with overall public and government services. An open economy is much more sensitive to the burdens of taxation and of transaction costs that regulation imposes. In that context, one should interpret the findings that the authorities are not responsive enough, as that most probably reflects not so much lack of communication but rather of effective influence.

Similarly, the finding that investment climate is not as good as it should be is more a complaint about the costs of investments, which is borne out by the fact that most businesses plan to invest in plants and equipment, but also in intangible assets. Also, higher level of financial development, regardless of the recent banking problems, is reflected in the widespread use of credit payments including investments. The rate of rejections of credit applications is also quite low (practically zero).

Corruption and tax evasion are apparently not a problem. Also, possible cases of misuse of authority are primarily reported to the authorities themselves.

Slovenian businesses feel more of a competitive pressure from foreign firms and they would be ready to employ foreign workers, in particular from the former Yugoslavia economies, and tend to invest in additional training and skill upgrading of their workforce.

ECONOMIC OVERVIEW

Slovenian economy had performed the best among the transition economies up to 2008. It went into a series of crisis afterwards. The latest was a banking crisis in 2012-2013. Last two years, however, growth has returned, and the economy has been recovering at the rate at about 3 percent. This year's forecasts, however, are for a slowdown to about 2 percent increase of GDP. More important is the effect on the labour market, with unemployment rate, however measured, increasing by about 5 percentage points between 2008 and 2014-2015 (e.g. Labour Force Survey reported an unemployment rate of just over 4 percent in 2008 and about 9 percent in 2015, while registered unemployment rate was 7 and 12 percent respectively). Finally, Slovenia being an economy with exports of goods and services that are close to 80 percent of GDP, it is important that exports of goods have been increasing throughout the crisis (altogether by about 25 percent). However, GDP per capita in 2016 is the same as it was in 2008 (somewhat below 19 thousand euros, which means that it is lower in real terms).

Traditionally, satisfaction and expectations depend primarily on the state of the labour market. Lack of improvement in employment, not to mention shrinking availability of jobs, tend to lead to increased pessimism not only in general public, but also in the business community. Downsizing employment is not something that firms are at ease doing and the same goes for deemed prospects of

Employment is mostly done through personal contacts and recommendations. And, finally, job security versus pay and advancement is what determines the choice between public and private jobs.

hiring. This is quite different from the business climate and practices in the other SEE economies.

As Slovenian economy is small and very open, it needs to innovate to compete primarily on the European market, which requires significant investments in technological upgrading. Much of the exporting is done by larger firms, but even smaller firms need to compete for the access to the domestic market, due to the common EU market. And the same competitive pressures are being faced in the SEE markets, where Slovenian businesses have some advantages due to their longer-term presence.

Slovenian financial system was designed to support domestic economy, which is why the banking sector remained predominantly in public ownership. As a consequence, the economy relies a lot on credit for payments and investments. That proved to be risky as the major banks faced bankruptcies in the crises and had to be bailed out and faced privatisation. So, the state of finances is important for the health of the economy and for the perception of the business people of their state of affairs and even more so of their prospects.

Looking forward, significant acceleration of growth is not to be expected in the medium term. Also, unemployment rate will be declining quite gradually. However, overall

employment rate is high, much higher than in the SEE, and the level of development is close to the average in the EU. Finally, policies sensitive to social stability will continue to

be pursued irrespective of political changes and the changes of the coalition in power. In that also, Slovenia is quite different from the SEE economies.

Table 10: Slovenia - Perceptions of the general business environment and economic trends

How has the general economic situation changed over the past 12 months?

| | Deteriorated | Remained unchanged | Improved | DK/refuse |
|----------|--------------|--------------------|----------|-----------|
| Slovenia | 32 | 40 | 27 | 1 |
| SEE | 41 | 38 | 20 | 1 |

How do you expect the general economic situation to develop over the next 12 months?

| | Deteriorate | Remain unchanged | Improve | DK/refuse |
|----------|-------------|------------------|---------|-----------|
| Slovenia | 21 | 45 | 31 | 4 |
| SEE | 20 | 41 | 37 | 2 |

How do you expect the number of people employed to change over the next 12 months?

| | Decrease | Remain unchanged | Increase | DK/refuse |
|----------|----------|------------------|----------|-----------|
| Slovenia | 17 | 44 | 37 | 1 |
| SEE | 27 | 41 | 30 | 2 |

Do you believe that your economy is good place to invest?

| | It is not good place to invest at all | It is mostly not good place to invest | Neither good nor bad place to invest | It is mostly good place to invest | It is great place to invest | DK/refuse | Mean |
|----------|---------------------------------------|---------------------------------------|--------------------------------------|-----------------------------------|-----------------------------|-----------|------|
| Slovenia | 23 | 33 | 17 | 18 | 5 | 5 | 2,5 |
| SEE | 11 | 16 | 29 | 34 | 10 | 1 | 3,2 |

How important is the quality of regional cooperation in SEE to your business?

| | Not important at all | Not very important | Important | Very important | DK/refuse | Mean |
|----------|----------------------|--------------------|-----------|----------------|-----------|------|
| Slovenia | 25 | 29 | 31 | 13 | 2 | 2,3 |
| SEE | 26 | 21 | 33 | 18 | 1 | 2,4 |

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

| | Bad thing | Neither good nor bad | Good thing | DK/refuse |
|----------|-----------|----------------------|------------|-----------|
| Slovenia | 2 | 27 | 68 | 2 |
| SEE | 9 | 33 | 54 | 4 |

How easy or hard is to start private business in your economy?

| | Very hard | Hard | Neither easy nor hard | Easy | Very easy | DK/refuse | Mean |
|----------|-----------|------|-----------------------|------|-----------|-----------|------|
| Slovenia | 7 | 12 | 21 | 38 | 16 | 6 | 3,5 |
| SEE | 29 | 36 | 22 | 9 | 2 | 1 | 2,2 |

Comparing regional and Slovenian results, it is clear at first glance that latter ones are more optimistic. This is corroborated by the fact that more than a quarter (27% vs. 20% in SEE) of representatives of Slovenian business community have noticed improvement of general economic situation over the past year. On the other hand, a third (32% vs. 41% in SEE) is of the opposite opinion.

Despite the fact that businesses in Slovenia assess the current situation more brightly, there is no significant difference in expectations for the forthcoming period compared to the SEE companies. Majority of Slovenian leaders (45%) do not believe that economic situation will be changed over the next 12 months; 31% expect progress and 21% are discouraged regarding this issue.

When it comes to the number of employees over the next year, group of business people who do not expect any changes is again the most numerous one (44%). Second largest group consists of managers who believe in increasing (37%). On the opposite side, there are 17% of them who are convinced of declining, which is significantly less compared to the SEE region where 27% of respondents have the same point of view.

More than half of the companies in Slovenia (56%) are critical towards investment potentials of their economy; 17% are restrained, while 23% agree that Slovenia would be a good choice for investors. Interestingly, SEE leaders show higher level of enthusiasm on this question (average score is 3.2) than their Slovenian colleagues (2.5).

The issue of importance of regional cooperation in SEE divides Slovenian business community into two groups. Although majority of them (54%) do not think that collaboration between the SEE economies impacts their business substantially, there is still a significant number of those who consider it important (44%).

More than two thirds of business leaders in Slovenia (68%) perceive EU membership as a good thing, which is significantly more compared to the SEE economies (54%). 27% do not give full support to EU community, while a negligible number see it as a bad thing.

54% of the respondents in Slovenia think that it is easy or even very easy to start a private business in this economy, while approximately every fifth is of the opposite opinion. Comparing average scores of Slovenia and SEE, it becomes clear that the start up conditions are far more favourable in Slovenia.

Table 11: Slovenia - Business trends

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

| | Deteriorated | Remained unchanged | Improved | DK/refuse |
|----------|--------------|--------------------|----------|-----------|
| Slovenia | 16 | 48 | 37 | 0 |
| SEE | 23 | 42 | 35 | 0 |

How has demand for your company's products/services changed over the past 12 months?

| | Deteriorated | Remained unchanged | Improved | DK/refuse |
|----------|--------------|--------------------|----------|-----------|
| Slovenia | 17 | 37 | 46 | 0 |
| SEE | 22 | 42 | 36 | 0 |

How do you expect the demand for your company's products/services to change over the next 12 months?

| | Decrease | Remain unchanged | Increase | DK/refuse |
|----------|----------|------------------|----------|-----------|
| Slovenia | 11 | 40 | 48 | 1 |
| SEE | 9 | 40 | 49 | 2 |

How has your firm's total employment changed over the past 12 months?

| | Decreased | Remained unchanged | Increased | DK/refuse |
|----------|-----------|--------------------|-----------|-----------|
| Slovenia | 17 | 48 | 35 | 0 |
| SEE | 18 | 54 | 27 | 0 |

What percentage of your total firm investing in 2015 went on each of the following? (Respondents who did not mark DK/refuse - N=163)

| | Intangible assets | Property, plant and equipment | Biological assets | Long term financial investments | Other |
|----------|-------------------|-------------------------------|-------------------|---------------------------------|-------|
| Slovenia | 27 | 56 | 1 | 4 | 12 |
| SEE | 17 | 45 | 2 | 13 | 22 |

How has your labour and other costs (e.g. energy, etc.) changed over the past 12 months?

| | Decreased | Remained unchanged | Increased | DK/refuse |
|----------|-----------|--------------------|-----------|-----------|
| Slovenia | 12 | 40 | 47 | 1 |
| SEE | 5 | 42 | 52 | 1 |

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?

| | Yes - a lot | Yes - a little | No | DK/refuse |
|----------|-------------|----------------|----|-----------|
| Slovenia | 25 | 51 | 20 | 4 |
| SEE | 36 | 37 | 25 | 2 |

How problematic are these different factors for the operation and growth of your business? (Scores are on a scale of 1 to 4 where 1 means major obstacle and 4 no obstacle)

| | Tax rates | Cost of financing | Labor regulations | Anti-competitive practices of other competitors | Uncertainty about regulatory policies | Macro-economic instability | Functioning of the judiciary | Access to financing |
|----------|-----------|-------------------|-------------------|---|---------------------------------------|----------------------------|------------------------------|---------------------|
| Slovenia | 2,2 | 2,6 | 2,6 | 2,7 | 2,7 | 2,7 | 2,7 | 2,7 |
| SEE | 2,5 | 2,6 | 2,9 | 2,6 | 2,8 | 2,9 | 2,8 | 3,0 |

| | Contract violations by customers and suppliers | Skills and education of available workers | Tax administration | Corruption | Business licensing and permits | Access to land | Title or leasing of land | Electricity |
|----------|--|---|--------------------|------------|--------------------------------|----------------|--------------------------|-------------|
| Slovenia | 2,8 | 2,9 | 3,0 | 3,0 | 3,0 | 3,3 | 3,4 | 3,4 |
| SEE | 2,9 | 3,1 | 2,9 | 2,8 | 3,0 | 3,4 | 3,4 | 3,3 |

| | Customs and trades regulations | Transportation | Street crime, theft and disorder | Refugee crisis | Telecommunications | Organised crime/mafia |
|----------|--------------------------------|----------------|----------------------------------|----------------|--------------------|-----------------------|
| Slovenia | 3,5 | 3,5 | 3,6 | 3,6 | 3,6 | 3,7 |
| SEE | 3,2 | 3,4 | 3,3 | 3,6 | 3,6 | 3,3 |

Almost half (48%) of the interviewed company representatives in Slovenia believe that their business situation remained the same. On the other hand, 16% report deterioration of their business over the past 12 months. Compared to the SEE region, the last mentioned group is less numerous.

The highest percentage (46%) of Slovenian companies state improvement in terms of demand, which makes significant difference compared to the firms coming from the SEE (36%). The second largest group consists of those who have not noticed any changes (37%), while 17% cite decline of demand for their products/services.

Approximately every second (48%) representative of Slovenian business community expects increase in demand for their products/services over the next 12 months, while every tenth does not share that opinion. Just like in the SEE region, two fifths of respondents are not convinced of any changes related to this issue.

An encouragement for labour market in Slovenia could be the fact that 35% of companies have increased their workforce during the last year (this is significantly more than in SEE). However, there are still more enterprises which have not changed the number of employees (48%).

In 2015, companies in Slovenia mostly invested in property, plant and equipment (56%), followed by investments in intangible assets (27%), and in both cases to a noticeably larger extent than the SEE firms. In addition, they also made less long-term financial investments (4% vs. 13% in SEE).

Although majority of Slovenian business community (47%) have experienced increasing of their labour and other costs during the previous year, there are still more of those who claim decreasing than in the SEE economies (12% vs. 5%). Two fifths of respondents cite that situation related to charges is mostly unchanged.

Even three quarters of Slovenian enterprises have taken at least small steps regarding environmental protection. On the other hand, one fifth admits they have done nothing to reduce impact their business makes.

Slovenia and SEE agree about two out of three major obstacles for business operation and growth - those are tax rates and cost of financing. The former factor still causes more problems in Slovenia (2.2) than in the region (2.5), while the latter is estimated equally (2.6). Slovenian companies show same level of concern (2.6) regarding labour regulations as well. Unlike SEE, they are least worried about organized crime (3.7). On the other hand, it seems that macroeconomic instability, access to financing, but also to land, as well as education of available workers are perceived as more problematic issues in Slovenia.

Table 12: Slovenia - Infrastructure

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?

| | Very poor | Poor | Neither poor nor good | Very good | Excellent | DK/refuse | Mean |
|----------|-----------|------|-----------------------|-----------|-----------|-----------|------|
| Slovenia | 4 | 13 | 42 | 27 | 6 | 8 | 3,2 |
| SEE | 3 | 15 | 34 | 35 | 10 | 2 | 3,3 |

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

| | Very poor | Poor | Neither poor nor good | Very good | Excellent | DK/refuse | Mean |
|----------|-----------|------|-----------------------|-----------|-----------|-----------|------|
| Slovenia | 1 | 8 | 28 | 48 | 11 | 3 | 3,6 |
| SEE | 2 | 7 | 22 | 50 | 18 | 1 | 3,8 |

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

| | In a very negative way | In a negative way | Neither negative nor positive | In a positive way | In a very positive way | DK/refuse | Mean |
|----------|------------------------|-------------------|-------------------------------|-------------------|------------------------|-----------|------|
| Slovenia | 1 | 5 | 49 | 35 | 6 | 4 | 3,4 |
| SEE | 2 | 14 | 40 | 35 | 8 | 1 | 3,3 |

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

| | Roads | Telecommunications | Electricity | Railroads |
|----------|-------|--------------------|-------------|-----------|
| Slovenia | 50 | 15 | 7 | 8 |
| SEE | 48 | 16 | 11 | 5 |

| | Gas | Air travel | Waterway transport | Other | DK/refuse |
|----------|-----|------------|--------------------|-------|-----------|
| Slovenia | 1 | 5 | 0 | 3 | 10 |
| SEE | 4 | 2 | 2 | 5 | 8 |

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

| | It would have a huge positive impact | It would have moderate impact | It would have no impact | DK/refuse |
|----------|--------------------------------------|-------------------------------|-------------------------|-----------|
| Slovenia | 26 | 23 | 41 | 10 |
| SEE | 30 | 25 | 42 | 3 |

Overall satisfaction of Slovenian private sector with available transport modes is slightly above average (3.2), considering the scale from 1 to 5. The largest number of respondents (42%) remain restrained when answering

on this question, and a third express positive attitude. Interestingly, the SEE businesses are generally more content with the existing transport infrastructure (3.3).

As in case of the SEE, the combination of availability, quality and affordability of electricity, gas and water supply has been evaluated higher than transport infrastructure (3.6), but still lower than in the region (3.8). High score for this infrastructure area is recorded among almost 60% of companies in Slovenia.

Half of the business leaders in Slovenia find that the impact of the current infrastructure on their business is neither negative nor positive; 41% emphasize its good influence, while a negligibly small number (6%) does not agree with that. In one word, average score shows far more positive than negative effect of the overall infrastructure (3.4).

Just like their colleagues from the SEE economies, Slovenian representatives believe that roads improvement would bring greatest benefit to their business (50%). This is followed by telecommunications upgrade (15%), while 8% of them consider railroads to be the area of priority. Importance of air travel is more often stressed in Slovenia (5%) than in the SEE region (2%).

Better part of Slovenian business community (49%) finds that removal of roaming charges when travelling to SEE would be at least moderate advantage for their business. Almost the same number as in the region do not see any impact of that.

Table 13: Slovenia - Legal and regulatory framework

How much do you feel the Government takes into account the concerns of businesses?

| | Very much | Quite a lot | A little | Not at all | DK/refuse | Mean |
|----------|-----------|-------------|----------|------------|-----------|------|
| Slovenia | 0 | 1 | 40 | 56 | 3 | 3,6 |
| SEE | 1 | 9 | 49 | 38 | 3 | 3,3 |

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

| | Up to 25% | 26-50% | 51-75% | 76-100% | DK/refuse | Mean |
|----------|-----------|--------|--------|---------|-----------|------|
| Slovenia | 0 | 3 | 6 | 91 | 0 | 94 |
| SEE | 1 | 6 | 8 | 61 | 25 | 90 |

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

| | Up to 25% | 26-50% | 51-75% | 76-100% | DK/refuse | Mean |
|----------|-----------|--------|--------|---------|-----------|------|
| Slovenia | 1 | 3 | 6 | 90 | 0 | 94 |
| SEE | 1 | 5 | 8 | 61 | 24 | 90 |

Information on the laws and regulations affecting my firm is easy to obtain.

| | Completely disagree | Tend to disagree | Neither agree nor disagree | Tend to agree | Strongly agree | DK/refuse | Mean |
|----------|---------------------|------------------|----------------------------|---------------|----------------|-----------|------|
| Slovenia | 7 | 19 | 17 | 42 | 12 | 2 | 3,3 |
| SEE | 6 | 11 | 23 | 35 | 23 | 2 | 3,6 |

Interpretations of the laws and regulations affecting my firm are consistent and predictable.

| | Completely disagree | Tend to disagree | Neither agree nor disagree | Tend to agree | Strongly agree | DK/refuse | Mean |
|----------|---------------------|------------------|----------------------------|---------------|----------------|-----------|------|
| Slovenia | 16 | 34 | 25 | 19 | 5 | 1 | 2,6 |
| SEE | 14 | 17 | 27 | 28 | 12 | 2 | 3,1 |

To what extent are you satisfied with how the government consults and involves private sector in the process of drafting new laws and regulations relevant for doing business?

| | Not satisfied at all | Not satisfied | Neither satisfied nor unsatisfied | Satisfied | Fully satisfied | DK/refuse | Mean |
|----------|----------------------|---------------|-----------------------------------|-----------|-----------------|-----------|------|
| Slovenia | 34 | 39 | 17 | 0 | 2 | 8 | 1,9 |
| SEE | 28 | 33 | 28 | 8 | 1 | 3 | 2,2 |

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

| | Yes, changes with very negative effect on revenue | Yes, changes with negative effect on revenue | Changes with neither negative nor positive effect on revenue | Yes, changes with positive effect on revenue | Yes, changes with very positive effect on revenue | DK/refuse |
|----------|---|--|--|--|---|-----------|
| Slovenia | 7 | 31 | 44 | 2 | 0 | 16 |
| SEE | 7 | 20 | 54 | 9 | 1 | 10 |

Which regulations do you consider to be an obstacle to the success of the business?

| | Tax-related | Employment regulations | Planning/building/development | Minimum wage regulations | Environmental regulations | No specific regulations/all regulations |
|----------|-------------|------------------------|-------------------------------|--------------------------|---------------------------|---|
| Slovenia | 51 | 35 | 13 | 11 | 10 | 10 |
| SEE | 43 | 18 | 8 | 11 | 5 | 20 |

Which regulations do you consider to be an obstacle to the success of the business?

| | Providing information/record-keeping | Health and safety regulations | None - no regulations an obstacle | Working time | Trading standards | Pensions | DK/refuse |
|----------|--------------------------------------|-------------------------------|-----------------------------------|--------------|-------------------|----------|-----------|
| Slovenia | 8 | 7 | 7 | 5 | 4 | 3 | 9 |
| SEE | 9 | 10 | 13 | 6 | 12 | 4 | 3 |

Has your firm had any cases in arbitration courts in the last 36 months?

| | Yes | No | DK/refuse |
|----------|-----|----|-----------|
| Slovenia | 5 | 92 | 3 |
| SEE | 26 | 71 | 3 |

How many cases in civil or commercial arbitration courts have involved your firm either as a plaintiff or defendant in the last 36 months? (Respondents who had cases in arbitration courts - N=10)

| | 1-3 cases | 4-6 cases | 7-10 cases | Over 10 cases | DK/refuse | Average number of cases |
|-----------|-----------|-----------|------------|---------------|-----------|-------------------------|
| Slovenia* | 70 | 10 | 20 | 0 | 0 | 3 |
| SEE | 48 | 19 | 11 | 9 | 13 | 13 |

*Small base for valid conclusions

In Slovenia, 56% of companies do not feel the Government pays any attention to concerns of businesses and 40% consider those efforts to be small. If we take a look at the average scores, business people from Slovenia are less satisfied with cooperation with the Government than those from the SEE.

Business representatives in Slovenia claim a typical firm reports 94% of its total annual sales for tax purposes. It is significantly higher than the SEE average (90%). Similar to annual sales, Slovenian business leaders believe 94% of the actual wage bill is reported for tax purposes. Again, there is a noticeable difference in regards to the SEE region (90%).

In Slovenia, 54% of business respondents think that the information relevant for doing business is easily available, while 26% would not agree with them. Despite the fact that the majority is satisfied, this information is still more hardly accessible (3.3) than in SEE (3.6).

When it comes to consistency and predictability of interpretations of the important laws and regulations, two fifths of business representatives in Slovenia consider them to be arbitrary and changeable. In line with that, it is not surprising that they are much more dissatisfied (average score is 2.6) than their colleagues in the SEE region (3.1).

Almost three quarters of business leaders from Slovenia (73%) are not satisfied with the government's treatment in a view of consulting private sector in the process of drafting new laws and regulations relevant for doing business (average score is 1.9). Although dissatisfaction prevails in SEE as well (2.2), they still show higher level of contentment regarding this issue.

Majority of Slovenian business community (44%) consider practical and legal changes made over the last year to be without any effect to their revenues. But still significantly larger number (31%) than in the SEE (20%) feels their negative impact.

Only 7% of Slovenian companies do not consider the listed regulations to be obstacles to their business success. Half of the majority which are of the opposite opinion find tax-related regulations to be the biggest barrier. Employment regulations are recognized as second most problematic legal act (35%), while those referred to planning/building/development come in third (13%). All mentioned barriers are perceived more seriously in Slovenia than in the SEE.

Number of companies which have had cases before arbitration courts in the past 3 years is significantly smaller in Slovenia (5%) than in the SEE (26%).

Table 14: Slovenia - Financial issues: accessibility of loans and overdue payments

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?

| | Internal funds/retained earnings | Borrowing from local private commercial banks | Borrowing from foreign banks | Equity (i.e. issue new shares) | Borrowing from publicly owned banks, including public development banks | Loans from family/friends | Money lenders or other informal sources (other than family/friends) |
|----------|----------------------------------|---|------------------------------|--------------------------------|---|---------------------------|---|
| Slovenia | 39 | 8 | 2 | 1 | 7 | 2 | 1 |
| SEE | 56 | 7 | 5 | 5 | 1 | 3 | 0 |

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?

| | Trade credit from suppliers | Trade credit from customers | Credit cards | Leasing arrangement | The government (other than publicly owned banks) | Other |
|----------|-----------------------------|-----------------------------|--------------|---------------------|--|-------|
| Slovenia | 1 | 0 | 0 | 6 | 0 | 13 |
| SEE | 2 | 0 | 1 | 2 | 0 | 4 |

Did your company have a loan from the bank in the past 12 months?

| | Yes | No | DK/refuse |
|----------|-----|----|-----------|
| Slovenia | 47 | 49 | 4 |
| SEE | 34 | 63 | 2 |

How many days did it take to agree the loan with the bank from the date of application? (Respondents who had a loan application - N=82)

| | Up to 7 days | 8-14 days | 15-21 days | Over 21 days | The loan was not approved | DK/refuse | Average number of cases |
|----------|--------------|-----------|------------|--------------|---------------------------|-----------|-------------------------|
| Slovenia | 23 | 27 | 9 | 41 | 0 | 0 | 31 |
| SEE | 26 | 13 | 19 | 27 | 8 | 6 | 21 |

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

| | Yes | No | DK/refuse |
|----------|-----|----|-----------|
| Slovenia | 37 | 59 | 4 |
| SEE | 40 | 57 | 3 |

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

| | Yes | No | DK/refuse |
|----------|-----|----|-----------|
| Slovenia | 33 | 65 | 3 |
| SEE | 24 | 74 | 2 |

Has the problem of late payment caused your business to experience cash flow problems?

| | Yes, it's a permanent problem | Yes, often | Yes, on occasion | No | DK/refuse |
|----------|-------------------------------|------------|------------------|----|-----------|
| Slovenia | 8 | 8 | 19 | 63 | 1 |
| SEE | 7 | 11 | 29 | 50 | 2 |

What percentage of your firm's sales' to customers in value terms in the previous 12 months were...? (Respondents who did not mark DK/refuse - N=194)

| | Paid before delivery of products or services | Paid on delivery of products and services | Sold on credit (payment due after the time of delivery of products and services) |
|----------|--|---|--|
| Slovenia | 12 | 31 | 57 |
| SEE | 12 | 45 | 43 |

What percentage of your firm's purchases of material inputs or services in value terms in the previous 12 months were...? (Respondents who did not mark DK/refuse - N=193)

| | Paid before delivery of products or services | Paid on delivery of products and services | Sold on credit (payment due after the time of delivery of products and services) |
|----------|--|---|--|
| Slovenia | 17 | 29 | 54 |
| SEE | 23 | 41 | 36 |

Over the past 12 months, 39% of Slovenian companies' working capital and new fixed investment have been financed from internal funds i.e. retained earnings. It seems they generally rely on external support such as borrowing from publicly owned banks (7%) and leasing arrangements (6%) more than the SEE businesses.

It is supported by the fact that almost half of the surveyed firms in Slovenia have applied for a bank loan in the past year (47%) compared with a third in the SEE region. Moreover, all of them obtained it. The approval process takes an average of 31 days, which is significantly longer compared to the SEE region (21 days).

It seems that overdue payments are equally frequent in Slovenia and in the SEE (37% of companies in the former economy have to

resolve such cases in the past year). However, in contrast to the SEE region, Slovenian businesses more often initiated court proceedings to settle an overdue payment (33% versus 24% in the SEE). Maybe that is the reason why significantly higher percentage of firms (63%) than in the SEE (50%) have not had any cash flow problems due to late disbursement.

Most common method of payment in Slovenia, regardless of whether it is a sale or a purchase, is on credit - 57% of sales and 54% of purchases were paid in this way during the previous year. Second most frequent case is payment on delivery, while payment before delivery of products or services is the rarest one. If we take a look at the SEE's results, it can be concluded that sales and purchases on credit are noticeably less common than in Slovenia.

Table 15: Slovenia – Corruption

It is common for firms in my line of business to have to pay some irregular 'additional payments/gifts' to 'get things done'.

| | Completely disagree | Tend to disagree | Neither agree nor disagree | Tend to agree | Strongly agree | DK/refuse | Mean |
|----------|---------------------|------------------|----------------------------|---------------|----------------|-----------|------|
| Slovenia | 44 | 21 | 9 | 11 | 3 | 10 | 2,0 |
| SEE | 28 | 17 | 18 | 19 | 8 | 10 | 2,6 |

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

| | Completely disagree | Tend to disagree | Neither agree nor disagree | Tend to agree | Strongly agree | DK/refuse | Mean |
|----------|---------------------|------------------|----------------------------|---------------|----------------|-----------|------|
| Slovenia | 43 | 23 | 10 | 7 | 2 | 15 | 1,9 |
| SEE | 26 | 19 | 19 | 16 | 7 | 13 | 2,5 |

Thinking now of unofficial payments/gifts that firms like yours would make in a given year, could you please tell me how often they would make payments/gifts to get connected and maintain public services?

| | Never | Seldom | Frequently | Always | DK/refuse |
|----------|-------|--------|------------|--------|-----------|
| Slovenia | 69 | 11 | 3 | 3 | 14 |
| SEE | 66 | 14 | 7 | 2 | 10 |

Thinking now of unofficial payments/gifts that firms like yours would make in a given year, could you please tell me how often they would make payments/gifts to obtain business licenses and permits?

| | Never | Seldom | Frequently | Always | DK/refuse |
|----------|-------|--------|------------|--------|-----------|
| Slovenia | 75 | 9 | 1 | 1 | 14 |
| SEE | 64 | 13 | 11 | 3 | 9 |

Thinking now of unofficial payments/gifts that firms like yours would make in a given year, could you please tell me how often they would make payments/gifts to obtain government contracts?

| | Never | Seldom | Frequently | Always | DK/refuse |
|----------|-------|--------|------------|--------|-----------|
| Slovenia | 73 | 8 | 4 | 2 | 14 |
| SEE | 58 | 11 | 14 | 5 | 11 |

Thinking now of unofficial payments/gifts that firms like yours would make in a given year, could you please tell me how often they would make payments/gifts to deal with occupational health and safety inspections?

| | Never | Seldom | Frequently | Always | DK/refuse |
|----------|-------|--------|------------|--------|-----------|
| Slovenia | 76 | 7 | 2 | 0 | 14 |
| SEE | 64 | 13 | 10 | 3 | 10 |

Thinking now of unofficial payments/gifts that firms like yours would make in a given year, could you please tell me how often they would make payments/gifts to deal with fire and building inspections?

| | Never | Seldom | Frequently | Always | DK/refuse |
|----------|-------|--------|------------|--------|-----------|
| Slovenia | 78 | 6 | 2 | 0 | 14 |
| SEE | 64 | 13 | 11 | 2 | 10 |

Thinking now of unofficial payments/gifts that firms like yours would make in a given year, could you please tell me how often they would make payments/gifts to deal with environmental inspections?

| | Never | Seldom | Frequently | Always | DK/refuse |
|----------|-------|--------|------------|--------|-----------|
| Slovenia | 79 | 5 | 2 | 0 | 14 |
| SEE | 67 | 12 | 9 | 2 | 11 |

Thinking now of unofficial payments/gifts that firms like yours would make in a given year, could you please tell me how often they would make payments/gifts to deal with taxes and tax collection?

| | Never | Seldom | Frequently | Always | DK/refuse |
|----------|-------|--------|------------|--------|-----------|
| Slovenia | 77 | 6 | 2 | 0 | 15 |
| SEE | 64 | 12 | 10 | 3 | 11 |

Thinking now of unofficial payments/gifts that firms like yours would make in a given year, could you please tell me how often they would make payments/gifts to deal with customs/imports?

| | Never | Seldom | Frequently | Always | DK/refuse |
|----------|-------|--------|------------|--------|-----------|
| Slovenia | 76 | 6 | 3 | 0 | 14 |
| SEE | 65 | 11 | 8 | 3 | 13 |

Thinking now of unofficial payments/gifts that firms like yours would make in a given year, could you please tell me how often they would make payments/gifts to deal with courts?

| | Never | Seldom | Frequently | Always | DK/refuse |
|----------|-------|--------|------------|--------|-----------|
| Slovenia | 76 | 6 | 2 | 1 | 14 |
| SEE | 68 | 11 | 6 | 2 | 13 |

Thinking now of unofficial payments/gifts that firms like yours would make in a given year, could you please tell me how often they would make payments/gifts to influence the content of new legislation, rules, decrees, etc.?

| | Never | Seldom | Frequently | Always | DK/refuse |
|----------|-------|--------|------------|--------|-----------|
| Slovenia | 77 | 3 | 4 | 1 | 16 |
| SEE | 69 | 9 | 6 | 2 | 13 |

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?

| | By reporting the serious wrongdoing to people in authority, via official channels | By reporting the serious wrongdoing to journalists or news organisations | By reporting the serious wrongdoing directly to the general public, via the Internet, Twitter, Facebook or on online blogs | Some other way | None of the above | DK/refuse |
|----------|---|--|--|----------------|-------------------|-----------|
| Slovenia | 19 | 19 | 6 | 7 | 38 | 11 |
| SEE | 39 | 11 | 5 | 7 | 29 | 8 |

An overall outlook at the issues related to corruption is enough to conclude that business leaders from Slovenia are more convinced of the proper acting of both firms in their line of business and competent authorities than their colleagues from the SEE region. Therefore, two thirds of Slovenian companies consider unofficial payments/gifts to be uncommon and the same number refuses to believe their amount is known in advance. On the other hand, only 45% of SEE business community would agree with such opinion. Consideration of specific areas which might be subject to additional payments/gifts confirms that corruption is more widespread in the SEE region than in Slovenia. The percentage of business representatives who are convinced of the incorruptibility of various institutions, inspection bodies, etc. ranges from 69% to 79% in Slovenia and from 58% to 69% in the SEE.

When they were asked to choose the most appropriate way to stop serious wrongdoing, the same number of Slovenian business people (19%) opted for reporting to people in authority via official channels and informing journalists or news organizations. But still the largest number (38%) does not find any of the listed ways effective enough.

Table 16: Slovenia - Export and import

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

| | Sold domestically | Exported to the SEE region | Exported to the EU | Exported to third countries |
|----------|-------------------|----------------------------|--------------------|-----------------------------|
| Slovenia | 76 | 5 | 15 | 5 |
| SEE | 86 | 5 | 8 | 2 |

Why doesn't your company export? (Respondents who do not export - N=103)

| | Our goods/services isn't/aren't suitable for export | We don't have any plans/interest to export | We don't have capacities to export | Complicated administrative procedures | We don't know how to find foreign partners | Other |
|----------|---|--|------------------------------------|---------------------------------------|--|-------|
| Slovenia | 49 | 27 | 6 | 1 | 1 | 15 |
| SEE | 36 | 30 | 18 | 6 | 3 | 8 |

| | We don't know how to export | There is no competent authority in your place of living that could provide relevant information on export procedure | Linguistic barrier | DK/refuse |
|----------|-----------------------------|---|--------------------|-----------|
| Slovenia | 0 | 0 | 0 | 2 |
| SEE | 1 | 1 | 1 | 3 |

What percentage of your firm's material inputs and supplies are...?

| | Purchased from domestic sources | Imported from the SEE region | Imported from the EU | Imported from third countries |
|----------|---------------------------------|------------------------------|----------------------|-------------------------------|
| Slovenia | 67 | 3 | 26 | 4 |
| SEE | 70 | 5 | 21 | 4 |

What percentage of your domestic sales goes to...?

| | Government or government agencies | Publicly owned or controlled enterprises | Multinationals located in your economy | Your firm's parent company or affiliated subsidiaries | Large private domestic firms | Small firms and individuals | Other |
|----------|-----------------------------------|--|--|---|------------------------------|-----------------------------|-------|
| Slovenia | 4 | 8 | 7 | 6 | 19 | 45 | 10 |
| SEE | 2 | 9 | 6 | 4 | 13 | 63 | 3 |

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

| | Up to 2 days | 3 - 5 days | Over 5 days | Do not have imported goods | DK/refuse |
|----------|--------------|------------|-------------|----------------------------|-----------|
| Slovenia | 15 | 9 | 8 | 64 | 4 |
| SEE | 34 | 11 | 5 | 48 | 3 |

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

| | Up to 2 days | 3 - 5 days | Over 5 days | Do not have exported goods | DK/refuse |
|----------|--------------|------------|-------------|----------------------------|-----------|
| Slovenia | 17 | 6 | 2 | 49 | 26 |
| SEE | 28 | 6 | 3 | 61 | 2 |

If your company exports to the SEE region, what are the main obstacles to your exports?

| | Export to the SEE region | Do not export to the SEE region |
|----------|--------------------------|---------------------------------|
| Slovenia | 21 | 79 |
| SEE | 27 | 73 |

If your company exports to the SEE region, what are the main obstacles to your exports?

| | Need for licenses or permits | Need to hardcopy documents or certificates | Slow import-export procedures | Unnecessary physical examinations or inspections | Classification uncertainty |
|----------|------------------------------|--|-------------------------------|--|----------------------------|
| Slovenia | 9 | 8 | 4 | 2 | 2 |
| SEE | 6 | 10 | 6 | 6 | 2 |

If your company exports to the SEE region, what are the main obstacles to your exports?

| | Custom delays | Risks of unclear compliance rules | Wide variability in clearance time | Obscure or inconsistent rules of origin | VAT |
|----------|---------------|-----------------------------------|------------------------------------|---|-----|
| Slovenia | 2 | 2 | 2 | 1 | 1 |
| SEE | 2 | 3 | 2 | 5 | 3 |

To what extent do you agree that your company is threatened by competition from abroad?

| | Totally disagree | Disagree | Agree | Totally agree | DK/refuse | Mean |
|----------|------------------|----------|-------|---------------|-----------|------|
| Slovenia | 23 | 21 | 39 | 12 | 5 | 2,4 |
| SEE | 28 | 31 | 28 | 10 | 3 | 2,2 |

To what extent do you agree that your company is threatened by competition from the SEE region?

| | Totally disagree | Disagree | Agree | Totally agree | DK/refuse | Mean |
|----------|------------------|----------|-------|---------------|-----------|------|
| Slovenia | 38 | 31 | 21 | 3 | 7 | 1,9 |
| SEE | 38 | 31 | 21 | 6 | 4 | 1,9 |

My company's products, goods and services can compete well with products, goods and services from SEE.

| | Totally disagree | Disagree | Agree | Totally agree | DK/refuse | Mean |
|----------|------------------|----------|-------|---------------|-----------|------|
| Slovenia | 12 | 5 | 27 | 43 | 13 | 3,2 |
| SEE | 3 | 5 | 28 | 60 | 4 | 3,5 |

My company's products, goods and services can compete well with products, goods and services from other EU countries.

| | Totally disagree | Disagree | Agree | Totally agree | DK/refuse | Mean |
|----------|------------------|----------|-------|---------------|-----------|------|
| Slovenia | 8 | 4 | 33 | 46 | 9 | 3,3 |
| SEE | 3 | 7 | 29 | 54 | 6 | 3,4 |

To what extent do you think that you are informed about the regional free trade agreement (CEFTA 2006)?

| | Not informed at all | Slightly informed | Mostly informed | Completely informed | DK/refuse | Mean |
|----------|---------------------|-------------------|-----------------|---------------------|-----------|------|
| Slovenia | 50 | 31 | 10 | 2 | 7 | 1,6 |
| SEE | 24 | 36 | 27 | 12 | 2 | 2,3 |

To what extent do you agree with the statement - My company has benefited from the regional free trade agreement (CEFTA 2006)? (Those who export and import - N=150)

| | Totally disagree | Disagree | Agree | Totally agree | DK/refuse | Mean |
|----------|------------------|----------|-------|---------------|-----------|------|
| Slovenia | 27 | 19 | 17 | 3 | 35 | 1,9 |
| SEE | 29 | 17 | 30 | 11 | 14 | 2,3 |

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

| | It is easier to export to the CEFTA region | It is easier to export to the EU | It's the same | DK/refuse |
|----------|--|----------------------------------|---------------|-----------|
| Slovenia | 4 | 47 | 17 | 33 |
| SEE | 22 | 32 | 27 | 19 |

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)?

| | Local suppliers should be given priority | Local suppliers should be treated the same as foreign suppliers | DK/refuse |
|----------|--|---|-----------|
| Slovenia | 66 | 30 | 4 |
| SEE | 74 | 22 | 4 |

According to your opinion, which market in the SEE region is the most open one? (Respondents who can rank - N=77, rank is on a scale of 1 to 7 where 1 means most open and 7 least open)

| | Montenegro | Serbia | Bosnia and Herzegovina | Kosovo* | Croatia | The Former Yugoslav Republic of Macedonia | Albania |
|----------|------------|--------|------------------------|---------|---------|---|---------|
| Slovenia | 2,1 | 2,7 | 3,4 | 4,1 | 4,3 | 5,7 | 5,7 |
| SEE | 3,6 | 3,4 | 4,5 | 3,8 | 4,0 | 3,9 | 4,8 |

Although most part (76%) of the Slovenian companies' sales is domestic, it is still significantly less compared to the SEE (86%). At the same time, remarkably larger amount of their products/services is exported to the EU (15% vs. 8% in SEE) and third countries (5% vs. 2% in SEE) as well. Another advantage in comparison to the SEE region refers to the number of exporters - 51% of versus 38% in SEE. Main reasons for not dealing with export recorded among non-exporters in Slovenia are the same as in SEE - the inadequacy of goods and services (49%) and lack of plans/interest to export (27%).

When it comes to import activity, the difference is not so big - 67% of Slovenian raw

materials and supplies come from domestic sources (vs. 70% in SEE), 26% are imported from the EU and the rest is supplied from the SEE (3%) or third countries (4%).

Small firms and individuals are pointed out as the main domestic buyers in Slovenia, 45% of sales go to them. This is followed by the large private domestic companies (19%). Compared to the SEE, the former purchaser is less important whereas the latter is more important to the Slovenian enterprises.

Interestingly, a total number of importers is noticeably smaller in Slovenia (32%) than in the SEE (50%). About half of all importers estimate that completion of import procedures

takes on average up to 2 days. Similarly, most exporters (about a third) state that the time it takes exported goods to clear customs is on average up to 2 days. Slovenian companies which used to export to the SEE region (21% of the surveyed firms) recognize the need for licenses or permits (9%) and the need for hard-copy documents (8%) as the biggest obstacles to that activity.

According to the results of the questions on competition, Slovenian business representatives are less self-confident than those from the SEE region. They perceive market rivals from abroad more seriously (average score is 2.4 vs. 2.2 in SEE). They are also more sceptical that their goods and services can compete well with foreign ones regardless of where they come from.

Given that Slovenia is not a CEFTA Party, the Slovenian firms, as expected, are not much

familiar with the regional free trade agreement (CEFTA 2006), average score is 1.6. That explains why they do not see significant benefits from it, but also why almost half of them consider export to the EU to be easier. Although majority (66%) agree that local suppliers should be given priority in public procurements that number is still significantly lower than in the SEE region (74%). Despite the conclusion above that they are more concerned about competition from abroad, this could mean that Slovenia is more open to foreign businesses.

According to Slovenian business respondents who were able to share their opinion about the openness of some economies (12%), Montenegro (2.1) is by far the most open SEE market, followed by Serbia (2.7). On the other hand, Albania and The Former Yugoslav Republic of Macedonia are estimated as convincingly least open (5.7).

Table 17: Slovenia - Innovation and technology

Does your company use the Internet for...?

| | Communication (Email, Skype, etc.) | Selling your products or services over the Internet | Purchasing products or services for your company over the Internet | Presenting your company through company website | Communication with customers/clients/partners through social networks (Facebook, twitter, LinkedIn, etc.) | Provision of customer services or support online | DK/refuse |
|----------|------------------------------------|---|--|---|---|--|-----------|
| Slovenia | 94 | 61 | 65 | 85 | 61 | 59 | 0 |
| SEE | 89 | 49 | 48 | 70 | 50 | 31 | 4 |

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

| | Yes | No | DK/refuse |
|----------|-----|----|-----------|
| Slovenia | 20 | 77 | 3 |
| SEE | 16 | 83 | 1 |

Have you introduced new or significantly improved products and/or services in the past twelve months?

| | Yes | No | DK/refuse |
|----------|-----|----|-----------|
| Slovenia | 44 | 54 | 2 |
| SEE | 56 | 43 | 1 |

Have you introduced new or significantly improved production and/or service delivery processes in the last twelve months?

| | Yes | No | DK/refuse |
|----------|-----|----|-----------|
| Slovenia | 45 | 52 | 2 |
| SEE | 49 | 50 | 2 |

Regardless of the listed area, advantages of the Internet are significantly better recognized among Slovenian business community compared to the SEE one. Thus, even 94% of Slovenian companies use the Internet for communication. The second most commonly used element of the Internet is the company website mentioned by 85% of firms. Two thirds purchase online while about 60% of the respondents cite they gladly use the Internet for online selling, provision of customer support

and communication with customers through social networks.

Every fifth Slovenian company (20%) has established cooperation with a university over the past three years in order to help develop new products or services. When it comes to introducing new or upgrading existing capacity, 45% of them stress they have had such activities related to products/services and production/services delivery processes.

Table 18: Slovenia - Skills needs

What percentage of the workforce at your firm has following education levels?

| | Without or unfinished primary school | Primary school | Vocational qualification | Secondary school qualification | Some university education or higher |
|----------|--------------------------------------|----------------|--------------------------|--------------------------------|-------------------------------------|
| Slovenia | 1 | 5 | 21 | 39 | 34 |
| SEE | 0 | 3 | 23 | 45 | 29 |

Would you agree that the skills taught in the educational system meet the needs of your enterprise?

| | Totally disagree | Disagree | Neither agree nor disagree | Agree | Totally agree | DK/refuse | Mean |
|----------|------------------|----------|----------------------------|-------|---------------|-----------|------|
| Slovenia | 19 | 31 | 22 | 21 | 4 | 3 | 2,6 |
| SEE | 17 | 14 | 15 | 31 | 22 | 1 | 3,3 |

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

| | Not likely at all | Not likely | Neither likely nor unlikely | Likely | Very likely | DK/refuse | Mean |
|----------|-------------------|------------|-----------------------------|--------|-------------|-----------|------|
| Slovenia | 4 | 10 | 11 | 43 | 30 | 1 | 3,8 |
| SEE | 2 | 4 | 13 | 41 | 39 | 1 | 4,1 |

Did you have vacancies over the past 12 months that have proved hard to fill?

| | Yes | No | DK/refuse |
|----------|-----|----|-----------|
| Slovenia | 40 | 59 | 1 |
| SEE | 31 | 69 | 0 |

Why do you think this is the case? (Respondents who had difficulty in filling vacancies - N=80)

| | Lacking skills of applicants | Salary and compensation offered by the company is not competitive | Other | DK/refuse |
|----------|------------------------------|---|-------|-----------|
| Slovenia | 86 | 6 | 8 | 0 |
| SEE | 81 | 5 | 13 | 1 |

Most employees in Slovenia have completed secondary school (39%). Those with a university degree come in second (34%). Despite the fact that almost three quarters of their workforce have at least secondary education, business leaders are barely satisfied with the way how the schooling system in their economy meets the business needs. Having in mind a scale from 1 to 5, the average score is 2.6, which is remarkably lower than in the region (3.3). On the other hand, it seems that

scepticism regarding knowledge and skills available through schooling makes positive attitude towards inexperienced but well-educated young persons - 73% of business representatives are willing to hire them.

Two out of five Slovenian employers confirm they had vacancies that have proved hard to fill over the past 12 months. They agree with their SEE colleagues that the main reason lies in insufficient skills of applicants.

Table 19: Slovenia - Employment practice

How often do you use personal contact (following recommendations of friends and colleagues) when hiring new employees?

| | Often | Sometimes | Never | DK/refuse |
|----------|-------|-----------|-------|-----------|
| Slovenia | 63 | 23 | 12 | 3 |
| SEE | 61 | 31 | 7 | 1 |

How often do you use placing advertisements in the papers and/or online when hiring new employees?

| | Often | Sometimes | Never | DK/refuse |
|----------|-------|-----------|-------|-----------|
| Slovenia | 24 | 25 | 48 | 3 |
| SEE | 27 | 37 | 34 | 2 |

How often do you use the intermediation of the official employment agency when hiring new employees?

| | Often | Sometimes | Never | DK/refuse |
|----------|-------|-----------|-------|-----------|
| Slovenia | 27 | 33 | 37 | 3 |
| SEE | 27 | 37 | 35 | 2 |

How often do you cooperate directly with education institutions when hiring new employees?

| | Often | Sometimes | Never | DK/refuse |
|----------|-------|-----------|-------|-----------|
| Slovenia | 7 | 26 | 63 | 4 |
| SEE | 7 | 21 | 67 | 5 |

How often do you use the intermediation of private employment agencies and/or 'head hunters' when hiring new employees?

| | Often | Sometimes | Never | DK/refuse |
|----------|-------|-----------|-------|-----------|
| Slovenia | 4 | 15 | 77 | 4 |
| SEE | 4 | 13 | 77 | 6 |

How often do you use 'Poaching' employees from the competitors when hiring new employees?

| | Often | Sometimes | Never | DK/refuse |
|----------|-------|-----------|-------|-----------|
| Slovenia | 0 | 10 | 85 | 4 |
| SEE | 1 | 12 | 81 | 6 |

If you could change the number of regular full-time workers your firm currently employs without any restrictions, what would be your optimal level of employment as a percent of your existing workforce?

| | Decrease | Increase | Remained the same | DK/refuse |
|----------|----------|----------|-------------------|-----------|
| Slovenia | 8 | 28 | 58 | 7 |
| SEE | 8 | 27 | 62 | 4 |

| | | Decrease | Increase |
|----------|------|----------|----------|
| Slovenia | Mean | 3,1 | 17,8 |
| SEE | Mean | 5,0 | 21,8 |

Of the total number, how many of your employees are men and how many women?

| | Men | Women |
|----------|-----|-------|
| Slovenia | 64 | 36 |
| SEE | 65 | 35 |

Do you have somebody from below mentioned vulnerable groups working in your company?

| | Persons with disabilities (including persons with special needs) | Displaced persons or refugees | Roma | Other ethnic minorities | DK/refuse |
|----------|--|-------------------------------|------|-------------------------|-----------|
| Slovenia | 29 | 1 | 1 | 7 | 66 |
| SEE | 15 | 12 | 7 | 15 | 64 |

How likely would you employ workers from abroad in your company?

| | Not likely at all | Not likely | Neither likely nor unlikely | Likely | Very likely | DK/refuse | Mean |
|----------|-------------------|------------|-----------------------------|--------|-------------|-----------|------|
| Slovenia | 14 | 17 | 16 | 35 | 15 | 2 | 3,2 |
| SEE | 18 | 17 | 23 | 25 | 14 | 3 | 3,0 |

How likely would you employ workers from the region in your company?

| | Not likely at all | Not likely | Neither likely nor unlikely | Likely | Very likely | DK/refuse | Mean |
|----------|-------------------|------------|-----------------------------|--------|-------------|-----------|------|
| Slovenia | 15 | 17 | 15 | 34 | 16 | 3 | 3,2 |
| SEE | 17 | 16 | 24 | 27 | 14 | 2 | 3,1 |

You said that you would employ workers from the region in your company, from which economy/economies exactly? (Respondents who would likely employ workers from the region - N=23)

| | Albania | Bosnia and Herzegovina | Croatia | Kosovo* | The Former Yugoslav Republic of Macedonia | Montenegro | Serbia | DK/refuse |
|----------|---------|------------------------|---------|---------|---|------------|--------|-----------|
| Slovenia | 19 | 60 | 52 | 33 | 30 | 22 | 48 | 26 |
| SEE | 25 | 57 | 28 | 34 | 37 | 45 | 40 | 19 |

Just like the SEE region, Slovenians consider personal contact to be the most reliable way of hiring new employees - 63% of respondents report they often use it. Recommendations of colleagues or friends are followed by intermediation of the official employment agency whose services are gladly used by 60% of companies at least sometimes. Third most common way of finding relevant workforce is paper/online advertisements practiced by half of firms, at least occasionally.

Majority of business leaders in Slovenia (58%) would keep the current number of their full-time workers; 28% would be willing to increase it, while 8% would consider staff reduction. The average percentage of preferred growth of employment is 17.8%. Gender division within Slovenian companies complies with the SEE

one - total workforce numbers 64% of males and 36% of females. In terms of socially vulnerable groups, they are more inclined to engage people with disabilities (29% vs. 15% in SEE), while percentage of the employed refugees, Roma and other ethnic minorities, is significantly higher in the SEE economies.

Business leaders in Slovenia have the same and, it could be said, more positive than negative attitude towards workers from abroad, no matter if they come from SEE or other economies. The average score on the question about the likelihood of foreign labour employment is 3.2. In addition, half of them would gladly hire people from the SEE region, primarily those from Bosnia and Herzegovina (60%), then from Croatia (52%) and Serbia (48%).

Table 20: Slovenia - Investment in employees

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 any training obliged by law?

| | Yes | No | DK/refuse |
|----------|-----|----|-----------|
| Slovenia | 58 | 40 | 1 |
| SEE | 46 | 54 | 0 |

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

| | Yes | No | Partly (e.g. only for some employee group) | DK/refuse |
|----------|-----|----|--|-----------|
| Slovenia | 48 | 29 | 20 | 2 |
| SEE | 46 | 30 | 24 | 1 |

How would you assess the readiness of employees in your company to acquire additional qualifications in order to advance and get promoted?

| | They are not interested at all in acquiring additional qualifications | They are not interested in acquiring additional qualifications | Neither interested or not interested | They are interested in acquiring additional qualifications | They are very interested in acquiring additional qualifications | DK/refuse | Mean |
|----------|---|--|--------------------------------------|--|---|-----------|------|
| Slovenia | 3 | 10 | 20 | 54 | 11 | 2 | 3,6 |
| SEE | 4 | 7 | 26 | 43 | 17 | 3 | 3,6 |

In your opinion, what is the main reason why someone prefers to work in public sector?

| | Job is safer | Better working conditions (less overtime job and workload) | Better social care and access to health services | Better salary | Better education opportunities | Better advancement opportunities | Better pension after retirement | Other | DK/refuse |
|----------|--------------|--|--|---------------|--------------------------------|----------------------------------|---------------------------------|-------|-----------|
| Slovenia | 63 | 10 | 8 | 7 | 2 | 1 | 1 | 5 | 3 |
| SEE | 46 | 26 | 3 | 11 | 1 | 3 | 3 | 5 | 3 |

Why does someone rather choose to work in private sector?

| | Better salary | Better advancement opportunities | Better working conditions (less overtime job and workload) | Better education opportunities | Job is safer | Better social care and access to health services | Better pension after retirement | Other | DK/refuse |
|----------|---------------|----------------------------------|--|--------------------------------|--------------|--|---------------------------------|-------|-----------|
| Slovenia | 33 | 31 | 5 | 5 | 4 | 0 | 0 | 14 | 8 |
| SEE | 34 | 24 | 5 | 8 | 5 | 1 | 0 | 11 | 11 |

Almost three fifths of business leaders in Slovenia (58%) claim that they have organized additional trainings for their employees in the past year. They invest significantly more in staff development compared to the SEE where 46% of firms confirm similar activities. Furthermore, about half of them ordinarily review skill and training needs of individual workers, while a fifth evaluate only some groups of personnel.

By far the greatest advantage of working in the public sector is job safety, stated by 63% of Slovenian representatives. Better conditions such as less overtime job and workload come in second as cited by 10% of the surveyed population. On the other hand, opinion on the biggest benefit of the private sector is divided - approximately a third cite better salary or better advancement opportunities.

65% of respondents agree that their employees are ambitious enough to acquire additional qualifications in order to advance and be promoted; a fifth of them are not sure, while 13% do not share that opinion.

FOCUS ON SLOVENIA: CONCLUSIONS AND RECOMMENDATIONS

The SEE market is important to Slovenia, but competing in the common EU market is the key to investment and growth. Slovenian economy is well adjusted to functioning within the EU, and there is little if any dissatisfaction with the membership in the EU. The crucial relationship for the business people is that with the government and its responsiveness and support. That is where most of the dissatisfaction comes from. Finally, well-functioning financial sector is vital for this developed economy.

Slovenia, being a small open economy, has to have complementary policies with their business interests. Currently, those seem not to be as fine-tuned as in the past. To improve both the assessment of the current state of affairs and expectations, improvement in the conditions for doing business is needed. In the past, the financial sector, mostly in public ownership, was helpful in that respect, while going forward changes will have to be made in the regulatory and fiscal environment.

Focus on Moldova

MAIN FINDINGS

What stands out in the Moldovan Business Opinion Survey is lack of optimism and, not unrelated with that, uncertainty about macroeconomic stability. In addition, business environment is not seen as conducive to investment. Finally, regional connection, at least with the SEE, is hardly perceived, let alone considered important.

Businessmen do see somewhat better prospects than what they assess is the current state of affairs. This corresponds well with the actual economic developments and forecasts. Still, expected improvements are clearly not sufficient to induce business to increase employment.

There is no sense, however, that there is a significant skill mismatch because the skill structure of employees seems if anything more than adequate. Also, there does not seem as if infrastructure is a major bottleneck, even though Moldovan businesses would prefer additional improvements in the quality of roads.

Due to the structure of exports and imports, with trade with the SEE economies and even the EU not being important or dominant respectively, the importance of these markets and the threat from competition from these areas is not pronounced. That does

not translate, however, into the confidence that competition from foreign firms would not present a problem on the home market. However, the importance and the potential influence of the SEE exports or markets are negligible.

Most of the investment is from retained profits. That is not because of the credit constraints because there is very low (in fact zero) rejection rate of new credit applications. This is characteristic of economies with the larger than usual predominance of small firms, with few if any credit lines tailored to their particular needs. Also, most new investments are in plants and equipment, which are also often financed from profits. There seems to be a liquidity problem as there is somewhat elevated concern with delayed payments.

There is no complaint that laws and regulations are not accessible, but there is dissatisfaction with their quality, as they are seen as harming business. Also, government is not seen as responsive, and the attempts to influence laws and regulations are not seen as common. Corruption seems to be mostly confined to their implementation, which suggests that there is significant discretionary power in the administration.

Labour market works through personal contacts, recommendations, and connections. About half of the employees get support for additional training and their skill development

is monitored. Finally, job security is the reason to seek public sector jobs, which is not characteristic of Moldova only.

ECONOMIC OVERVIEW

After a relatively strong performance in the previous few years, economic growth was negative in 2015. Yet Moldova's GDP remains quite low, even by the SEE standards, at less than 2000 euros in 2015. Unlike other SEE economies, the unemployment rate is much lower, at about six percent in 2015, and slightly less than four percent the previous year. Over the longer period and looking forward, the unemployment rate has been and should remain around that level. The recession in Russia had a negative effect on Moldova last year in the form of a decline in remittances, which is an important source of income and therefore affects consumption. There was also a major

banking crisis, which proved quite costly for the budget. On top of that, political instability was again particularly bad in 2015.

Prospects are better but point to a modest recovery only in 2016, and it should accelerate over the medium term. However, significant policy changes are required and in the external environment this may not prove helpful especially given the continued slump and political instability in Russia and Ukraine. Under these circumstances, the much needed decisive strengthening of the institutional and legal framework may prove difficult in terms of both design and implementation.

Table 21: Moldova - Perceptions of the general business environment and economic trends

How has the general economic situation changed over the past 12 months?

| | Deteriorated | Remained unchanged | Improved | DK/refuse |
|----------|--------------|--------------------|----------|-----------|
| Slovenia | 80 | 16 | 4 | 0 |
| SEE | 41 | 38 | 20 | 1 |

How do you expect the general economic situation to develop over the next 12 months?

| | Deteriorate | Remain unchanged | Increase | DK/refuse |
|----------|-------------|------------------|----------|-----------|
| Slovenia | 46 | 31 | 16 | 7 |
| SEE | 20 | 41 | 37 | 2 |

How do you expect the number of people employed to change over the next 12 months?

| | Decrease | Remain unchanged | Increase | DK/refuse |
|----------|----------|------------------|----------|-----------|
| Slovenia | 57 | 25 | 15 | 2 |
| SEE | 27 | 41 | 30 | 2 |

Do you believe that your economy is good place to invest?

| | It is not good place to invest at all | It is mostly not good place to invest | Neither good nor bad place to invest | It is mostly good place to invest | It is great place to invest | DK/refuse | Mean |
|----------|---------------------------------------|---------------------------------------|--------------------------------------|-----------------------------------|-----------------------------|-----------|------|
| Slovenia | 22 | 26 | 23 | 23 | 3 | 2 | 2,6 |
| SEE | 11 | 16 | 29 | 34 | 10 | 1 | 3,2 |

How important is the quality of regional cooperation in SEE to your business?

| | Not important at all | Not very important | Important | Very important | DK/refuse | Mean |
|----------|----------------------|--------------------|-----------|----------------|-----------|------|
| Slovenia | 52 | 12 | 27 | 5 | 4 | 1,8 |
| SEE | 26 | 21 | 33 | 18 | 1 | 2,4 |

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

| | Bad thing | Neither good nor bad | Good thing | DK/refuse |
|----------|-----------|----------------------|------------|-----------|
| Slovenia | 22 | 32 | 42 | 5 |
| SEE | 9 | 33 | 54 | 4 |

How easy or hard is to start private business in your economy?

| | Very hard | Hard | Neither easy nor hard | Easy | Very easy | DK/refuse | Mean |
|----------|-----------|------|-----------------------|------|-----------|-----------|------|
| Slovenia | 19 | 40 | 17 | 16 | 6 | 3 | 2,5 |
| SEE | 29 | 36 | 22 | 9 | 2 | 1 | 2,2 |

At first glance, the fact that as much as 80% of Moldovan business community has a negative opinion on the economic development over the past 12 months seems demoralizing. But to some extent, brighter expectations for the near future make the situation a bit easier - 47% of respondents think that there will at least be no further deterioration, while 40% share this opinion with regard to the number of employees over the next year.

Moldovan business people are not too willing to recommend investing in their economy (the average score is 2.6); almost half of them say that it would not be a good idea, while a quarter would support such decision.

Taking into account all of the above mentioned issues, Moldova differs a lot from the

SEE region (pessimistic sentiment is far more prominent), but the following question shows a particularly significant difference. Namely, compared to the SEE (26%), twice as many companies (52%) consider regional cooperation not important at all. Moldovans' attitude towards EU membership is also less positive - 22% (vs. 9% in SEE) think it would be bad for their business, while 42% (vs. 54% in SEE) would welcome the EU accession.

Three out of five firms in Moldova agree that it was hard to start a private business in their economy and slightly more than a fifth is of the opposite opinion. Comparing average scores, this is the only issue where the view of Moldovan companies is more positive than the SEE one (2.5 vs. 2.2 in SEE).

Table 22: Moldova - Business trends

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

| | Deteriorated | Remained unchanged | Improved | DK/refuse |
|---------|--------------|--------------------|----------|-----------|
| Moldova | 43 | 41 | 16 | 0 |
| SEE | 23 | 42 | 35 | 0 |

How has demand for your company's products/services changed over the past 12 months?

| | Deteriorated | Remained unchanged | Improved | DK/refuse |
|---------|--------------|--------------------|----------|-----------|
| Moldova | 46 | 33 | 20 | 1 |
| SEE | 22 | 42 | 36 | 0 |

How do you expect the demand for your company's products/services to change over the next 12 months?

| | Decrease | Remain unchanged | Increase | DK/refuse |
|---------|----------|------------------|----------|-----------|
| Moldova | 25 | 36 | 25 | 13 |
| SEE | 9 | 40 | 49 | 2 |

How has your firm's total employment changed over the past 12 months?

| | Decreased | Remained unchanged | Increased | DK/refuse |
|---------|-----------|--------------------|-----------|-----------|
| Moldova | 29 | 56 | 14 | 1 |
| SEE | 18 | 54 | 27 | 0 |

What percentage of your total firm investing in 2015 went on each of the following? (Respondents who did not mark DK/refuse - N=185)

| | Intangible assets | Property, plant and equipment | Biological assets | Long term financial investments | Other |
|---------|-------------------|-------------------------------|-------------------|---------------------------------|-------|
| Moldova | 11 | 52 | 6 | 16 | 15 |
| SEE | 17 | 45 | 2 | 13 | 22 |

How has your labour and other costs (e.g. energy, etc.) changed over the past 12 months?

| | Decreased | Remained unchanged | Increased | DK/refuse |
|---------|-----------|--------------------|-----------|-----------|
| Moldova | 5 | 23 | 71 | 0 |
| SEE | 5 | 42 | 52 | 1 |

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?

| | Yes - a lot | Yes - a little | No | DK/refuse |
|---------|-------------|----------------|----|-----------|
| Moldova | 29 | 41 | 29 | 1 |
| SEE | 36 | 37 | 25 | 2 |

How problematic are these different factors for the operation and growth of your business? (Scores are on a scale of 1 to 4 where 1 means major obstacle and 4 no obstacle)

| | Macro-economic instability | Tax rates | Corruption | Anti-competitive practices of other competitors | Uncertainty about regulatory policies | Cost of financing | Functioning of the judiciary | Access to financing |
|---------|----------------------------|-----------|------------|---|---------------------------------------|-------------------|------------------------------|---------------------|
| Moldova | 2,1 | 2,2 | 2,5 | 2,6 | 2,6 | 2,7 | 2,9 | 2,9 |
| SEE | 2,9 | 2,5 | 2,8 | 2,6 | 2,8 | 2,6 | 2,8 | 3,0 |

| | Labor regulations | Electricity | Tax administration | Contract violations by customers and suppliers | Organised crime/mafia | Business licensing and permits | Customs and trades regulations | Title or leasing of land |
|---------|-------------------|-------------|--------------------|--|-----------------------|--------------------------------|--------------------------------|--------------------------|
| Moldova | 3,1 | 2,8 | 2,9 | 2,9 | 2,9 | 3,0 | 3,1 | 3,2 |
| SEE | 2,9 | 3,3 | 2,9 | 2,9 | 3,3 | 3,0 | 3,2 | 3,4 |

| | Skills and education of available workers | Access to land | Transportation | Refugee crisis | Telecommunications |
|---------|---|----------------|----------------|----------------|--------------------|
| Moldova | 3,2 | 3,2 | 3,5 | 3,6 | 3,6 |
| SEE | 3,1 | 3,4 | 3,4 | 3,6 | 3,6 |

Approximately two fifths of companies in Moldova report a recent decline in business, while the same number does not see any changes in their business development. Expectations towards future demand for products and services are more positive than present estimates - 46% of representatives say that demand dropped over the past year, but 25% think that this trend will continue for the next 12 months. In terms of labour cost and all other costs, negative sentiment also prevails - as much as 71% of enterprises complain of their increase.

Similar to the sentiment of the business environment in Moldova in general, businessmen are significantly more disappointed or unsatisfied with all factors related to their businesses than leaders of the SEE firms. That is why it is not surprising that the number of companies which have decreased their workforce is noticeably higher in Moldova (29%) than in the SEE region (18%).

In 2015, companies in Moldova mostly invested in property, plant and equipment (52%), followed by long-term financial arrangements (16%).

Moldovan companies seem quite ecologically aware - 70% of them have taken at least small steps to reduce the harmful environmental impact their business makes.

The question about potential obstacles to operation and growth shows that Moldovans are most concerned about macroeconomic instability (2.1). Tax rates (2.2) and corruption (2.5) are recognized as next biggest barriers. On the other hand, similar to the SEE region, Moldova pays least attention to the refugee crisis and telecommunications (3.6). Interestingly, most of the listed factors are perceived to be significantly more problematic in Moldova than in the SEE. The labour regulations are an exception, being more of a nuisance to the SEE than to Moldovan business leaders.

Table 23: Moldova - Infrastructure

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?

| | Very poor | Poor | Neither poor nor good | Very good | Excellent | DK/refuse | Mean |
|---------|-----------|------|-----------------------|-----------|-----------|-----------|------|
| Moldova | 5 | 16 | 51 | 22 | 1 | 5 | 3,0 |
| SEE | 3 | 15 | 34 | 35 | 10 | 2 | 3,3 |

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

| | Very poor | Poor | Neither poor nor good | Very good | Excellent | DK/refuse | Mean |
|---------|-----------|------|-----------------------|-----------|-----------|-----------|------|
| Moldova | 6 | 17 | 33 | 35 | 7 | 2 | 3,2 |
| SEE | 2 | 7 | 22 | 50 | 18 | 1 | 3,8 |

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

| | In a very negative way | In a negative way | Neither negative nor positive | In a positive way | In a very positive way | DK/refuse | Mean |
|---------|------------------------|-------------------|-------------------------------|-------------------|------------------------|-----------|------|
| Moldova | 4 | 12 | 59 | 21 | 2 | 1 | 3,0 |
| SEE | 2 | 14 | 40 | 35 | 8 | 1 | 3,3 |

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

| | Roads | Telecommunications | Electricity | Railroads |
|---------|-------|--------------------|-------------|-----------|
| Moldova | 76 | 3 | 8 | 2 |
| SEE | 48 | 16 | 11 | 5 |

| | Gas | Air travel | Waterway transport | Other | DK/refuse |
|---------|-----|------------|--------------------|-------|-----------|
| Moldova | 1 | 1 | 0 | 0 | 9 |
| SEE | 4 | 2 | 2 | 5 | 8 |

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

| | It would have a huge positive impact | It would have moderate impact | It would have no impact | DK/refuse |
|---------|--------------------------------------|-------------------------------|-------------------------|-----------|
| Moldova | 21 | 14 | 59 | 5 |
| SEE | 30 | 25 | 42 | 3 |

On a scale from 1 to 5, Moldovan business leaders are moderately satisfied with the existing transport infrastructure (3.0). When answering this question, half had a reserved attitude, while approximately the same number

had a positive (23%) or a negative (21%) opinion. As the number of those who are content is higher (42%), the average score for different types of supplies is slightly higher - 3.2.

Compared to the SEE, infrastructure areas were evaluated more negatively. This is corroborated by the fact that almost twice as many SEE representatives feel the positive infrastructure impact on their business - 23% in Moldova vs. 43% in SEE.

A vast majority of companies in Moldova (76%) are convinced that road improvement would have the highest positive impact on their business. This is a significant difference compared to the SEE region where the roads are also considered the area of priority but to a lesser extent (48%). Electricity comes in second, but

is far behind the roads - the importance of its upgrading was mentioned by 8% of respondents in Moldova.

Another difference compared to the SEE region can be seen in the issue of elimination of roaming charges when travelling to the SEE. As expected, there are noticeably more companies in Moldova which would not see any benefits (59% vs. 42% in SEE). In spite of this, the number of those with the opposite opinion is not negligible - 21% of firms agree that eliminating roaming costs would be a great advantage.

Table 24: Moldova - Legal and regulatory framework

How much do you feel the Government takes into account the concerns of businesses?

| | Very much | Quite a lot | A little | Not at all | DK/refuse | Mean |
|---------|-----------|-------------|----------|------------|-----------|------|
| Moldova | 2 | 4 | 40 | 53 | 1 | 3,4 |
| SEE | 1 | 9 | 49 | 38 | 3 | 3,3 |

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

| | Up to 25% | 26-50% | 51-75% | 76-100% | DK/refuse | Mean |
|---------|-----------|--------|--------|---------|-----------|------|
| Moldova | 1 | 11 | 7 | 82 | 0 | 89 |
| SEE | 1 | 6 | 8 | 61 | 25 | 90 |

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

| | Up to 25% | 26-50% | 51-75% | 76-100% | DK/refuse | Mean |
|---------|-----------|--------|--------|---------|-----------|------|
| Moldova | 2 | 9 | 8 | 81 | 0 | 89 |
| SEE | 1 | 5 | 8 | 61 | 24 | 90 |

Information on the laws and regulations affecting my firm is easy to obtain.

| | Completely disagree | Tend to disagree | Neither agree nor disagree | Tend to agree | Strongly agree | DK/refuse | Mean |
|---------|---------------------|------------------|----------------------------|---------------|----------------|-----------|------|
| Moldova | 6 | 9 | 27 | 35 | 22 | 1 | 3,6 |
| SEE | 6 | 11 | 23 | 35 | 23 | 2 | 3,6 |

Interpretations of the laws and regulations affecting my firm are consistent and predictable.

| | Completely disagree | Tend to disagree | Neither agree nor disagree | Tend to agree | Strongly agree | DK/refuse | Mean |
|---------|---------------------|------------------|----------------------------|---------------|----------------|-----------|------|
| Moldova | 6 | 12 | 29 | 36 | 14 | 3 | 3,4 |
| SEE | 14 | 17 | 27 | 28 | 12 | 2 | 3,1 |

To what extent are you satisfied with how the government consults and involves private sector in the process of drafting new laws and regulations relevant for doing business?

| | Not satisfied at all | Not satisfied | Neither satisfied nor unsatisfied | Satisfied | Fully satisfied | DK/refuse | Mean |
|---------|----------------------|---------------|-----------------------------------|-----------|-----------------|-----------|------|
| Moldova | 41 | 29 | 21 | 6 | 2 | 1 | 2,0 |
| SEE | 28 | 33 | 28 | 8 | 1 | 3 | 2,2 |

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

| | Yes, changes with very negative effect on revenue | Yes, changes with negative effect on revenue | Changes with neither negative nor positive effect on revenue | Yes, changes with positive effect on revenue | Yes, changes with very positive effect on revenue | DK/refuse |
|---------|---|--|--|--|---|-----------|
| Moldova | 20 | 29 | 38 | 6 | 0 | 7 |
| SEE | 7 | 20 | 54 | 9 | 1 | 10 |

Which regulations do you consider to be an obstacle to the success of the business?

| | Tax-related | Trading standards | None - no regulations an obstacle | Minimum wage regulations | No specific regulations/all regulations | Providing information/record-keeping | Planning/building/development |
|---------|-------------|-------------------|-----------------------------------|--------------------------|---|--------------------------------------|-------------------------------|
| Moldova | 55 | 27 | 14 | 12 | 7 | 6 | 6 |
| SEE | 43 | 12 | 13 | 11 | 20 | 9 | 8 |

Which regulations do you consider to be an obstacle to the success of the business?

| | Pensions | Health and safety regulations | Employment regulations | Working time | Environmental regulations | DK/refuse |
|---------|----------|-------------------------------|------------------------|--------------|---------------------------|-----------|
| Moldova | 6 | 5 | 5 | 4 | 2 | 1 |
| SEE | 4 | 10 | 18 | 6 | 5 | 3 |

Has your firm had any cases in arbitration courts in the last 36 months?

| | Yes | No | DK/refuse |
|---------|-----|----|-----------|
| Moldova | 16 | 83 | 1 |
| SEE | 26 | 71 | 3 |

How many cases in civil or commercial arbitration courts have involved your firm either as a plaintiff or defendant in the last 36 months? (Respondents who had cases in arbitration courts - N=34)?

| | 1-3 cases | 4-6 cases | 7-10 cases | Over 10 cases | DK/refuse | Average number of cases |
|---------|-----------|-----------|------------|---------------|-----------|-------------------------|
| Moldova | 65 | 12 | 9 | 3 | 12 | 3 |
| SEE | 48 | 19 | 11 | 9 | 13 | 13 |

According to 53% of companies in Moldova, the Government is not at all devoted to concerns of businesses and 40% consider government efforts to be small. Looking at average scores, business people from Moldova are less satisfied with cooperation with the Government than those from SEE.

When they were asked to estimate what part of total annual sales and actual wage bill is reported for tax purposes by a typical firm, business representatives in Moldova claimed this to be 89% in both cases.

Regarding the availability of the laws and regulations affecting their company, respondents seem generally satisfied - 57% of them agree it is easy to obtain them while 15% do not think so (the average score is 3.6). Consistency and predictability of legal interpretations was rated positively by half of the surveyed population. Therefore, although the average score is slightly lower (3.4), it is still higher than in the SEE region (3.1).

Regarding relations between the Government and the Moldovan private sector, another relevant fact is that as much as 70% of companies say they should be far more seriously involved in the process of drafting new laws and regulations relevant for doing business (the average score is 2.0). Although dissatisfaction also prevails in SEE (2.2), regional business leaders are still more content with this issue.

Half of the business community in Moldova is convinced that practical and legal changes made during the previous year affect their

business negatively, which is significantly more than in SEE where 27% of respondents share this opinion. The second most numerous group consists of those who do not see any impact of mentioned changes, while 6% have benefited from them.

Approximately every seventh Moldovan company does not consider regulations to be barriers to the business success. The majority is of the opposite opinion, out of which 55% find tax-related regulations to be the most problematic issue. Trading standards come in second (27%), while minimum wage regulations are recognized as third biggest obstacle (12%). The first two problems are perceived more seriously in Moldova than in SEE.

The number of companies which have had cases before arbitration courts in the past three years is significantly smaller in Moldova (16%) than in SEE (26%). The average for cases processed during this period is also significantly lower in Moldova - 3 vs. 13 in the SEE region.

Table 25: Moldova - Financial issues: accessibility of loans and overdue payments

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?

| | Internal funds/retained earnings | Borrowing from local private commercial banks | Borrowing from foreign banks | Equity (i.e. issue new shares) | Borrowing from publicly owned banks, including public development banks | Loans from family/friends | Money lenders or other informal sources (other than family/friends) |
|---------|----------------------------------|---|------------------------------|--------------------------------|---|---------------------------|---|
| Moldova | 60 | 11 | 1 | 5 | 3 | 8 | 0 |
| SEE | 56 | 7 | 5 | 5 | 1 | 3 | 0 |

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?

| | Trade credit from suppliers | Trade credit from customers | Credit cards | Leasing arrangement | The government (other than publicly owned banks) | Other |
|---------|-----------------------------|-----------------------------|--------------|---------------------|--|-------|
| Moldova | 4 | 1 | 1 | 1 | 1 | 3 |
| SEE | 2 | 0 | 1 | 2 | 0 | 4 |

Did your company have a loan from the bank in the past 12 months?

| | Yes | No | DK/refuse |
|---------|-----|----|-----------|
| Moldova | 33 | 65 | 2 |
| SEE | 34 | 63 | 2 |

How many days did it take to agree the loan with the bank from the date of application? (Respondents who had a loan application - N=69)

| | Up to 7 days | 8-14 days | 15-21 days | Over 21 days | The loan was not approved | DK/refuse | Average number of cases |
|---------|--------------|-----------|------------|--------------|---------------------------|-----------|-------------------------|
| Moldova | 30 | 16 | 22 | 32 | 0 | 0 | 22 |
| SEE | 26 | 13 | 19 | 27 | 8 | 6 | 21 |

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

| | Yes | No | DK/refuse |
|---------|-----|----|-----------|
| Moldova | 33 | 53 | 13 |
| SEE | 40 | 57 | 3 |

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

| | Yes | No | DK/refuse |
|---------|-----|----|-----------|
| Moldova | 27 | 71 | 2 |
| SEE | 24 | 74 | 2 |

Has the problem of late payment caused your business to experience cash flow problems?

| | Yes, it's a permanent problem | Yes, often | Yes, on occasion | No | DK/refuse |
|---------|-------------------------------|------------|------------------|----|-----------|
| Moldova | 11 | 12 | 31 | 44 | 3 |
| SEE | 7 | 11 | 29 | 50 | 2 |

What percentage of your firm's sales to customers in value terms in the previous 12 months were...? (Respondents who did not mark DK/refuse - N=200)

| | Paid before delivery of products or services | Paid on delivery of products and services | Sold on credit (payment due after the time of delivery of products and services) |
|---------|--|---|--|
| Moldova | 25 | 51 | 24 |
| SEE | 12 | 45 | 43 |

What percentage of your firm's purchases of material inputs or services in value terms in the previous 12 months were...? (Respondents who did not mark DK/refuse - N=197)

| | Paid before delivery of products or services | Paid on delivery of products and services | Sold on credit (payment due after the time of delivery of products and services) |
|---------|--|---|--|
| Moldova | 32 | 46 | 22 |
| SEE | 23 | 41 | 36 |

Over the past 12 months, 60% of Moldovan companies' working capital and new fixed investments have been financed from internal funds i.e. retained earnings. This is followed

by borrowing from local private commercial banks which covered 11% of total financing. The last source is more often used than in the SEE (7%).

One out of three firms have applied for a bank loan in the past 12 months. There were no cases of loan rejection. The approval process takes an average of 22 days.

while 23% have such difficulties often, or even constantly.

It seems that overdue payment is quite a sensitive topic in Moldova, as 13% of company leaders were not ready to talk about this. A third confirmed they had problems caused by late disbursements and slightly more than a quarter (27%) asked courts for help in resolving these issues. The number of those who do not have this kind of difficulty is still higher. In addition, 44% did not experience cash flow problems as a consequence of late payment; 31% faced these problems occasionally,

The most common method of payment in Moldova, whether it is a sale or a purchase, is on delivery of products and services - 51% of sales and 46% of purchases were paid this way in the previous year. In the case of sales, the other two modes are equally represented - about a quarter of total sales were paid before delivery and on credit. The purchasing situation is somewhat different - the share of payment in advance was 32% while deferred payment was used in 22% of cases. In both instances, the latter method was applied significantly less than in the SEE.

Table 26: Moldova - Corruption

It is common for firms in my line of business to have to pay some irregular 'additional payments/gifts' to 'get things done'.

| | Completely disagree | Tend to disagree | Neither agree nor disagree | Tend to agree | Strongly agree | DK/refuse | Mean |
|---------|---------------------|------------------|----------------------------|---------------|----------------|-----------|------|
| Moldova | 35 | 12 | 12 | 27 | 7 | 6 | 2,6 |
| SEE | 28 | 17 | 18 | 19 | 8 | 10 | 2,6 |

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

| | Completely disagree | Tend to disagree | Neither agree nor disagree | Tend to agree | Strongly agree | DK/refuse | Mean |
|---------|---------------------|------------------|----------------------------|---------------|----------------|-----------|------|
| Moldova | 34 | 17 | 15 | 20 | 5 | 8 | 2,4 |
| SEE | 26 | 19 | 19 | 16 | 7 | 13 | 2,5 |

Thinking now of unofficial payments/gifts that firms like yours would make in a given year, could you please tell me how often they would make payments/gifts to get connected and maintain public services?

| | Never | Seldom | Frequently | Always | DK/refuse |
|---------|-------|--------|------------|--------|-----------|
| Moldova | 65 | 15 | 8 | 3 | 10 |
| SEE | 66 | 14 | 7 | 2 | 10 |

Thinking now of unofficial payments/gifts that firms like yours would make in a given year, could you please tell me how often they would make payments/gifts to obtain business licenses and permits?

| | Never | Seldom | Frequently | Always | DK/refuse |
|---------|-------|--------|------------|--------|-----------|
| Moldova | 60 | 20 | 8 | 3 | 8 |
| SEE | 64 | 13 | 11 | 3 | 9 |

Thinking now of unofficial payments/gifts that firms like yours would make in a given year, could you please tell me how often they would make payments/gifts to obtain government contracts?

| | Never | Seldom | Frequently | Always | DK/refuse |
|---------|-------|--------|------------|--------|-----------|
| Moldova | 71 | 9 | 7 | 4 | 10 |
| SEE | 58 | 11 | 14 | 5 | 11 |

Thinking now of unofficial payments/gifts that firms like yours would make in a given year, could you please tell me how often they would make payments/gifts to deal with occupational health and safety inspections?

| | Never | Seldom | Frequently | Always | DK/refuse |
|---------|-------|--------|------------|--------|-----------|
| Moldova | 58 | 21 | 9 | 3 | 9 |
| SEE | 64 | 13 | 10 | 3 | 10 |

Thinking now of unofficial payments/gifts that firms like yours would make in a given year, could you please tell me how often they would make payments/gifts to deal with fire and building inspections?

| | Never | Seldom | Frequently | Always | DK/refuse |
|---------|-------|--------|------------|--------|-----------|
| Moldova | 56 | 23 | 9 | 3 | 8 |
| SEE | 64 | 13 | 11 | 2 | 10 |

Thinking now of unofficial payments/gifts that firms like yours would make in a given year, could you please tell me how often they would make payments/gifts to deal with environmental inspections?

| | Never | Seldom | Frequently | Always | DK/refuse |
|---------|-------|--------|------------|--------|-----------|
| Moldova | 60 | 21 | 7 | 2 | 10 |
| SEE | 67 | 12 | 9 | 2 | 11 |

Thinking now of unofficial payments/gifts that firms like yours would make in a given year, could you please tell me how often they would make payments/gifts to deal with taxes and tax collection?

| | Never | Seldom | Frequently | Always | DK/refuse |
|---------|-------|--------|------------|--------|-----------|
| Moldova | 57 | 21 | 8 | 4 | 10 |
| SEE | 64 | 12 | 10 | 3 | 11 |

Thinking now of unofficial payments/gifts that firms like yours would make in a given year, could you please tell me how often they would make payments/gifts to deal with customs/imports?

| | Never | Seldom | Frequently | Always | DK/refuse |
|---------|-------|--------|------------|--------|-----------|
| Moldova | 62 | 13 | 6 | 5 | 13 |
| SEE | 65 | 11 | 8 | 3 | 13 |

Thinking now of unofficial payments/gifts that firms like yours would make in a given year, could you please tell me how often they would make payments/gifts to deal with courts?

| | Never | Seldom | Frequently | Always | DK/refuse |
|---------|-------|--------|------------|--------|-----------|
| Moldova | 69 | 8 | 7 | 2 | 14 |
| SEE | 68 | 11 | 6 | 2 | 13 |

Thinking now of unofficial payments/gifts that firms like yours would make in a given year, could you please tell me how often they would make payments/gifts to influence the content of new legislation, rules, decrees, etc.?

| | Never | Seldom | Frequently | Always | DK/refuse |
|---------|-------|--------|------------|--------|-----------|
| Moldova | 74 | 6 | 5 | 2 | 12 |
| SEE | 69 | 9 | 6 | 2 | 13 |

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?

| | By reporting the serious wrongdoing to people in authority, via official channels | By reporting the serious wrongdoing to journalists or news organisations | By reporting the serious wrongdoing directly to the general public, via the Internet, Twitter, Facebook or on online blogs | Some other way | None of the above | DK/refuse |
|---------|---|--|--|----------------|-------------------|-----------|
| Moldova | 32 | 27 | 9 | 1 | 28 | 2 |
| SEE | 39 | 11 | 5 | 7 | 29 | 8 |

Almost half of the businesses in Moldova (47%) do not think “additional payments/gifts” to “get things done” are common, while a third is of the opposite opinion. Similarly, the majority do not believe in predetermined amount of such costs (51%) and a quarter has a different point of view.

It seems that malpractice is especially related to inspections (fire and building; health and safety; environmental) and tax issues as the fewest respondents are completely convinced of incorruptibility in this sector, compared to other areas. On the other hand, more than 70% of the respondents say that unofficial

payments are never made to influence the content of new legal acts and obtain government contracts.

When asked about the most efficient way to stop serious wrongdoing, most Moldovan business people (32%) chose reporting to people in authority via official channels. Informing journalists or news organizations is recognized as the most appropriate method by 27%, which is a significant difference compared to the SEE where 11% consider this to be helpful. Approximately the same number (28%) finds none of the ways listed effective enough.

Table 27: Moldova - Export and import

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

| | Sold domestically | Exported to the SEE region | Exported to the EU | Exported to third countries |
|---------|-------------------|----------------------------|--------------------|-----------------------------|
| Moldova | 94 | 0 | 4 | 2 |
| SEE | 86 | 5 | 8 | 2 |

Why doesn't your company export? (Respondents who do not export - N=182)

| | Our goods/services isn't/aren't suitable for export | We don't have any plans/interest to export | We don't have capacities to export | Complicated administrative procedures | We don't know how to find foreign partners | Other |
|---------|---|--|------------------------------------|---------------------------------------|--|-------|
| Moldova | 26 | 45 | 19 | 7 | 3 | 1 |
| SEE | 36 | 30 | 18 | 6 | 3 | 8 |

Why doesn't your company export?

| | We don't know how to export | There is no competent authority in your place of living that could provide relevant information on export procedure | Linguistic barrier | DK/refuse |
|---------|-----------------------------|---|--------------------|-----------|
| Moldova | 3 | 4 | 1 | 4 |
| SEE | 1 | 1 | 1 | 3 |

What percentage of your firm's material inputs and supplies are...?

| | Purchased from domestic sources | Imported from the SEE region | Imported from the EU | Imported from third countries |
|---------|---------------------------------|------------------------------|----------------------|-------------------------------|
| Moldova | 70 | 1 | 15 | 14 |
| SEE | 70 | 5 | 21 | 4 |

What percentage of your domestic sales goes to...?

| | Government or government agencies | Publicly owned or controlled enterprises | Multinationals located in your economy | Your firm's parent company or affiliated subsidiaries | Large private domestic firms | Small firms and individuals | Other |
|---------|-----------------------------------|--|--|---|------------------------------|-----------------------------|-------|
| Moldova | 2 | 6 | 3 | 4 | 18 | 52 | 15 |
| SEE | 2 | 9 | 6 | 4 | 13 | 63 | 3 |

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

| | Up to 2 days | 3 - 5 days | Over 5 days | Do not have imported goods | DK/refuse |
|---------|--------------|------------|-------------|----------------------------|-----------|
| Moldova | 21 | 11 | 2 | 54 | 13 |
| SEE | 34 | 11 | 5 | 48 | 3 |

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

| | Up to 2 days | 3 - 5 days | Over 5 days | Do not have exported goods | DK/refuse |
|---------|--------------|------------|-------------|----------------------------|-----------|
| Moldova | 6 | 1 | 1 | 87 | 4 |
| SEE | 28 | 6 | 3 | 61 | 2 |

If your company exports to the SEE region, what are the main obstacles to your exports?

| | Export to the SEE region | Do not export to the SEE region |
|---------|--------------------------|---------------------------------|
| Moldova | 2 | 98 |
| SEE | 27 | 73 |

If your company exports to the SEE region, what are the main obstacles to your exports?

| | Need for licenses or permits | Need to hardcopy documents or certificates | Slow import-export procedures | Unnecessary physical examinations or inspections | Classification uncertainty |
|---------|------------------------------|--|-------------------------------|--|----------------------------|
| Moldova | 1 | 1 | 0 | 0 | 0 |
| SEE | 6 | 10 | 6 | 6 | 2 |

If your company exports to the SEE region, what are the main obstacles to your exports?

| | Custom delays | Risks of unclear compliance rules | Wide variability in clearance time | Obscure or inconsistent rules of origin | VAT |
|---------|---------------|-----------------------------------|------------------------------------|---|-----|
| Moldova | 0 | 0 | 0 | 0 | 0 |
| SEE | 2 | 3 | 2 | 5 | 3 |

To what extent do you agree that your company is threatened by competition from abroad?

| | Totally disagree | Disagree | Agree | Totally agree | DK/refuse | Mean |
|---------|------------------|----------|-------|---------------|-----------|------|
| Moldova | 55 | 15 | 22 | 6 | 2 | 1,8 |
| SEE | 28 | 31 | 28 | 10 | 3 | 2,2 |

To what extent do you agree that your company is threatened by competition from the SEE region?

| | Totally disagree | Disagree | Agree | Totally agree | DK/refuse | Mean |
|---------|------------------|----------|-------|---------------|-----------|------|
| Moldova | 65 | 16 | 14 | 2 | 3 | 1,5 |
| SEE | 38 | 31 | 21 | 6 | 4 | 1,9 |

My company's products, goods and services can compete well with products, goods and services from SEE.

| | Totally disagree | Disagree | Agree | Totally agree | DK/refuse | Mean |
|---------|------------------|----------|-------|---------------|-----------|------|
| Moldova | 19 | 8 | 39 | 26 | 9 | 2,8 |
| SEE | 3 | 5 | 28 | 60 | 4 | 3,5 |

My company's products, goods and services can compete well with products, goods and services from other EU countries.

| | Totally disagree | Disagree | Agree | Totally agree | DK/refuse | Mean |
|---------|------------------|----------|-------|---------------|-----------|------|
| Moldova | 20 | 8 | 40 | 29 | 3 | 2,8 |
| SEE | 3 | 7 | 29 | 54 | 6 | 3,4 |

To what extent do you think that you are informed about the regional free trade agreement (CEFTA 2006)?

| | Not informed at all | Slightly informed | Mostly informed | Completely informed | DK/refuse | Mean |
|---------|---------------------|-------------------|-----------------|---------------------|-----------|------|
| Moldova | 65 | 28 | 3 | 3 | 1 | 1,4 |
| SEE | 24 | 36 | 27 | 12 | 2 | 2,3 |

To what extent do you agree with the statement - My company has benefited from the regional free trade agreement (CEFTA 2006)? (Those who export and import - N=100)

| | Totally disagree | Disagree | Agree | Totally agree | DK/refuse | Mean |
|---------|------------------|----------|-------|---------------|-----------|------|
| Moldova | 48 | 21 | 3 | 4 | 24 | 1,5 |
| SEE | 29 | 17 | 30 | 11 | 14 | 2,3 |

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

| | It is easier to export to the CEFTA region | It is easier to export to the EU | It's the same | DK/refuse |
|---------|--|----------------------------------|---------------|-----------|
| Moldova | 7 | 33 | 30 | 30 |
| SEE | 22 | 32 | 27 | 19 |

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)?

| | Local suppliers should be given priority | Local suppliers should be treated the same as foreign suppliers | DK/refuse |
|---------|--|---|-----------|
| Moldova | 77 | 22 | 0 |
| SEE | 74 | 22 | 4 |

According to your opinion, which market in the SEE region is the most open one? (Respondents who can rank - N=23, rank is on a scale of 1 to 7 where 1 means most open and 7 least open)

| | Montenegro | Croatia | The Former Yugoslav Republic of Macedonia | Serbia | Bosnia and Herzegovina | Kosovo* | Albania |
|---------|------------|---------|---|--------|------------------------|---------|---------|
| Moldova | 3,1 | 3,1 | 3,4 | 3,5 | 4,3 | 5,1 | 5,7 |
| SEE | 3,6 | 4,0 | 3,9 | 3,4 | 4,5 | 3,8 | 4,8 |

As much as 94% of total sales in Moldova are realized locally, which is noticeably higher than in the SEE (86%). Therefore, it is clear why the share of export is quite low - 4% to the EU and 2% to third countries. Lack of ambitions, plans or interests is recognized as the main reason for operating solely on the domestic market (45%), followed by unsuitability of goods and services (26%). Although inputs and supplies are for the most part also purchased locally (70%), this is still a smaller volume compared to sales. The EU and third countries are marked as appreciable sources as well - about 15% of raw materials come from each of those markets. Compared to the SEE, economies outside the SEE region and the EU are more important import partner for Moldova.

Small firms and individuals are the main domestic buyers in Moldova (52%). This is comparable to the SEE, albeit to a much lesser extent. Second major purchasers are large private domestic firms whose share is significantly higher than is the case in the SEE region. According to the majority of 46% of surveyed importers, the time needed for imported goods to clear customs is up to 2 days on average. Due to insufficient number of exporters in Moldova (13% only), valid conclusions on the duration of export procedures cannot

be made. The same applies to the obstacles to export to the SEE region given that only 2% of Moldovan firms cooperate with the SEE economies.

It could be said that Moldovan businesses are very sure of their own superiority - 70% of them do not feel threatened by international competition (the average score is 1.8). They show an even higher level of self-confidence (1.5) when questioned about competitors from the SEE - 80% of representatives do not perceive them as a threat. In both cases, Moldovan business leaders are significantly less concerned about foreign market rivals than their colleagues from SEE. On the other hand, regardless of all the confidence, companies in Moldova are significantly less sure of their own competitiveness when it comes to the goods and services from abroad. 65% of them (vs. 88% in SEE) believe their products can compete well with those coming from the SEE region, while 69% (vs. 83% in SEE) are of the same opinion with regard to the EU products.

In addition, the Moldovan business community is distinctly less familiar with the regional free trade agreement, two thirds of the respondents say that they are not informed at all about CEFTA (the average score is 1.4

vs. 2.3 in SEE). Therefore, it is not surprising that very few firms (7%) have experienced any benefits of the Agreement in contrast to the SEE where two fifths of the respondents confirm they have benefited. A third of them claim it is easier to export to the EU, while slightly less (30%) does not differentiate between the CEFTA region and the EU in terms

of export. The majority (77%) agree that local suppliers should be given priority in public procurements.

Taking into account that only 11% of the heads of Moldovan companies can rank the openness of the SEE markets, valid conclusions on this topic cannot be made.

Table 28: Moldova - Innovation and technology

Does your company use the Internet for...?

| | Communication (Email, Skype, etc.) | Selling your products or services over the Internet | Purchasing products or services for your company over the Internet | Presenting your company through company website | Communication with customers/clients/partners through social networks (Facebook, twitter, LinkedIn, etc.) | Provision of customer services or support online | DK/refuse |
|----------|------------------------------------|---|--|---|---|--|-----------|
| Moldavia | 78 | 53 | 48 | 53 | 61 | 30 | 2 |
| SEE | 89 | 49 | 48 | 70 | 50 | 31 | 4 |

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

| | Yes | No | DK/refuse |
|----------|-----|----|-----------|
| Moldavia | 16 | 83 | 1 |
| SEE | 16 | 83 | 1 |

Have you introduced new or significantly improved products and/or services in the past twelve months?

| | Yes | No | DK/refuse |
|----------|-----|----|-----------|
| Moldavia | 50 | 50 | 0 |
| SEE | 56 | 43 | 1 |

Have you introduced new or significantly improved production and/or service delivery processes in the last twelve months?

| | Yes | No | DK/refuse |
|----------|-----|----|-----------|
| Moldavia | 45 | 54 | 0 |
| SEE | 49 | 50 | 2 |

In Moldova, the Internet is primarily used for communication; 78% of companies use e-mail, Skype, etc. The second most commonly used element of the Internet are social networks as a way of communicating with clients and partners; it is used by 61% of firms. Slightly more than half of all firms (53%) own a website

and sell products/services online, followed by online purchasing (48%). Social networks are significantly more often in use than in the SEE region (50%), while the opposite could be said for regular Internet communication (e-mail, Skype etc.) and company's presentation through the website.

Similar to the SEE, 16% of Moldovan enterprises have collaborated with a university in order to help develop new products or services in the past 3 years. When it comes to introducing new or improving current products or

services, 50% of them have made such efforts in the previous year. Innovations related to production and/or delivery process have been implemented by 45% of businesses.

Table 29: Moldova - Skills needs

What percentage of the workforce at your firm has following education levels?

| | Without or unfinished primary school | Primary school | Vocational qualification | Secondary school qualification | Some university education or higher |
|---------|--------------------------------------|----------------|--------------------------|--------------------------------|-------------------------------------|
| Moldova | 1 | 3 | 35 | 17 | 45 |
| SEE | 0 | 3 | 23 | 45 | 29 |

Would you agree that the skills taught in the educational system meet the needs of your enterprise?

| | Totally disagree | Disagree | Neither agree nor disagree | Agree | Totally agree | DK/refuse | Mean |
|---------|------------------|----------|----------------------------|-------|---------------|-----------|------|
| Moldova | 13 | 13 | 22 | 33 | 19 | 0 | 3,3 |
| SEE | 17 | 14 | 15 | 31 | 22 | 1 | 3,3 |

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

| | Not likely at all | Not likely | Neither likely nor unlikely | Likely | Very likely | DK/refuse | Mean |
|---------|-------------------|------------|-----------------------------|--------|-------------|-----------|------|
| Moldova | 8 | 16 | 11 | 42 | 23 | 0 | 3,6 |
| SEE | 2 | 4 | 13 | 41 | 39 | 1 | 4,1 |

Did you have vacancies over the past 12 months that have proved hard to fill?

| | Yes | No | DK/refuse |
|---------|-----|----|-----------|
| Moldova | 38 | 62 | 0 |
| SEE | 31 | 69 | 0 |

Why do you think this is the case? (Respondents who had difficulty in filling vacancies - N=80)

| | Lacking skills of applicants | Salary and compensation offered by the company is not competitive | Other | DK/refuse |
|---------|------------------------------|---|-------|-----------|
| Moldova | 74 | 23 | 1 | 3 |
| SEE | 81 | 5 | 13 | 1 |

Most employees in Moldova hold a university degree (45%), followed by those with vocational qualification (35%). Both groups are more numerous than in the SEE. More than half of the business representatives (52%) are satisfied with the way the educational system meets the needs of their enterprise (the average score is 3.3). In contrast, 26% think that

the present educational system is unsatisfactory. Considering the overall satisfaction, it is not surprising that two thirds of them would gladly hire educated but inexperienced young people. In this regard, however, they are still more restrained than their colleagues heading companies in the SEE (3.6 vs. 4.1 in SEE).

Over the past year, almost two fifths of enterprises in Moldova had vacancies that were hard to fill. They agree with the SEE representatives that the main reason lies in the

fact that applicants lack skills (74%), but on the other hand, inferior salaries offered by companies are cited significantly more often than in the SEE region (23% vs. 5% in SEE).

Table 30: Moldova - Employment practice

How often do you use personal contact (following recommendations of friends and colleagues) when hiring new employees?

| | Often | Sometimes | Never | DK/refuse |
|---------|-------|-----------|-------|-----------|
| Moldova | 59 | 28 | 13 | 0 |
| SEE | 61 | 31 | 7 | 1 |

How often do you use placing advertisements in the papers and/or online when hiring new employees?

| | Often | Sometimes | Never | DK/refuse |
|---------|-------|-----------|-------|-----------|
| Moldova | 32 | 33 | 35 | 0 |
| SEE | 27 | 37 | 34 | 2 |

How often do you use the intermediation of the official employment agency when hiring new employees?

| | Often | Sometimes | Never | DK/refuse |
|---------|-------|-----------|-------|-----------|
| Moldova | 12 | 22 | 66 | 0 |
| SEE | 27 | 37 | 35 | 2 |

How often do you cooperate directly with education institutions when hiring new employees?

| | Often | Sometimes | Never | DK/refuse |
|---------|-------|-----------|-------|-----------|
| Moldova | 6 | 21 | 73 | 0 |
| SEE | 7 | 21 | 67 | 5 |

How often do you use the intermediation of private employment agencies and/or 'head hunters' when hiring new employees?

| | Often | Sometimes | Never | DK/refuse |
|---------|-------|-----------|-------|-----------|
| Moldova | 2 | 11 | 87 | 0 |
| SEE | 4 | 13 | 77 | 6 |

How often do you use 'Poaching' employees from the competitors when hiring new employees?

| | Often | Sometimes | Never | DK/refuse |
|---------|-------|-----------|-------|-----------|
| Moldova | 2 | 13 | 84 | 0 |
| SEE | 1 | 12 | 81 | 6 |

If you could change the number of regular full-time workers your firm currently employs without any restrictions, what would be your optimal level of employment as a percent of your existing workforce?

| | Decrease | Increase | Remained the same | DK/refuse |
|---------|----------|----------|-------------------|-----------|
| Moldova | 6 | 27 | 63 | 5 |
| SEE | 8 | 27 | 62 | 4 |

| | | Decrease | Increase |
|---------|------|----------|----------|
| Moldova | Mean | 4,5 | 29,5 |
| SEE | Mean | 5,0 | 21,8 |

Of the total number, how many of your employees are men and how many women?

| | Men | Women |
|---------|-----|-------|
| Moldova | 55 | 45 |
| SEE | 65 | 35 |

Do you have somebody from below mentioned vulnerable groups working in your company?

| | Persons with disabilities (including persons with special needs) | Displaced persons or refugees | Roma | Other ethnic minorities | DK/refuse |
|---------|--|-------------------------------|------|-------------------------|-----------|
| Moldova | 9 | 0 | 0 | 28 | 63 |
| SEE | 15 | 12 | 7 | 15 | 64 |

How likely would you employ workers from abroad in your company?

| | Not likely at all | Not likely | Neither likely nor unlikely | Likely | Very likely | DK/refuse | Mean |
|---------|-------------------|------------|-----------------------------|--------|-------------|-----------|------|
| Moldova | 48 | 22 | 11 | 13 | 4 | 1 | 2,0 |
| SEE | 18 | 17 | 23 | 25 | 14 | 3 | 3,0 |

How likely would you employ workers from the region in your company?

| | Not likely at all | Not likely | Neither likely nor unlikely | Likely | Very likely | DK/refuse | Mean |
|---------|-------------------|------------|-----------------------------|--------|-------------|-----------|------|
| Moldova | 53 | 22 | 12 | 9 | 2 | 2 | 1,8 |
| SEE | 17 | 16 | 24 | 27 | 14 | 2 | 3,1 |

You said that you would employ workers from the region in your company, from which economy/economies exactly? (Respondents who would likely employ workers from the region - N=23)

| | Albania | Bosnia and Herzegovina | Croatia | Kosovo* | The Former Yugoslav Republic of Macedonia | Montenegro | Serbia | DK/ refuse |
|---------|---------|------------------------|---------|---------|---|------------|--------|------------|
| Moldova | 22 | 35 | 35 | 30 | 39 | 35 | 43 | 39 |
| SEE | 25 | 57 | 28 | 34 | 37 | 45 | 40 | 19 |

Similar to those from the SEE region, business leaders in Moldova prefer to engage new people through personal contact - 87% of respondents use this way at least occasionally and 59% often rely on it. The second most common method of hiring new employees is placing advertisements in the paper/online, practiced by two thirds of the companies at least sometimes. This is followed by intermediation of the official employment agency whose services are occasionally used by a third of firms - this is still significantly less than in the SEE economies where 63% periodically cooperate with this institution.

If there were no restrictions, 63% of Moldovan businesses would keep the same number of employees, 27% would like to increase this number, while 6% admit that they would think about staff reduction. The average percentage of preferred growth of employment is noticeably higher than in the SEE and amounts to 29.5%.

Compared to the SEE region, it seems that women in Moldova have a considerably better chance of being employed. The total number of employed people in Moldova is 55% male and 45% female (vs. 65% male and 35% female in SEE). When it comes to socially vulnerable

groups, members of ethnic minorities are hired more often, except for Roma who are not presented in the Moldovan workforce. The same can be said for displaced persons or refugees. However, it should be noted that majority (63%) cannot answer this question because they are not sure if their firm employs people from vulnerable groups.

significantly less open to foreigners as a workforce, no matter where they come from, than those from the SEE region. The majority is not ready to employ people from abroad (70%) or from the SEE (75%). As only 11% of employers would gladly engage SEE staff, there are no relevant responses on the preferred SEE economy in this context.

Based on research findings, it could be concluded that companies in Moldova are

Table 31: Moldova - Investment in employees

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 any training obliged by law?

| | Yes | No | DK/refuse |
|---------|-----|----|-----------|
| Moldova | 47 | 53 | 0 |
| SEE | 46 | 54 | 0 |

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

| | Yes | No | Partly (e.g. only for some employee group) | DK/refuse |
|---------|-----|----|--|-----------|
| Moldova | 49 | 29 | 22 | 0 |
| SEE | 46 | 30 | 24 | 1 |

How would you assess the readiness of employees in your company to acquire additional qualifications in order to advance and get promoted?

| | They are not interested at all in acquiring additional qualifications | They are not interested in acquiring additional qualifications | Neither interested or not interested | They are interested in acquiring additional qualifications | They are very interested in acquiring additional qualifications | DK/ refuse | Mean |
|---------|---|--|--------------------------------------|--|---|------------|------|
| Moldova | 7 | 5 | 35 | 38 | 14 | 1 | 3,5 |
| SEE | 18 | 17 | 23 | 25 | 14 | 3 | 3,6 |

In your opinion, what is the main reason why someone prefers to work in public sector?

| | Job is safer | Better pension after retirement | Better advancement opportunities | Better salary | Better working conditions (less overtime job and workload) | Better social care and access to health services | Better education opportunities | Other | DK/ refuse |
|---------|--------------|---------------------------------|----------------------------------|---------------|--|--|--------------------------------|-------|------------|
| Moldova | 32 | 17 | 10 | 9 | 7 | 7 | 2 | 3 | 14 |
| SEE | 46 | 3 | 3 | 11 | 26 | 3 | 1 | 5 | 3 |

Why does someone rather choose to work in private sector?

| | Better salary | Better advancement opportunities | Job is safer | Better working conditions (less overtime job and workload) | Better education opportunities | Better social care and access to health services | Better pension after retirement | Other | DK/ refuse |
|---------|---------------|----------------------------------|--------------|--|--------------------------------|--|---------------------------------|-------|------------|
| Moldova | 76 | 7 | 6 | 5 | 1 | 0 | 0 | 1 | 4 |
| SEE | 34 | 24 | 5 | 5 | 8 | 1 | 0 | 11 | 11 |

Slightly less than half of the Moldovan companies (47%) have invested in their staff by organizing additional trainings during the previous year. Almost the same number (49%) confirm they regularly review skill and training needs of the employees, while approximately a fifth evaluate only some groups of personnel.

The ambition of Moldovan employees is rated positively by their bosses (the average score is 3.5). 52% of respondents are satisfied with the level of employees' motivation for acquiring additional qualifications in order to advance and be promoted.

Job safety is recognized as the greatest benefit of working in the public sector, with 32% of Moldovan representatives agreeing with this statement. A better pension after retirement comes in second, as stated by 17% of respondents. Compared to the SEE (3%), the latter reason is pointed out much more often. Regarding benefits of the private sector, a better salary takes first place by far -three fifths of employers confirm this, significantly more than in the SEE region (34%).

FOCUS ON MOLDOVA: CONCLUSIONS AND RECOMMENDATIONS

There is not much that connects Moldova with the SEE region, as currently defined; in a broader sense, that might be different. Subdued expectations are mostly due to macroeconomic uncertainties and poor conditions for investment. However, labour market conditions are favourable and if anything, skill supply is above that which is demanded. Infrastructure does not seem to present major bottleneck. Similarly, financial constraints do not seem to be binding, except

for possible underdevelopment (not much is offered to small and medium size companies and start-ups).

Clearly, improved macroeconomic stability and better overall conditions for investments with more developed financial system would be helpful. Also, increased market integration with the EU and the SEE would support improvements in efficiency and innovation.

Conclusions and Recommendations

The sentiments and the expectations of business people are better than those of the general public, but have not improved much, if at all, in the last year. Assessments of the current state of affairs and expectations for the near future are improving in Croatia and Albania, in the former case because the recession has ended, and in the latter because of good economic performance which is expected to continue. In other economies, performance improved to a lesser extent, and increased instability is weighing in on expectations. In the case of Serbia, but also more generally, there are additional reforms in the pipeline and no reasons to expect a significant increase in demand. In general, consumption will continue to increase only slowly, if at all, which makes it difficult for businesses to sell and grow. This makes reforms and improved access to external markets all that more urgent.

Confidence in one's business is higher than in the economy. Clearly, risks coming from macroeconomic developments and economic policies have been observed. Businesses seem to believe that they have the capacity to grow and increase employment, which suggests that the effects of improved stability, improved regulatory framework, and supportive economic policies could have a significant positive effect on investment and employment.

Costs are rising. Though inflation is low, costs are seen as rising. This is the usual deflationary effect, which is why falling prices are not welcomed. Some of these prices, e.g. energy prices, certainly help businesses, but drops in their own prices do not provide incentives for investment and expansion.

The business environment is not sufficiently supportive. Governments are not seen as communicating with and responding to the business community. Generally, regulation is not business friendly, i.e. for entrepreneurship and launching new businesses, while taxes are a burden. These things are usually connected: complaints about regulations and taxes go together with a non-responsive government, which is to say that businesses feel that they are not supported by the government and by policy measures. This extends to the judiciary system, which is inefficient and not sufficiently predictable.

Business infrastructure needs improvement. Almost all inputs and infrastructure facilities are assessed as being of average quality (with richer economies doing better, and poorer ones doing worse). Clearly, large increases in efficiency and business activities can be achieved with improved business infrastructure.

The financial sector is not as important for real economy as it could be. Credits do not play as much of a role as would be conducive to business, in part because of costly access to loans. In general, a lot could be done to increase the contribution of the financial sector to businesses.

There are significant liquidity problems throughout the region. This is one problem that should not exist. The financial sector and the central bank should be able to eliminate liquidity problems, and their relatively high prevalence is an additional indicator of the detachment of the financial sector from the real sector. Usually, this is because there is a significant solvency problem in the corporate sector, which then points to deficiencies in bankruptcy procedures and in institutions which should support takeovers, mergers and acquisitions.

Corruption starts at the top. The key to an anti-corruption effort is eliminating discretionary decision making, formalizing government purchases in a transparent manner and increasing the efficiency of government services.

Foreign trade is less important than it should be. Given the high levels of domestic consumption and high reliance on foreign financing of investments, the current very high reliance on domestic markets is not going to support faster and sustained recovery. This is clearly one of the weakest aspects of these economies. A much greater exposure to foreign markets is needed for sustained growth of businesses.

Innovations are increasingly seen as being important for better business results. In comparison to the EU, Balkan economies are not very internationalized and not very innovative. Businesses seem, however, to recognize that new products and new technologies are important for success, at least 50 percent of the time. This is still low, and is in all probability due to low exposure to foreign competition, because so many of the businesses are in the non-tradable sectors.

Skills, connections, and human capital: The labour market is deficient and partly the reason that unemployment is so high. Though the importance of skills is recognized and the demand for skilled labour is high, and in some cases well above the supply, the labour market still mostly relies on personal contacts and connections, while investments providing accumulation of human capital in companies are not nearly as high as they need to be.

Regional cooperation and EU integrations: EU integration and regional cooperation are supported by business people throughout the region, though Euroscepticism is on the rise. However, given that growth in the future needs to be export based, political support and concrete measures to ensure improved regional cooperation and stepping up the EU integration process are an essential part of this growth strategy.

Note on Methodology

Methodology used in Business Opinion Survey is CAPI (Computer-Assisted Personal Interviewing). The survey was conducted via personal interviews in selected companies by

trained interviewers from GfK. Some adjustments and preparations were necessary for the successful implementation of the survey:

QUESTIONNAIRE

The questionnaire was provided by the RCC. It was originally written in English and subsequently translated into ten local languages, with the exception of Kosovo* where both Albanian and Serbian versions of the questionnaire were used, and The Former Yugoslav Republic of Macedonia and Moldova, where questionnaires in two different languages

were also used. The RCC reviewed and approved the translations of the questionnaire. Since the CAPI software was used in the research, all questionnaires were converted to a digital form and installed on interviewers' laptops. The program was reviewed by a competent person in each economy.

INTERVIEWERS

The survey was conducted by the GfK in all economies, except for Montenegro where De Facto Consultancy was hired as a subcontractor. All interviewers were given written instructions containing general description of the questionnaire, of method of selecting addresses for the interviews and of the respondent selection process. In addition to providing

written instructions, GfK have organized training for interviewers which explained research goals. Moreover, project coordinators examined the entire digital questionnaire jointly with the examiners and emphasized some important elements (especially the need to read individual answers where one or more answers were possible, etc.).

SAMPLE

Business Opinion Survey was conducted on the N=200 companies for each economy, with the total of 1800 companies for the SEE region, including Slovenia and Moldova.

The survey encompassed:

- companies of various sizes - micro (4 - 9 employees), small (10 - 49 employees), medium (50 - 249 employees) and large (more than 250 employees),

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

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

INTERVIEWING PROCEDURE

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

a) Company selection

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

b) Telephone recruitment

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

In telephone conversations the interviewer presented the idea and the objectives of the survey to respondent and then attempted to arrange a face-to-face interview. The interviewer needed to be very familiar with the project, but also to be eloquent, persuasive, polite and persistent. The de-scribed lists contained the company's name, address and telephone number and, in some cases, the name of contact person. In cases in which a person from the list believed they are not qualified to discuss the topics mentioned, the interviewer asked to be referred to a person who is more competent. A similar request was made when no contact person was indicated on the list. Every telephone interviewer was obliged to contact a potential respondent at least three times and arrange an appointment (except in cases when a person categorically refused to participate in the survey). They needed to note down the scheduled date and time clearly. Thus, the contact lists contained only relevant information; they were filtered and ready for face-to-face interviews.

SAMPLE STRUCTURE

Figure 85: Sample structure by respondent's position

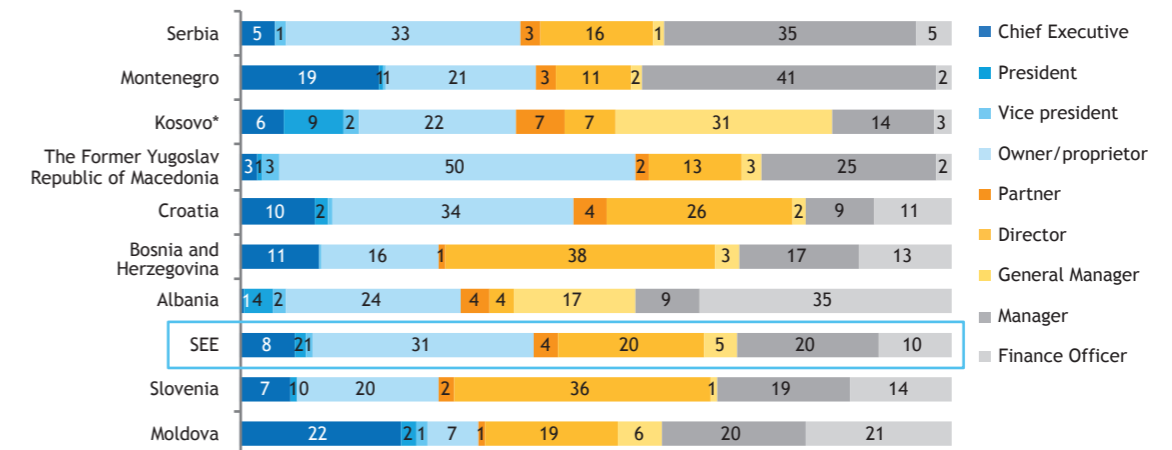


Figure 86: Sample structure by largest shareholder

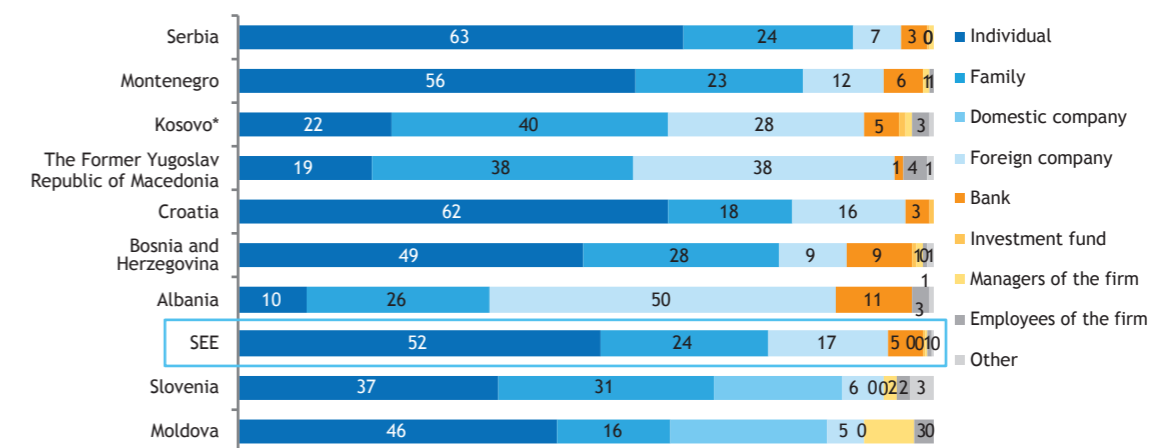


Figure 87: Sample structure by number of employees

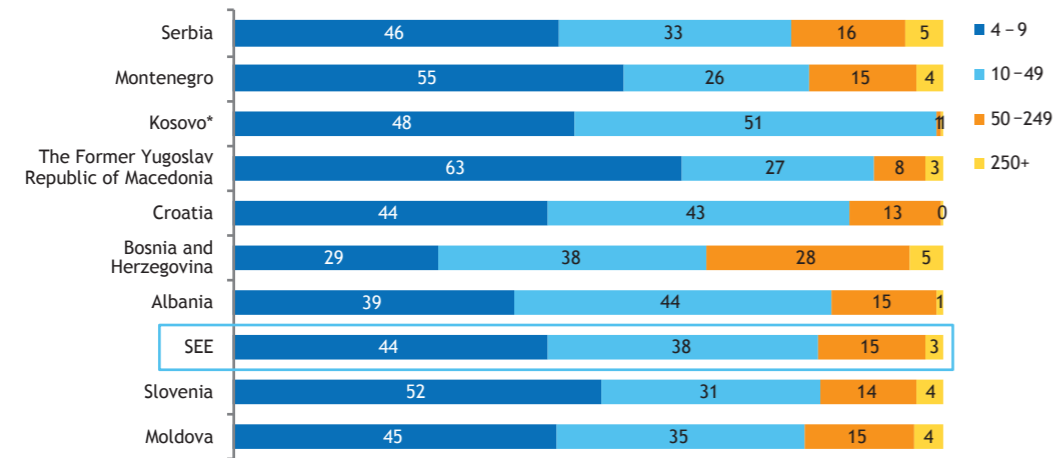


Figure 88: Sample structure by business area

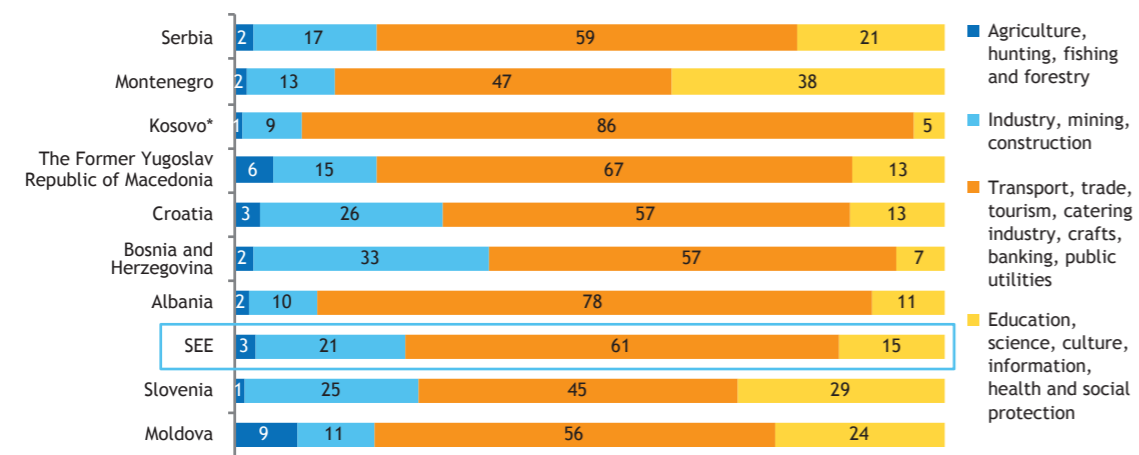


Figure 89: Sample structure by ownership

