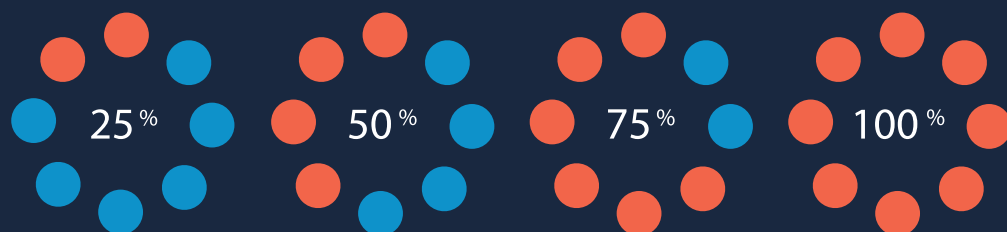


BALKAN BAROMETER 2021

→
BUSINESS OPINION



Analytical report

good.
better.
regional.

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Business Opinion
Analytical report

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June 2021

BALKAN BAROMETER 2021

BUSINESS OPINION

ANALYTICAL REPORT

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Contents

FOREWORD	22
INTRODUCTION	24
MAIN FINDINGS	25
REGIONAL OVERVIEW	27
BALKAN BUSINESS SENTIMENT INDEX	30
PERCEPTIONS OF THE BUSINESS ENVIRONMENT AND ECONOMIC TRENDS	34
BUSINESS TRENDS IN THE WESTERN BALKANS	40
BUSINESS ENVIRONMENT IN THE WESTERN BALKANS	47
LEGAL AND REGULATORY FRAMEWORK	89
ACCESSIBILITY OF LOANS	120
CORRUPTION	124
TRADE AND INVESTMENT	142
INNOVATION AND TECHNOLOGY	166
HUMAN CAPITAL	177
EMPLOYMENT PRACTICES	188
COVID-19 IMPACT	202
FINANCIAL AND OPERATIONAL PERFORMANCE	208
OUTLOOK – FUTURE EXPECTATIONS	213
FOCUS ON LARGE COMPANIES	216
FOCUS ON EXPORTERS	230
CONCLUSIONS	241
NOTE ON METHODOLOGY	242

List of tables

TABLE 1 - CAN YOU TELL HOW PROBLEMATIC ARE THESE DIFFERENT FACTORS FOR THE OPERATION AND GROWTH OF YOUR BUSINESS? CAN YOU PLEASE RATE EACH?	48
TABLE 2 - WHICH REGULATIONS DO YOU CONSIDER TO BE AN OBSTACLE TO THE SUCCESS OF A BUSINESS?	115
TABLE 3 - PLEASE ESTIMATE WHAT IS THE APPROXIMATE AMOUNT (IN EUR) OF UNOFFICIAL PAYMENTS/GIFTS THAT COMPANIES LIKE YOURS WOULD MAKE IN A GIVEN YEAR FOR THE FOLLOWING PURPOSES.	133
TABLE 4 - IF YOUR COMPANY EXPORTS TO THE WESTERN BALKANS REGION, WHAT ARE THE MAIN OBSTACLES TO YOUR EXPORTS?	156
TABLE 5 - ACCORDING TO YOUR OPINION, WHICH MARKET IN THE WB REGION IS THE MOST OPEN ONE? PLEASE GIVE US YOUR OPINION NO MATTER YOU/YOUR COMPANY HAD DIRECT EXPERIENCE WITH IT. RANK THESE 7 MARKETS FROM 1 (MOST OPEN) TO 7 (LEAST OPEN).	165



List of figures

FIGURE 1 – REAL GDP GROWTH IN THE WESTERN BALKANS 2008-2022	27
FIGURE 2 – UNEMPLOYMENT RATES IN THE WESTERN BALKANS, 2010-2019	28
FIGURE 3 – BALKAN BUSINESS SENTIMENT INDEX (BBSI) IN 2020	31
FIGURE 4 – BALKAN BUSINESS SENTIMENT INDEX (BBSI) OVER TIME	31
FIGURE 5 – BALKAN BUSINESS SENTIMENT INDEX (BBSI) – PRESENT SITUATION INDEX	32
FIGURE 6 – BALKAN BUSINESS SENTIMENT INDEX (BBSI) – EXPECTATION INDEX	33
FIGURE 7 – HOW HAS THE GENERAL ECONOMIC SITUATION IN YOUR ECONOMY CHANGED OVER THE PAST 12 MONTHS? HAS IT DETERIORATED, REMAINED UNCHANGED OR IMPROVED?	34
FIGURE 8 – HOW DO YOU EXPECT THE GENERAL ECONOMIC SITUATION IN YOUR ECONOMY TO DEVELOP OVER THE NEXT 12 MONTHS? WILL IT MOSTLY DETERIORATE, REMAIN UNCHANGED OR IMPROVE?	35
FIGURE 9 – HOW DO YOU EXPECT THE NUMBER OF PEOPLE EMPLOYED IN YOUR COMPANY TO CHANGE OVER THE NEXT 12 MONTHS?	36
FIGURE 10 – DO YOU BELIEVE THAT YOUR ECONOMY IS A GOOD PLACE TO INVEST?	36
FIGURE 11 – HOW HAS YOUR BUSINESS SITUATION DEVELOPED OVER THE PAST 12 MONTHS? HAS IT DETERIORATED, REMAINED UNCHANGED OR IMPROVED?	37
FIGURE 12 – HOW IMPORTANT IS THE QUALITY OF REGIONAL COOPERATION IN THE WESTERN BALKANS TO YOUR BUSINESS?	38
FIGURE 13 – DO YOU THINK THAT YOUR ECONOMY'S EU MEMBERSHIP WOULD BE/IS A GOOD THING, A BAD THING, OR NEITHER GOOD NOR BAD FOR YOUR COMPANY?	39
FIGURE 14 – HOW HAS THE DEMAND FOR YOUR COMPANY'S PRODUCTS/SERVICES CHANGED OVER THE PAST 12 MONTHS? HAS IT DETERIORATED, REMAINED UNCHANGED OR IMPROVED?	40
FIGURE 15 – HOW DO YOU EXPECT THE DEMAND FOR YOUR COMPANY'S PRODUCTS/SERVICES TO CHANGE OVER THE NEXT 12 MONTHS? WILL IT DECREASE, REMAIN MOSTLY UNCHANGED OR INCREASE?	41
FIGURE 16 – COULD YOU PLEASE TELL ME WHAT PERCENTAGE (%) OF YOUR COMPANY'S TOTAL INVESTMENT IN 2020 WENT TO EACH OF THE FOLLOWING?	42
FIGURE 17 – HOW HAVE YOUR LABOUR AND OTHER COSTS (E.G. ENERGY, ETC.) CHANGED OVER THE PAST 12 MONTHS?	43
FIGURE 18 – HAS YOUR BUSINESS TAKEN ANY STEPS TO REDUCE THE ENVIRONMENTAL IMPACT IT MAKES, SUCH AS REDUCING ENERGY CONSUMPTION, WASTE REDUCTION OR SWITCHING TO RECYCLED/SUSTAINABLE MATERIALS ETC.?	43
FIGURE 19 – WHAT ARE THE PRIORITIES OF THE GREEN AGENDA FOR THE WESTERN BALKANS? (MULTIPLE ANSWERS)	44
FIGURE 20 – DOES YOUR CURRENT BUSINESS MODEL ALLOW FOR A SHIFT TOWARDS A CIRCULAR (ECONOMY) MODEL?	45
FIGURE 21 – WHAT ARE THE MAIN BARRIERS TO SHIFTING TOWARDS CIRCULAR ECONOMY IN YOUR LINE OF BUSINESS?	46
FIGURE 22 – WHAT ARE THE MAJOR CHALLENGES FACED WHEN TRYING TO SCALE UP YOUR BUSINESS?	46
FIGURE 23 – CAN YOU TELL HOW PROBLEMATIC ARE THESE DIFFERENT FACTORS FOR THE OPERATION AND GROWTH OF YOUR BUSINESS? CAN YOU PLEASE RATE EACH?	47
FIGURE 24 – HOW DO YOU PERCEIVE THE FOLLOWING FACTORS RELATED TO GOVERNMENT CONDUCT, BASED ON YOUR EXPERIENCE OR OF OTHER INVESTORS THAT YOU HAVE HEARD OF?	49
FIGURE 25 – HOW DO YOU PERCEIVE THE FOLLOWING FACTORS RELATED TO GOVERNMENT CONDUCT, BASED ON YOUR EXPERIENCE OR OF OTHER INVESTORS THAT YOU HAVE HEARD OF? GOVERNANCE, PUBLIC INTEGRITY AND CORRUPTION	50
FIGURE 26 – HOW DO YOU PERCEIVE THE FOLLOWING FACTORS RELATED TO GOVERNMENT CONDUCT, BASED ON YOUR EXPERIENCE OR OF OTHER INVESTORS THAT YOU HAVE HEARD OF? TRANSPARENCY OF GOVERNMENT REGULATIONS AND DECISION-MAKING	51
FIGURE 27 – HOW DO YOU PERCEIVE THE FOLLOWING FACTORS RELATED TO GOVERNMENT CONDUCT, BASED ON YOUR EXPERIENCE OR OF OTHER INVESTORS THAT YOU HAVE HEARD OF? – COORDINATION AND COMMUNICATION BETWEEN REGULATORY AUTHORITIES	52
FIGURE 28 – HOW DO YOU PERCEIVE THE FOLLOWING FACTORS RELATED TO GOVERNMENT CONDUCT, BASED ON YOUR EXPERIENCE OR OF OTHER INVESTORS THAT YOU HAVE HEARD OF? – PREDICTABILITY AND STABILITY OF POLICIES AND RULES	53
FIGURE 29 – HOW DO YOU PERCEIVE THE FOLLOWING FACTORS RELATED TO GOVERNMENT CONDUCT, BASED ON YOUR EXPERIENCE OR OF OTHER INVESTORS THAT YOU HAVE HEARD OF? – PREDICTABILITY OF THE CONDUCT OF PUBLIC AGENCIES (SUCH AS REGULATORY AUTHORITIES)	54
FIGURE 30 – HOW DO YOU PERCEIVE THE FOLLOWING FACTORS RELATED TO GOVERNMENT CONDUCT, BASED ON YOUR EXPERIENCE OR OF OTHER INVESTORS THAT YOU HAVE HEARD OF? – EXISTENCE OF EFFECTIVE PROCESSES IN PLACE FOR CONSULTATION ON PROPOSED LAWS AND REGULATIONS	55
FIGURE 31 – HOW DO YOU PERCEIVE THE FOLLOWING FACTORS RELATED TO GOVERNMENT CONDUCT, BASED ON YOUR EXPERIENCE OR OF OTHER INVESTORS THAT YOU HAVE HEARD OF? – DIGITALISATION OF PUBLIC SERVICES	56
FIGURE 32 – IN THE PROCESS OF OBTAINING LICENSES FOR YOUR BUSINESS, HOW MUCH OF AN OBSTACLE WERE THE FOLLOWING FACTORS?	57

FIGURE 33 – IN THE PROCESS OF OBTAINING LICENSES FOR YOUR BUSINESS, HOW MUCH OF AN OBSTACLE WERE THE FOLLOWING FACTORS? – BURDENSOME NUMBER OF PROCEDURES, REQUIREMENTS, PAPERWORK AND COST	58
FIGURE 34 – IN THE PROCESS OF OBTAINING LICENSES FOR YOUR BUSINESS, HOW MUCH OF AN OBSTACLE WERE THE FOLLOWING FACTORS? - LACK OF AVAILABILITY AND ACCESSIBILITY OF RELEVANT INFORMATION	59
FIGURE 35 – IN THE PROCESS OF OBTAINING LICENSES FOR YOUR BUSINESS, HOW MUCH OF AN OBSTACLE WERE THE FOLLOWING FACTORS? - EXCESSIVE DISCRETIONARY POWER OF GOVERNMENT OFFICIALS AND INCONSISTENT APPLICATION OF REGULATIONS	60
FIGURE 36 – IN THE PROCESS OF OBTAINING LICENSES FOR YOUR BUSINESS, HOW MUCH OF AN OBSTACLE WERE THE FOLLOWING FACTORS? - EXPLICIT OR IMPLICIT NORM TO GIVE BRIBES	61
FIGURE 37 – IN THE PROCESS OF OBTAINING LICENSES FOR YOUR BUSINESS, HOW MUCH OF AN OBSTACLE WERE THE FOLLOWING FACTORS? - NEED TO RELY ON PERSONAL/ PRIVATE CONNECTIONS TO SOLVE PROBLEMS	62
FIGURE 38 – IN THE PROCESS OF OBTAINING LICENSES FOR YOUR BUSINESS, HOW MUCH OF AN OBSTACLE WERE THE FOLLOWING FACTORS? - LACK OF A FULLY DIGITALISED PROCESS FOR APPLICATION AND APPROVAL OF THE LICENSE	63
FIGURE 39 – HOW HAVE THE FOLLOWING CHARACTERISTICS OF THE BUSINESS ENVIRONMENT IN YOUR ECONOMY CHANGED OVER THE LAST 12 MONTHS?	64
FIGURE 40 – HOW HAVE THE FOLLOWING CHARACTERISTICS OF THE BUSINESS ENVIRONMENT IN YOUR ECONOMY CHANGED OVER THE LAST 12 MONTHS? – MARKER SIZE AND POTENTIAL	65
FIGURE 41 – HOW HAVE THE FOLLOWING CHARACTERISTICS OF THE BUSINESS ENVIRONMENT IN YOUR ECONOMY CHANGED OVER THE LAST 12 MONTHS? - MACRO-ECONOMIC STABILITY AND FAVOURABILITY OF EXCHANGE RATE	66
FIGURE 42 – HOW HAVE THE FOLLOWING CHARACTERISTICS OF THE BUSINESS ENVIRONMENT IN YOUR ECONOMY CHANGED OVER THE LAST 12 MONTHS? - AVAILABILITY OF LABOUR	67
FIGURE 43 – HOW HAVE THE FOLLOWING CHARACTERISTICS OF THE BUSINESS ENVIRONMENT IN YOUR ECONOMY CHANGED OVER THE LAST 12 MONTHS? - LABOUR FORCE COST	68
FIGURE 44 – HOW HAVE THE FOLLOWING CHARACTERISTICS OF THE BUSINESS ENVIRONMENT IN YOUR ECONOMY CHANGED OVER THE LAST 12 MONTHS? - TALENT AND SKILLS OF LABOUR POOL	69
FIGURE 45 – HOW HAVE THE FOLLOWING CHARACTERISTICS OF THE BUSINESS ENVIRONMENT IN YOUR ECONOMY CHANGED OVER THE LAST 12 MONTHS? - PHYSICAL INFRASTRUCTURE	70
FIGURE 46 – HOW HAVE THE FOLLOWING CHARACTERISTICS OF THE BUSINESS ENVIRONMENT IN YOUR ECONOMY CHANGED OVER THE LAST 12 MONTHS? - ACCESS TO LAND OR REAL ESTATE	71
FIGURE 47 – HOW HAVE THE FOLLOWING CHARACTERISTICS OF THE BUSINESS ENVIRONMENT IN YOUR ECONOMY CHANGED OVER THE LAST 12 MONTHS? - AVAILABILITY OF FINANCIAL CAPITAL IN THE DOMESTIC MARKET	72

FIGURE 48 – HOW HAVE THE FOLLOWING CHARACTERISTICS OF THE BUSINESS ENVIRONMENT IN YOUR ECONOMY CHANGED OVER THE LAST 12 MONTHS? - POLITICAL STABILITY AND SECURITY	73
FIGURE 49 – HOW HAVE THE FOLLOWING CHARACTERISTICS OF THE BUSINESS ENVIRONMENT IN YOUR ECONOMY CHANGED OVER THE LAST 12 MONTHS? - TECHNOLOGICAL INNOVATION AND CAPABILITIES	74
FIGURE 50 – HOW HAVE THE FOLLOWING CHARACTERISTICS OF THE BUSINESS ENVIRONMENT IN YOUR ECONOMY CHANGED OVER THE LAST 12 MONTHS? - TAX RATES	75
FIGURE 51 – HOW HAVE THE FOLLOWING CHARACTERISTICS OF THE BUSINESS ENVIRONMENT IN YOUR ECONOMY CHANGED OVER THE LAST 12 MONTHS? - BUSINESS-FRIENDLY LEGAL AND REGULATORY ENVIRONMENT	76
FIGURE 52 – HOW HAVE THE FOLLOWING CHARACTERISTICS OF THE BUSINESS ENVIRONMENT IN YOUR ECONOMY CHANGED OVER THE LAST 12 MONTHS? - AVAILABILITY OF LINKAGES WITH LOCAL FIRMS	77
FIGURE 53 – HOW HAVE THE FOLLOWING CHARACTERISTICS OF THE BUSINESS ENVIRONMENT IN YOUR ECONOMY CHANGED OVER THE LAST 12 MONTHS? - AVAILABILITY OF GOVERNMENT DIGITAL SERVICE TO COMPLETE ADMINISTRATIVE PROCEDURES	78
FIGURE 54 – HOW HAVE THE FOLLOWING CHARACTERISTICS OF THE BUSINESS ENVIRONMENT IN YOUR ECONOMY CHANGED OVER THE LAST 12 MONTHS? - AVAILABILITY OF GOVERNMENT SUPPORT SCHEMES TO EMPLOY VULNERABLE GROUPS	79
FIGURE 55 – HOW HAVE THE FOLLOWING CHARACTERISTICS OF THE BUSINESS ENVIRONMENT IN YOUR ECONOMY CHANGED OVER THE LAST 12 MONTHS? - AVAILABILITY OF FINANCIAL SERVICES TAILORED BY INDUSTRY	80
FIGURE 56 – 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?	81
FIGURE 57 – FOR YOUR BUSINESS PURPOSES, HOW WOULD YOU RATE THE COMBINATION OF AVAILABILITY, QUALITY AND AFFORDABILITY OF ELECTRICITY, GAS AND WATER SUPPLY IN YOUR ECONOMY?	81
FIGURE 58 – HOW OFTEN HAVE YOU ENGAGED IN SELLING AND BUYING ONLINE DURING THE LAST YEAR?	82
FIGURE 59 – DID YOU SWITCH TO MORE ONLINE/DIGITAL SERVICES DURING THE LAST YEAR?	83
FIGURE 60 – THE REASON FOR SWITCHING TO ONLINE/DIGITAL SERVICES	84
FIGURE 61 – THE REASON FOR NOT SWITCHING TO ONLINE/DIGITAL SERVICES	85
FIGURE 62 – HOW WOULD YOU RATE THE IMPACT THE REGIONAL ROAMING AGREEMENT HAS ON YOUR BUSINESS OPERATIONS? IT HAD:	86
FIGURE 63 – HAVE ANY OF YOUR COMPANY'S OWNERS OR SENIOR MANAGERS SPENT TIME LIVING AND WORKING ABROAD AS MEMBERS OF THE DIASPORA?	87
FIGURE 64 – WOULD IT BENEFIT YOUR BUSINESS IF TRAVEL ACROSS THE REGION WAS POSSIBLE WITH A VALID ID CARD ONLY?	88

FIGURE 65 – HOW MUCH DO YOU FEEL THE GOVERNMENT OF YOUR ECONOMY TAKES INTO ACCOUNT THE CONCERNS OF BUSINESSES?	89
FIGURE 66 – WHAT PERCENTAGE OF TOTAL ANNUAL SALES WOULD YOU ESTIMATE A TYPICAL FIRM IN YOUR AREA OF BUSINESS REPORTS FOR TAX PURPOSES?	90
FIGURE 67 – WHAT PERCENTAGE OF THE ACTUAL WAGE BILL WOULD YOU ESTIMATE A TYPICAL FIRM IN YOUR AREA OF BUSINESS REPORTS FOR TAX PURPOSES?	91
FIGURE 68 – WHAT PERCENTAGE OF THE TOTAL NUMBER OF EMPLOYEES WOULD YOU ESTIMATE A TYPICAL FIRM IN YOUR AREA OF BUSINESS REGISTERS WITH THE RELEVANT AUTHORITIES?	92
FIGURE 69 – TO WHAT EXTENT DO YOU AGREE WITH THE FOLLOWING STATEMENT - LAWS AND REGULATIONS AFFECTING MY COMPANY ARE CLEARLY WRITTEN, NOT CONTRADICTIONARY AND DO NOT CHANGE TOO FREQUENTLY?	93
FIGURE 70 – TO WHAT EXTENT DO YOU AGREE WITH THE FOLLOWING STATEMENT - INFORMATION ON THE LAWS AND REGULATIONS AFFECTING MY COMPANY IS EASY TO OBTAIN FROM THE AUTHORITIES?	94
FIGURE 71 – TO WHAT EXTENT DO YOU AGREE WITH THE FOLLOWING STATEMENT - THE STATE ADMINISTRATION'S INTERPRETATIONS OF THE LAWS AND REGULATIONS AFFECTING MY COMPANY ARE CONSISTENT AND PREDICTABLE?	95
FIGURE 72 – TO WHAT EXTENT DO YOU AGREE WITH THE FOLLOWING STATEMENT - REQUESTS FOR INFORMATION HELD BY A GOVERNMENT AGENCY ARE GRANTED IN TIMELY MANNER?	96
FIGURE 73 – TO WHAT EXTENT DO YOU AGREE WITH THE FOLLOWING STATEMENT - THE INFORMATION PROVIDED IS PERTINENT AND COMPLETE?	96
FIGURE 74 – TO WHAT EXTENT DO YOU AGREE WITH THE FOLLOWING STATEMENT - REQUESTS FOR INFORMATION ARE GRANTED AT A REASONABLE COST?	97
FIGURE 75 – IN THE PAST THREE YEARS, HAS YOUR COMPANY DECIDED NOT TO TAKE PART IN A PUBLIC TENDER OR A PUBLIC PROCUREMENT PROCEDURE EVEN THOUGH YOU COULD HAVE OFFERED THE GOODS OR SERVICES SOLICITED?	98
FIGURE 76 – IF YES, WAS IT FOR ANY OF THE FOLLOWING REASONS?	99
FIGURE 77 – WHAT IS THE SHARE OF THE PUBLIC PROCUREMENT MARKET IN YOUR COMPANY'S LAST YEAR OVERALL TURNOVER?	100
FIGURE 78 – HAVE YOU BEEN CONTACTED FOR ANY REASON BY SOME PUBLIC PROCURING ENTITY OVER THE PREVIOUS 3 YEARS?	100
FIGURE 79 – OVER THE PAST THREE YEARS, HOW OFTEN HAVE PUBLIC PROCURING ENTITIES BEEN IN CONTACT TO CONSULT YOU ON THE FOLLOWING?	101
FIGURE 80 – OVER THE PAST THREE YEARS, HOW OFTEN HAVE PUBLIC PROCURING ENTITIES BEEN IN CONTACT TO CONSULT YOU ON THE FOLLOWING? - TECHNICAL SPECIFICATIONS FOR GOODS, WORKS OR SERVICES THEY INTEND TO PURCHASE	102

FIGURE 81 – OVER THE PAST THREE YEARS, HOW OFTEN HAVE PUBLIC PROCURING ENTITIES BEEN IN CONTACT TO CONSULT YOU ON THE FOLLOWING? - THE DRAFTS OF TENDER DOCUMENTS THEY PREPARE ..	103
FIGURE 82 – OVER THE PAST THREE YEARS, HOW OFTEN HAVE PUBLIC PROCURING ENTITIES BEEN IN CONTACT TO CONSULT YOU ON THE FOLLOWING? - THE DRAFTS OF PROCUREMENT CONTRACTS THEY PREPARE	103
FIGURE 83 – OVER THE PAST THREE YEARS, HOW OFTEN HAVE PUBLIC PROCURING ENTITIES BEEN IN CONTACT TO CONSULT YOU ON THE FOLLOWING? - COST ESTIMATES FOR GOODS, SERVICES OR WORKS ..	104
FIGURE 84 – HAVE YOU USED GUIDELINES OR MANUALS PRODUCED BY DOMESTIC PROCUREMENT AUTHORITY IN THE PAST THREE YEARS?	105
FIGURE 85 – GENERALLY, HOW USEFUL WERE THE GUIDELINES AND MANUALS YOU USED FOR SOLVING YOUR PRACTICAL PROBLEMS?	106
FIGURE 86 – HAVE YOU USED THE STANDARD FORMS OR MODELS PROVIDED BY DOMESTIC PROCUREMENT AUTHORITY IN THE PAST THREE YEARS?	107
FIGURE 87 – HOW WOULD YOU RATE THE USEFULNESS OF THE STANDARD FORMS OR MODELS?	107
FIGURE 88 – HAVE YOU ATTENDED ANY TRAINING IN PUBLIC PROCUREMENT IN THE PAST THREE YEARS? ..	108
FIGURE 89 – HOW WOULD YOU RATE THE USEFULNESS OF THE TRAINING IN GENERAL?	109
FIGURE 90 – HAVE YOU CONTACTED DOMESTIC PROCUREMENT AUTHORITY FOR ADVICE OR OTHER SUPPORT IN THE PAST THREE YEARS?	110
FIGURE 91 – WERE THE ANSWERS PROVIDED GENERALLY HELPFUL?	110
FIGURE 92 – COULD YOU PLEASE TELL ME HOW SATISFIED ARE YOU WITH EACH OF THE FOLLOWING IN YOUR PLACE OF LIVING - PUBLIC SERVICES FOR BUSINESSES?	111
FIGURE 93 – COULD YOU PLEASE TELL ME HOW SATISFIED ARE YOU WITH EACH OF THE FOLLOWING IN YOUR PLACE OF LIVING - DIGITAL SERVICES CURRENTLY PROVIDED TO BUSINESSES BY PUBLIC ADMINISTRATION?	112
FIGURE 94 – TO WHAT EXTENT ARE YOU SATISFIED WITH HOW THE GOVERNMENT CONSULTS AND INVOLVES PRIVATE SECTOR WHEN DEVELOPING NEW LAWS AND REGULATIONS RELEVANT FOR DOING BUSINESS?	113
FIGURE 95 – WHICH REGULATIONS DO YOU CONSIDER TO BE AN OBSTACLE TO THE SUCCESS OF A BUSINESS?	114
FIGURE 96 – HAS YOUR FIRM HAD ANY CASES IN MEDIATION COURTS IN THE LAST 36 MONTHS?	116
FIGURE 97 – HOW MANY CASES IN CIVIL OR COMMERCIAL MATTERS WERE SOLVED BY YOUR COMPANY THROUGH MEDIATION IN THE LAST 36 MONTHS?	116
FIGURE 98 – DO YOU CONSIDER MEDIATION AS A QUICK AND COST-EFFECTIVE EXTRA JUDICIAL ALTERNATIVE TO RESOLVING DISPUTES IN CIVIL AND COMMERCIAL MATTERS?	117

FIGURE 99 – WOULD YOUR COMPANY CONSIDER MEDIATION EVEN IN CASES OF CROSS-BORDER CONFLICT RESOLUTION FOR THE SETTLEMENT OF DISPUTES IN CIVIL AND COMMERCIAL MATTERS SO AS TO SIMPLIFY AND IMPROVE ACCESS TO JUSTICE?	117
FIGURE 100 – DO YOU AGREE WITH THE FOLLOWING STATEMENT ABOUT STATE AID - CITIZENS AND COMPANIES HAVE FULL ACCESS TO INFORMATION RELATED TO STATE AID POLICIES AND GRANTS AWARDED TO COMPANIES BY THE PUBLIC AUTHORITIES?	118
FIGURE 101 – DO YOU AGREE WITH THE FOLLOWING STATEMENT ABOUT STATE AID - SUFFICIENT INFORMATION ON THE STATE AID GIVEN TO COMPANIES BY THE PUBLIC AUTHORITIES IS ALREADY PUBLICLY AVAILABLE.	119
FIGURE 102 – DO YOU AGREE WITH THE FOLLOWING STATEMENT ABOUT STATE AID - INFORMATION ABOUT STATE AID RECEIVED BY COMPANIES SHOULD REMAIN CONFIDENTIAL BETWEEN PUBLIC AUTHORITIES AND COMPANIES.	119
FIGURE 103 – 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?	120
FIGURE 104 – 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?	121
FIGURE 105 – HAS YOUR COMPANY APPLIED FOR A LOAN FROM A BANK IN THE PAST 12 MONTHS?	122
FIGURE 106 – HOW MANY DAYS DID IT TAKE TO AGREE THE LOAN WITH THE BANK FROM THE DATE OF APPLICATION?	122
FIGURE 107 – YOU SAID THAT YOU COMPANY'S LOAN APPLICATION WAS REJECTED, WHAT WAS THE MAIN REASON FOR THAT?	123
FIGURE 108 – THINKING ABOUT OFFICIALS, TO WHAT EXTENT WOULD YOU AGREE WITH THE FOLLOWING STATEMENTS? - IT IS COMMON FOR COMPANIES IN MY LINE OF BUSINESS TO HAVE TO PAY SOME IRREGULAR "ADDITIONAL PAYMENTS/GIFT" TO "GET THINGS DONE"	124
FIGURE 109 – THINKING ABOUT OFFICIALS, TO WHAT EXTENT WOULD YOU AGREE WITH THE FOLLOWING STATEMENTS? - COMPANIES IN MY LINE OF BUSINESS USUALLY KNOW IN ADVANCE HOW MUCH THIS 'ADDITIONAL PAYMENT/GIFTS' WILL COST	125
FIGURE 110 – THINKING NOW OF UNOFFICIAL PAYMENTS/GIFTS THAT COMPANIES LIKE YOURS WOULD MAKE IN A GIVEN YEAR, COULD YOU PLEASE TELL ME HOW OFTEN WOULD THEY MAKE PAYMENTS/GIFTS FOR THE FOLLOWING PURPOSES?	126
FIGURE 111 – THINKING NOW OF UNOFFICIAL PAYMENTS/GIFTS THAT COMPANIES LIKE YOURS WOULD MAKE IN A GIVEN YEAR, COULD YOU PLEASE TELL ME HOW OFTEN WOULD THEY MAKE PAYMENTS/GIFTS FOR THE FOLLOWING PURPOSES? - TO GET CONNECTED TO AND MAINTAIN PUBLIC SERVICES	127
FIGURE 112 – THINKING NOW OF UNOFFICIAL PAYMENTS/GIFTS THAT COMPANIES LIKE YOURS WOULD MAKE IN A GIVEN YEAR, COULD YOU PLEASE TELL ME HOW OFTEN WOULD THEY MAKE PAYMENTS/GIFTS FOR THE FOLLOWING PURPOSES? - TO OBTAIN BUSINESS LICENSES AND PERMITS	127

FIGURE 113 – THINKING NOW OF UNOFFICIAL PAYMENTS/GIFTS THAT COMPANIES LIKE YOURS WOULD MAKE IN A GIVEN YEAR, COULD YOU PLEASE TELL ME HOW OFTEN WOULD THEY MAKE PAYMENTS/GIFTS FOR THE FOLLOWING PURPOSES? - TO OBTAIN GOVERNMENT CONTRACTS	128
FIGURE 114 – THINKING NOW OF UNOFFICIAL PAYMENTS/GIFTS THAT COMPANIES LIKE YOURS WOULD MAKE IN A GIVEN YEAR, COULD YOU PLEASE TELL ME HOW OFTEN WOULD THEY MAKE PAYMENTS/GIFTS FOR THE FOLLOWING PURPOSES? - TO DEAL WITH OCCUPATIONAL HEALTH AND SAFETY INSPECTIONS	128
FIGURE 115 – THINKING NOW OF UNOFFICIAL PAYMENTS/GIFTS THAT COMPANIES LIKE YOURS WOULD MAKE IN A GIVEN YEAR, COULD YOU PLEASE TELL ME HOW OFTEN WOULD THEY MAKE PAYMENTS/GIFTS FOR THE FOLLOWING PURPOSES? - TO DEAL WITH LABOUR INSPECTIONS	129
FIGURE 116 – THINKING NOW OF UNOFFICIAL PAYMENTS/GIFTS THAT COMPANIES LIKE YOURS WOULD MAKE IN A GIVEN YEAR, COULD YOU PLEASE TELL ME HOW OFTEN WOULD THEY MAKE PAYMENTS/GIFTS FOR THE FOLLOWING PURPOSES? - TO DEAL WITH FIRE AND BUILDING INSPECTIONS	129
FIGURE 117 – THINKING NOW OF UNOFFICIAL PAYMENTS/GIFTS THAT COMPANIES LIKE YOURS WOULD MAKE IN A GIVEN YEAR, COULD YOU PLEASE TELL ME HOW OFTEN WOULD THEY MAKE PAYMENTS/GIFTS FOR THE FOLLOWING PURPOSES? - TO DEAL WITH ENVIRONMENTAL INSPECTIONS	130
FIGURE 118 – THINKING NOW OF UNOFFICIAL PAYMENTS/GIFTS THAT COMPANIES LIKE YOURS WOULD MAKE IN A GIVEN YEAR, COULD YOU PLEASE TELL ME HOW OFTEN WOULD THEY MAKE PAYMENTS/GIFTS FOR THE FOLLOWING PURPOSES? - TO DEAL WITH TAXES AND TAX COLLECTION	130
FIGURE 119 – THINKING NOW OF UNOFFICIAL PAYMENTS/GIFTS THAT COMPANIES LIKE YOURS WOULD MAKE IN A GIVEN YEAR, COULD YOU PLEASE TELL ME HOW OFTEN WOULD THEY MAKE PAYMENTS/GIFTS FOR THE FOLLOWING PURPOSES? - TO DEAL WITH CUSTOMS/IMPORTS	131
FIGURE 120 – THINKING NOW OF UNOFFICIAL PAYMENTS/GIFTS THAT COMPANIES LIKE YOURS WOULD MAKE IN A GIVEN YEAR, COULD YOU PLEASE TELL ME HOW OFTEN WOULD THEY MAKE PAYMENTS/GIFTS FOR THE FOLLOWING PURPOSES? - TO DEAL WITH COURTS	131
FIGURE 121 – THINKING NOW OF UNOFFICIAL PAYMENTS/GIFTS THAT COMPANIES LIKE YOURS WOULD MAKE IN A GIVEN YEAR, COULD YOU PLEASE TELL ME HOW OFTEN WOULD THEY MAKE PAYMENTS/GIFTS FOR THE FOLLOWING PURPOSES? - TO INFLUENCE THE CONTENT OF NEW LEGISLATION, RULES, DECREES, ETC.	132
FIGURE 122 – HOW WOULD YOU RATE THE FOLLOWING ENTITIES IN REPORTING AND PROCESSING CORRUPTION CASES, OR PROVIDING SUPPORT IN THE FIGHT AGAINST CORRUPTION IN YOUR ECONOMY? ..	134
FIGURE 123 – HOW WOULD YOU RATE THE FOLLOWING ENTITIES IN REPORTING AND PROCESSING CORRUPTION CASES, OR PROVIDING SUPPORT IN THE FIGHT AGAINST CORRUPTION IN YOUR ECONOMY? - CSO	135
FIGURE 124 – HOW WOULD YOU RATE THE FOLLOWING ENTITIES IN REPORTING AND PROCESSING CORRUPTION CASES, OR PROVIDING SUPPORT IN THE FIGHT AGAINST CORRUPTION IN YOUR ECONOMY? - MEDIA	135
FIGURE 125 – HOW WOULD YOU RATE THE FOLLOWING ENTITIES IN REPORTING AND PROCESSING CORRUPTION CASES, OR PROVIDING SUPPORT IN THE FIGHT AGAINST CORRUPTION IN YOUR ECONOMY? - POLICE AND OTHER LAW ENFORCEMENT AGENCIES	136

FIGURE 126 – HOW WOULD YOU RATE THE FOLLOWING ENTITIES IN REPORTING AND PROCESSING CORRUPTION CASES, OR PROVIDING SUPPORT IN THE FIGHT AGAINST CORRUPTION IN YOUR ECONOMY? - OTHER GOVERNMENTAL AGENCIES (I.E. SUPREME AUDIT INSTITUTIONS, TAX OFFICES, INSPECTIONS) _____	136
FIGURE 127 – HOW WOULD YOU RATE THE FOLLOWING ENTITIES IN REPORTING AND PROCESSING CORRUPTION CASES, OR PROVIDING SUPPORT IN THE FIGHT AGAINST CORRUPTION IN YOUR ECONOMY? - PROSECUTOR'S OFFICE _____	137
FIGURE 128 – HOW WOULD YOU RATE THE FOLLOWING ENTITIES IN REPORTING AND PROCESSING CORRUPTION CASES, OR PROVIDING SUPPORT IN THE FIGHT AGAINST CORRUPTION IN YOUR ECONOMY? - COURTS _____	137
FIGURE 129 – HOW WOULD YOU RATE THE FOLLOWING ENTITIES IN REPORTING AND PROCESSING CORRUPTION CASES, OR PROVIDING SUPPORT IN THE FIGHT AGAINST CORRUPTION IN YOUR ECONOMY? - GOVERNMENT AT ALL LEVELS, I.E. EXISTENCE OF ITS "POLITICAL WILL" FOR REPORTING AND PROCESSING CORRUPTION CASES _____	138
FIGURE 130 – HOW MUCH DO YOU AGREE OR DISAGREE WITH THE FOLLOWING STATEMENT: FIGHT AGAINST CORRUPTION IN MY ECONOMY IS EFFECTIVE _____	139
FIGURE 131 – TO WHAT EXTENT DO YOU BELIEVE DIGITALISATION OF PUBLIC SERVICES WOULD HAVE A POSITIVE IMPACT ON PREVENTING CORRUPTIVE PRACTICES? _____	140
FIGURE 132 – HOW MUCH DO YOU AGREE OR DISAGREE THAT THE INTERNATIONAL COMMUNITY SHOULD PRIORITISE ADDRESSING ISSUES OF CORRUPTION TO IMPROVE BUSINESS CLIMATE IN YOUR ECONOMY? _____	141
FIGURE 133 – HAS YOUR COMPANY INVESTED ABROAD, OR PLANS TO DO SO IN THE NEXT 12 MONTHS? _____	142
FIGURE 134 – WHERE DID YOU INVEST OR PLAN TO DO SO? _____	143
FIGURE 135 – WHICH OF THE FOLLOWING REASONS BEST DESCRIBES YOUR COMPANY'S MOTIVATION TO INVEST ABROAD? _____	144
FIGURE 136 – WHICH OF THE FOLLOWING REASONS BEST DESCRIBES YOUR COMPANY'S MOTIVATION TO INVEST ABROAD? - TO ACCESS NEW MARKETS _____	145
FIGURE 137 – WHICH OF THE FOLLOWING REASONS BEST DESCRIBES YOUR COMPANY'S MOTIVATION TO INVEST ABROAD? - TO LOWER PRODUCTION COSTS _____	145
FIGURE 138 – WHICH OF THE FOLLOWING REASONS BEST DESCRIBES YOUR COMPANY'S MOTIVATION TO INVEST ABROAD? - TO BETTER INTEGRATE YOUR COMPANY'S VALUE CHAIN _____	146
FIGURE 139 – WHICH OF THE FOLLOWING REASONS BEST DESCRIBES YOUR COMPANY'S MOTIVATION TO INVEST ABROAD? - TO ACCESS NATURAL RESOURCES AND RAW MATERIALS _____	146
FIGURE 140 – WHICH OF THE FOLLOWING REASONS BEST DESCRIBES YOUR COMPANY'S MOTIVATION TO INVEST ABROAD? - TO ACQUIRE OR COMPLEMENT NEW TECHNOLOGIES OR BRAND _____	147
FIGURE 141 – IN THE PROCESS OF CHOOSING WHERE TO INVEST ABROAD, HOW IMPORTANT WERE THE FOLLOWING FACTORS? _____	148

FIGURE 142 – WHEN INVESTING ABROAD HOW MUCH AVAILABLE INVESTMENT INCENTIVES ARE INFLUENCING ON THE DECISION ON WHERE TO INVEST? _____	149
FIGURE 143 – COULD THEY BE CONSIDERED TRANSPARENT? _____	149
FIGURE 144 – WHAT PERCENTAGE OF YOUR COMPANY'S SALES ARE MADE DOMESTICALLY, EXPORTED TO THE WB REGION, TO THE EU OR TO THE THIRD COUNTRIES? _____	150
FIGURE 145 – WHY DOESN'T YOUR COMPANY EXPORT? _____	151
FIGURE 146 – WHAT PERCENTAGE OF YOUR COMPANY'S INPUTS AND SUPPLIES ARE... _____	152
FIGURE 147 – WHAT PERCENTAGE OF YOUR DOMESTIC SALES ARE MADE TO? _____	152
FIGURE 148 – IF YOU HAVE IMPORTED GOODS IN THE PAST 12 MONTHS, WHAT IS THE AVERAGE NUMBER OF DAYS TO CLEAR IMPORTS THROUGH CUSTOMS? _____	153
FIGURE 149 – IF YOU HAVE EXPORTED GOODS IN THE PAST 12 MONTHS, WHAT IS THE AVERAGE NUMBER OF DAYS TO CLEAR EXPORTS THROUGH CUSTOMS? _____	154
FIGURE 150 – IF YOUR COMPANY EXPORTS TO THE WESTERN BALKANS REGION, WHAT ARE THE MAIN OBSTACLES TO YOUR EXPORTS? _____	155
FIGURE 151 – DO YOU THINK THAT CROSS-BORDER TRANSACTION COSTS ARE TOO HIGH AMONG WESTERN BALKAN ECONOMIES? _____	157
FIGURE 152 – TO WHAT EXTENT DO YOU AGREE THAT YOUR COMPANY IS THREATENED BY COMPETITION FROM THE GLOBAL COMPETITION? PLEASE USE SCALE FROM 1 TO 4, WHERE 1 MEANS TOTALLY DISAGREE, 2 – DISAGREE, 3 – AGREE AND 4 MEANS TOTALLY AGREE. _____	158
FIGURE 153 – TO WHAT EXTENT DO YOU AGREE WITH THE FOLLOWING STATEMENTS - MY COMPANY'S PRODUCTS, GOODS AND SERVICES CAN COMPETE WELL WITH PRODUCTS, GOODS AND SERVICES FROM THE WESTERN BALKANS? _____	159
FIGURE 154 – TO WHAT EXTENT DO YOU AGREE WITH THE FOLLOWING STATEMENTS - MY COMPANY'S PRODUCTS, GOODS AND SERVICES CAN COMPETE WELL WITH PRODUCTS, GOODS AND SERVICES FROM OTHER EU COUNTRIES? _____	160
FIGURE 155 – TO WHAT EXTENT DO YOU AGREE WITH THE FOLLOWING STATEMENTS - "MY COMPANY HAS BENEFITED FROM THE REGIONAL FREE TRADE AGREEMENT (CEFTA 2006)"? _____	161
FIGURE 156 – IF YOUR COMPANY IS AN EXPORTER, CAN YOU TELL US WHETHER IT IS EASIER TO EXPORT TO THE CEFTA REGION, OR TO THE EU? _____	162
FIGURE 158 – IN YOUR OPINION, WHEN PROCURING PRODUCTS AND SERVICES, SHOULD THE GOVERNMENTS IN THE REGION GIVE PREFERENTIAL TREATMENT TO SUPPLIERS WHICH ARE SOCIAL BUSINESSES, OR SHOULD THEY BE TREATED THE SAME AS ALL OTHER SUPPLIERS (PROVIDED PRICE AND QUALITY IS EQUAL)? _____	164
FIGURE 159 – ACCORDING TO YOUR OPINION, WHICH MARKET IN THE WB REGION IS THE MOST OPEN ONE? PLEASE GIVE US YOUR OPINION NO MATTER YOU/YOUR COMPANY HAD DIRECT EXPERIENCE WITH IT. RANK THESE 7 MARKETS FROM 1 (MOST OPEN) TO 7 (LEAST OPEN). _____	165

FIGURE 160 – DOES YOUR COMPANY USE THE INTERNET FOR...? _____	166
FIGURE 161 – WHAT PERCENTAGE OF YOUR TOTAL SALES IS CURRENTLY GENERATED THROUGH ONLINE SALES? _____	167
FIGURE 162 – IN THE LAST SIX MONTHS, HAVE YOU EXPERIENCED ANY OF THE FOLLOWING INTERNET SECURITY PROBLEMS? _____	168
FIGURE 163 – ARE YOU SATISFIED WITH YOUR INTERNET CONNECTION? _____	168
FIGURE 164 – HAVE YOU INTRODUCED NEW OR SIGNIFICANTLY IMPROVED PRODUCTS? _____	169
FIGURE 165 – WHO DEVELOPED THESE PRODUCT INNOVATIONS? _____	170
FIGURE 166 – WERE ANY OF YOUR PRODUCT INNOVATIONS (GOODS OR SERVICES)? _____	171
FIGURE 167 – TO THE BEST OF YOUR KNOWLEDGE, WERE ANY OF YOUR PRODUCT INNOVATIONS DURING THE THREE YEARS 2018 TO 2020 – A FIRST IN YOUR ECONOMY _____	172
FIGURE 168 – TO THE BEST OF YOUR KNOWLEDGE, WERE ANY OF YOUR PRODUCT INNOVATIONS DURING THE THREE YEARS 2018 TO 2020 – A FIRST IN EUROPE _____	172
FIGURE 169 – TO THE BEST OF YOUR KNOWLEDGE, WERE ANY OF YOUR PRODUCT INNOVATIONS DURING THE THREE YEARS 2018 TO 2020 – A WORLD FIRST _____	173
FIGURE 170 – COULD YOU PLEASE TELL ME HOW SATISFIED ARE YOU WITH EACH OF THE FOLLOWING IN YOUR ECONOMY: _____	174
FIGURE 171 – DURING THE PAST THREE YEARS (2018 TO 2020), DID YOUR ENTERPRISE RECEIVE ANY PUBLIC AND/OR DONOR'S FINANCIAL SUPPORT FOR INNOVATION ACTIVITIES FROM THE FOLLOWING LEVELS OF GOVERNMENT? - LOCAL OR REGIONAL AUTHORITIES _____	175
FIGURE 172 – DURING THE PAST THREE YEARS (2018 TO 2020), DID YOUR ENTERPRISE RECEIVE ANY PUBLIC AND/OR DONOR'S FINANCIAL SUPPORT FOR INNOVATION ACTIVITIES FROM THE FOLLOWING LEVELS OF GOVERNMENT? - CENTRAL GOVERNMENT (INCLUDING CENTRAL GOVERNMENT AGENCIES OR MINISTRIES) _____	175
FIGURE 173 – DURING THE PAST THREE YEARS (2018 TO 2020), DID YOUR ENTERPRISE RECEIVE ANY PUBLIC AND/OR DONOR'S FINANCIAL SUPPORT FOR INNOVATION ACTIVITIES FROM THE FOLLOWING LEVELS OF GOVERNMENT? - THE EUROPEAN UNION (EU) OR OTHER DONORS _____	176
FIGURE 174 – WHAT PERCENTAGE OF THE WORKFORCE AT YOUR FIRM HAS FOLLOWING EDUCATION LEVELS? _____	177
FIGURE 175 – WOULD YOU AGREE THAT THE SKILLS TAUGHT IN EDUCATIONAL SYSTEM OF YOUR ECONOMY MEET THE NEEDS OF YOUR COMPANY? _____	178
FIGURE 176 – HOW LIKELY WOULD YOU HIRE YOUNG PERSON WHOSE EDUCATIONAL PROFILE COMPLETELY MEETS THE NEEDS OF YOUR BUSINESS, BUT WITHOUT WORK EXPERIENCE? _____	179
FIGURE 177 – DID YOU ALREADY HAVE, OR PLAN TO INTRODUCE IN YOUR COMPANY, AN INTERNSHIP OR APPRENTICESHIP PROGRAMME? _____	180

FIGURE 178 – HOW IMPORTANT ARE DIGITAL SKILLS FOR YOUR COMPANY? _____	181
FIGURE 179 – DO YOU TAKE CONCRETE MEASURES TO IMPROVE THE DIGITAL SKILLS OF YOUR EMPLOYEES? _____	181
FIGURE 180 – DID YOU HAVE VACANCIES OVER THE PAST 12 MONTHS THAT HAVE PROVED HARD TO FILL? _____	182
FIGURE 181 – WHY DO YOU THINK THIS IS THE CASE? _____	183
FIGURE 182 – OVER THE PAST 12 MONTHS, HAS YOUR BUSINESS FUNDED OR ARRANGED ANY TRAINING AND DEVELOPMENT FOR STAFF IN THE ORGANISATION, INCLUDING ANY INFORMAL ON-THE-JOB TRAINING, EXCEPT TRAINING REQUIRED BY THE LAW? _____	184
FIGURE 183 – THINKING ABOUT SKILLS REQUIREMENTS, DOES YOUR COMPANY REGULARLY REVIEW THE SKILL AND TRAINING NEEDS OF INDIVIDUAL EMPLOYEES? _____	184
FIGURE 184 – HOW WOULD YOU ASSESS THE READINESS OF EMPLOYEES IN YOUR COMPANY TO ACQUIRE ADDITIONAL QUALIFICATIONS IN ORDER TO ADVANCE AND GET PROMOTED? _____	185
FIGURE 185 – IN YOUR OPINION, WHAT ARE THE MOST EFFECTIVE WAYS TO INCREASE THE NUMBER OF WOMEN IN THE LABOUR MARKET? _____	186
FIGURE 186 – TO CURB THE PROBLEM OF LABOUR FORCE SHORTAGES AND BRAIN DRAIN OUR GOVERNMENT SHOULD: _____	187
FIGURE 187 – HOW OFTEN DO YOU USE THE FOLLOWING WHEN HIRING NEW EMPLOYEES? _____	188
FIGURE 188 – HOW OFTEN DO YOU USE THE FOLLOWING WHEN HIRING NEW EMPLOYEES? - THROUGH PERSONAL CONTACT (FOLLOWING RECOMMENDATIONS OF FRIENDS AND COLLEAGUES) _____	189
FIGURE 189 – HOW OFTEN DO YOU USE THE FOLLOWING WHEN HIRING NEW EMPLOYEES? - THROUGH PLACING ADVERTISEMENTS IN THE PAPERS AND/OR ONLINE _____	190
FIGURE 190 – HOW OFTEN DO YOU USE THE FOLLOWING WHEN HIRING NEW EMPLOYEES? - WITH THE INTERMEDIATION OF THE OFFICIAL EMPLOYMENT AGENCY _____	190
FIGURE 191 – HOW OFTEN DO YOU USE THE FOLLOWING WHEN HIRING NEW EMPLOYEES? - BY COOPERATING DIRECTLY WITH EDUCATION INSTITUTIONS _____	191
FIGURE 192 – HOW OFTEN DO YOU USE THE FOLLOWING WHEN HIRING NEW EMPLOYEES? - WITH THE INTERMEDIATION OF PRIVATE EMPLOYMENT AGENCIES AND/OR HEAD HUNTERS _____	191
FIGURE 193 – HOW OFTEN DO YOU USE THE FOLLOWING WHEN HIRING NEW EMPLOYEES? - "POACHING" EMPLOYEES FROM THE COMPETITORS _____	192
FIGURE 194 – IF YOU COULD CHANGE THE NUMBER OF FULL-TIME WORKERS YOUR COMPANY CURRENTLY EMPLOYS WITHOUT ANY RESTRICTIONS, WHAT WOULD BE YOUR OPTIMAL LEVEL OF EMPLOYMENT AS A PERCENT OF YOUR EXISTING WORKFORCE? WOULD YOU DECREASE, INCREASE OR RETAIN THE SAME LEVEL OF EMPLOYEES? _____	193
FIGURE 195 – OF THE TOTAL NUMBER, HOW MANY OF YOUR EMPLOYEES ARE MEN AND HOW MANY WOMEN? _____	194

FIGURE 196 – HOW LIKELY WOULD YOU HIRE A ROMA PERSON WHOSE EDUCATIONAL PROFILE AND EXPERIENCE COMPLETELY MEET THE NEEDS OF YOUR BUSINESS?	195
FIGURE 197 – IN YOUR OPINION, DO COMPANIES LIKE YOURS HAVE A GENDER PREFERENCE IN TERMS OF HIRING?	196
FIGURE 198 – DO YOU HAVE SOMEBODY FROM BELOW MENTIONED VULNERABLE GROUPS WORKING IN YOUR COMPANY?	197
FIGURE 199 – DO YOU THINK THAT EMPLOYING ROMA PERSONS WOULD AFFECT COMPANY SALES OR THE WORKING ENVIRONMENT IN A POSITIVE OR A NEGATIVE WAY?	198
FIGURE 200 – HOW LIKELY WOULD YOU EMPLOY WORKERS FROM ABROAD IN YOUR COMPANY?	199
FIGURE 201 – HOW LIKELY WOULD YOU EMPLOY WORKERS FROM THE REGION WB IN YOUR COMPANY?	199
FIGURE 202 – YOU SAID THAT YOU WOULD EMPLOY WORKERS FROM THE WB REGION IN YOUR COMPANY, FROM WHICH ECONOMY/ECONOMIES EXACTLY?	200
FIGURE 203 – HAVE YOU HEARD OF THE REGIONAL COOPERATION COUNCIL?	201
FIGURE 204 – HAS YOUR BUSINESS BEEN AFFECTED IN ANY WAY BY THE SPREAD OF CORONAVIRUS/COVID-19?	202
FIGURE 205 – HOW HAS YOUR COMPANY'S TOTAL EMPLOYMENT CHANGED OVER THE PAST 12 MONTHS?	203
FIGURE 206 – IN WHAT WAYS HAS YOUR BUSINESS BEEN AFFECTED, I.E. WHAT SPECIFIC PROBLEMS, IF ANY, HAS YOUR BUSINESS FACED?	204
FIGURE 207 – WHAT CONTINGENCY MEASURES, IF ANY, HAS YOUR BUSINESS TAKEN TO MITIGATE THE IMPACT OF CORONAVIRUS/COVID_19 SPREADING?	205
FIGURE 208 – IN LIGHT OF COVID-19 PANDEMIC AND SUPPLY CHAINS DISRUPTIONS, WHICH OF THE FOLLOWING MEASURES HAVE YOU CONSIDERED?	206
FIGURE 209 – IN LIGHT OF COVID-19 PANDEMIC AND SUPPLY CHAINS DISRUPTIONS, WHICH OF THE FOLLOWING MEASURES HAVE YOU CONSIDERED?	207
FIGURE 210 – HAS YOUR BUSINESS'S ACCESS TO FINANCIAL RESOURCES CHANGED SINCE THE OUTBREAK OF COVID-19?	208
FIGURE 211 – IN YOUR OPINION HOW USEFUL ARE THE GOVERNMENT'S ECONOMIC MEASURES IN YOUR ECONOMY?	209
FIGURE 212 – WHICH OF THE FOLLOWING MEASURES OF THE GOVERNMENT WOULD ASSIST YOUR BUSINESS THE MOST TO HELP YOU OVERCOME THE CRISIS CREATED BY COVID-19 PANDEMIC?	210
FIGURE 213 – HOW CONFIDENT ARE YOU THAT YOUR BUSINESS HAS THE FINANCIAL RESOURCES TO CONTINUE OPERATING THROUGHOUT THE CORONAVIRUS/COVID-19 OUTBREAK?	211
FIGURE 214 – ARE YOU HAVING TROUBLE IN MAKING THE OBLIGATORY PAYMENTS (TAXES, WAGES, UTILITIES, ETC)?	212

FIGURE 215 – WHEN DO YOU THINK THE CORONAVIRUS/COVID-19 PANDEMIC WILL BE CONTAINED AND LIFE WILL RETURN TO NORMAL?	213
FIGURE 216 – HOW IS YOUR OVERALL CONFIDENCE LEVEL ON ECONOMIC CONDITIONS AFTER THE COVID-19 SITUATION?	214
FIGURE 217 – IN YOUR OPINION, HOW MUCH TIME WILL IT TAKE FOR THE OVERALL ECONOMY TO RECOVER ONCE THE LOCKDOWN FROM COVID-19 IS OVER?	214
FIGURE 218 – WHAT ABOUT YOUR BUSINESS? HOW MUCH TIME WILL IT TAKE FOR YOUR BUSINESS TO RECOVER ONCE THE LOCKDOWN FROM COVID-19 IS OVER?	215
FIGURE 219 – HOW HAS THE GENERAL ECONOMIC SITUATION CHANGED OVER THE PAST 12 MONTHS? HAS IT DETERIORATED, REMAINED UNCHANGED OR IMPROVED?	216
FIGURE 220 – HOW DO YOU EXPECT THE GENERAL ECONOMIC SITUATION IN YOUR ECONOMY TO DEVELOP OVER THE NEXT 12 MONTHS? WILL IT MOSTLY DETERIORATE, REMAIN UNCHANGED OR IMPROVE?	217
FIGURE 221 – HOW HAS YOUR BUSINESS SITUATION DEVELOPED OVER THE PAST 12 MONTHS? HAS IT DETERIORATED, REMAINED UNCHANGED OR IMPROVED?	217
FIGURE 222 – HOW DO YOU EXPECT THE NUMBER OF PEOPLE EMPLOYED IN YOUR COMPANY TO CHANGE OVER THE NEXT 12 MONTHS?	218
FIGURE 223 – HOW HAS THE DEMAND FOR YOUR COMPANY'S PRODUCTS/SERVICES CHANGED OVER THE PAST 12 MONTHS? HAS IT DETERIORATED REMAINED UNCHANGED OR IMPROVED?	219
FIGURE 224 – HOW DO YOU EXPECT THE DEMAND FOR YOUR COMPANY'S PRODUCTS/SERVICES TO CHANGE OVER THE NEXT 12 MONTHS? WILL IT DECREASE REMAIN MOSTLY UNCHANGED OR INCREASE?	219
FIGURE 225 – CAN YOU TELL HOW PROBLEMATIC ARE THESE DIFFERENT FACTORS FOR THE OPERATION AND GROWTH OF YOUR BUSINESS? CAN YOU PLEASE RATE EACH?	220
FIGURE 226 – 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?	220
FIGURE 227 – WHAT PERCENTAGE OF YOUR COMPANY'S SALES ARE MADE DOMESTICALLY, EXPORTED TO THE WB REGION, TO THE EU OR TO THE THIRD COUNTRIES?	221
FIGURE 228 – TO WHAT EXTENT DO YOU AGREE WITH THE FOLLOWING STATEMENTS - MY COMPANY'S PRODUCTS, GOODS AND SERVICES CAN COMPETE WELL WITH PRODUCTS, GOODS AND SERVICES FROM THE WESTERN BALKANS?	222
FIGURE 229 – TO WHAT EXTENT DO YOU AGREE WITH THE FOLLOWING STATEMENTS - MY COMPANY'S PRODUCTS, GOODS AND SERVICES CAN COMPETE WELL WITH PRODUCTS, GOODS AND SERVICES FROM OTHER EU COUNTRIES?	222
FIGURE 230 – TO WHAT EXTENT DO YOU AGREE WITH THE FOLLOWING STATEMENTS - MY COMPANY'S PRODUCTS, GOODS AND SERVICES CAN COMPETE WELL WITH PRODUCTS, GOODS AND SERVICES FROM THE WESTERN BALKANS?	222

FIGURE 231 – TO WHAT EXTENT DO YOU AGREE WITH THE FOLLOWING STATEMENTS - MY COMPANY'S PRODUCTS, GOODS AND SERVICES CAN COMPETE WELL WITH PRODUCTS, GOODS AND SERVICES FROM OTHER EU COUNTRIES?	223
FIGURE 232 – TO WHAT EXTENT DO YOU AGREE WITH THE FOLLOWING STATEMENTS - "MY COMPANY HAS BENEFITED FROM THE REGIONAL FREE TRADE AGREEMENT (CEFTA 2006)"?	224
FIGURE 233 – DOES YOUR COMPANY USE THE INTERNET FOR...?	225
FIGURE 234 – HAVE YOU INTRODUCED NEW OR SIGNIFICANTLY IMPROVED PRODUCT OR SERVICE?	226
FIGURE 235 – HOW OFTEN DO YOU USE THE FOLLOWING WHEN HIRING NEW EMPLOYEES?	227
FIGURE 236 – IF YOU COULD CHANGE THE NUMBER OF FULL-TIME WORKERS YOUR COMPANY CURRENTLY EMPLOYS WITHOUT ANY RESTRICTIONS, WHAT WOULD BE YOUR OPTIMAL LEVEL OF EMPLOYMENT AS A PERCENT OF YOUR EXISTING WORKFORCE? WOULD YOU DECREASE, INCREASE OR RETAIN THE SAME LEVEL OF EMPLOYEES?	227
FIGURE 237 – DO YOU HAVE SOMEBODY FROM BELOW MENTIONED VULNERABLE GROUPS WORKING IN YOUR COMPANY?	228
FIGURE 238 – HOW WOULD YOU ASSESS THE READINESS OF EMPLOYEES IN YOUR COMPANY TO ACQUIRE ADDITIONAL QUALIFICATIONS IN ORDER TO ADVANCE AND GET PROMOTED?	229
FIGURE 239 – 1. HOW HAS THE GENERAL ECONOMIC SITUATION CHANGED OVER THE PAST 12 MONTHS? HAS IT DETERIORATED, REMAINED UNCHANGED OR IMPROVED?	230
FIGURE 240 – HOW HAS YOUR BUSINESS SITUATION DEVELOPED OVER THE PAST 12 MONTHS? HAS IT DETERIORATED, REMAINED UNCHANGED OR IMPROVED?	231
FIGURE 241 – HOW HAS THE DEMAND FOR YOUR COMPANY'S PRODUCTS/SERVICES CHANGED OVER THE PAST 12 MONTHS? HAS IT DETERIORATED REMAINED UNCHANGED OR IMPROVED?	232
FIGURE 242 – HOW DO YOU EXPECT THE DEMAND FOR YOUR COMPANY'S PRODUCTS/SERVICES TO CHANGE OVER THE NEXT 12 MONTHS? WILL IT DECREASE, REMAIN MOSTLY UNCHANGED OR INCREASE? ..	233
FIGURE 243 – HOW HAVE YOUR LABOUR AND OTHER COSTS (E.G. ENERGY, ETC.) CHANGED OVER THE PAST 12 MONTHS?	233
FIGURE 244 – HOW DO YOU EXPECT THE NUMBER OF PEOPLE EMPLOYED IN YOUR COMPANY TO CHANGE OVER THE NEXT 12 MONTHS?	234
FIGURE 245 – FOR YOUR BUSINESS PURPOSES, HOW WOULD YOU RATE THE COMBINATION OF AVAILABILITY, QUALITY AND AFFORDABILITY OF ROAD, RAILROAD, WATERWAY AND AIR TRANSPORT?	234
FIGURE 246 – FOR YOUR BUSINESS PURPOSES, HOW WOULD YOU RATE THE COMBINATION OF AVAILABILITY, QUALITY AND AFFORDABILITY OF ELECTRICITY, GAS AND WATER SUPPLY?	234
FIGURE 247 – IN THE PAST THREE YEARS, HAS YOUR COMPANY DECIDED NOT TO TAKE PART IN A PUBLIC TENDER OR A PUBLIC PROCUREMENT PROCEDURE EVEN THOUGH YOU COULD HAVE OFFERED THE GOODS OR SERVICES SOLICITED?	235

FIGURE 248 – THINKING NOW OF UNOFFICIAL PAYMENTS/GIFTS THAT COMPANIES LIKE YOURS WOULD MAKE IN A GIVEN YEAR, COULD YOU PLEASE TELL ME HOW OFTEN WOULD THEY MAKE PAYMENTS/GIFTS FOR THE FOLLOWING PURPOSES?	236
FIGURE 249 – WHAT PERCENTAGE OF YOUR COMPANY'S SALES ARE MADE DOMESTICALLY, EXPORTED TO THE WESTERN BALKANS REGION, TO THE EU OR TO THE THIRD COUNTRIES?	236
FIGURE 250 – DOES YOUR COMPANY USE THE INTERNET FOR...?	237
FIGURE 251 – 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.	238
FIGURE 252 – HOW LIKELY WOULD YOU EMPLOY WORKERS FROM ABROAD IN YOUR COMPANY?	239
FIGURE 253 – HOW LIKELY WOULD YOU EMPLOY WORKERS FROM THE REGION IN YOUR COMPANY?	239
FIGURE 254 – OVER THE PAST 12 MONTHS, HAS YOUR BUSINESS FUNDED OR ARRANGED ANY TRAINING AND DEVELOPMENT FOR STAFF IN THE ORGANISATION, INCLUDING ANY INFORMAL ON-THE-JOB TRAINING, EXCEPT TRAINING REQUIRED BY THE LAW?	239
FIGURE 255 – IN YOUR OPINION, WHAT ARE THE MOST EFFECTIVE WAYS TO INCREASE THE NUMBER OF WOMEN IN THE LABOUR MARKET?	240
FIGURE 256 – SAMPLE STRUCTURE BY RESPONDENT'S POSITION	243
FIGURE 257 – SAMPLE STRUCTURE BY LARGEST SHAREHOLDER	244
FIGURE 258 – SAMPLE STRUCTURE BY NUMBER OF EMPLOYEES	244
FIGURE 259 – SAMPLE STRUCTURE BY BUSINESS AREA	245
FIGURE 260 – SAMPLE STRUCTURE BY OWNERSHIP	245

FOREWORD

The Regional Cooperation Council presents the 2021 edition of the Balkan Barometer - the annual survey of Western Balkans citizens and business perceptions. The analysis of the results provides a detailed insight into trends and evolution of the attitudes of thousands of region's citizens and businesses across socio-economic topics that impact their everyday lives. Due to this long-running exercise, monitoring the public sentiment has once again proved to be of great importance to understand citizens' and businesses' attitudes towards current situation as well as the expectations for the region's recovery in the wake of the pandemic.

This is the second Barometer edition that reflects the new reality created by the pandemic and the measures taken to contain it. As such, findings of these last two editions are particularly significant in offering a clear understanding of what the crisis created by the COVID-19 pandemic means on the ground, what its consequences are, and what are the citizens' future prospects.

This biggest public health crisis that the region and the whole world have been facing for over a year, made us aware, more than ever, that our health and economic prosperity depend on our neighbours' solidarity and cooperation. This year's findings reconfirmed that Western Balkans is a vibrant region, eager to make full use of its potential to boost the economic recovery, through accelerated regional economic integration and deepened economic cooperation with the EU.

Results of all seven cycles of the Barometer show **ongoing incremental improvements in sentiments in the Western Balkans region related to regional cooperation.** An underlying sentiment of solidarity pervades the Western Balkans, with close to two-thirds focusing on what brings the region together rather than what drives it apart. Likewise, an overwhelming majority of respondents support regional cooperation role in improving the political, economic and security situation in their home economies (77%). The fact that over three-fourth of participants observe improve-

ment shows an unprecedented positive change. After last year's negative appraisal, this rejuvenated positive view is encouraging.

The EU accession continues to be seen as a positive development. Steady support for regional cooperation and EU accession amplifies the importance and one of the long-term goals of such processes—to make us more cooperative, solidary and resilient against crisis such as the COVID-19 outbreak. **Results show a subtle increase in support for EU membership across the region, with 62% endorsing accession (59% in 2019 and 56% in 2018).** However, every year the expectations in the Western Balkans for EU integration show a more realistic outlook on the region's foreseeable accession prospects.

After several years of relative stagnation in perceived socio-economic status, and despite the pandemic heavily impacting our economy, **improvements in the overall economic situation seem to be translating into tangible benefits across the region.** The vast majority of residents in the Western Balkans describing their socio-economic status as average (77%), slightly increased since 2019, while the share of those who claim that their standard of living is above average (5%) has not changed. Interestingly, this perception seemingly diverges from the finding that the number of below-average respondents is decreasing, with the rank of the so-called middle class swelling accordingly.

While unemployment continues to remain a challenge across the region, particularly among youth and women, there is a growing number of participants who think that education and hard work are the main preconditions for getting ahead in life and finding a job. Some 58% feel that having a good education and working hard are equally important contributors for a better future, while 38% find job qualifications and education as the most important asset to find a job. 54% claim that knowing the right people is important for a bright future, while more than one-third believe that luck will get you ahead in life.

The decline by 6 points of the share of respondents who are seriously considering leaving their economy (one-third) is encouraging, while over half claim do not have any intention to work abroad in the near future. This is a promising indication that the governmental actions move in line with young people's interests and address their concerns.



INTRODUCTION

The release of the 7th edition of the Balkan Barometer comes at times when the world, hence also the Western Balkans, still face the perils of the economic crisis induced by the outbreak of the novel coronavirus and its Covid-19 disease. Yet, the 2021 edition of the Balkan Barometer builds on its firmly established tradition as independent, reliable source of regional data widely employed and referenced by media, business, civil society and decision makers alike.

The 2021 Balkan Barometer surveys were conducted between December 2020 and February 2021 in Albania, Bosnia and Herzegovina, Kosovo, Montenegro, Republic of North Macedonia and Serbia. The Public Opinion survey posed 117 questions to 6000 citizens and the Business Opinion survey presented 110 questions to 1200 business owners, managers or executives. Answers by survey respondents have been systemised, analysed and presented in the two reports – Public Opinion Survey and Business Opinion Survey.

The Balkan Barometer is yet again enriched in terms of questions and topics covered in an attempt to remain comprehensive, up-to-date and relevant in a challenging regional Covid-19-induced landscape. The Balkan Barometer remains an independent guide to attitudes towards cooperation and integration, as well as attitudes to other key policy areas both at domestic and regional levels that affect the daily lives of the Western Balkans citizens. Its findings help to inform the work of decision makers, scholars and all interested regional stakeholders, by also making them aware of the societal eagerness for sustainable and far-reaching reforms. Last but not least, this Barometer edition sheds light to the manifestation of the need for resilience and adaptability in civic activism and public governance in the face of political and economic crises induced by COVID-19 pandemic.

MAIN FINDINGS

As the crisis induced by the outbreak and the spread of Covid-19 plagued most of 2020 for the entire Western Balkans, business perceptions showed a significant deterioration after years of consecutive growth. The Balkan Business Opinion Barometer 2021 brings the lowest value of Balkan Business Sentiment Index (BBSI) for the region since the business perception is being measured. This is a direct socio-economic consequence of the Covid-19 outbreak and its impact in Western Balkans. In 2020, BBSI reached a historical low of 46 points, slightly below its lowest value of 47 observed in 2014, and bringing to a halt the uninterrupted growth to 65 points in 2019. The value is determined by both the gloomy expectations (44 points) and the present situation (41). All economies have seen deterioration of the score in the magnitude of the average.

The Western Balkans, as the whole world, went through a tough economic year, determined by the consequences of the coronavirus pandemic. Economic growth for 2020 was expected to decline by 5% according to the IMF Outlook, with Montenegro being hit the hardest and Serbia experiencing the smallest decline. Consumption shrunk, as a result of what businesses have been consistently reporting a decline in demand for their products. 55% of them reported demand deteriorated, a dramatic increase from 9% a year before, while 51% expect that the number of employees will stay the same. However, as it has been the case in the past, business leaders perceive their businesses as better performing than their respective economies in total.

Expectations of businesspersons have now been subdued due to the uncertainties related to the resolution of the Covid-19 crisis. Respondents more frequently think that the return to normalcy will be postponed by at least early 2022, if not for later that year. Yet, majority of them considered government response to the economic crisis induced by Covid-19 to have been fairly appropriate. Even during the crisis, internal funds/retained earnings increased their dominant in the sources of funding for companies.

Despite the crisis enticed by Covid-19, old problems remain to linger onto economic outcomes in the region. However, the share of businesses which expressed hesitation for the regional cooperation shrunk, mainly due to the positive trends in Serbia, but also in Bosnia and Herzegovina. Likewise, the satisfaction with CEFTA grew, however the polarisation between economies that consider CEFTA more difficult than exporting to the EU remained in 2020 to a large extent.

Still, the business environment stalled amid the crisis as not much progress has been observed in key aspects of doing business. Macroeconomic instability, the rule of law in its broadest sense, including ethics, transparency and efficiency continue to trouble businesses with an equal or even higher intensity as in the past editions of the Balkan Barometer. Infrastructure – in the broadest sense of the word – was assessed favourable but not better than in 2019. On the positive side, businesspersons in the Western Balkans reiterated their positive attitude towards the Regional Roaming Agreement (RRA).

Labour markets in the Western Balkans suffered during the pandemic mainly through the loss of working hours. The majority of threatened jobs were maintained due to the government support. So, vacancies in 2020 were rarer than before, but the structural pre-existing problems remained: lack of appropriate skills and labour force emigration continued to represent two key obstacles. One of the positive consequences is that the companies in the region became more open towards youth and women.

Economies of the region remain concentrated on domestic markets. Albeit 73% of businesses claim that their products can compete with those from the EU, less than 2 in 10 are engaged in exports. Non-exporters usually cite lack of plans, interests or capacities to export, while exporters complain about the need to hardcopy documents and get licenses, and about slow import-export procedures.

* 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

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

Stronger preference for male workers and prejudices against Roma workers continue to persevere. This situation continues to be one of the reasons of the persistent gender and Roma employment gap across all the economies in the region. Moreover, not so negligible share of employers continues to believe that employing a Roma worker would negatively impact the working environment of their company.

FDIs coming to the region mainly fail to root in the domestic economies. A shrinking infinitesimal 2% of sales of the companies in the Western Balkans are made to multinational companies located in their economies.

Western Balkans companies have still used the Internet in traditional fashion, mostly for communication and advertising. The usage of e-banking continued to grow over the past year. Despite widespread internet usage, not much of companies' sales in the region is generated online: 57% of respondents said sales of less than 5% was generated online, which is quite striking given the propensity to turn to online operations amid the Covid-19 crisis.

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

REGIONAL OVERVIEW

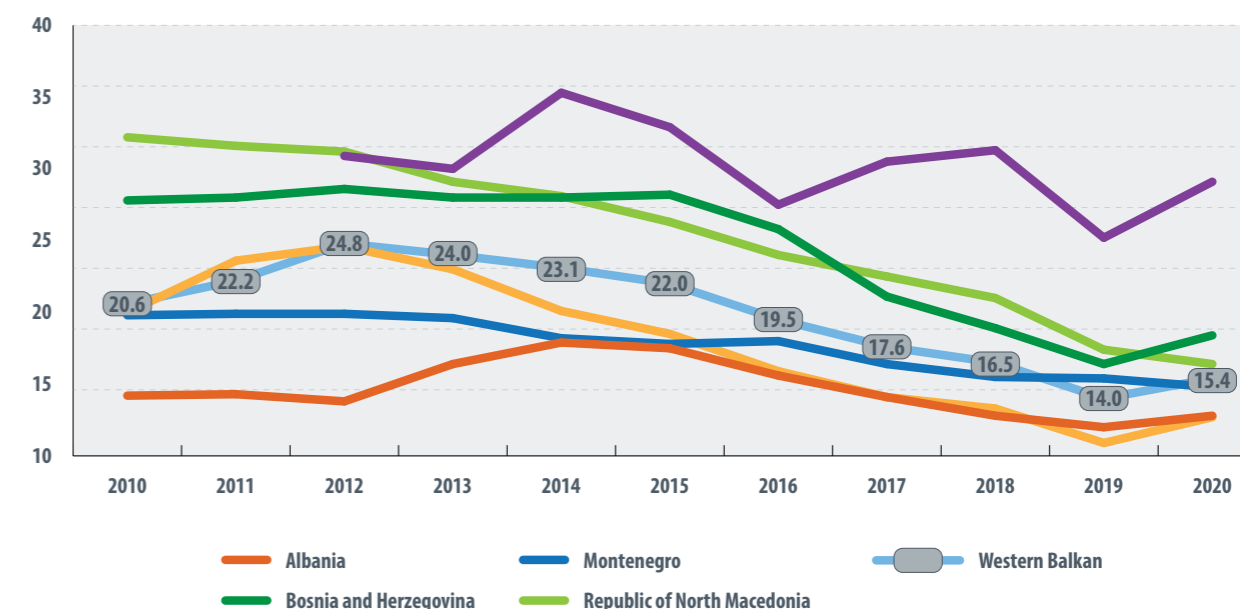
The outbreak and spread of the novel coronavirus in March 2020 led to a major health crisis across the regions, hitting both supply and demand and causing deep recession in all Western Balkan economies throughout 2020. While the most negative economic effect was seen in the second quarter of the year, the return to normality has not yet been achieved not only because the second wave of the virus in the autumn of 2020 brought restrictions to movement and economic activity to a significant extent, but also because a third wave has been looming at the end of the first quarter in 2021.

The real output loss amounted to -5% in the Western Balkan economies in 2020 (**Figure 1**). While these figures are not final yet (i.e. present the latest forecasts), they suggest that the WB economies have not seen such dramatic declines for the last decade, even not during the global financial crisis of 2008-2009. There is some variation in the GDP decline in 2020: Montenegro faced the severest drop of -12% (reflecting the hit on

the tourism sector), followed by Albania and Kosovo* (-7.5% each), Bosnia and Herzegovina (-6.5%), Republic of North Macedonia (-5.4%), while the smallest decline is observed in Serbia (-2.5%).

IMF projections suggest that the WB economies are expected to return to the pre-pandemic GDP level by the end of 2021, on the assumption that the pandemic is bridled to a large extent by the process of immunisation. An average WB growth of 5.5% is expected over 2021, with growth rates ranging between 5.5% and 6.1% across the region. Such growth pace is expected to slightly decelerate in 2022 (a projected average GDP growth across WB of 5.2%). However, such a construct is largely dependent on the coping with the crisis which is difficult for the economies even in the first quarter of 2021. Delays in the process of immunisation may postpone the return to normal economic activity, hence also postponing reaping of higher growth rates that will compensate the 2020 slump.

Figure 1 – Real GDP Growth in the Western Balkans 2008-2022



(Source: IMF World Economic Outlook, WB GDP weighted average growth rate)

To contain the GDP decline, save jobs and alleviate income fallouts, the economies across the region undertook a palette of measures, large part of which were considered timely. The key weapon against the socio-economic consequences of the pandemic has been the direct subsidisation of workers' wages and direct support to citizens' income, either through expanding existing social assistance schemes or offering one-off financial aid for the most vulnerable segments. Companies, and particularly small and medium-sized enterprises, were assisted with favourable loans (usually deployed through the development banks), deferral of tax and other duties, one-off support (grants) to the most vulnerable small businesses and so on.

Amid the pandemic, in some Western Balkans economies, the decennial reducing trend of unemployment rate has been halted (Figure 2). For these WB econo-

mies, the decline of unemployment rates which started in 2012 was reversed in 2020. On the other hand, in some WB economies the unemployment rates continued to fall even during 2020. Compared to the GDP declines, the increases in unemployment rates in 2020 have been rather moderate, reflecting swift reactions of WB6 governments in deploying measures to safeguard jobs. Within the WB region, there are some distinctive patterns. Bosnia and Herzegovina, the Republic of North Macedonia and Serbia recorded a further decline of their unemployment rates, despite the pandemic, while the increases in unemployment rates in the rest of the WB6 economies were of different magnitudes. In 2020, the lowest increase in unemployment rates was recorded in Albania (0.2 p.p.), while the largest increase in unemployment rate was recorded in Montenegro (2.9 p.p.).

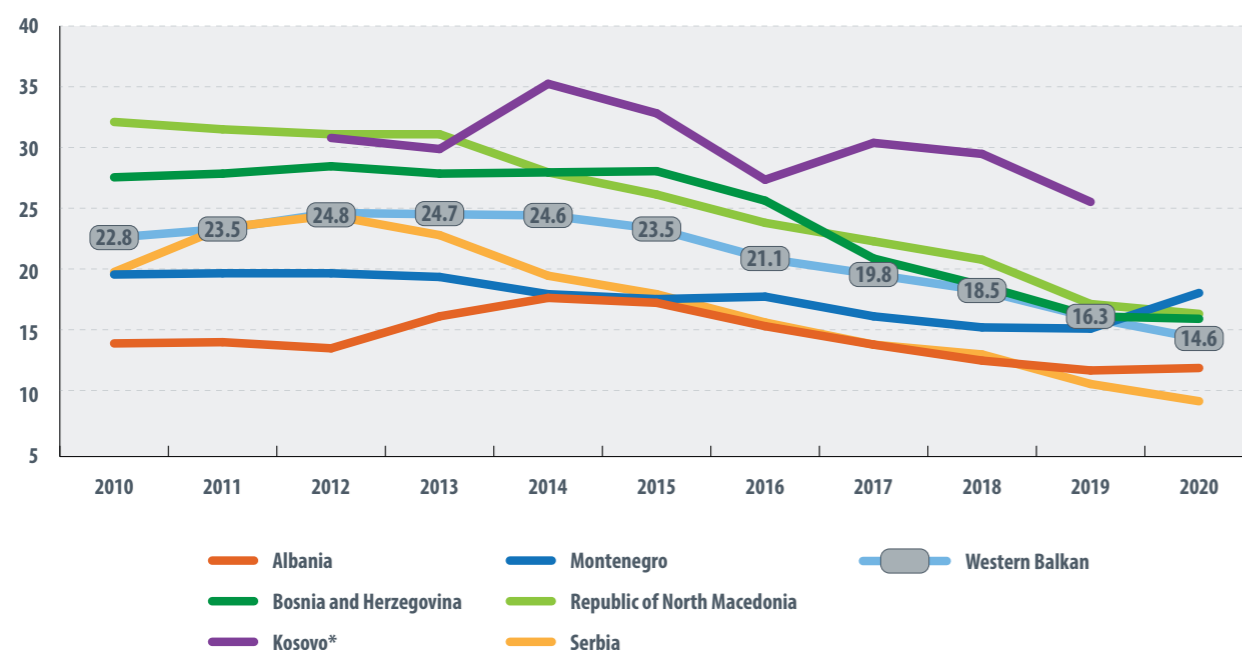
Covid-19 pandemic caused fiscal deficit to soar in all Western Balkan economies. Fiscal balances deteriorated as governments were spending to counter the economic contraction. The average deficit was projected to rise from 1.4% of GDP in 2019 to 8% in 2020. The stronger recessions in Montenegro, Kosovo* and Albania caused particularly large deficits: 11.7%, 9.5% and 8.5%, respectively. Such fiscal deficits, inter alia, resulted from the progressive losing of public revenue, averaging 1.7% of GDP, on top of the revenue loss caused by the nominal contraction of GDP in 2020. On the other side, public spending soared by 1.7 p.p. of GDP in Republic of North Macedonia and 6.7 p.p. in Montenegro, the regional average being 4.8 p.p.

Shortage of public funds amid the outbreak and spread of Covid-19 prompted Western Balkan governments to

turn to international capital markets. In June 2020, Republic of North Macedonia issued a six-year Eurobond worth 700 million EUR, with a coupon rate of 3.675%, Serbia issued a seven-year Eurobond worth 2 billion EUR at 3.125% and Albania a seven-year Eurobond worth 650 million EUR at 3.65%. Multilateral support by the IMF, World Bank and the EU preceded or coincided the sourcing of funding in private markets to address immediate financing gaps. Such coordinated backing of the international financial institutions proved crucial to preserving debt sustainability. All economies except Serbia sought support from the IMF Rapid Financial Instrument to address urgent balance of payments needs, which then allowed them to apply for EU Macro-Financial Assistance.

Figure 2: Unemployment rates in the Western Balkans, 2010-2020

(% of the labor force; LFS, 15-64 age group)



(Source: ESAP Observatory on employment in the Western Balkans, RCC ESAP 2 project based on data from official government sources in WB6. Note average data for Western Balkan for 2010, 2011 and 2020 are calculated based on data for five WB economies, since data for Kosovo* for these years is not available. Data labels shown are average unemployment rate for the Western Balkans region.)

BALKAN BUSINESS SENTIMENT INDEX

In order to monitor the present business sentiment and optimism changes over time, the Balkan Business Sentiment Index (BBSI) is conducted, 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?

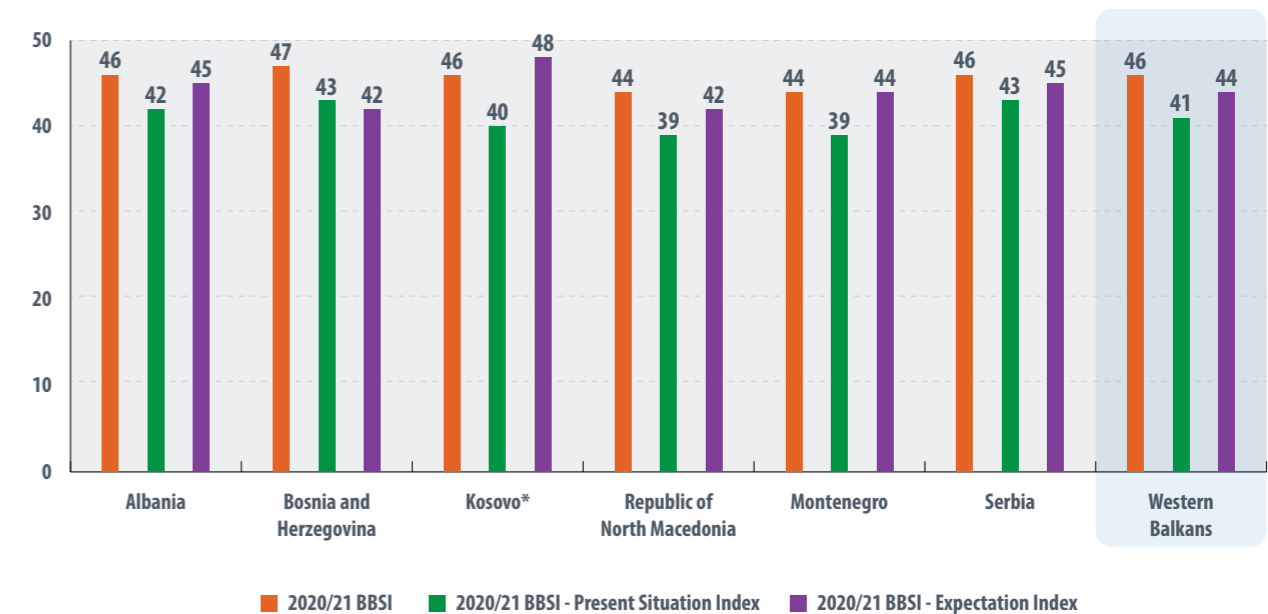
BBSI contains questions related to the respondents' experience of the general economic situation and the situation in their business with regards to development and demand for products or services over the past 12 months. Simultaneously, the index contains questions related to the respondents' expectations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

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

After responses are recoded, the average value is calculated for the whole Western Balkans region as well as for each economy separately. The index values are expressed on a scale of 0 to 100. **Figure 3** presents BBSI for the current round of the Balkan Barometer: the value stands at around 46 for all Western Balkan economies, suggesting a satisfaction with the overall and the economic situation in the society to some extent. Expectations are likewise evened out across the region with an average value of 44.

Figure 3 – Balkan Business Sentiment Index (BBSI) in 2020

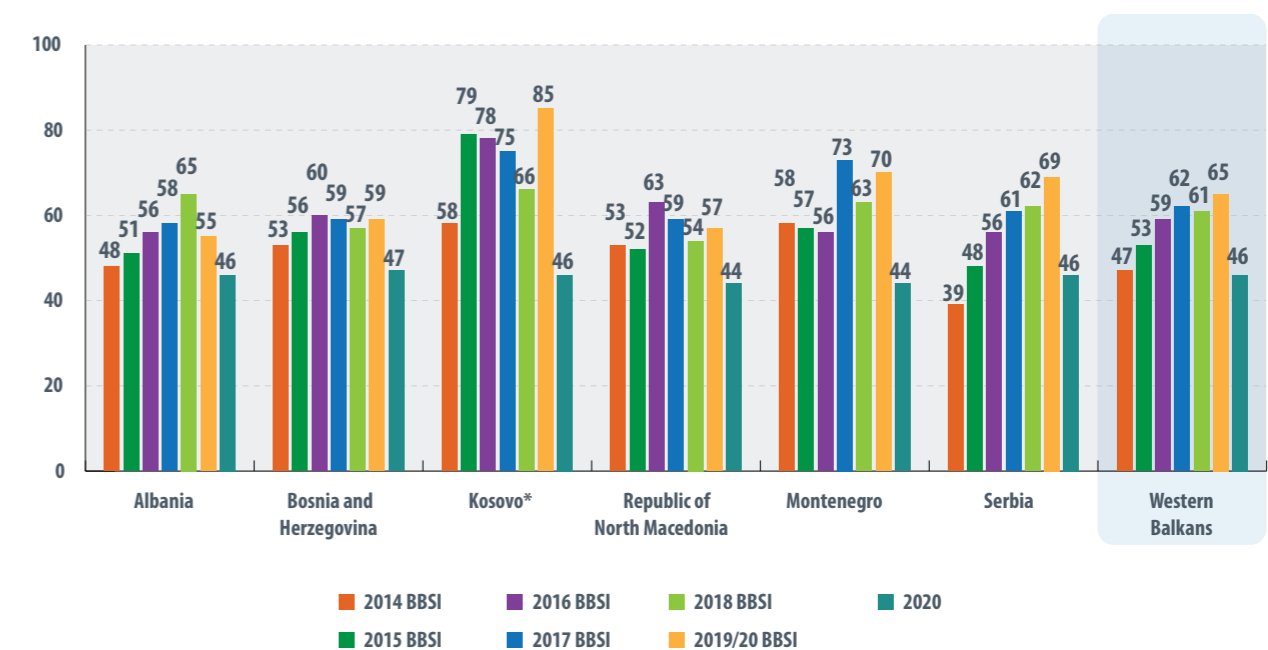
(Scores are on a scale from 0 to 100)



However, when BBSI is observed over time (**Figure 4**), it becomes clear that the business sentiment dwindled in 2020 after a couple of years of continued growth. The business sentiment has been frozen by the outbreak and spread of the Covid-19. The index fell from 65 to 46 points for the whole region, which represents a significant drop. The drop is of different magnitude across the economies of the region, despite levelled out. For

example, the drop has been the largest in Kosovo*, from 85 to 46, while the smallest in Albania, from 55 to 46. Nevertheless, the sentiment in Albania has been already on the decline in 2019, while the one of Kosovo* has experienced ups and downs even before, similarly as that of Republic of North Macedonia and Montenegro. Serbia was the only economy with a sustained business sentiment improvement until the crisis hit.

Figure 4 – Balkan Business Sentiment index (BBSI) over time



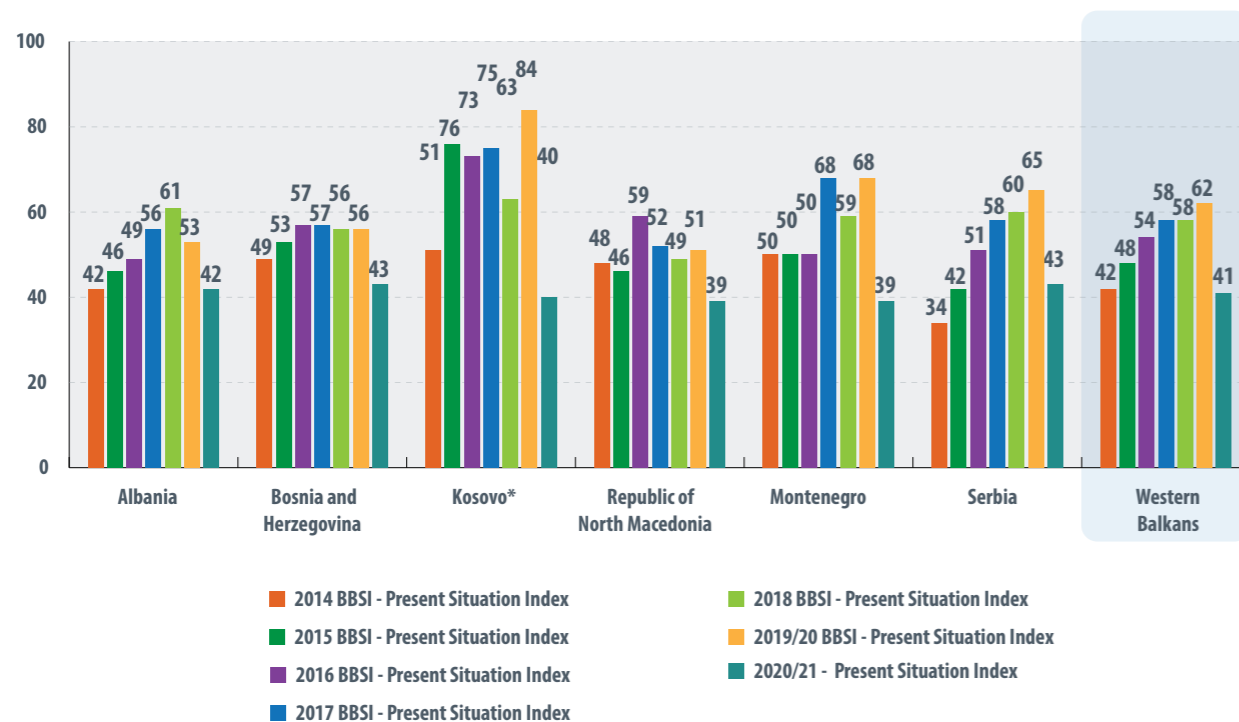
The index can be broken down into two sub-indices, separately monitoring the prevalent sentiment within the business community, as well as their expectations of the future.

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

Along with the overall BBSI, businesses in the region were happy with both their current situation and prospects for the future until the crisis induced by Covid-19 hit in early 2020. 2019 recorded the highest satisfaction ratings since the Barometer’s inception, a trend which

was suddenly halted. **Figure 5** reveals a drop in the BBSI-PSI of a similar magnitude and pattern as for the overall index. With such declines across the entire region, the business sentiment attained over the last 6 years has been largely forgone. In all Western Balkan economies, except Albania and Serbia, the BBSI-PSI in 2020 fell lower than its 2014 value – the year when the Balkan Barometer was introduced. Kosovo* and Montenegro experienced the deepest declines observed over 2014-2020 horizon, of 11 points each. Albania fell to the 2014 level, while 2020 level was higher than in 2014 only in Serbia.

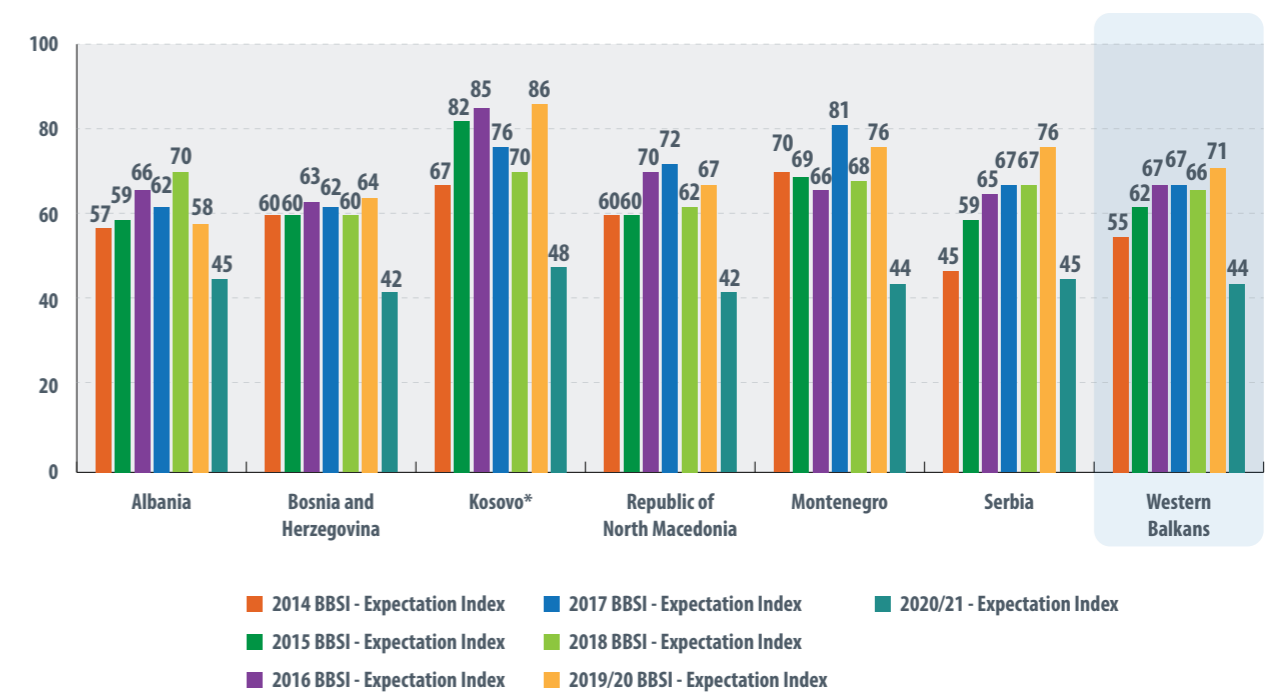
Figure 5 – Balkan Business Sentiment Index (BBSI) – Present Situation Index



Expectations were suppressed and presently remain gloomy (**Figure 6**). Along the entire BBSI and BBSI-PSI, the BBSI – Expectation Index recorded a drop in 2020: from 71 points in 2019 to 44 points in 2020. Not only is this a significant bridling of business expectations amid the Covid-19 crisis, but it is likewise so when compared to 2014. Notwithstanding the general rising expectations over time, the result of 2020 falls far below the value of 2014 (55 points), which is far worse than the difference observed in BBSI and BBSI-PSI. This suggests that, compared to the actual situation, Western Balkan businesses have been more optimistic about

the future, but with the Covid-19 even this optimism is forgone. In all economies the BBSI – EI in 2020 stands lower than its 2014 level, in particular in Montenegro (-26 points), Kosovo* (-19 points), Bosnia and Herzegovina, Republic of North Macedonia (-18 points), and Albania (-12 points), while the drop has been the smallest in Serbia (-2 points).

Figure 6 – Balkan Business Sentiment Index (BBSI) – Expectation Index



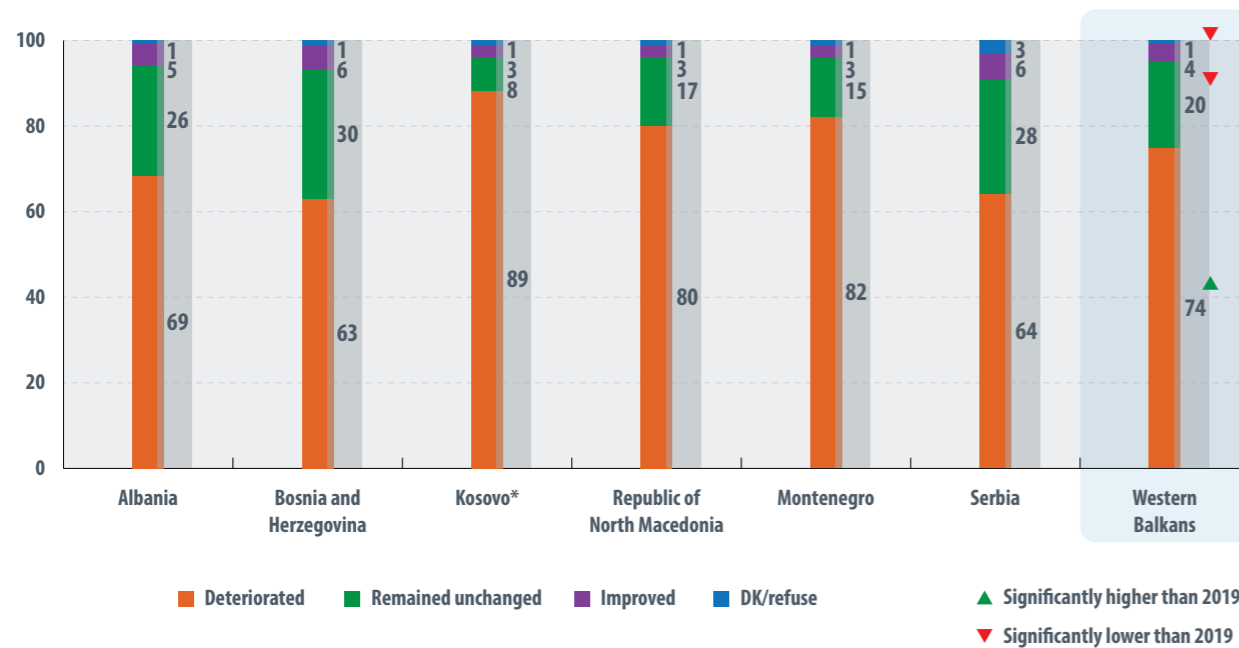
PERCEPTIONS OF THE BUSINESS ENVIRONMENT AND ECONOMIC TRENDS

Western Balkans satisfaction with the general economic situation turned upside down in 2020. **Figure 7** reveals that 74% of respondents said that the general economic situation in their economy deteriorated over 2020, which is a threefold increase compared to 2019 (only 24% reported deterioration). Such sentiment has been observed over the entire region, yet more pronounced in Kosovo*, Republic of North Macedonia and

Montenegro. Of these three, Kosovo* and Montenegro saw a deep decline of their GDPs during 2020, which was apparently reflected in defining the business sentiment in the economy. Kosovo* is particularly interesting case: in 2019, 67% of respondents considered the economic situation improving, revealing a sudden and large swing in the sentiment over 2020.

Figure 7 – How has the general economic situation in your economy changed over the past 12 months? Has it deteriorated, remained unchanged or improved?¹

(All respondents - N=1200, share of total, %)



Expectations about the general economic situation are likewise gloomy (**Figure 8**). 26% of the respondents in the Western Balkan economies expect that the situation will deteriorate, while another 38% expect it to re-

main unchanged, compared to 12% and 40%, respectively, a year ago. This may partially be a reflection of what people observed in terms of economic developments in 2020 when they were answering the survey,

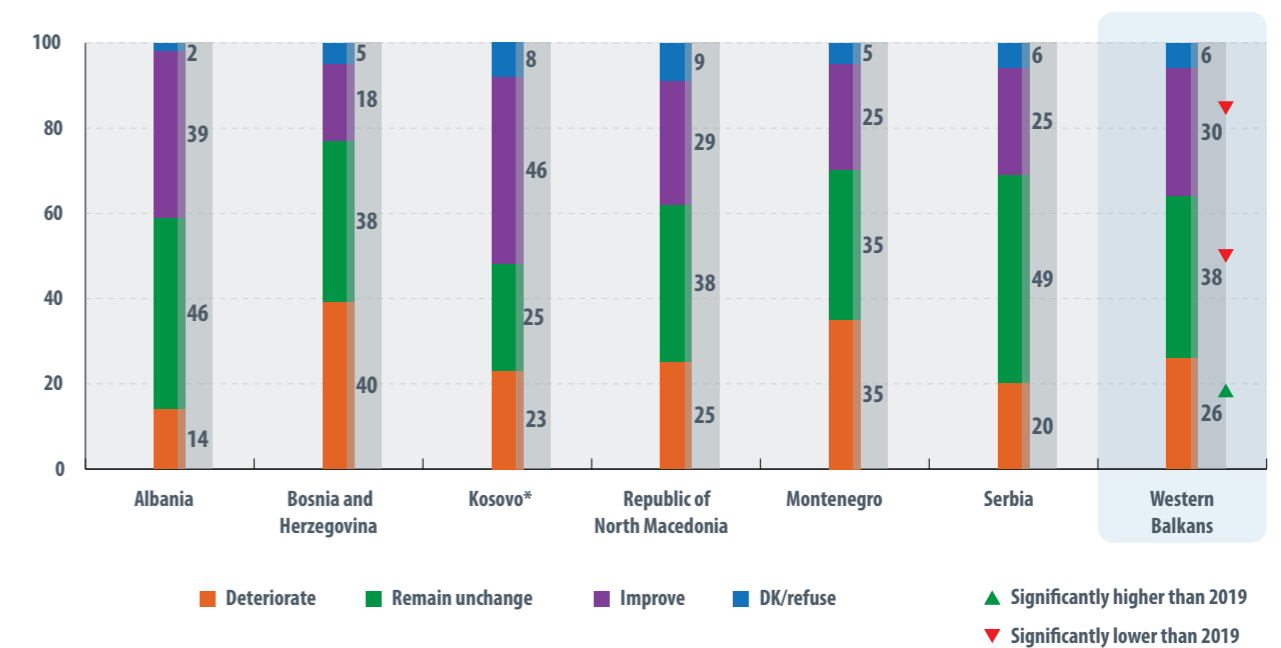
¹ The figures might not add to 100% due to rounding.

but on the other hand also echo the unstable outlook of the immunisation process in the region (whereby, so far only Serbia advanced significantly and Albania to an extent). Indeed, the share of respondents expecting deterioration is the lowest in Albania (14%) and Serbia (20%), while this share is the highest in Bosnia and

Herzegovina (40%), likely pointing out to the effects of the complex governing structure on the crisis management. Kosovars remain most optimistic for the future, since 46% of them responded that the overall economic situation would improve in the next year.

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

(All respondents - N=1200, share of total, %)

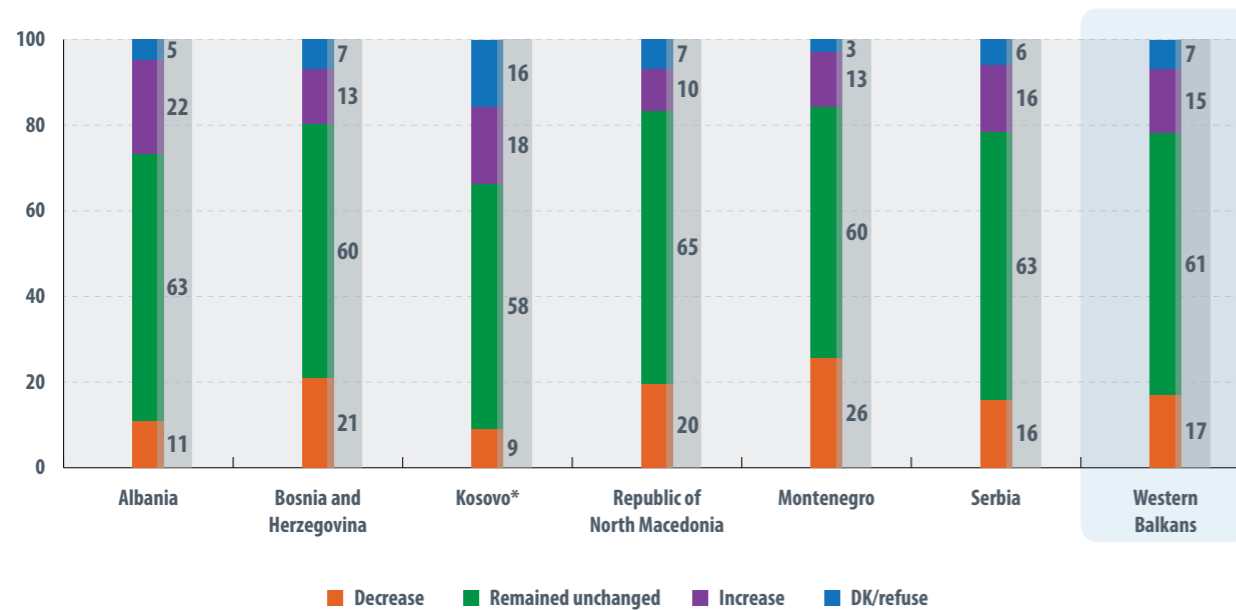


The increasing unemployment rates for most of the economies in the region reflect into an increase of the number of respondents expecting that non-employment will grow. **Figure 9** reveals that 17% of respondents expect that the number of those employed will decrease, as compared to only 8% who had such expectations in 2019. However, the fact that the unemployment rates declined in Republic of North Macedonia and Montenegro probably prompts an increase of the share of respondents who expect that the number of employed people will stay unchanged: this share increased from 51% in 2019 to 61% in 2020.

Within this indicator, Kosovars remain likewise most optimistic, since only 9% of them said that the number of employed would decrease, despite also a large part of them (16%) refusing to answer. Business representatives of Montenegro, Bosnia and Herzegovina and Republic of North Macedonia have been most pessimistic about employment, as 26%, 21% and 20%, respectively, answered that employment would decline. Still, majority of respondents in each economy, between 58% and 65%, expect that the number of employed will remain intact, probably reflecting the focus of government measures to preserve jobs.

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

(All respondents - N=1200, share of total, %)

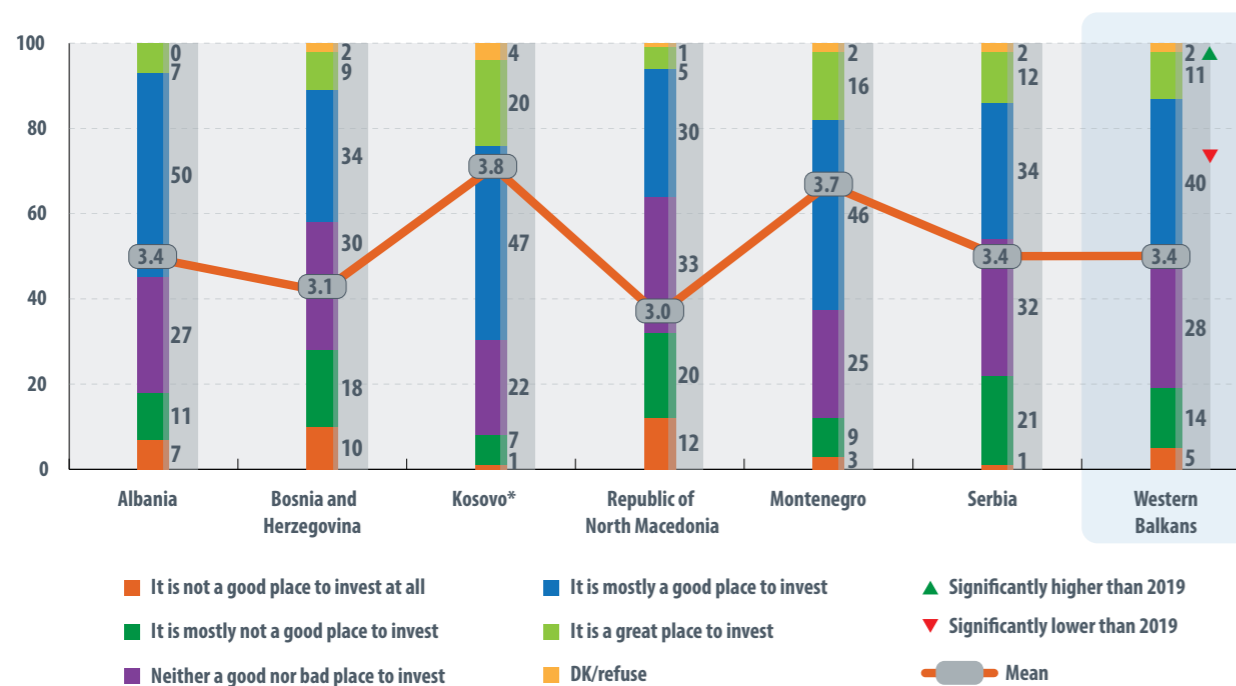


While the crisis induced by the pandemic of Covid-19 introduced a dramatic drop in the Western Balkan economies over 2020, it seems that some structural features remained unchanged. For example, **Figure 10** presents the belief of the respondents of the Western Balkan economies in the attractiveness of their economy for investment. 11% believe the region is a great place to invest, which constitutes an increase of 9%

in 2020; and 40% said it was mostly a good place to invest, a decline from 44% a year ago. Business representatives of Montenegro and Kosovo* remain most trustful for their economies, while citizens of Republic of North Macedonia are on the other end as 32% responded that the economy is mostly not or not at all a good place to invest.

Figure 10 – Do you believe that your economy is a good place to invest?

(All respondents - N=1200, share of total, %)



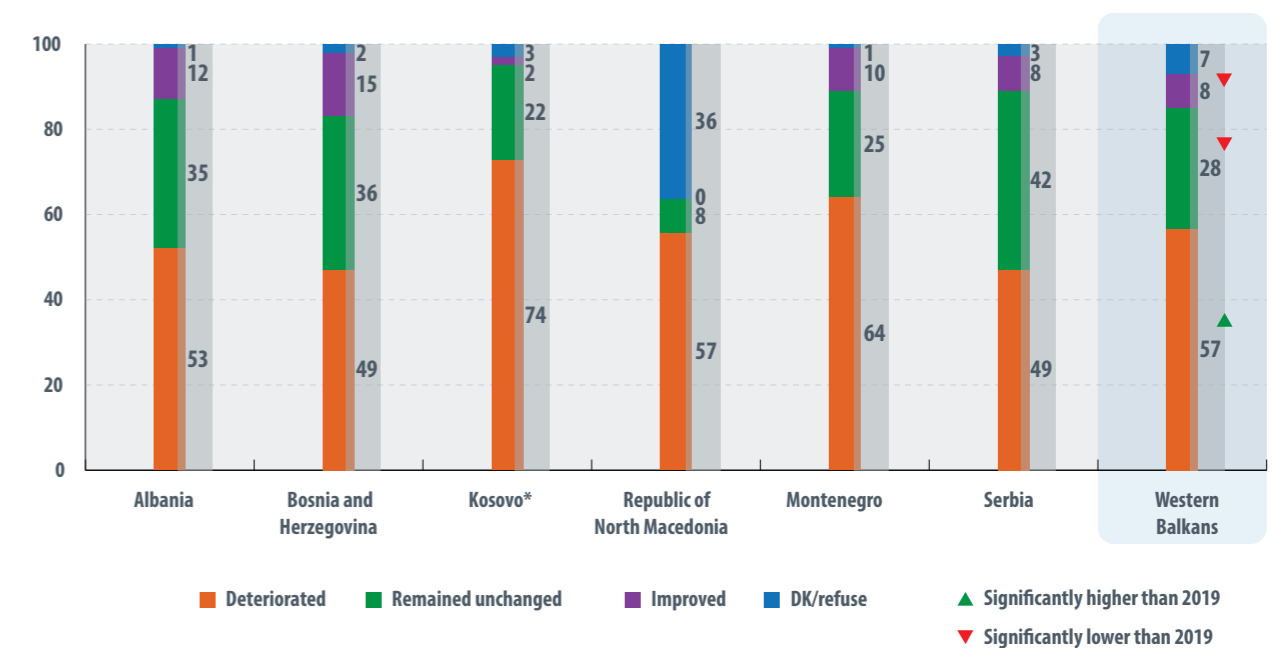
The dramatic declines in GDP that Western Balkan economies observed in 2020, and particularly in Q2 of 2020 during virus outbreak and stringent lockdown measures, also reflect into the respondents' assessment of the business situation in the last year (**Figure 11**). 57% of them said that the business situation deteriorated, a position only 12% maintained before the pandemic (2019). 28% consider the context unchanged, almost half compared to 45% in 2019. Some within-region variation is observed. Businesses in Kosovo* again manifest the strongest pessimism, since 74% of respondents considered business situation deteriorated in 2020, while this percentage is quite smaller in Bosnia and Herzegovina and Serbia (49% each). The share of those who considered business situation unchanged

varies between 8% in Republic of North Macedonia and 42% in Serbia, notwithstanding more than one third of respondents in Republic of North Macedonia refusing to answer this question.

It is interesting to note that still some non-negligible share of respondents considered the business situation to have improved over 2020, most notably in Bosnia and Herzegovina (15%) and Albania (12%). This is not strange, given that some sectors exhibited expansion during pandemic, like food production, pharmaceuticals, IT and finance, either because they have been producing essential goods for crisis times or because they were able to fully move their work remotely.

Figure 11 – How has your business situation developed over the past 12 months? Has it deteriorated, remained unchanged or improved?

(All respondents - N=1200, share of total, %)



2020 highlighted the importance of regional cooperation. While this may have been induced by the pandemic, prompting Western Balkan economies to work closer together, it is still also a result of previous regional initiatives. During 2019, a high-level initiative dubbed "Mini Schengen" was launched by the leaders of Albania, Serbia and Republic of North Macedonia, which met mixed perceptions. The pandemic prevented putting such an action into force. Regional Roaming Agreement entered into force in July 2019, substan-

tially bringing down mobile network roaming charges in the Western Balkans. By July 2021, the Agreement's implementation foresees the removal of all tariffs by introducing 'roam like at home' principle – an EU principle that practically removed all roaming charges between the member states. Moreover, that promise continues to hold, as roaming prices decreased again on 1 January 2020. In 2019, Kosovo* abolished import taxes on goods from Bosnia and Herzegovina and Serbia imposed in 2018.

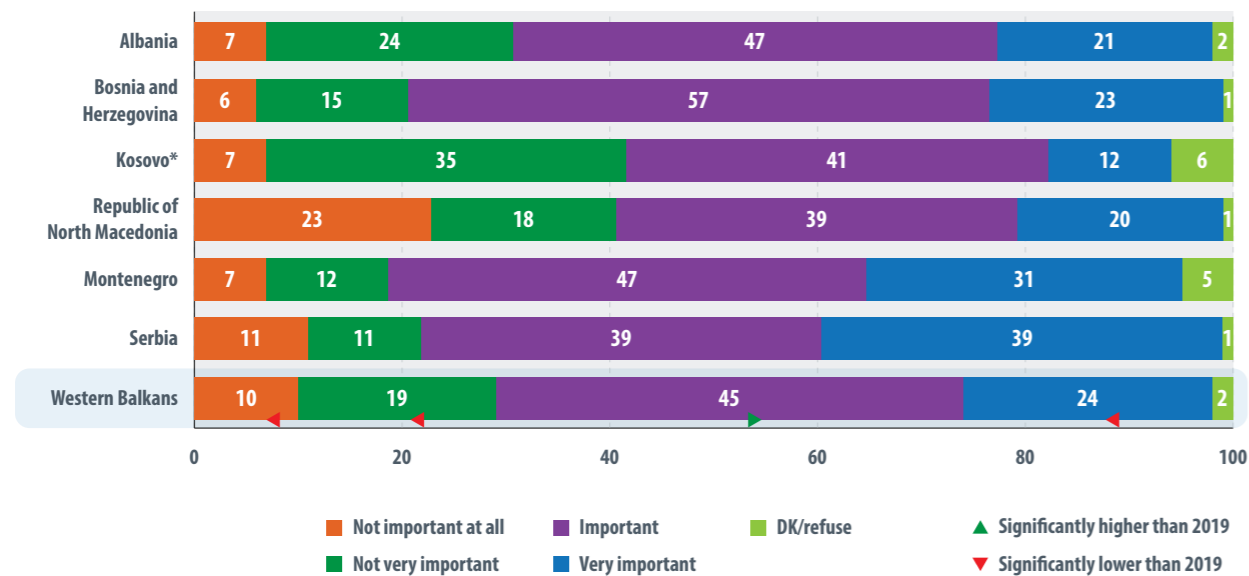
In such complex circumstances, the share of respondents who believe in regional cooperation increased (Figure 12). 24% said that the quality of regional cooperation was very important, followed by 45% who marked it as important. Compared to 2019, this represents an increase by 12 p.p. altogether (the shares in these categories were 19% and 38%, respectively). The share of respondents who considered quality of regional cooperation as not important at all almost halved from 18% in 2019 to 10% in 2020.

Still, the quality of regional cooperation is perceived distinctively within the region. For example, respondents

in Serbia have been the leaders in viewing regional cooperation as very important (39%) or important (39%), probably a reflection of the size of Serbian economy in the context of the Western Balkans. Likewise, 31% of Montenegrins and 23% of the citizens of Bosnia and Herzegovina depicted regional cooperation as very important, whereby motives may have been different. Business representatives of Albania, Kosovo* and Republic of North Macedonia have been more hesitant towards regional cooperation, whereby those of Republic of North Macedonia pioneer the group who considered regional cooperation as not important at all (23%).

Figure 12 – How important is the quality of regional cooperation in the Western Balkans to your business?

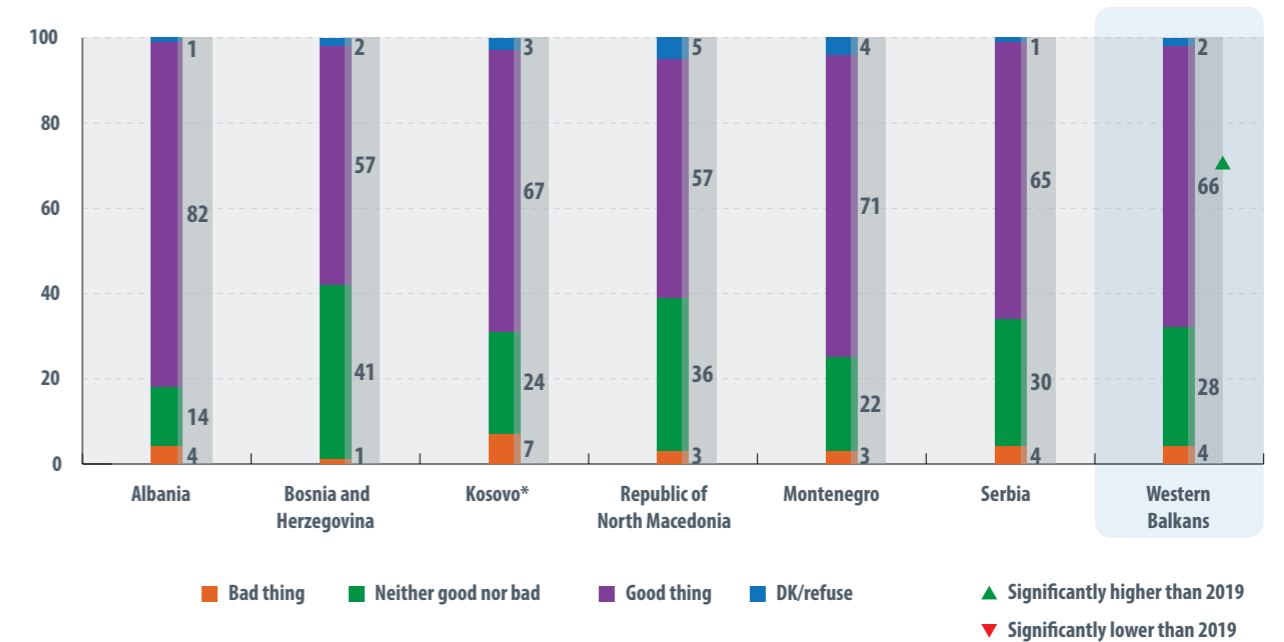
(All respondents - N=1200, share of total, %)



Regional cooperation has advanced amid Western Balkan economies' efforts to join the EU. Unfortunately, 2020 did not see major breakthroughs because the formal start of the negotiations with Albania and Republic of North Macedonia was again postponed for December 2020, when it faced another deadlock. Yet, the pandemic may have contributed to a slight improvement of how the EU membership is perceived. Albania is the forerunner in the region as 82% of respondents considered EU membership a good thing, which is yet a decline by 6 p.p. compared to 2019. This result may have been a mixture of pandemic's influence and the fact that despite receiving green light from the Council to open negotiations in March 2020, the formal start of accession talks is still pending approval of

the negotiation framework and the convening of the first Inter-Governmental Conference. Montenegro and Serbia, on the other hand, observed an increase of EU optimism, as 71% and 65%, respectively, said that EU membership was a good thing (compared to 66% and 50%, respectively, in 2019), likely a reflection of advancement on their EU path. On the other hand, EU-related pessimism bridled considerations in Bosnia and Herzegovina, Republic of North Macedonia and, particularly in Kosovo*, whereby the shares of respondents who considered EU membership a good thing declined (Figure 13). Around 66% of respondents considered it a good thing, with an increase of 3 p.p. compared to 2019, at the benefit of those who said it was a bad thing (a decline from 6% in 2019 to 4% in 2020).

Figure 13 – Do you think that your economy's EU membership would be/is a good thing, a bad thing, or neither good nor bad for your company? (All respondents - N=1200, share of total, %)



BUSINESS TRENDS IN THE WESTERN BALKANS

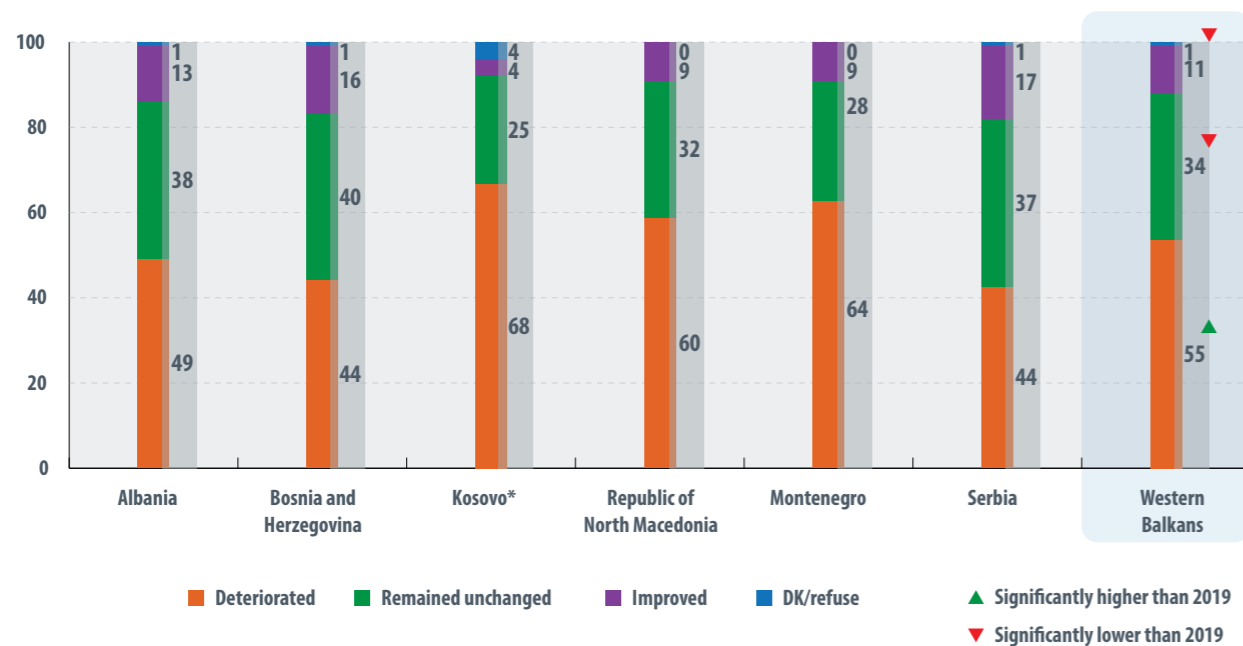
The economic crisis caused by the outbreak and spread of Covid-19 has been a supply and a demand shock. Demand dwindled since reduced movements and lockdowns at destination reduced export volume; while demand for non-essential goods plummeted as households were increasing their precautionary savings and experiencing overall spending hesitation. This situation was particularly pronounced in Q2- of 2020. Such stall in demand is also observed in **Figure 14** whereby respondents were asked about the change of the demand for their company's products and services. 55% of them said it deteriorated, being a dramatic increase from 9% in 2019. For 34% of them it remained unchanged (a decline from 45% in 2019), while it im-

proved only for 11% (45% in 2019). Hence, 2020 has been a turnaround year for Western Balkan businesses, no matter how temporary such a demand shock may be.

Deterioration of demand within the region ranged from 44% of respondents in Bosnia and Herzegovina and Serbia to 68% of respondents in Kosovo*. Kosovo* stands out as in 2019 deterioration was observed among only 3% of respondents, hence this share surged by more than 20 times. Interestingly, demand improved for a non-negligible share of respondents, e.g. in Serbia (17%), Bosnia and Herzegovina (16%) and Albania (13%).

Figure 14 – How has the demand for your company's products/services changed over the past 12 months? Has it deteriorated, remained unchanged or improved?

(All respondents - N=1200, share of total, %)

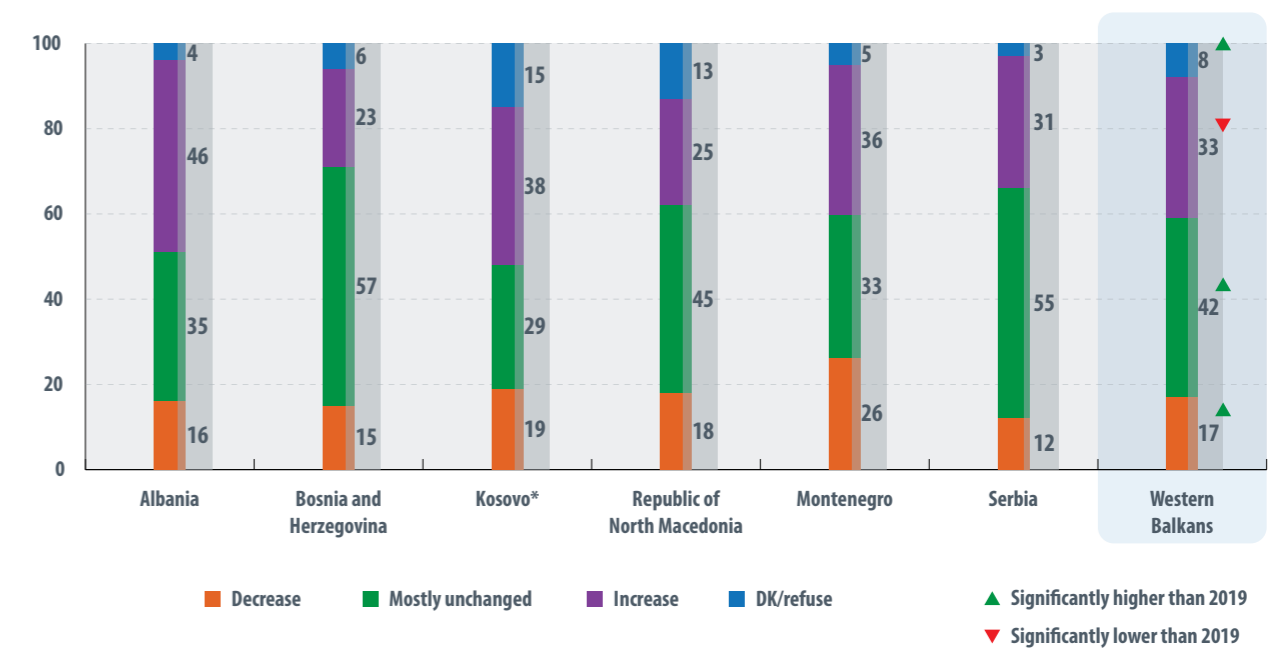


Still, respondents are fairly optimistic over the next year (**Figure 15**). A third of them reported expecting the demand to increase over a year horizon, despite this being lower than in 2019 (54%). This is expected given that the key limiting factor in 2020 has been the pandemic and the uncertainty pertinent to its intensity and duration. The optimism is the biggest in Albania (46% of respondents said the demand for their company's product/service would increase), followed by Kosovo* (38%) and Montenegro (36%).

The other three economies face constrained optimism. Surprisingly, however, Montenegro has the largest share of respondents who reported an expected decrease (26%), while Serbia has the lowest (12%). Serbia and Bosnia and Herzegovina recorded the largest shares of respondents who expect that the situation will remain largely intact (55% and 57%, respectively).

Figure 15 – How do you expect the demand for your company's products/services to change over the next 12 months? Will it decrease, remain mostly unchanged or increase?

(All respondents - N=1200, share of total, %)

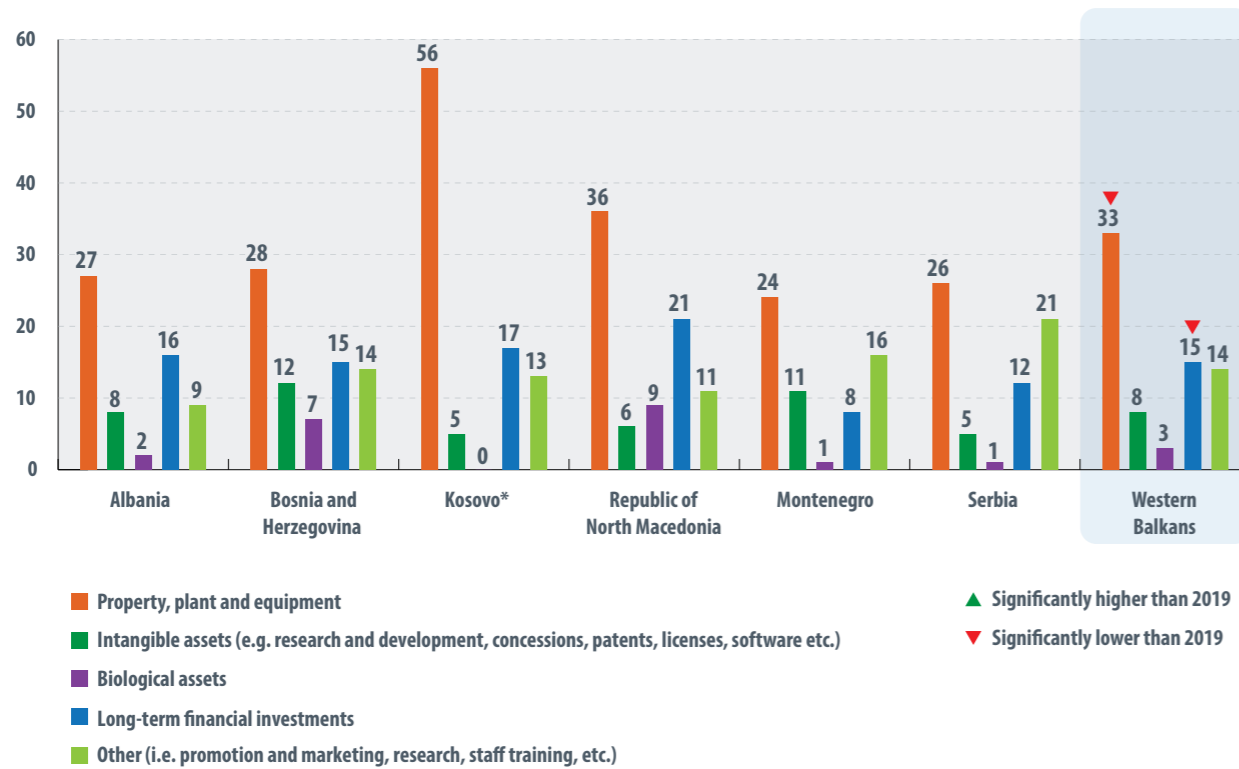


Amid the pandemic, companies significantly reduced their investment in property, plant and equipment, which is a reflection of the widespread investment hesitation (**Figure 16**). Only a third of the investment went to property, plant and equipment, compared to 58% a year ago. Likewise, companies significantly withheld

their long-term financial investments (only 15% of respondents revealed such an investment compared to 18% a year ago). However, the figures do not add up to a hundred, revealing the difference is likely attributable to companies which did not invest in 2020.

Figure 16 – Could you please tell me what percentage (%) of your company's total investment in 2020 went to each of the following?

(Respondents who did not mark DK/refuse, N=1112, %)

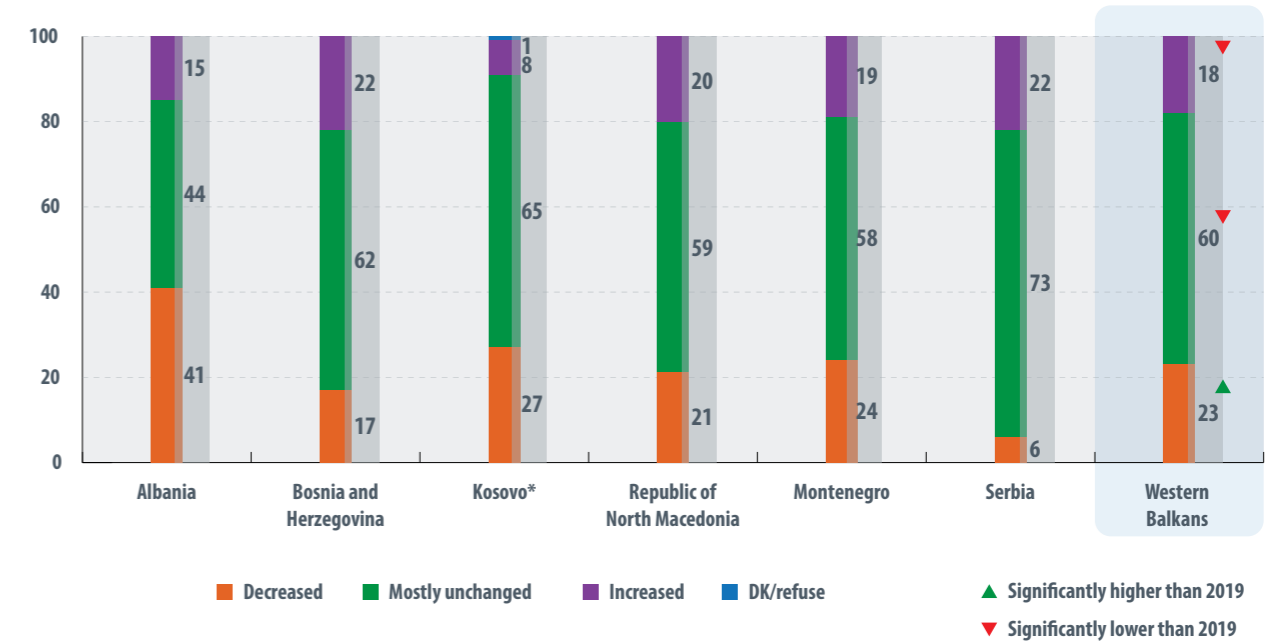


Given the hit of the pandemic, many companies reduced or stopped their production, while companies in some service sectors embarked on teleworking. As a result, the labour and other costs decreased in 23% of cases, while remaining unchanged for 60% (Figure 17). This is a highly contrasted picture to that of 2019 when 60% of respondents said the costs in their companies increased. Such a deflation in 2020 is a clear reflection of the reduced demand we observed earlier. However, non-negligible share of those indicating higher costs (18%) suggests that for some companies (usually those which are part of the global value chains) some of the inputs have increased to the level that triggered an overall increase in costs.

Across the WB economies, the reducing costs have been dominantly experienced in Albania, whereby 41% of respondents revealed shrinking costs for their companies over 2020 (Figure 17). Such shares were lower in other economies and surprisingly the lowest in Serbia (6%), which somehow resonates the fact the Serbian economy experienced the lowest decline among the WB6, which potentially kept the pressure on prices. Still, 22% of respondents revealed increasing prices in both Serbia and Bosnia and Herzegovina, and this magnitude is similar in other economies, except Kosovo* (8%).

Figure 17 – How have your labour and other costs (e.g. energy, etc.) changed over the past 12 months?

(All respondents - N=1200, share of total, %)

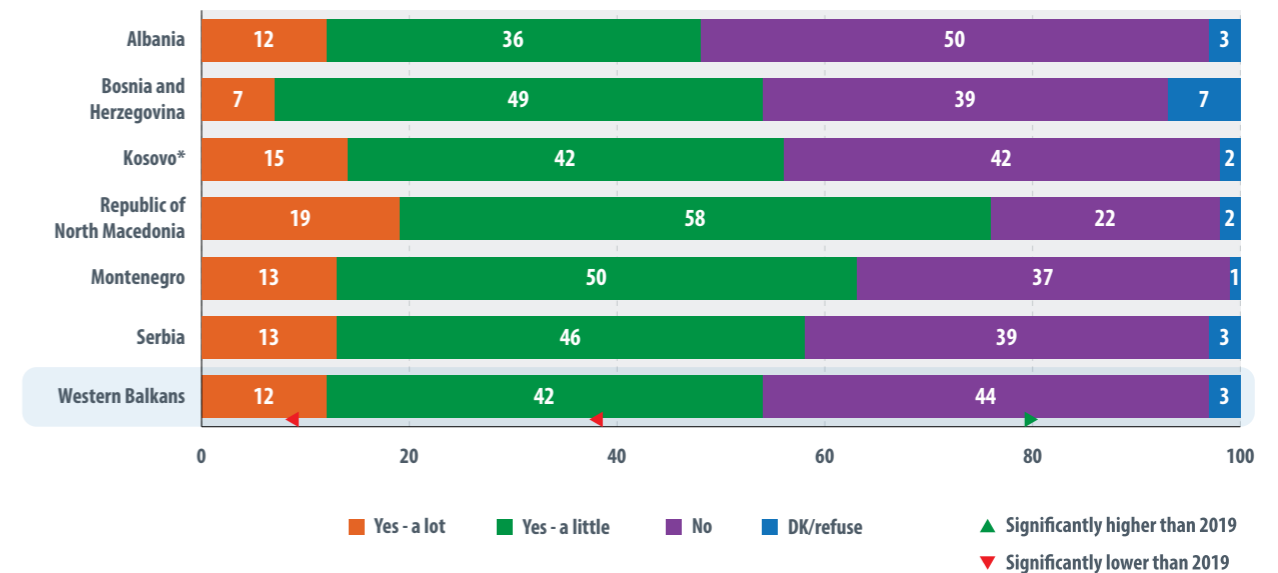


Businesses have leaned towards treating environmental impacts of their work with less attention in 2020 (Figure 18). 44% of respondents said their company did not take any steps to reduce such environmental effect, compared to only 26% a year ago. Such lagging behind may be clearly related to the crisis effect where-by issues that are usually perceived in the WB of lesser

importance – like the environment – loose attention during crisis. This share has been the largest in Albania (50%) and Kosovo* (42%) and the lowest in Republic of North Macedonia (22%). Hence, the share of respondents taking some steps towards reducing environmental impact of their businesses has been dominant for most of the economies (except Albania).

Figure 18 – Has your business taken any steps to reduce the environmental impact it makes, such as reducing energy consumption, waste reduction or switching to recycled/sustainable materials etc.?

(All respondents - N=1200, share of total, %)



A further inspection of the Green Agenda priorities for the Western Balkans reveals that the pollution reduction tops the agenda (Figure 19). It was selected by 55% of the respondents in the Western Balkans, followed by reduction of energy consumption (41%) and of waste generation (36%). This is not surprising, as air pollution topped up a key problem for the urban areas of the Western Balkan economies, particularly during the winter: it is the top priority in all economies except Albania. 63% of respondents in Kosovo* pointed out pollution reduction as key priority, followed by reducing energy consumption (51%). 62% of respondents in Serbia did so for pollution reduction and another 49% for reduction of energy consumption. These two priorities changed places in Albania: 51% said reducing waste generation was the top priority, while for 49% it was pollution reduction. 58% of respondents in

Bosnia and Herzegovina topped pollution reduction, though the second priority is reduction of waste generation (48%). 51% of respondents in Republic of North Macedonia topped pollution reduction and 47% smart transport; while 48% of respondents in Montenegro ranked pollution reduction a top priority and 45% said it to be waste generation reduction.

The lowest priority on the agenda in the Western Balkans is climate adaptation capacities (15% of respondents in the total region). In general, it is the lowest priority in all the economies, except Serbia, with the lowest share of respondents pointing out to this priority being 2% in Kosovo*. In Serbia, the lowest priority on the agenda was the political will and commitments (17%).

Figure 19 – What are the priorities of the Green Agenda for the Western Balkans? (MULTIPLE ANSWERS)

(All respondents - N=1200, share of total, %)

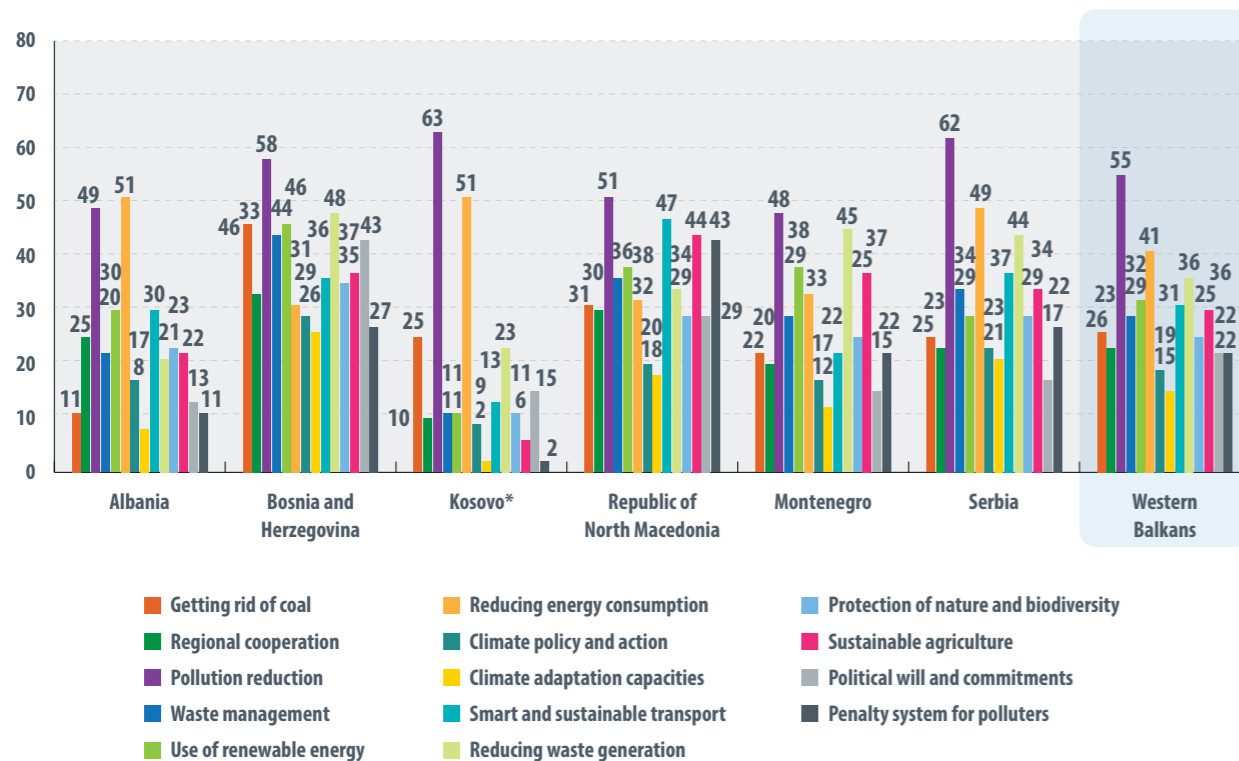


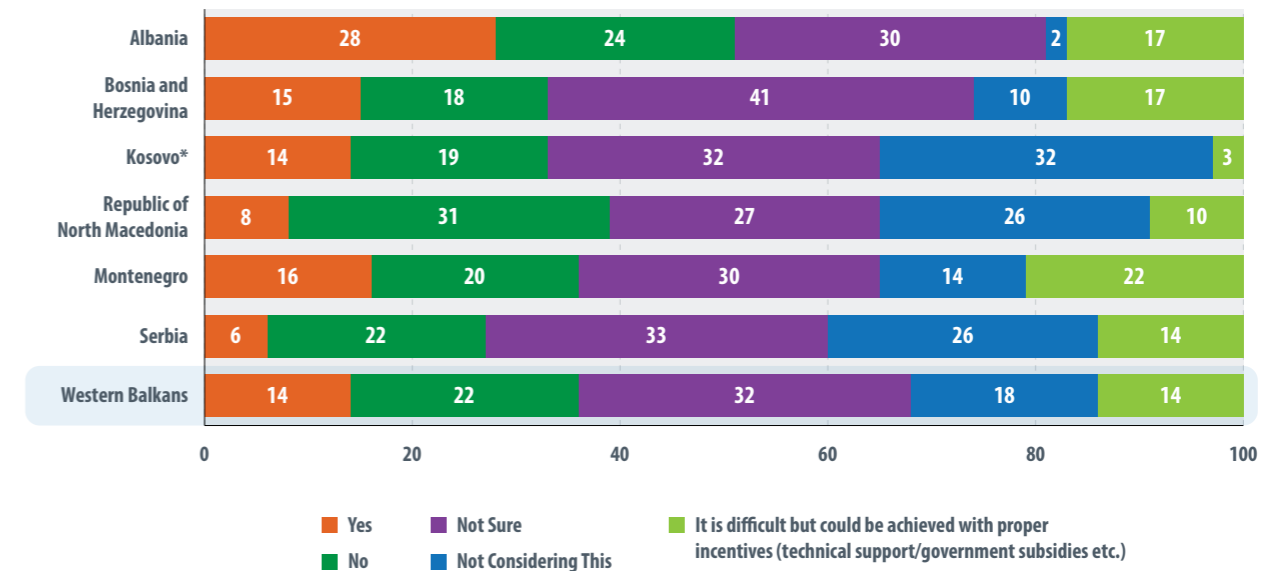
Figure 20 provides an overview of the capacity of business models in the Western Balkans to shift towards circular economy model. The large grey areas suggest that the region is lagging behind in this effort. At the level of the region, almost a third of respondents (32%) said they were not sure if their business model allows for this, followed by another 32% who said that they either did not consider this at all, or that it could be difficult to achieve without proper incentives. The share of respondents who answered affirmative was only 14%.

respondents revealing preparedness for accommodating their business models to a circular economy model. Albanians were likewise the least to reject it (only 2% said they were not considering this). On the other side of the spectrum, Serbia (6%) and Republic of North Macedonia (8%) showed the lowest readiness for circular model. The strongest direct rejection of the model is observed in Kosovo*, since 32% of respondents claimed they were not considering such an adaptation.

Yet, there are apparent differences in the region. For example, Albania is the forerunner with 28% of re-

Figure 20 – Does your current business model allow for a shift towards a circular (economy) model?

(All respondents - N=1200, share of total, %)

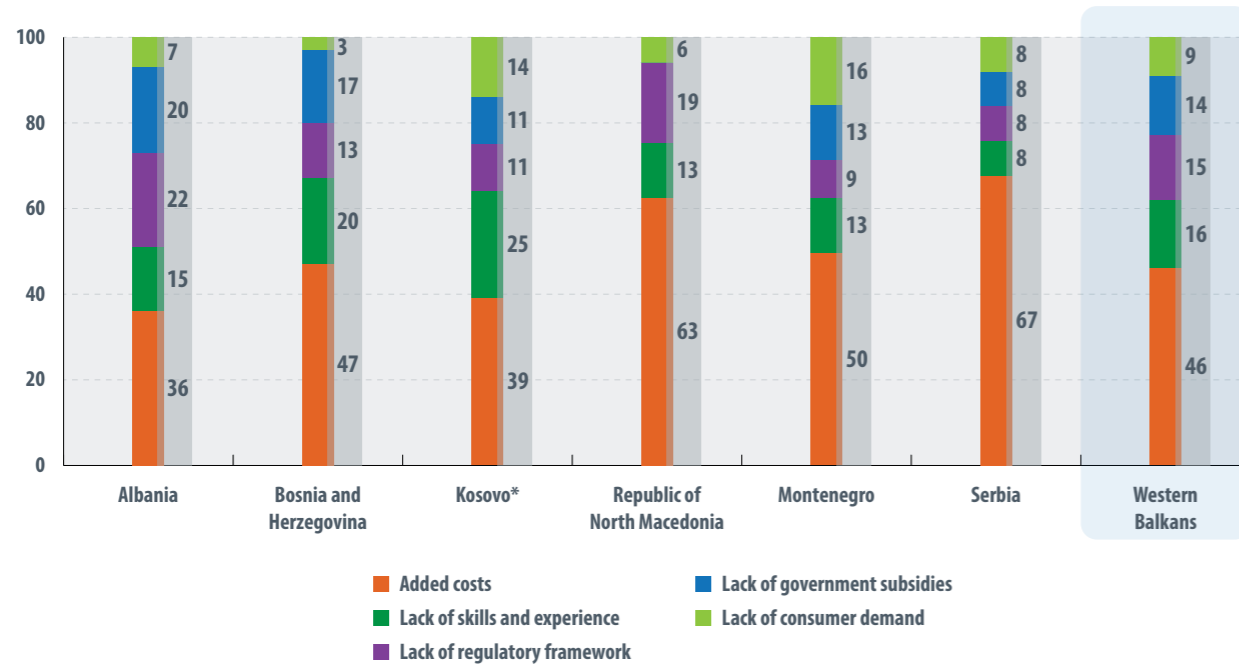


The key constraint to move towards circular economy model is the additional cost, as 46% of respondents claimed (Figure 21). Other problems are also pronounced: lack of skills and expertise (16%), lack of regulatory framework (15%), lack of government subsidies (14%) and lack of consumer demand (9%). The problem of the costs is the strongest in Serbia and Republic of North Macedonia (67% and 63%, respectively), while the lack of skills and expertise gains prominence in Kosovo* and Bosnia and Herzegovina

(25% and 20%, respectively). The problem of lack of regulatory framework is likewise pronounced in Republic of North Macedonia (19%). While the areas of a possible direct government intervention (regulatory framework, government subsidies) are of lesser importance for embarking on a circular economy model, still their appearance on the list of problems rings a bell for governments to consider specific policy steps towards securing enabling environment for circular business models.

Figure 21 – What are the main barriers to shifting towards circular economy in your line of business?

(Those whose business model allows for a shift towards a circular model, N=173, share of total, %)

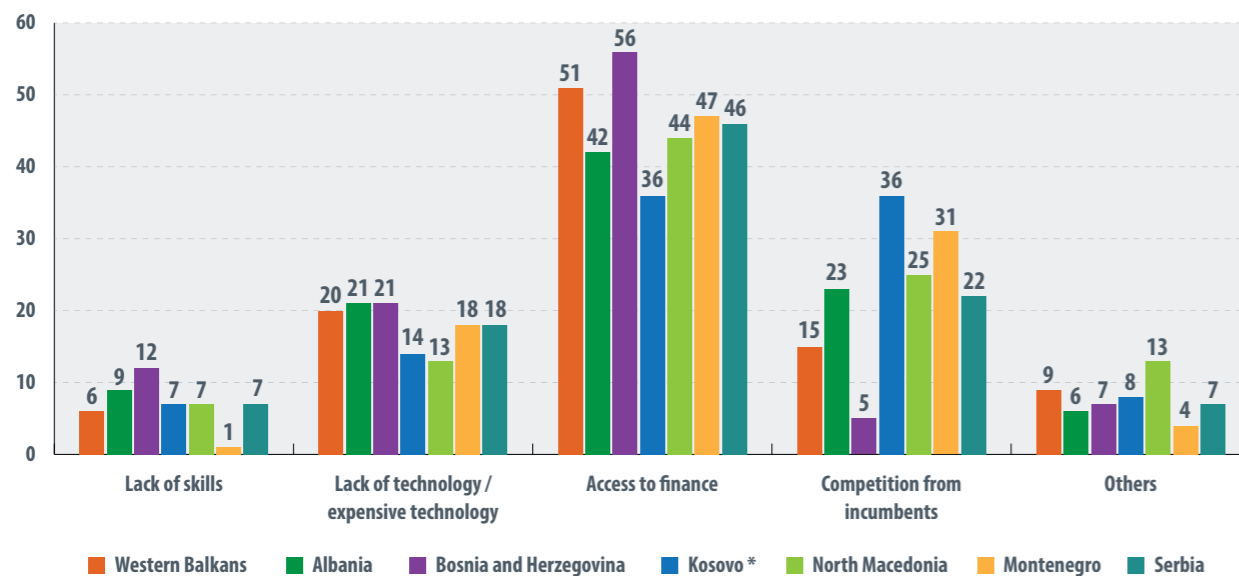


Finally, access to finance remains the largest problem faced by Western Balkan businesses when trying to scale up their business, as 51% of them pointed to it (Figure 22). The share of respondents who raised this problem varies between 36% in Kosovo* and 56% in Bosnia and Herzegovina. For Kosovo*, for example, the competition from incumbents have been equally worth restraint to scaling up, and a second-ranked challenge

for Montenegro (31%), Republic of North Macedonia (25%), Albania (23%) and Serbia (22%). For Bosnia and Herzegovina, the lack of expensive technology has been second-ranked (21%); while competition from incumbents is the least ranked, because of a significant 12% of respondents for whom the lack of skills was also important constraint to scaling up their business.

Figure 22 – What are the major challenges faced when trying to scale up your business?

(All respondents - N=1200, share of total, %)



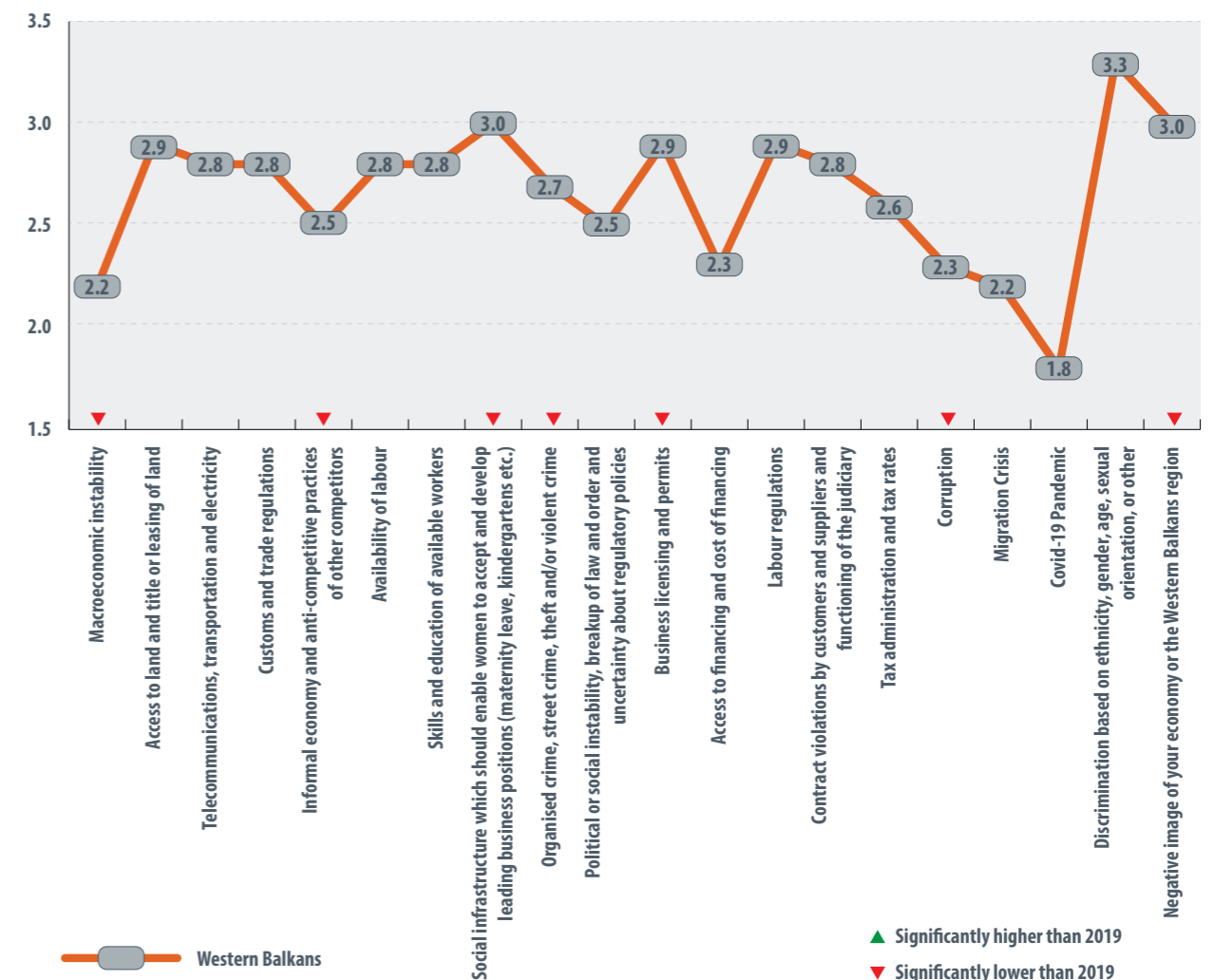
BUSINESS ENVIRONMENT IN THE WESTERN BALKANS

Western Balkan economies remain burdened by the same obstacles to business operations over the years. The Covid-19 pandemic has been the primary obstacle to doing business across the Western Balkans in 2020, with a score of 1.8 (Figure 23). Two standard key obstacles continue to stand out in 2020: macroeconomic stability and migration crisis, as both received the lowest score of 2.2 on 1-4 scale, signifying moderate obstacle.

Both registered worsening in 2020, particularly migration crisis whose score fell from 3.3 in 2019. Some worsening of a smaller magnitude is observed as regards the access to land and title, telecommunications, transport and electricity, social infrastructure, and crime. As in 2019, the highest ranked factor (lowest obstacle) is discrimination based on ethnicity, gender, age, sexual orientation.

Figure 23 – Can you tell how problematic are these different factors for the operation and growth of your business? Can you please rate each?

(All respondents - N=1200, 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)



▲ Significantly higher than 2019
▼ Significantly lower than 2019

Table 1 presents the scores for each Western Balkan economy. Unanimously, the Covid-19 pandemic is the prime obstacle in each economy, with the lowest score in Republic of North Macedonia (1.4). The second obstacle is macroeconomic instability and migration crisis. The low positioning of macroeconomic instability comes as a surprise, but likely reflects the slow actual and potential growth across the region, including the issues such as unstable prices or exchange rates, which have not been an apparent issue lately. On the other

hand, informal economy is a significant problem across the region, with shares of undeclared economy in total economy ranging between 20% and 40%. On the other side of the spectrum, discrimination based on ethnicity, gender, age and the like is identified as the smallest obstacle in all Western Balkan economies, despite, for instance, in Bosnia and Herzegovina where the negative image of the economy in the region gained equal prominence.

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

(All respondents - N=1200, scores are on a scale of 1 to 4 where 1 means major obstacle, 2 moderate obstacle, 3 minor obstacle and 4 no obstacle, mean)

	Western Balkans	Albania	Bosnia and Herzegovina	Kosovo*	Republic of North Macedonia	Montenegro	Serbia
Macroeconomic instability	2.1	2.2	2.1	2.2	2.1	1.9	2.3
Access to land and title or leasing of land	2.8	2.9	2.6	2.7	3.1	2.7	2.8
Telecommunications, transportation and electricity	2.8	2.8	2.5	2.6	3.3	2.6	2.9
Customs and trade regulations	2.7	2.8	2.4	2.8	3.1	2.6	2.8
Informal economy and anti-competitive practices of other competitors	2.2	2.5	2.1	2.5	2.2	1.9	2
Availability of labour	2.6	2.8	2.5	2.8	2.5	2.4	2.7
Skills and education of available workers	2.7	2.8	2.4	2.9	2.7	2.5	2.9
Social infrastructure which should enable women to accept and develop leading business positions (maternity leave, kindergartens etc.)	2.9	3	2.6	3	3.3	2.7	3
Organised crime, street crime, theft and/or violent crime	2.6	2.7	2.3	2.6	2.7	2.7	2.7
Political or social instability, breakup of law and order and uncertainty about regulatory policies	2.3	2.5	2	2.6	2.3	2.1	2.5
Business licensing and permits	2.5	2.9	2.3	2.7	2.6	2.4	2.4
Access to financing and cost of financing	2.2	2.3	2.1	2.4	2.3	2	2.2
Labour regulations	2.6	2.9	2.4	2.6	2.8	2.5	2.4
Contract violations by customers and suppliers and functioning of the judiciary	2.5	2.8	2.3	2.7	2.7	2.2	2.4
Tax administration and tax rates	2.4	2.6	2.2	2.5	2.6	1.9	2.3
Corruption	2.2	2.3	2	2.2	2.5	2.2	2.4

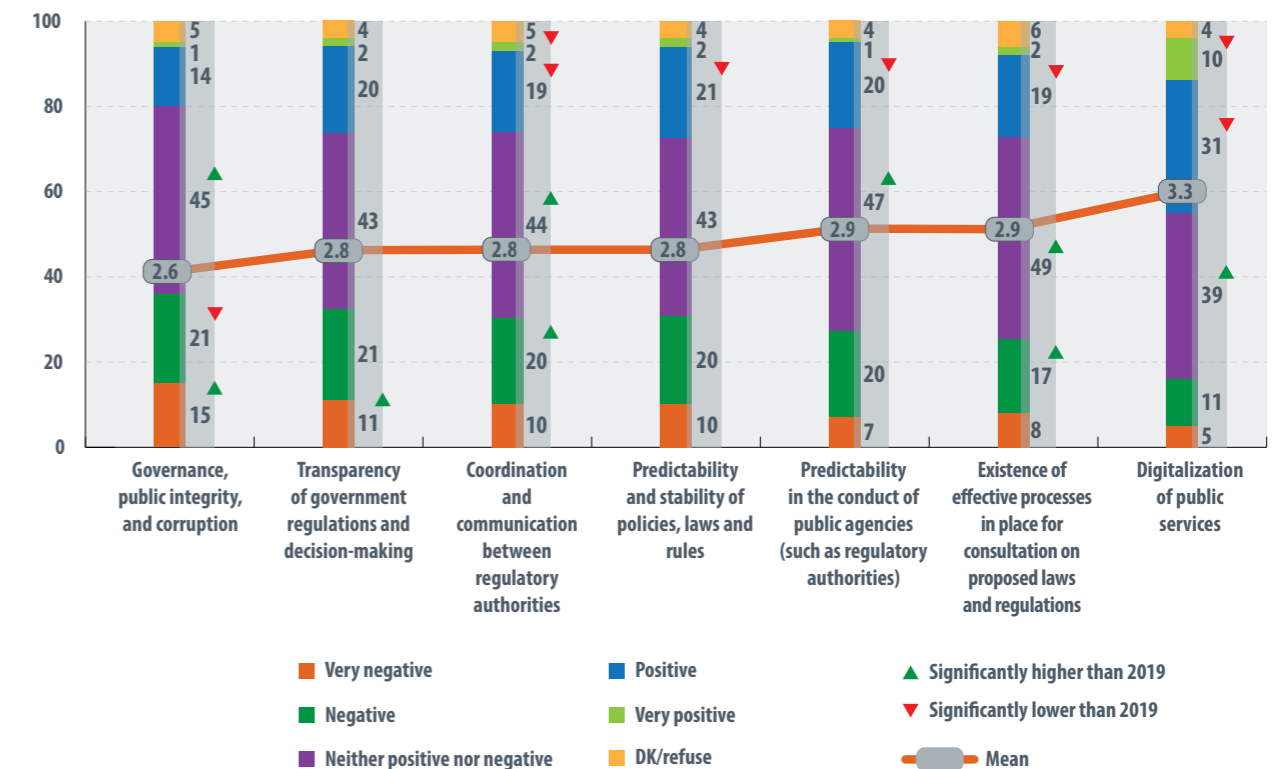
	Western Balkans	Albania	Bosnia and Herzegovina	Kosovo*	Republic of North Macedonia	Montenegro	Serbia
Migration crisis	2.7	2.2	2.7	2.2	3.1	3.2	3.1
Covid-19 Pandemic	1.7	1.8	1.8	1.7	1.6	1.4	1.7
Discrimination based on ethnicity, gender, age, sexual orientation, or other	3.2	3.3	2.9	3.1	3.5	3.2	3.3
Negative image of your economy or the Western Balkans region	2.8	3	2.3	3.1	2.9	2.7	3

A couple of key factors related to government conduct have been assessed by respondents as being very negative to very positive. **Figure 24** reveals a worsening trend across all investigated factors. Governance, public integrity and corruption records the highest share of respondents who said them to be negative or very negative, with a total share (36%) remaining unchanged compared to 2019. Transparency of government regulations, coordination of regulatory authorities, predict-

ability of conduct of public agencies and consultation process, all registered an increase in the negative perception, on top of the widening share of respondents who considered some of these obstacles are neither positive nor negative. This resulted in shrinking shares of respondents observing these as positive or very positive, except for digitalisation of public services which received the largest share of positive or very positive opinion (41%).

Figure 24 - How do you perceive the following factors related to government conduct, based on your experience or of other investors that you have heard of?

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means very negative and 5 very positive, share of total, %)

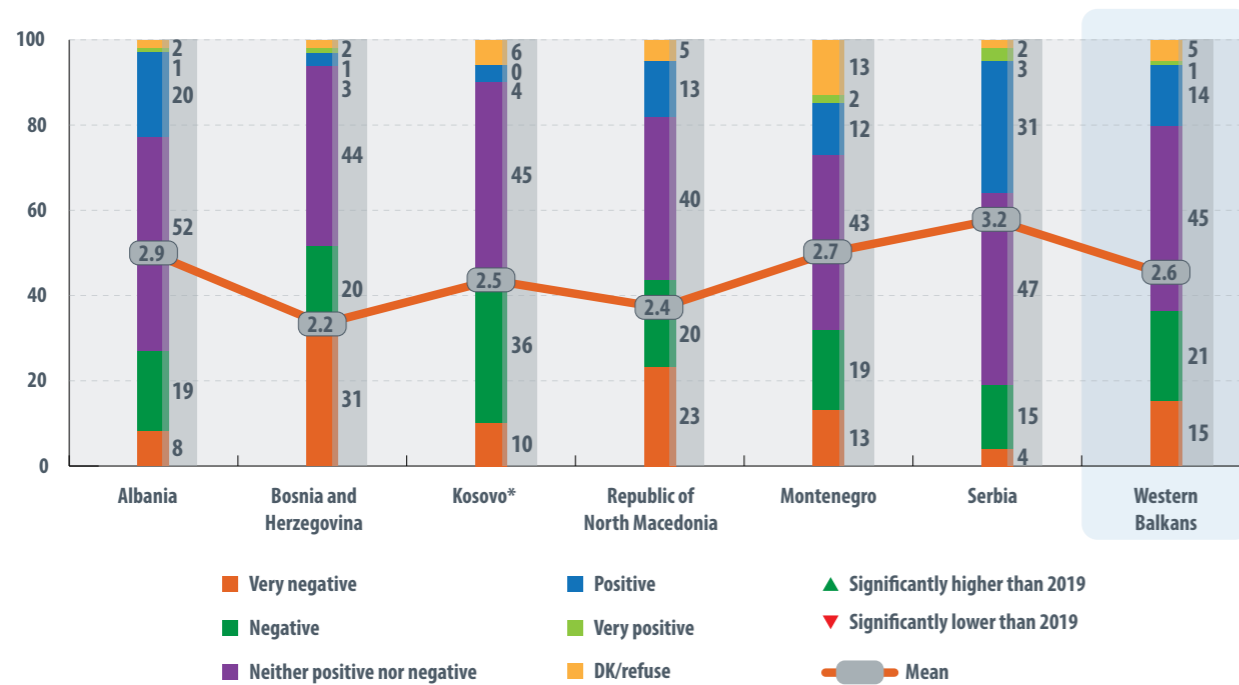


The next figures observe each of the limiting factors by individual economy of the Western Balkans. **Figure 25** presents the evaluation of governance, public integrity and corruption and suggests that this is a strong or a very strong issues for businesses in Bosnia and Herzegovina, as 51% of respondents said it to be it as negative or very negative. Kosovo* (46%) and Republic of North Macedonia (43%) feature slightly below Bosnia and Herzegovina. On the other end, the share of respon-

dents with negative inclination towards governance is significantly lower in Serbia (19%), Albania (27%) and Montenegro (32%). Such hesitation across the Western Balkans on the governance issue is likewise reflected in the large share of respondents who provided neutral assessments (soaring up to around 50%). Yet, 31% of respondents in Serbia and 20% in Albania who assessed governance as positive should not be overlooked and may be considered significant.

Figure 25 – How do you perceive the following factors related to government conduct, based on your experience or of other investors that you have heard of? Governance, public integrity and corruption

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means very negative and 5 very positive, share of total, %)

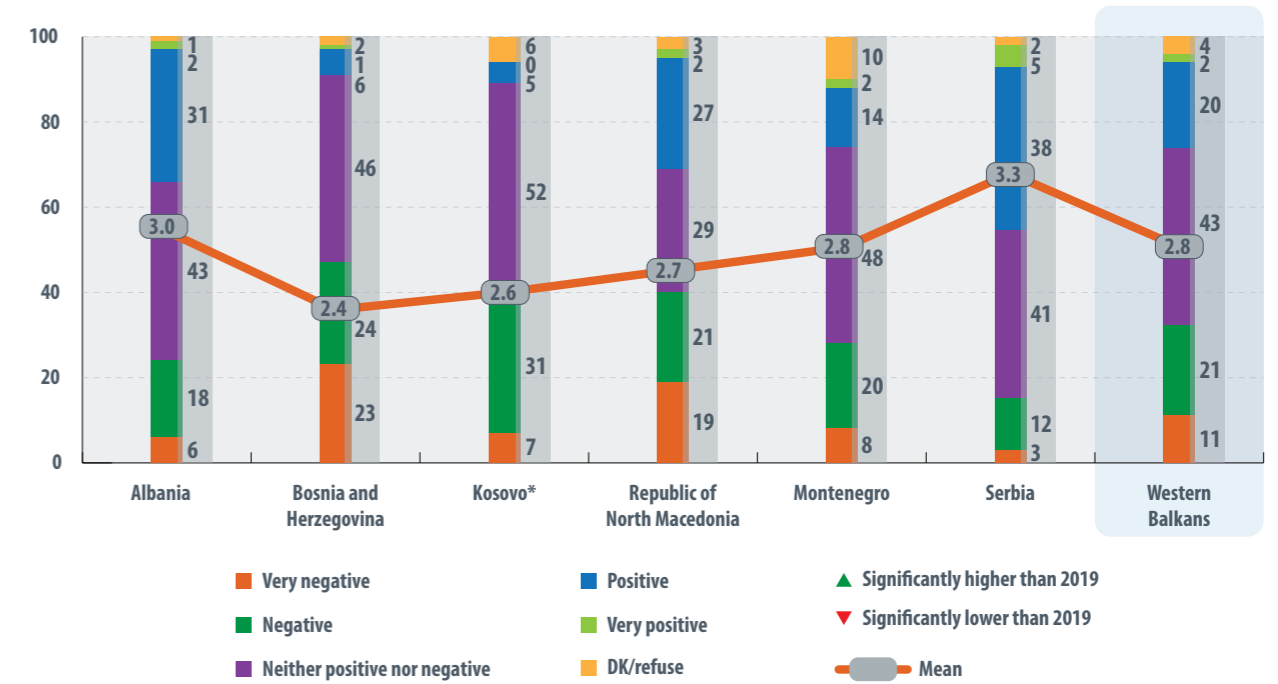


Transparency of regulations and decision-making is observed similarly (**Figure 26**). Bosnia and Herzegovina, Kosovo* and Republic of North Macedonia feature worse compared to the other three economies of the Western Balkans, with shares of negative or very neg-

ative perceptions on transparency ranging between 38% and 47%. Again, Albania and Serbia do have a significant share of respondents who consider transparency positive or very positive, 33% and 43%, respectively.

Figure 26 – How do you perceive the following factors related to government conduct, based on your experience or of other investors that you have heard of? Transparency of government regulations and decision-making

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means very negative and 5 very positive, share of total, %)

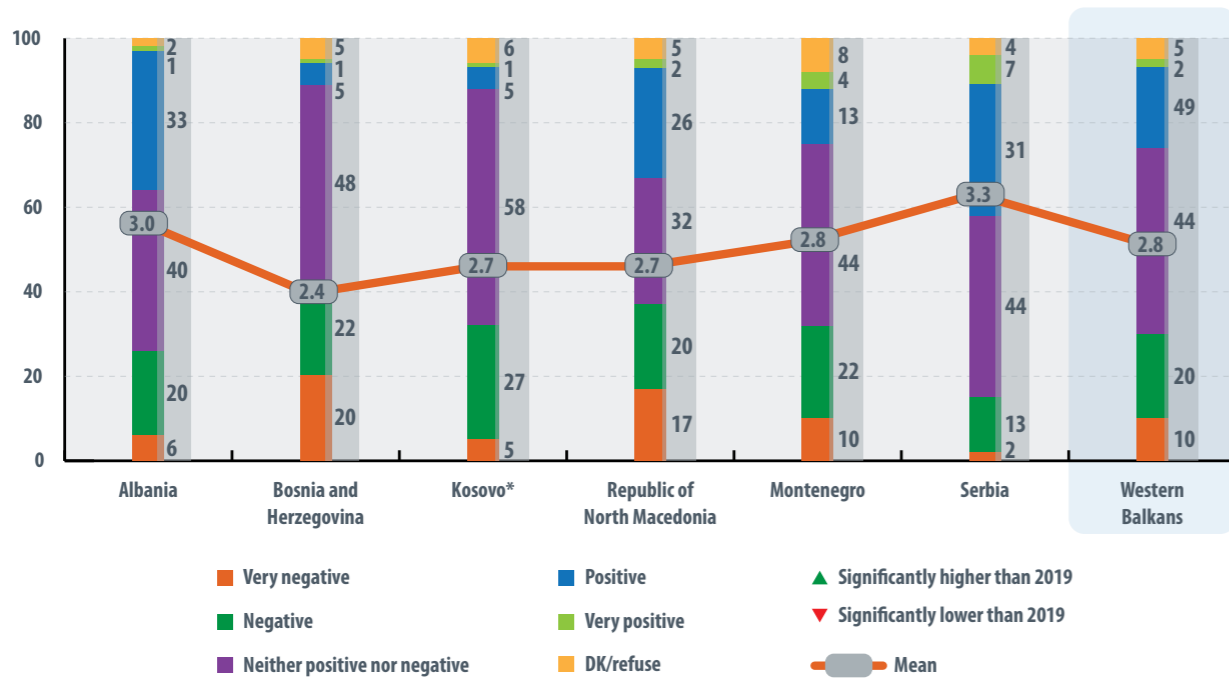


Coordination and communication between regulatory authorities is assessed slightly more favourable, despite with similar patterns across the Western Balkan economies (**Figure 27**). The share of neutral respondents is dominant with regards to this obstacle, particularly

in Kosovo* (58%) and Bosnia and Herzegovina (48%), while Serbia and Albania stand out with the share of positive and very positive attitudes, 38% and 34% respectively, followed by Republic of North Macedonia (28%).

Figure 27 – How do you perceive the following factors related to government conduct, based on your experience or of other investors that you have heard of? – Coordination and communication between regulatory authorities

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means very negative and 5 very positive, share of total, %)

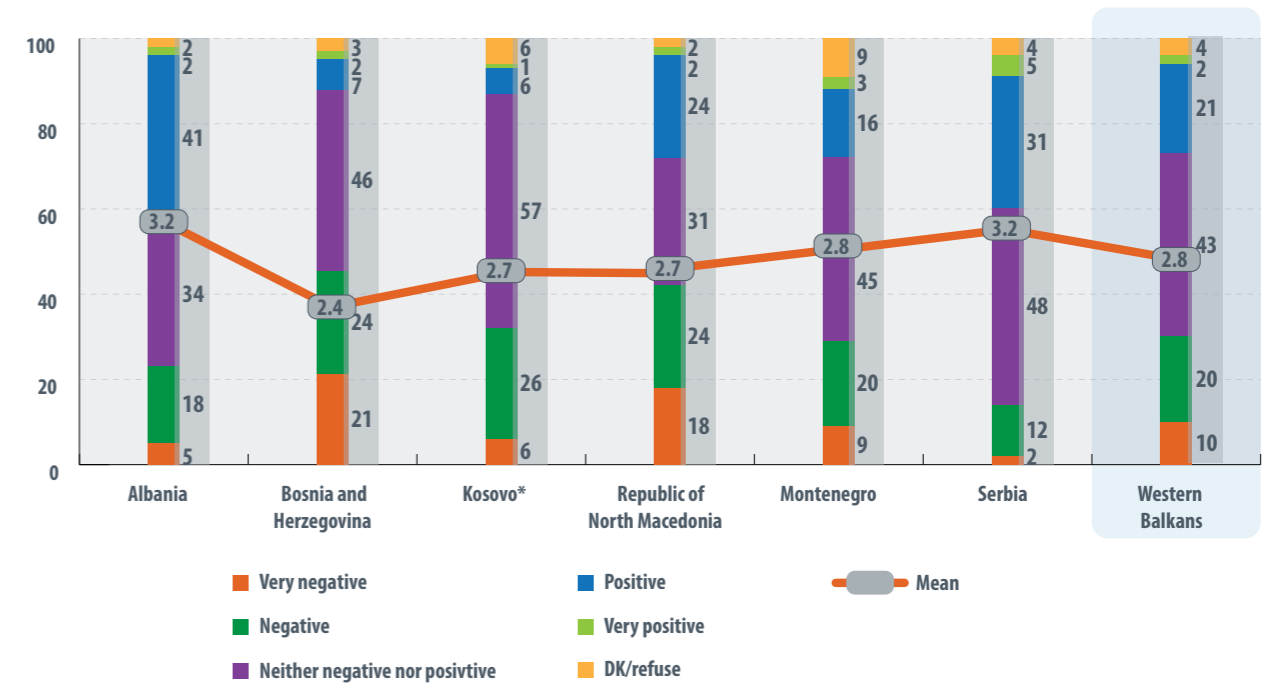


Predictability and stability of policies and rules is an acute problem of the economies in the region; however, with distinct intensity (Figure 28). Bosnia and Herzegovina pioneers this problem, with 45% of respondents being negative or very negative and another 46% who were neutral. Kosovars are slightly less negative (32%) and slightly more neutral (57%). The same patterns are observed in Republic of North Macedonia and Monte-

negro, despite the share of respondents who answered positively being significant in the two economies: 24% and 16%, respectively. The share of respondents who had positive attitude regarding predictability is the highest in Albania (41%) and Serbia (31%), while the largest number of responses reflecting very positive perceptions are found in Serbia (5%) and Montenegro (3%).

Figure 28 – How do you perceive the following factors related to government conduct, based on your experience or of other investors that you have heard of? – Predictability and stability of policies and rules

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means very negative and 5 very positive, share of total, %)

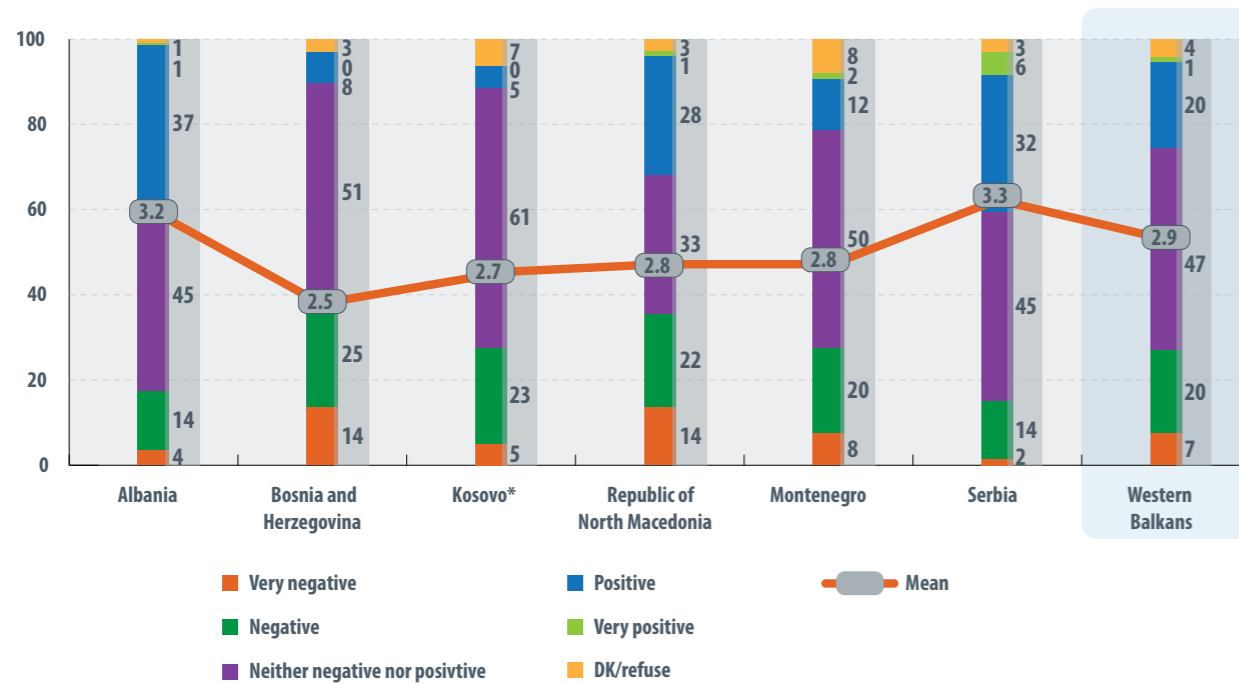


Policies and regulations are strongly connected with the conduct of public agencies in their execution. It is likely that the predictability of the conduct mimics the predictability of regulations and policies, as Figure 29

reveals. Namely, Bosnia and Herzegovina display the most of negative or neutral stance, while Albania, Serbia and Republic of North Macedonia reveal a non-negligible positive stance.

Figure 29 – How do you perceive the following factors related to government conduct, based on your experience or of other investors that you have heard of? – Predictability of the conduct of public agencies (such as regulatory authorities)

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means very negative and 5 very positive, share of total, %)

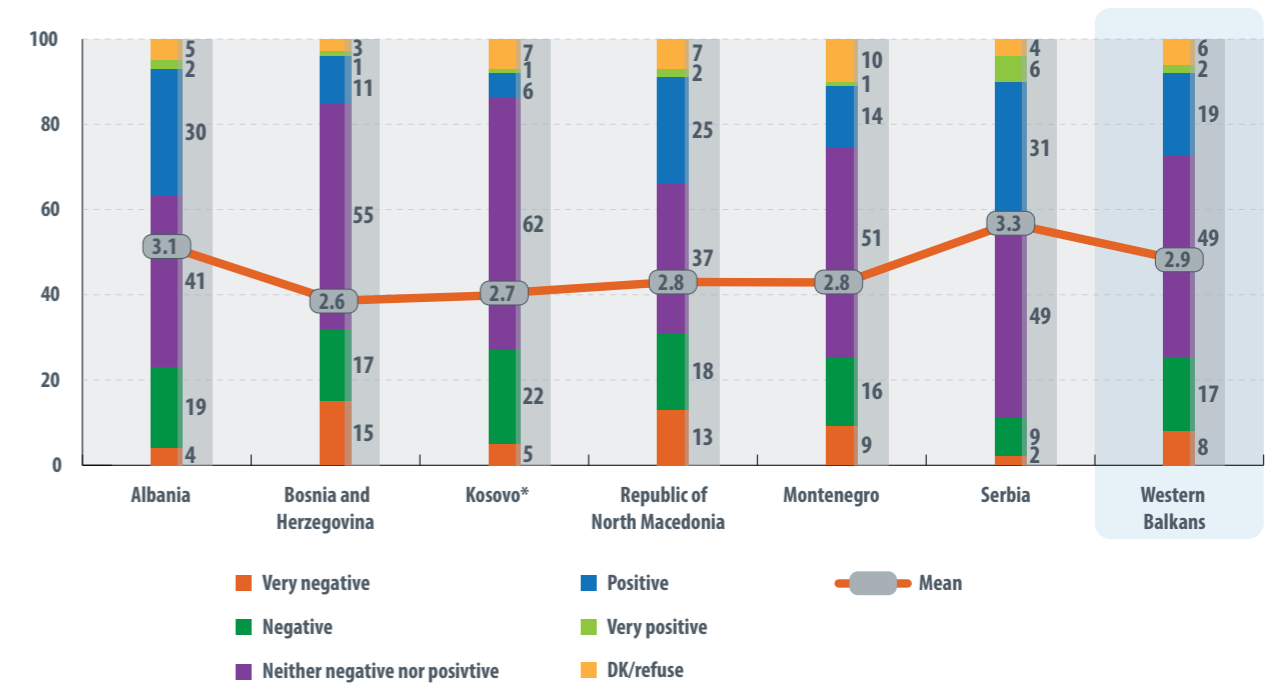


The process of consultation in the adoption of laws and regulations is crucial in the Western Balkans, as all of the economies have been acquiring relevant skills and approaches over the preceding decades. Still, majority of respondents are negative or neutral regarding the existence of such consultative process (Figure 30). The situation is particularly adverse in Bosnia and Herzegovina and Kosovo*, whereby the shares of respondents

with negative or neutral attitude soar as high as 87% and 89%, respectively. On the other hand, Serbia (31%), Albania (30%) and Republic of North Macedonia (25%) saw shares of respondents who took positive attitude about the existence of consultation processes. Significant share of respondents expressing very positive perception with 6% is found only in Serbia.

Figure 30 – How do you perceive the following factors related to government conduct, based on your experience or of other investors that you have heard of? – Existence of effective processes in place for consultation on proposed laws and regulations

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means very negative and 5 very positive, share of total, %)

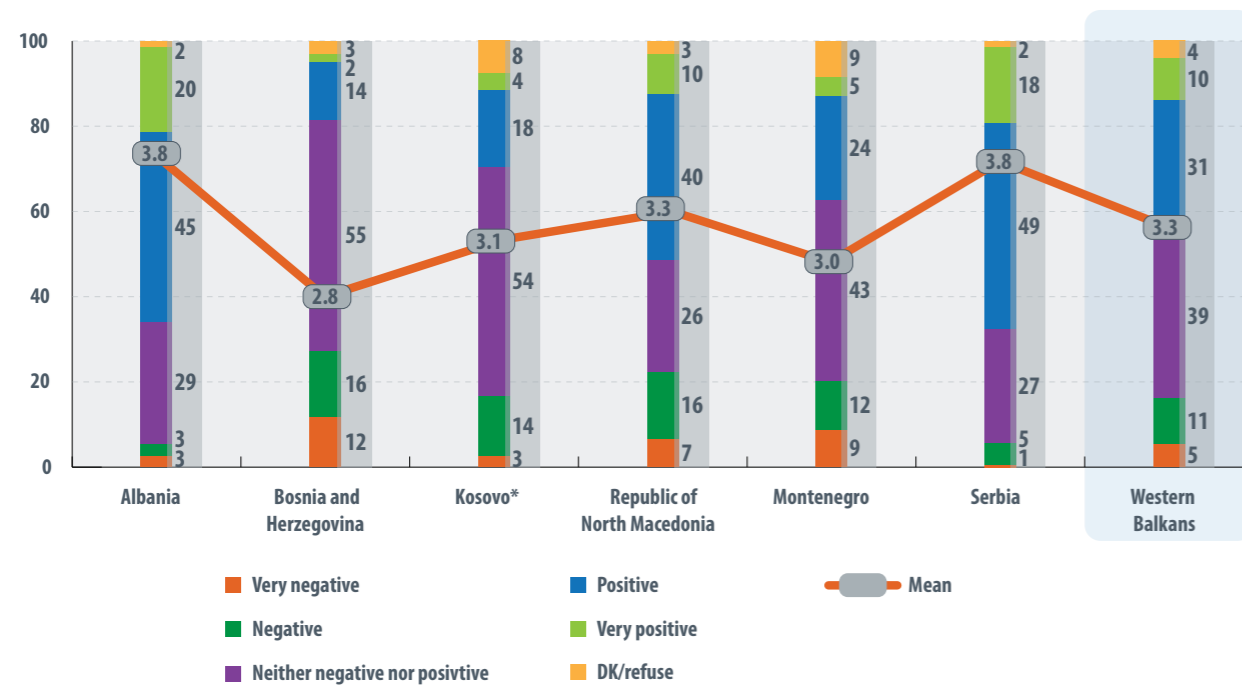


Finally, the stance on the digitalisation of services reveals slightly different and more positive picture (Figure 31). The share of respondents who said digitalisation of public services to be related to government conduct is quite low in Albania and Serbia (6% each) and goes up to 28% in Bosnia and Herzegovina, still revealing improvement compared to 2019. The shares

of respondents with neutral stance are lower, sparing space for respondents who clearly articulated very positive stance. Namely, only 'very positive' answers regarding digitalisation of public services represent meaningful shares, ranging from 2% in Bosnia and Herzegovina to 20% in Albania.

Figure 31 – How do you perceive the following factors related to government conduct, based on your experience or of other investors that you have heard of? – Digitalisation of public services

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means very negative and 5 very positive, share of total, %)



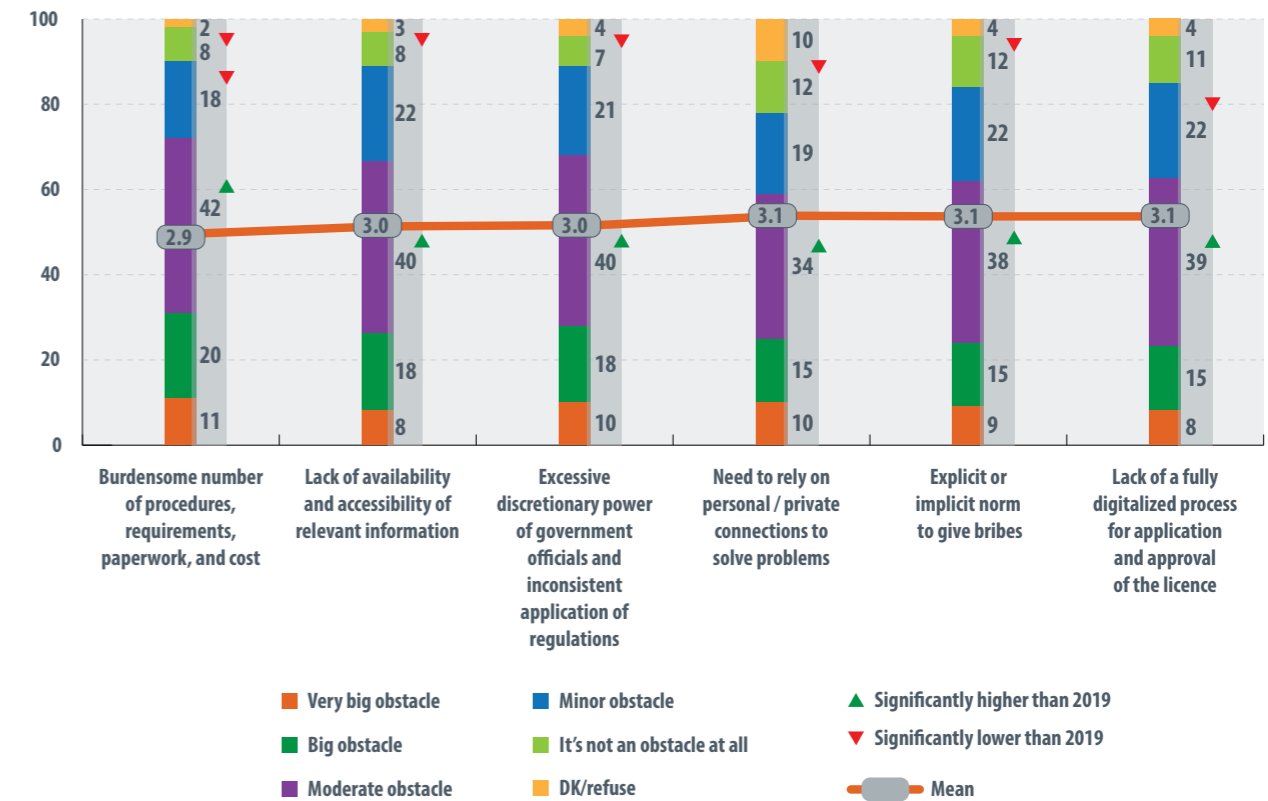
The next set of obstacles refers to the process of obtaining various business-related licenses (Figure 32). Among the six identified obstacles, the burdensome number of procedures, requirements, paperwork and cost stands out, corroborating the widespread reliance on parafiscal charges of central and local authorities in the Western Balkans. 31% of respondents pointed out to this as being a big or very big obstacle, followed by 42% of those who identified it as a moderate obstacle. Excessive discretionary power of government officials is ranked second (28% of respondents pointing out to it as being big or very big obstacle), while the lack of

availability and accessibility of relevant information is ranked third (26%).

The ranking of the other three identified obstacles has been more favourable. For example, 34% of respondents said the need to rely on personal or private connections to solve a problem has been a small or no obstacle, while 33% said so for the lack of digitalised processes related to obtaining the licenses. The share of respondents pointing out to a moderate obstacle has been dominant across all six obstacles, standing at around 40%.

Figure 32 – In the process of obtaining licenses for your business, how much of an obstacle were the following factors?

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means very big obstacle and 5 it's not an obstacle at all, share of total, %)

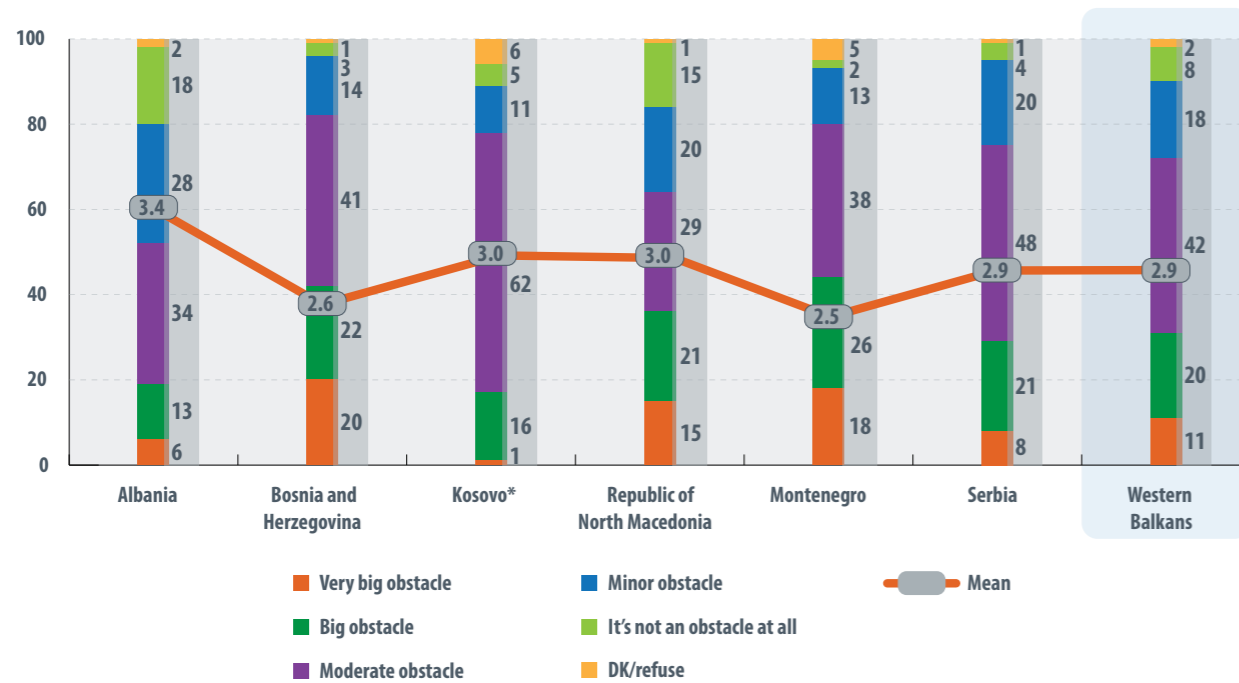


Below is a review of within-region variations for each of the identified six obstacles to obtaining licenses in the Western Balkans. Figure 33 presents the evaluation of the number of procedures, requirements, paperwork and cost. This is considered a big or very big obstacle in Montenegro (44%), Bosnia and Herzegovina (42%) and Republic of North Macedonia (36%). Kosovo* stands

out as this obstacle has been ranked moderate by 62% of the respondents. The remaining two economies, Albania and Serbia, considered this obstacle less of an issue, with 46% and 24% of respondents, respectively, labelling it as a small or no obstacle at all. Surprisingly, the share of the latter is large in Republic of North Macedonia (36%), revealing a highly polarised opinion.

Figure 33 – In the process of obtaining licenses for your business, how much of an obstacle were the following factors? – Burdensome number of procedures, requirements, paperwork and cost

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means very big obstacle and 5 it's not an obstacle at all, share of total, %)

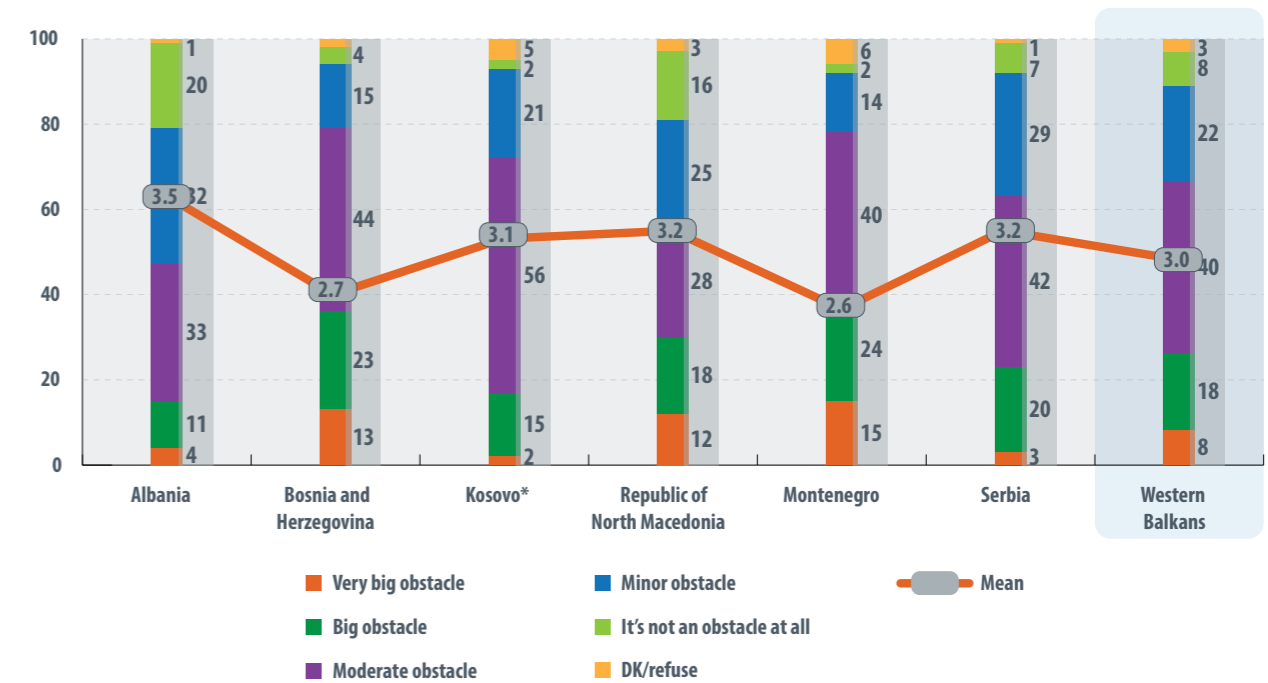


Similar pattern is observed as regards the lack of availability and accessibility of relevant information (Figure 34). Montenegro, Bosnia and Herzegovina and Republic of North Macedonia feature large shares of respondents who considered this to be big or very big

obstacle, 39%, 36% and 30%, respectively. Kosovo* has a dominant share of respondents who consider this a moderate obstacle (56%), while Albania features the largest share of those who considered this a small or no obstacle.

Figure 34 – In the process of obtaining licenses for your business, how much of an obstacle were the following factors? - Lack of availability and accessibility of relevant information

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means very big obstacle and 5 it's not an obstacle at all, share of total, %)

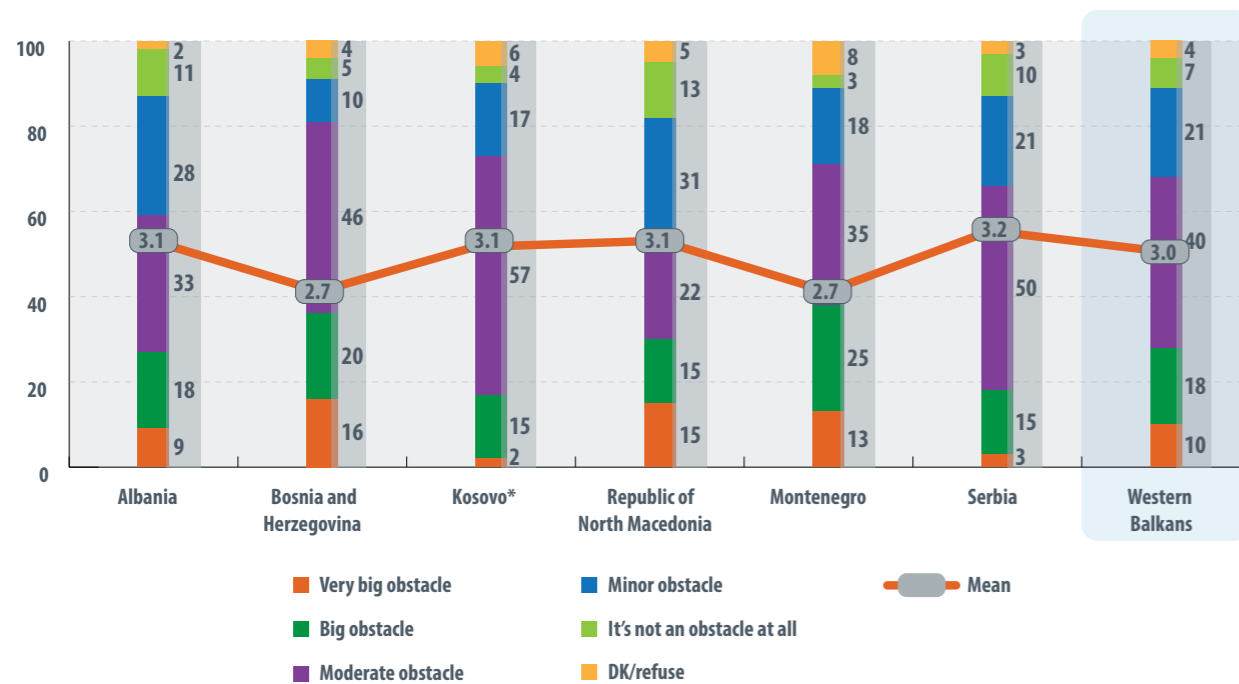


The evaluation of the excessive discretionary power of government officials and inconsistent application of regulations brings a more stringent picture (Figure 35). Albania joins the group consisted of Bosnia and Herzegovina, Republic of North Macedonia and Montenegro, which stand out in revealing this to be a big or very big

obstacle to obtaining licenses. However, of the four, Albania and Republic of North Macedonia have large shares of respondents who considered this to have been a small or no obstacle, 39% and 44%, respectively. 57% of Kosovars reported it as being a moderate obstacle.

Figure 35 – In the process of obtaining licenses for your business, how much of an obstacle were the following factors? - Excessive discretionary power of government officials and inconsistent application of regulations

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means very big obstacle and 5 it's not an obstacle at all, share of total, %)

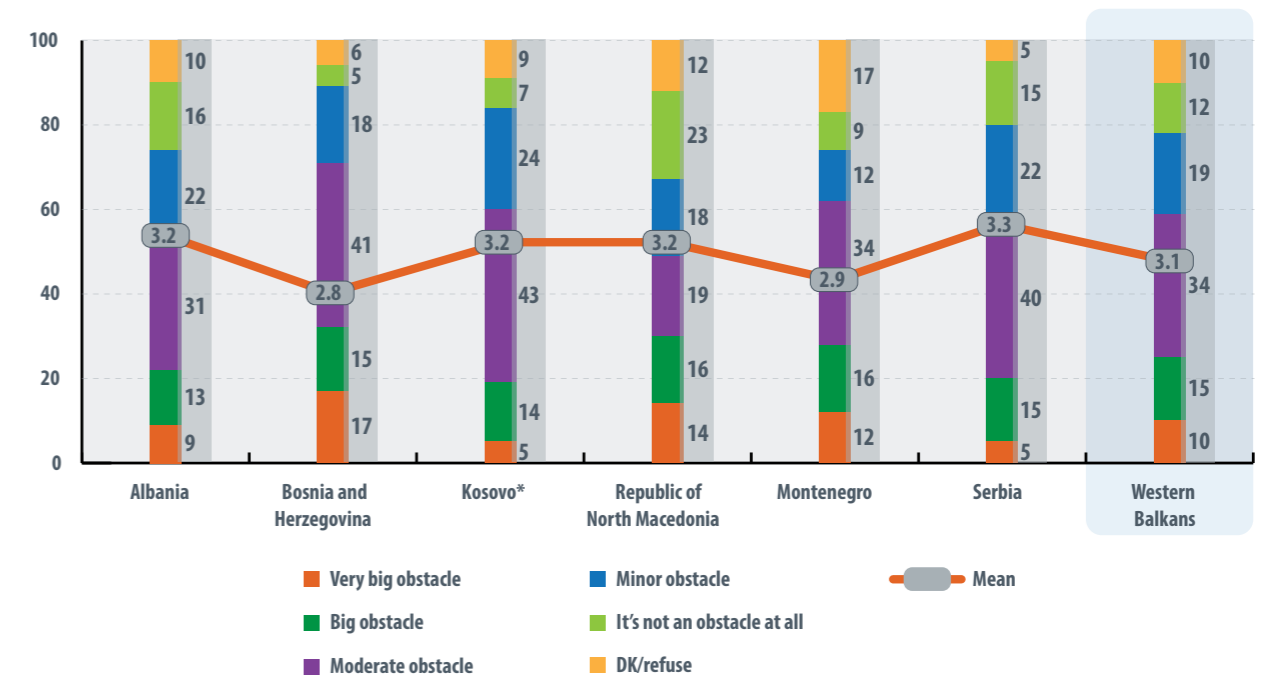


The picture further changes on the assessment of the explicit or implicit norm to give bribes (Figure 36). Republic of North Macedonia is the leader whereby 41% of respondents considered bribery as a small or no obstacle. This share is large in Albania (38%), however the share of respondents who assessed brib-

ery as a big or very big obstacle is quite smaller than in Republic of North Macedonia: 22% compared to 30%. Similar distribution is portrayed in Kosovo* and Serbia. Bosnia and Herzegovina and Montenegro offer a more balanced picture of respondents revealing big versus small obstacle.

Figure 36 – In the process of obtaining licenses for your business, how much of an obstacle were the following factors? - Explicit or implicit norm to give bribes

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means very big obstacle and 5 it's not an obstacle at all, share of total, %)

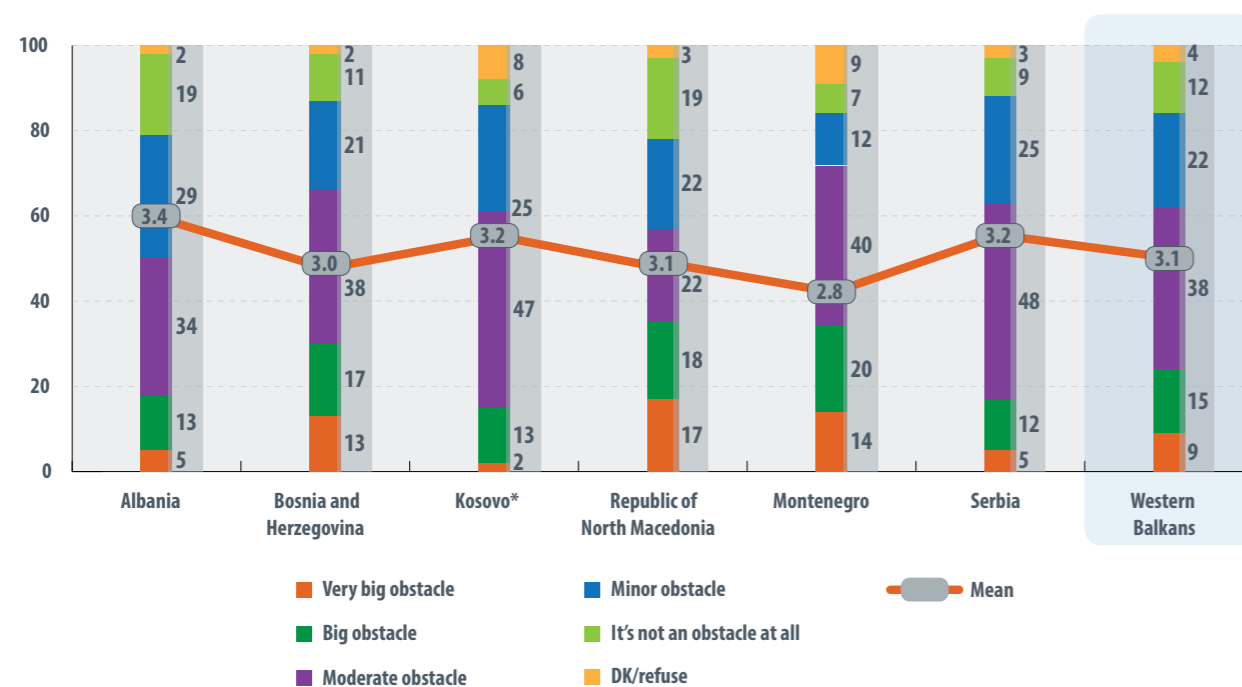


Business representatives in Republic of North Macedonia, Montenegro and Bosnia and Herzegovina need to rely on personal/ private connections to solve problems more frequently than in the other three economies of the Western Balkans (Figure 37). The share of those saying that this has been a big or very big obstacle in these three economies is 35%, 34% and 30%,

respectively. At the same time Republic of North Macedonia has a large share of respondents noting personal connections as a small or no obstacle (41%), while their largest share is observed in Albania (48%). Serbia and Kosovo* feature dominant share of respondents who considered personal/private connections a moderate obstacle, with 48% and 47%, respectively.

Figure 37 – In the process of obtaining licenses for your business, how much of an obstacle were the following factors? - Need to rely on personal/ private connections to solve problems

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means very big obstacle and 5 it's not an obstacle at all, share of total, %)



Previous patterns are further observed also with regard to the lack of a fully digitalised process for application and approval of the license (Figure 38). Around 53% of respondents in Albania did not consider this to an obstacle, followed by Republic of North Macedonia (42%) and Serbia (39%). The highest shares of respondents

claiming that this was a big or very big obstacle are in Bosnia and Herzegovina and Montenegro (33% each). Serbia and Kosovo* have a dominant share of respondents considering digitalisation for obtaining licenses as a moderate problem.

Figure 38 – In the process of obtaining licenses for your business, how much of an obstacle were the following factors? - Lack of a fully digitalised process for application and approval of the license

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means very big obstacle and 5 it's not an obstacle at all, share of total, %)

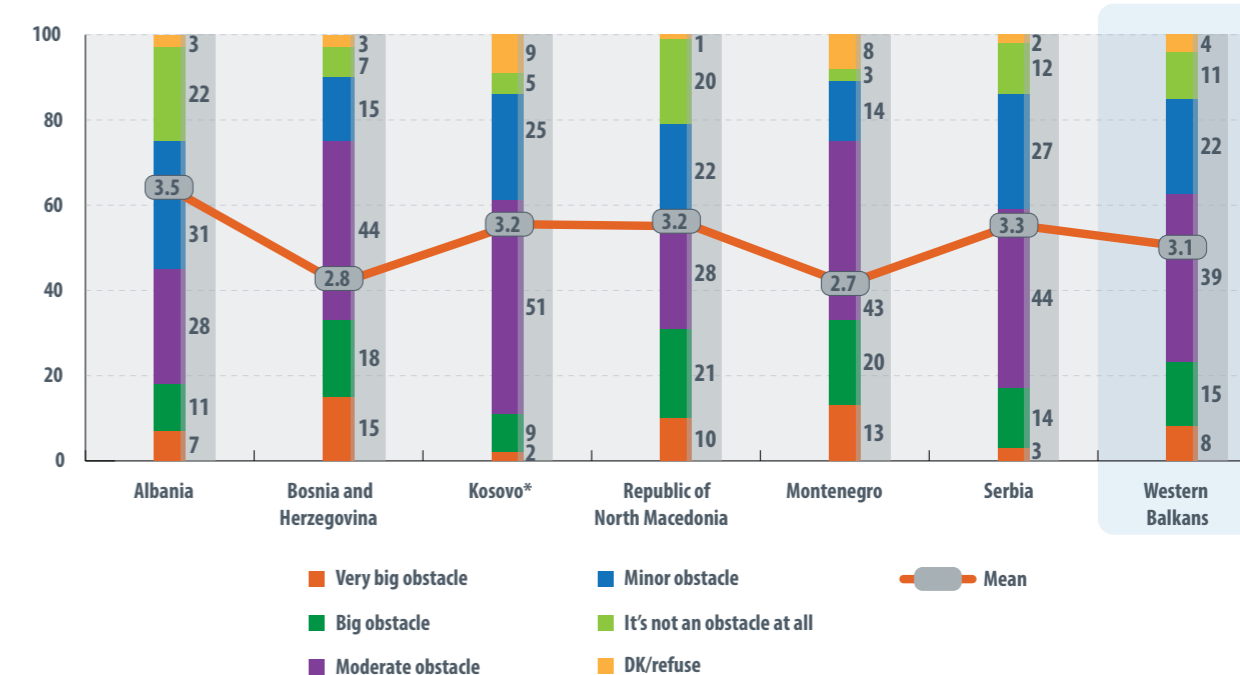


Figure 39 presents a range of characteristics of business environment. Businesspersons were asked to assess the extent to which such characteristics have changed in the previous year. The first thing to note is that the blue colour dominates the graph, signifying that those characteristics have been predominantly assessed as being somehow worrying, from having stayed the same to significantly worsening.

In 2020, the market size in the Western Balkans seems to have remained a key obstacle: a total of 56% of respondents said that the market size had worsened. This is not surprising given that the economies of the Western Balkans are all fairly small for both European and global standards. This characteristic has been particularly pronounced in 2020 when borders closed and movement was restricted. However, there have been characteristics which are not exogenously determined by the geography or size, i.e. which have been in a full control of the governments, yet assessed as having worsened in the business environment. Most notably, the macro-economic stability and exchange-rate considerations have been judged as having worsened (49%), likely reflecting the fact that majority of the Western Balkans maintain de-facto or de-jure fixed rates to the euro

which constrains the space for independent monetary policy.

Likewise, the political stability and security has been assessed as worsening by 47% of respondents, followed by the availability of financial capital in the domestic market (42%). Both issues have been on the plate in the Western Balkans for a long period of time and, despite some notable advances achieved lately, the Covid-19 crisis likely aggravated the conditions and the perception thereof.

There have been some notable shifts compared to 2019. For example, the cost of labour has been assessed as aggravating in 2019 (38% said somewhat or significantly worsened), followed by the availability of labour (36%). It is not surprising that the Covid-19 crisis alleviated this problem, as labour-market pressure subsided given job losses and, in some Western Balkan economies, given the return of emigrants, hence increasing the idle labour pool. Yet, the political stability and security has been ranked a third constraining factor (33% said it to be somewhat or significant worsening), which lingers over time and is unrelated to the pandemic.

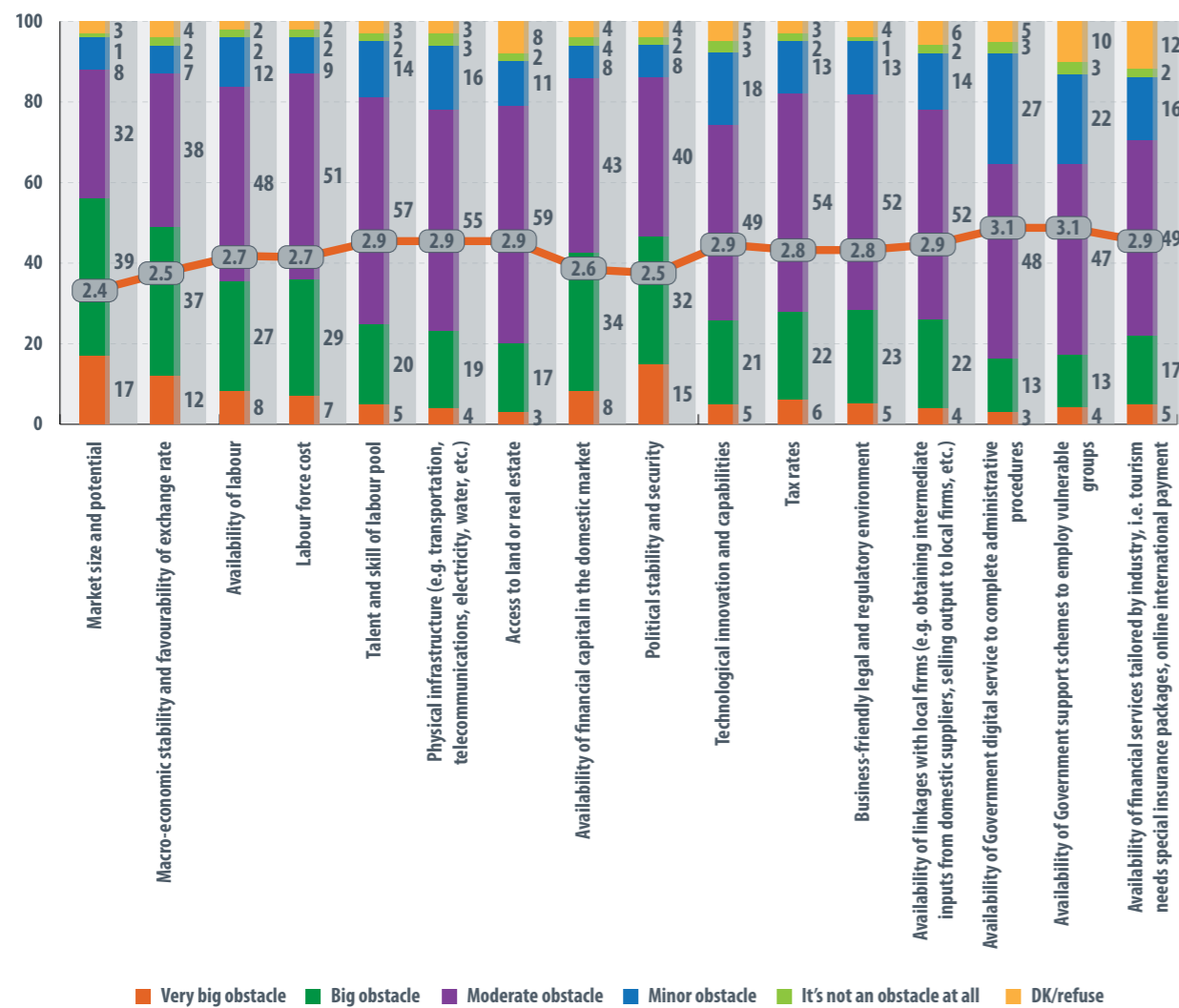
Businesspersons predominantly revealed no change in 2020 for the majority of factors. For example, 59% reported access to land and real estate has not changed, 57% said so for the talent and skill of the labour pool, 54% for the tax rates, and 53% for each of the business-friendly legal and regulatory environment and the availability of linkages with the domestic firms.

On the positive side, the availability of government digital administrative services had the largest share of respondents reporting improvement (30%), followed by

the availability of government support schemes to employ vulnerable workers (25%) and technological innovation and capacities (21%). Compared to 2019, these three retained their positive contribution to business environment, but many other factors such as physical infrastructure, availability of financial services tailored by industry and availability of linkages with local firms, which had earlier gained prominent shares of respondents reporting improvement, lost their importance in 2020.

Figure 39 – How have the following characteristics of the business environment in your economy changed over the last 12 months?

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %)

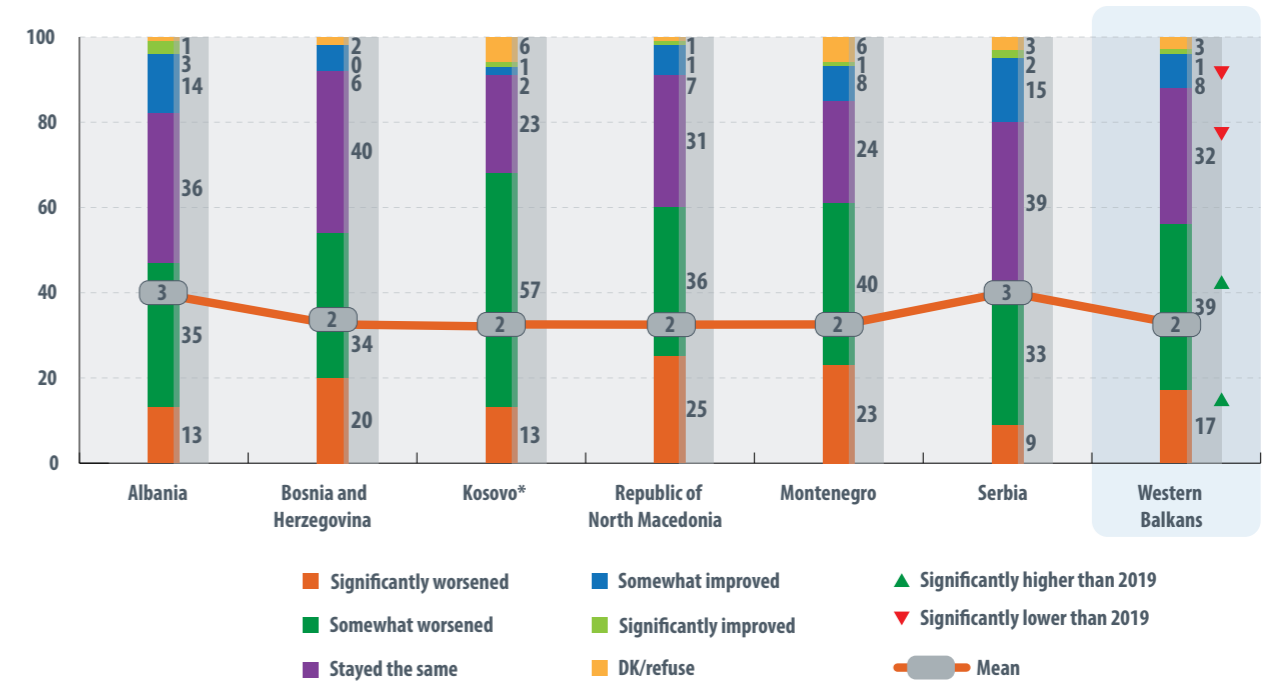


The overview of the distribution of each constraining factor to doing business economy-by-economy is given below. **Figure 40** presents the market size and suggests it is a key limiting factor in each of the Western Balkan economy, yet to some varying degrees. Apparently, the market size is considered a worsening factor in Kosovo* (70% responded that its role somewhat or significantly worsened), followed by Republic of North Macedonia (61%) and Montenegro (63%). This factor is

featuring better for Serbia and Albania, whereby 17% of respondents in each economy considered that the role of market size and potential improved. This is likely a reflection of the actual market size in Serbia, being the largest among the Western Balkan economies, and the access to the Adriatic Sea of Albania, hence both being important advantages compared to the other Western Balkan economies.

Figure 40 – How have the following characteristics of the business environment in your economy changed over the last 12 months? – Market size and potential

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %)

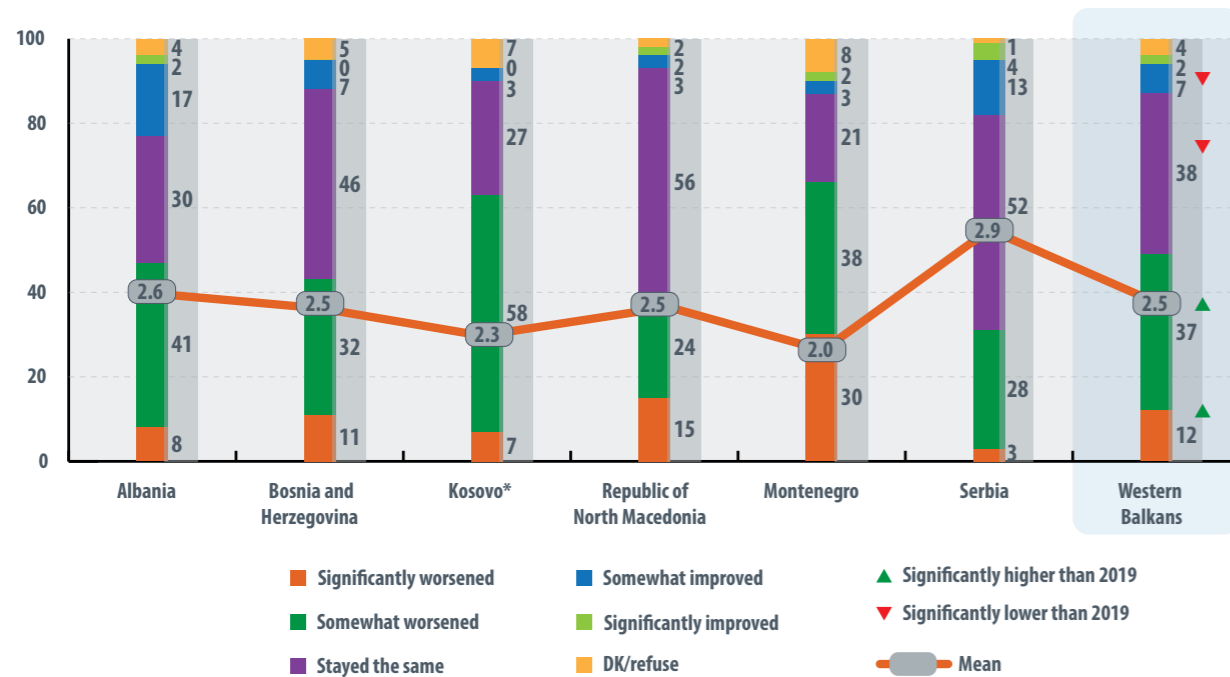


Macroeconomic stability and exchange rate considerations particularly worsened in Montenegro (**Figure 41**), where 68% of respondents reported some or total worsening. This may have been strongly determined by the total euroization of the economy, prohibiting enforcement of any other monetary policy. The situation is similar in Kosovo* (65%) inter alia reflecting the heavy reliance of the economy on remittances which

are important for the maintenance of the balance of payments stability. The role of macro-stability has been assessed as more favourable in the other economies of the Western Balkans, and particularly in Serbia which is the only economy that maintains larger margin of flexibility of its exchange rate; there, 17% of respondents considered macro-stability to have improved, while 52% to have not changed.

Figure 41 – How have the following characteristics of the business environment in your economy changed over the last 12 months? - Macro-economic stability and favourability of exchange rate

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %)

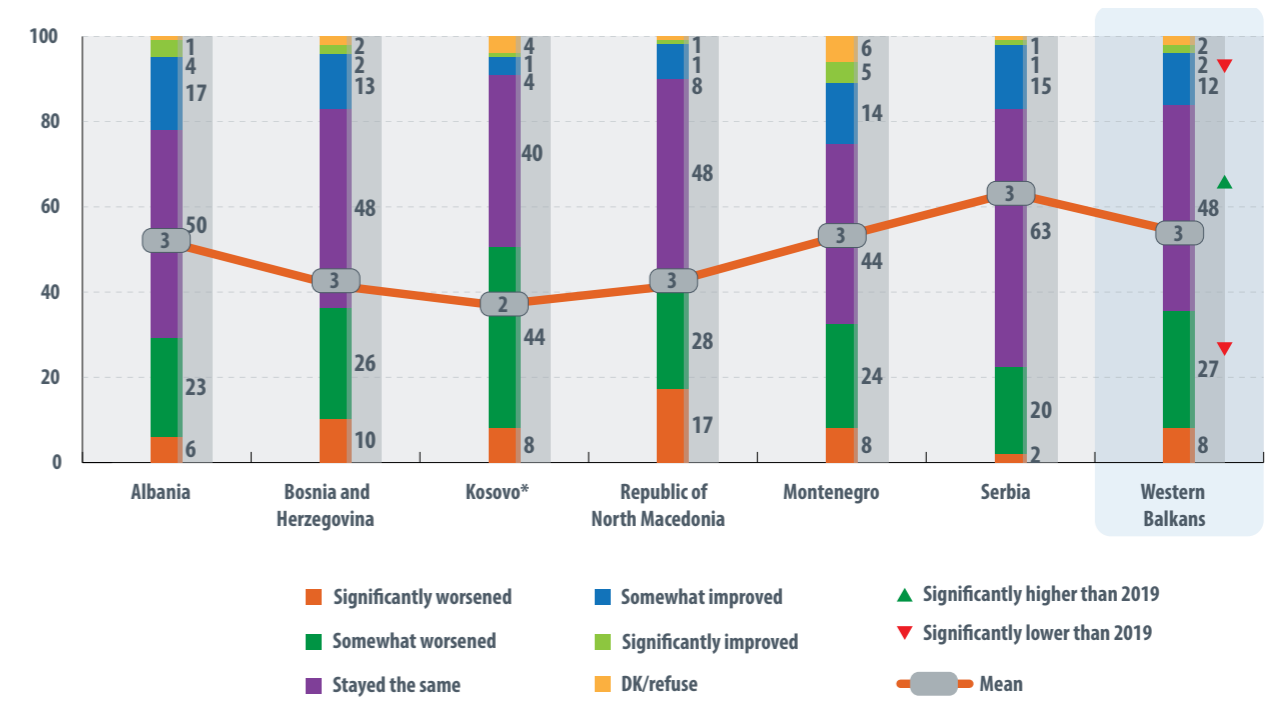


Availability of labour has been a particular constraint to doing business in Kosovo*, where 52% of respondents noted worsening (Figure 42). In all the other economies, this factor eased during the Covid-19 crisis, reflecting the larger availability of workers due to loosing of jobs or return of emigrants in some economies like

Serbia and Albania. Indeed, 63% of respondents in Serbia and 50% in Albania said this factor remained intact. Both economies feature the largest share of respondents who considered the situation with the availability of labour improved (16% and 21%, respectively).

Figure 42 – How have the following characteristics of the business environment in your economy changed over the last 12 months? - Availability of labour

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %)

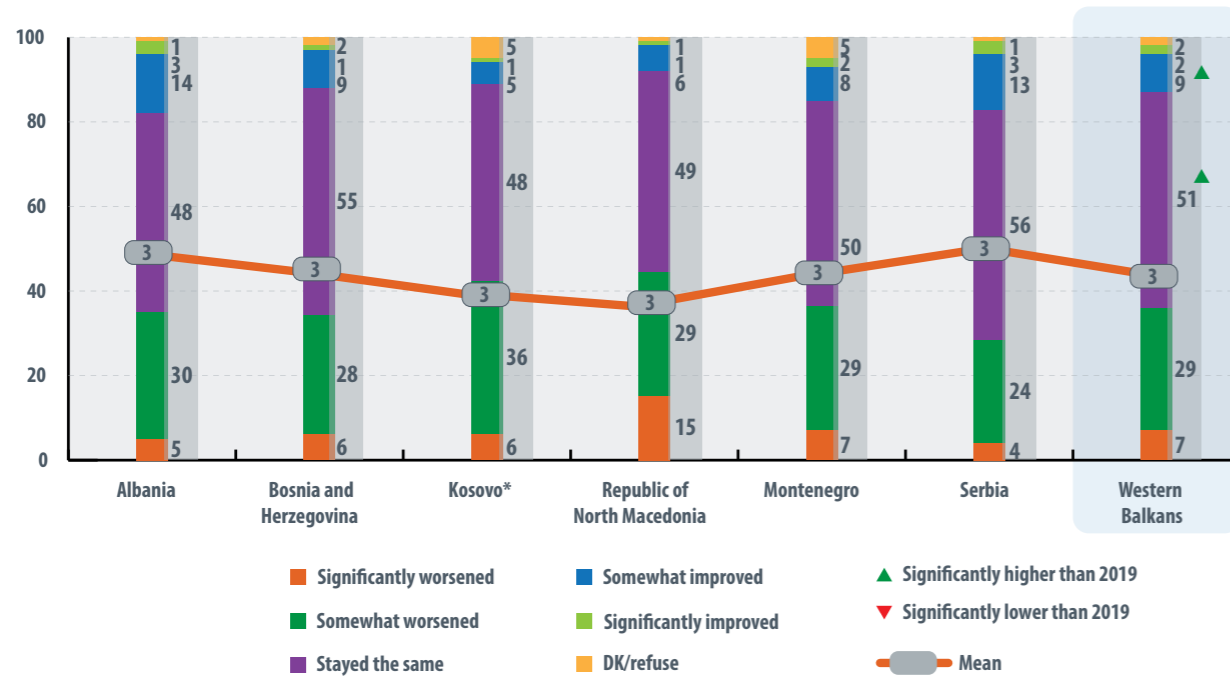


The labour cost remains an obstacle (Figure 43). The share of respondents who judged labour cost as worsening slightly reduced compared to 2019, mainly at the benefit of those who considered it the same as in 2019. This is likely because the reduced pressure of the crisis onto the availability of labour contributed to easing the pre-existing pressure on wages. The share of respondents articulating improving labour costs shrunk like-

wise. Such a picture is not diverse across the Western Balkan economies, with slight exception of Republic of North Macedonia, where the share of those reporting that labour costs significantly aggravated in 2020 is larger than in other economies (15%) and likely reflects the pressure on wages brought with the sustained increase of the minimum wage even during the crisis times.

Figure 43 – How have the following characteristics of the business environment in your economy changed over the last 12 months? - Labour force cost

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %)

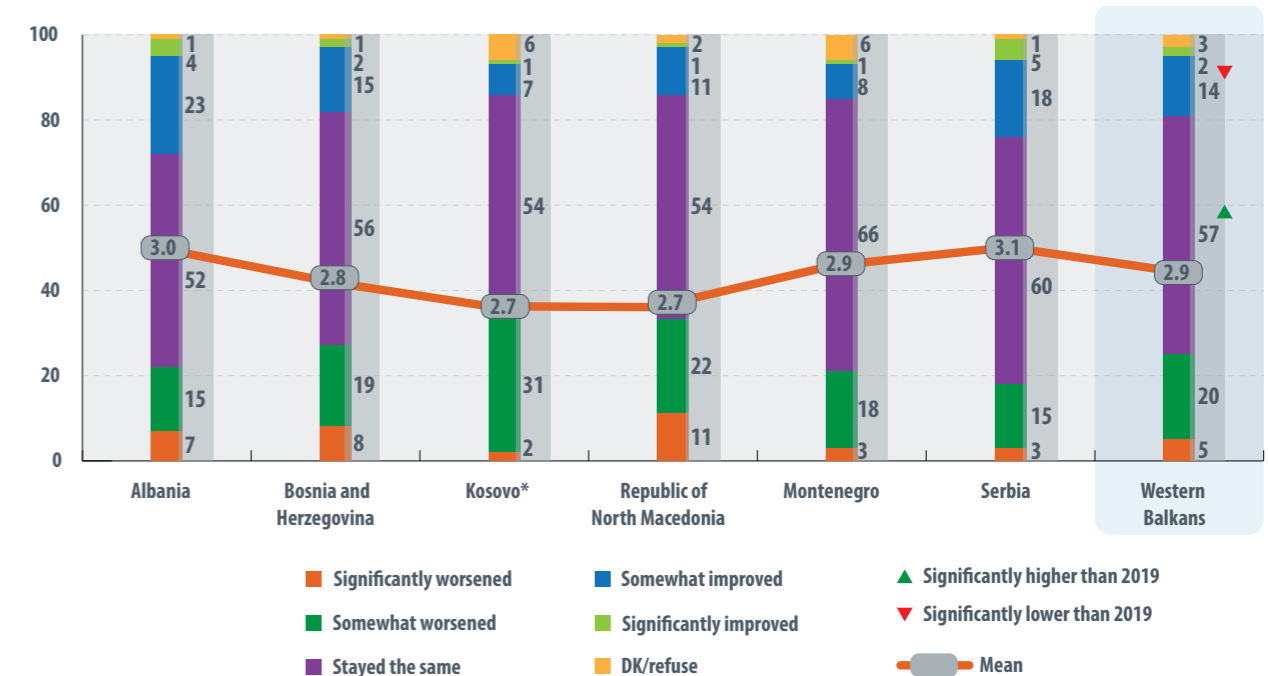


Along with the considerations about the availability and cost of labour, the situation with the talent and skills of the labour force generally remained intact across the WB economies (Figure 44). 52% to 66% of respondents said the situation with the skills did not change, which is expected as skills do not considerably change over the short run. However, Kosovo* and Republic of North

Macedonia experienced largest shares of respondents considering them to be worsening (a third of respondents in each economy reported some or significant worsening), while on the other hand, Albania and Serbia reported largest shares of respondents considering improvement (27% and 23%, respectively, reported some or significant improvement).

Figure 44 – How have the following characteristics of the business environment in your economy changed over the last 12 months? - Talent and skills of labour pool

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %)

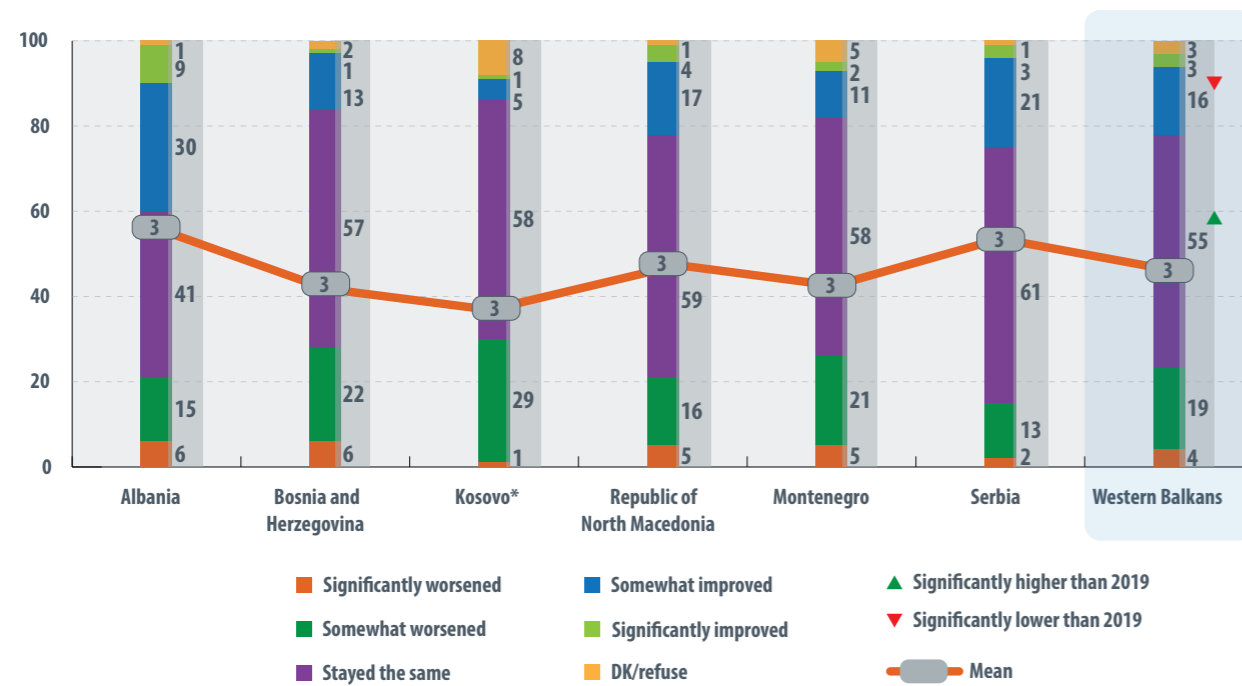


The picture is assorted across the Western Balkans when infrastructure is considered (Figure 45). Kosovo* faces the largest obstacles with its physical infrastructure, as 30% of respondents considered it worsening, while another 58% said it remained unchanged. Kosovo* is followed by Bosnia and Herzegovina (28% and 57% of respondents, respectively) and Montenegro (26% and 58%, respectively). Republic of North Mac-

edonia and Serbia, while featuring significant shares of respondents with negative or neutral opinion on infrastructure, still stand out with the shares of them reporting improvement: 24% in Serbia and 21% in Republic of North Macedonia said infrastructure improved to some or significant extent. Still, Albania is the leader in this regard, as 39% of respondents perceived improving infrastructure in the economy over the past year.

Figure 45 – How have the following characteristics of the business environment in your economy changed over the last 12 months? - Physical infrastructure

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %)

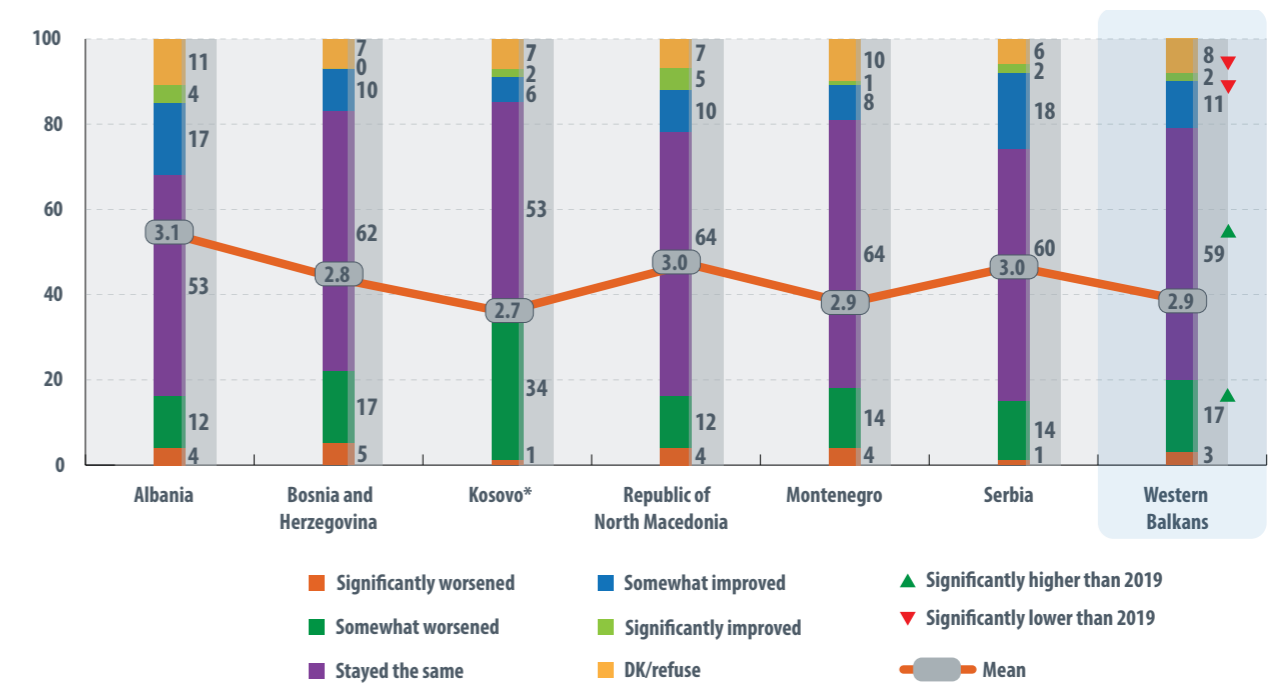


On the other hand, access to land and real estate did not see large improvements in any of the Western Balkan economies (Figure 46). Respondents revealing no change in this regard remained dominant (53% to 64%). Yet, Kosovo* stands out as the loser since 35% of

respondents revealed some or significant worsening. On the other extreme, Serbia and Albania seem to be the gainers, since 20% and 21%, respectively, saw improvement.

Figure 46 – How have the following characteristics of the business environment in your economy changed over the last 12 months? - Access to land or real estate

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %)

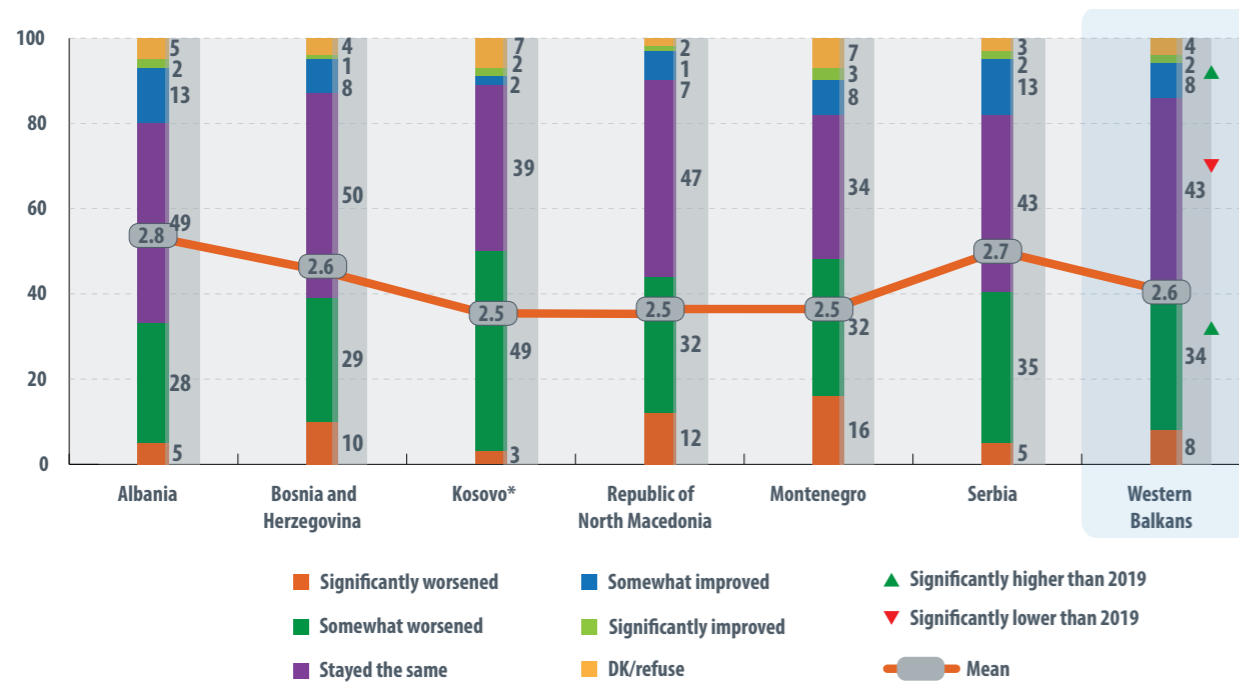


Amid the crisis, the availability of financial capital in the domestic market largely deteriorated (Figure 47). This may have been a reflection of the crisis imposed by the pandemic, whereby sources of finance in the domestic market drained, hence governments swiftly turned to securing financing from international sources. Deterioration of domestic financial markets has been perceived the largest in Kosovo* (52% of respondents reported some or significant worsening), followed by

Montenegro (48%) and Republic of North Macedonia (44%). Conditions were slightly easier in Serbia and Albania, where 15% of respondents considered the financial situation improving. However, the aggravating perceptions across all WB economies are quite stronger compared to what respondents perceived in normal times during 2019, when those who reported significant worsening stood at around negligible 1% to 8%, while in 2020 such range is 3% to 16%.

Figure 47 – How have the following characteristics of the business environment in your economy changed over the last 12 months? - Availability of financial capital in the domestic market

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %)

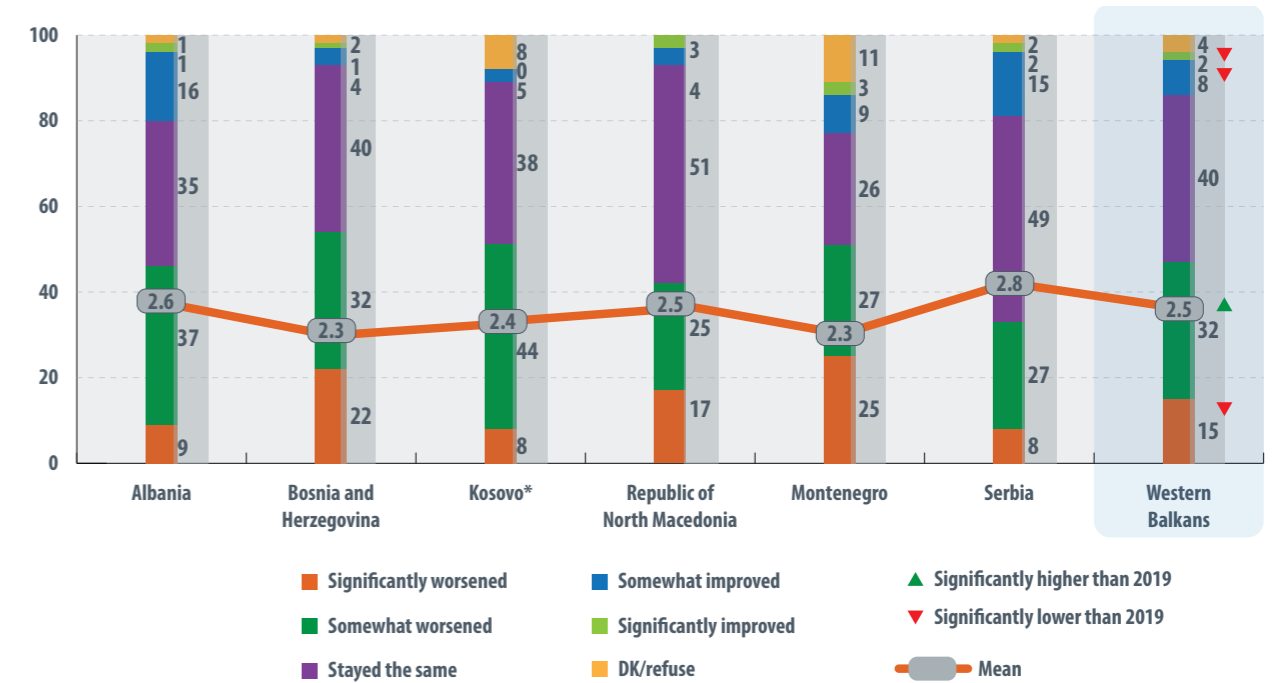


Political stability and security, on the other hand, retained its distribution as before, suggesting that it was a factor largely unrelated to the consequences of the Covid-19 crisis (Figure 48). Only Serbia and Albania saw non-negligible shares of respondents perceiving improvement (17% each), while the shares of those considering worsening ranged between 42% in Republic of North Macedonia and 54% in Bosnia and Herze-

govina. The accession to NATO may explain portion of the improvement in Republic of North Macedonia (56% in 2019), while the deterioration in BiH (44% in 2019) may have been a result of the burden that the political structure inflicted on the management of the crisis. Serbia and Republic of North Macedonia have the largest shares of respondents who considered political stability issue to have remained unaffected.

Figure 48 – How have the following characteristics of the business environment in your economy changed over the last 12 months? - Political stability and security

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %)

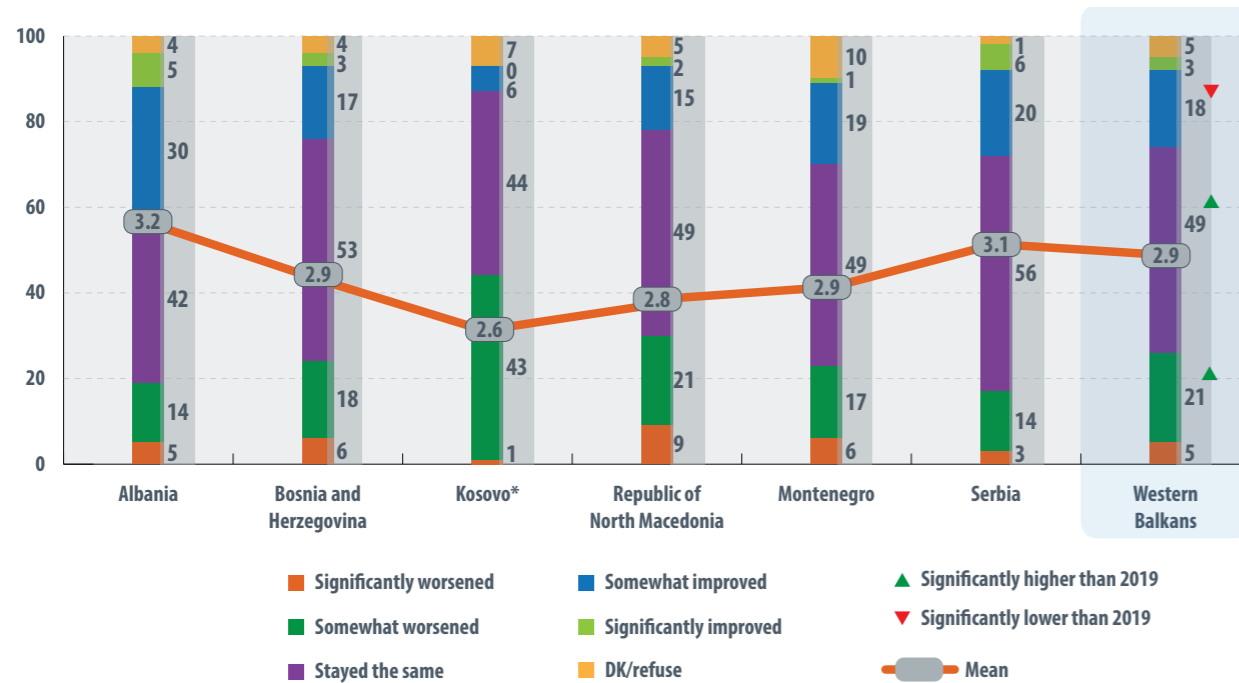


Technological innovation and capacities in 2020 mostly lagged in Kosovo* (Figure 49): 88% of respondents observed worsening or unchanged situation in this regard. The other Western Balkan economies did not do much better than Kosovo*: in Republic of North Macedonia 30% reported worsening, while 49% unchanged

position; in Bosnia and Herzegovina 24% and 53%, respectively; in Montenegro 23% and 49%, respectively; in Serbia, 17% and 56%, respectively. These shares are smaller only in Albania, making way for respondents who considered technological capacities and innovation improving: 38% reported so.

Figure 49 – How have the following characteristics of the business environment in your economy changed over the last 12 months? - Technological innovation and capabilities

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %)

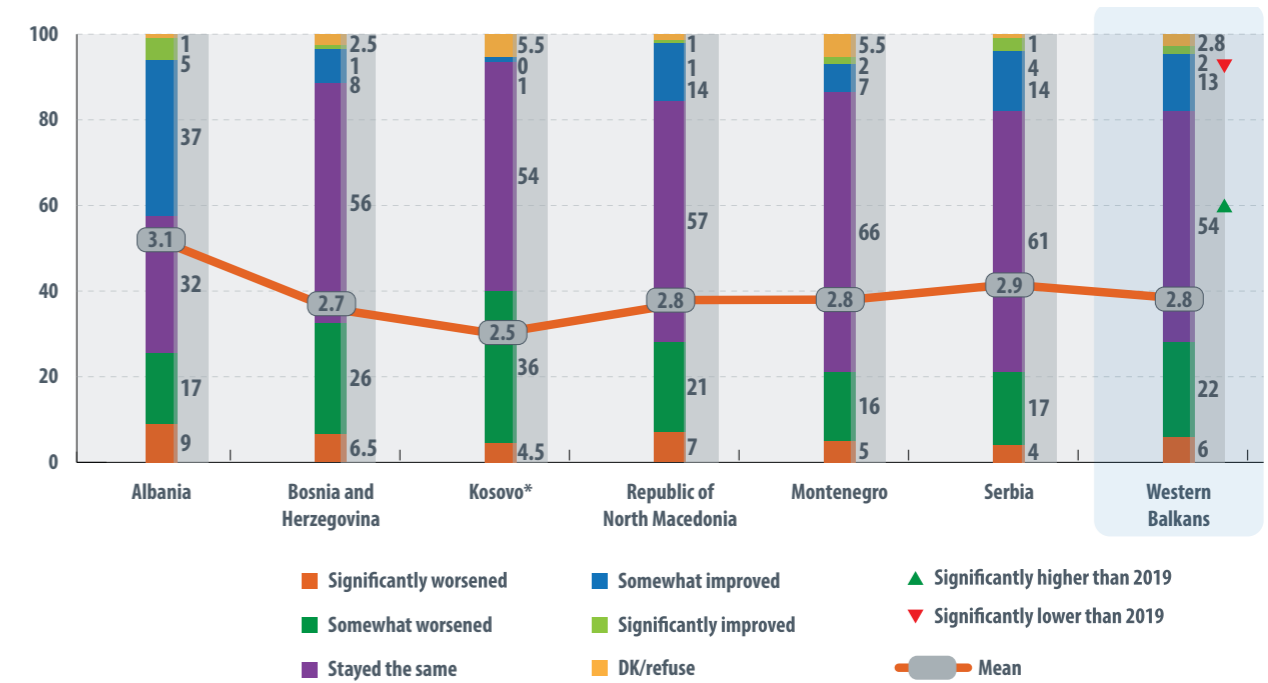


Tax rates exercised more worsening than improving effect on business environment (Figure 50). Respondents in Kosovo* assessed this aspect quite unfavourably: 40% as worsening and 54% as unchanged, making some room for those who considered any improvement in tax environment. In the other Western Balkan economies, the response has been more favourable, but the dominant blue parts in Figure 50 suggest

that businesses remain generally dissatisfied with the tax rates. It is worth noting that, for example, all except Albania run flat and low tax rates in case of personal income tax, and mostly for the profit tax, but express lower confidence in the tax system than Albania, which runs progressive income tax structure. In Albania, 42% of respondents said tax rates somewhat or significantly improved.

Figure 50 – How have the following characteristics of the business environment in your economy changed over the last 12 months? - Tax rates

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %)

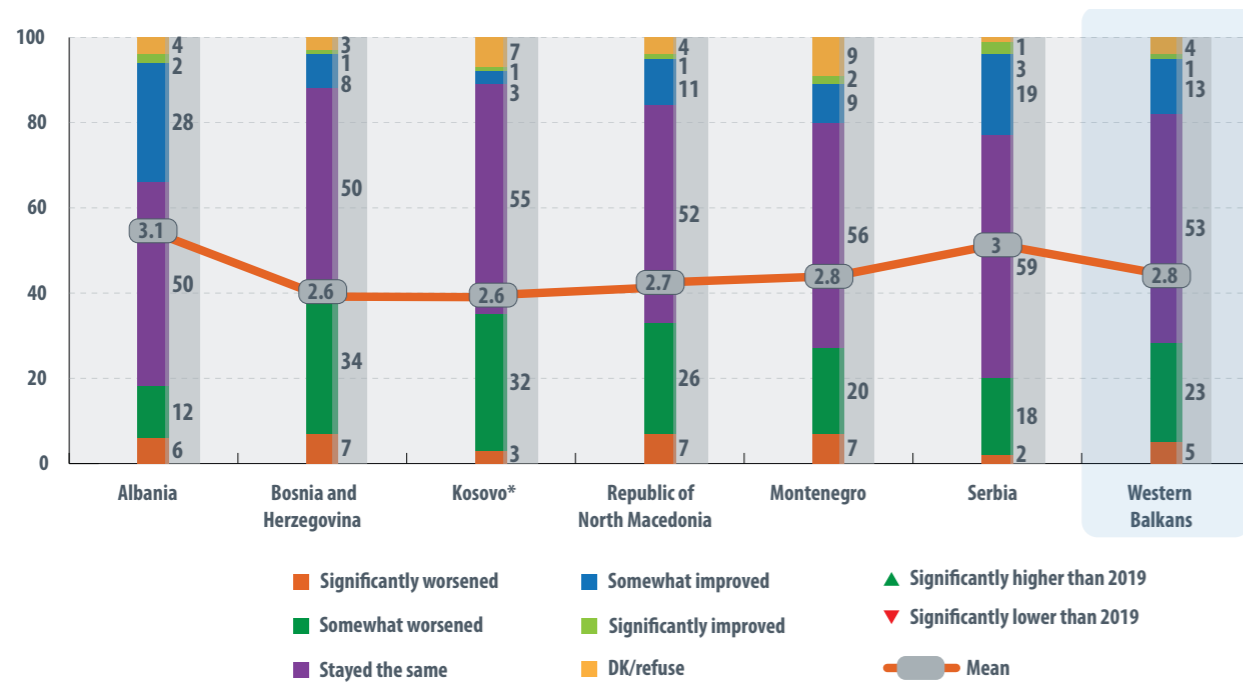


Regulatory environment is least friendly to businesses in Bosnia and Herzegovina (Figure 51), where 41% of respondents denoted some or large worsening in the last year. This share is likewise large in Kosovo* (35%),

Republic of North Macedonia (33%) and Montenegro (27%). Serbia and Albania stand out with their shares of respondents revealing improving conditions in the regulatory environment: 19% and 28%, respectively.

Figure 51 – How have the following characteristics of the business environment in your economy changed over the last 12 months? - Business-friendly legal and regulatory environment

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %)

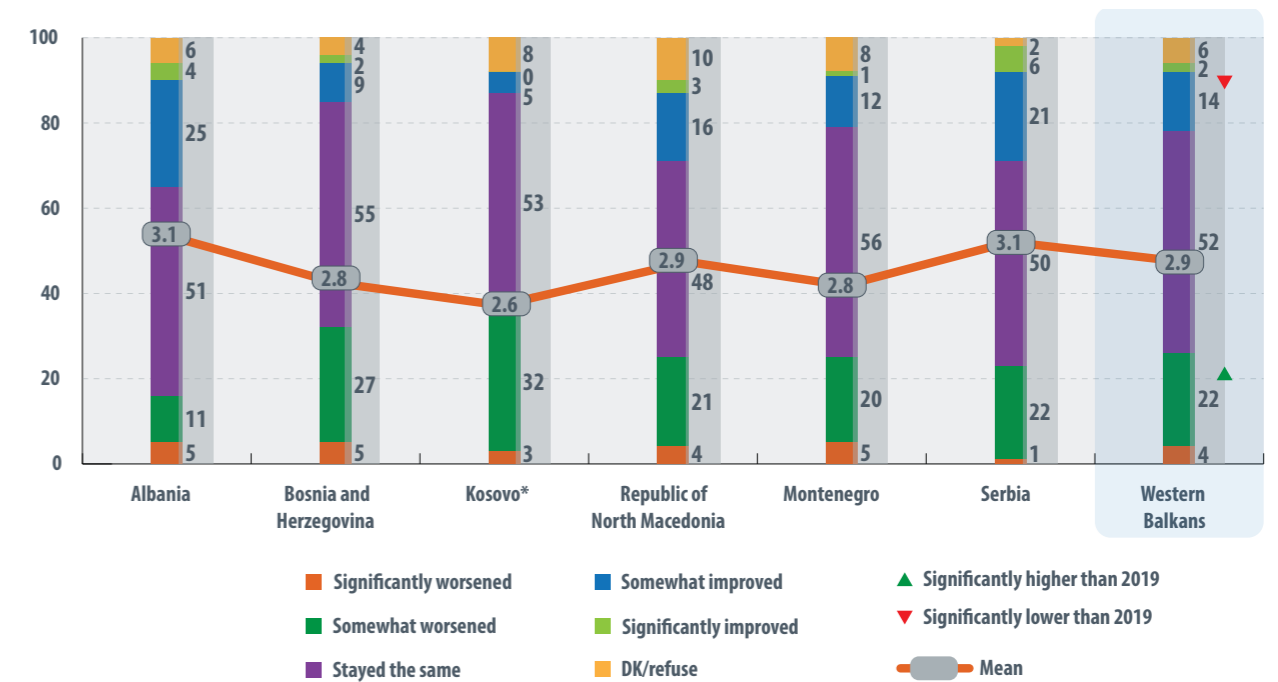


Similar pattern is observed when businesspersons were asked about their linkages with local firms (Figure 52). While this is an important aspect, particularly for the rooting of foreign-owned factories in the domestic economy so as to be faster included in the global value chains, all Western Balkan economies recorded worsen-

ing in 2020. Such worsening may have been, inter alia, a result of supply chains breaking due to the pandemic. The worse performer is Kosovo*, followed by Bosnia and Herzegovina. Again, Serbia and Albania are best performers, since their shares of respondents revealing improvement outweigh those denoting worsening.

Figure 52 – How have the following characteristics of the business environment in your economy changed over the last 12 months? - Availability of linkages with local firms

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %)

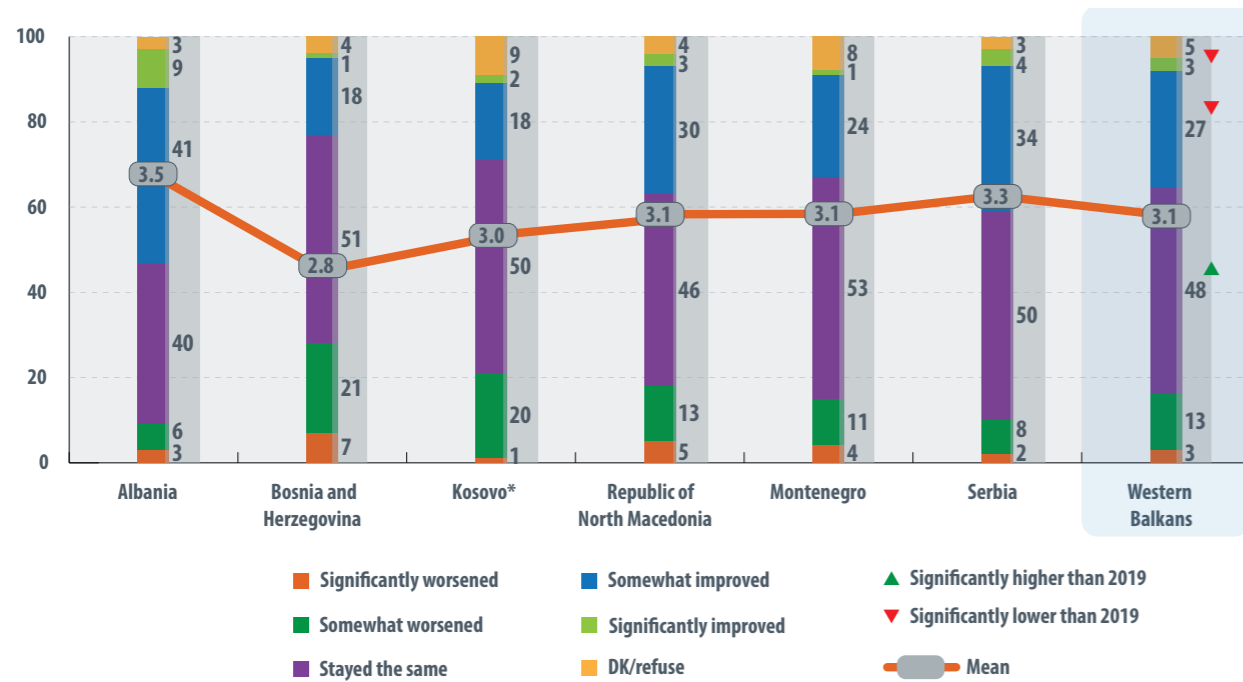


Western Balkan economies perform slightly better in terms of the perception of digitalisation of public administrative services than on the other aspects of business environment (Figure 53). The leader is Albania where half the respondents considered digitalisation to have improved in the last year, followed by Serbia

(38%), Republic of North Macedonia (33%), Montenegro (25%), Kosovo* (20%) and Bosnia and Herzegovina (19%). The latter is the economy with the largest share of respondents who considered this indicator worsening: 28% perceived some or large worsening of public services digitalisation agenda.

Figure 53 – How have the following characteristics of the business environment in your economy changed over the last 12 months? - Availability of government digital service to complete administrative procedures

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %)

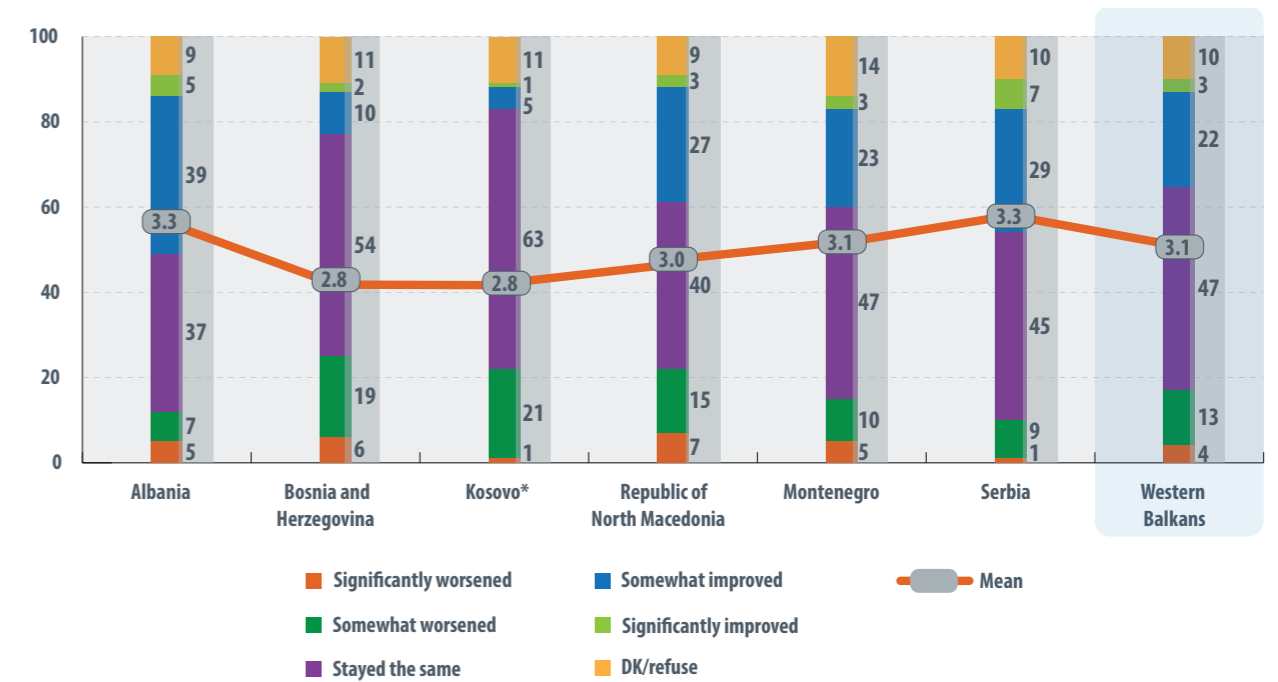


Conclusions are similar when government services are assessed in terms of assisting those furthest left behind (Figure 54). It is the government of Kosovo* which was considered to have done least for vulnerable groups,

since only 6% reported improvement of services, followed by Bosnia and Herzegovina (12%). Albania is the champion, with 44% of respondents considering improvement on this indicator, followed by Serbia (36%).

Figure 54 – How have the following characteristics of the business environment in your economy changed over the last 12 months? - Availability of government support schemes to employ vulnerable groups

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %)

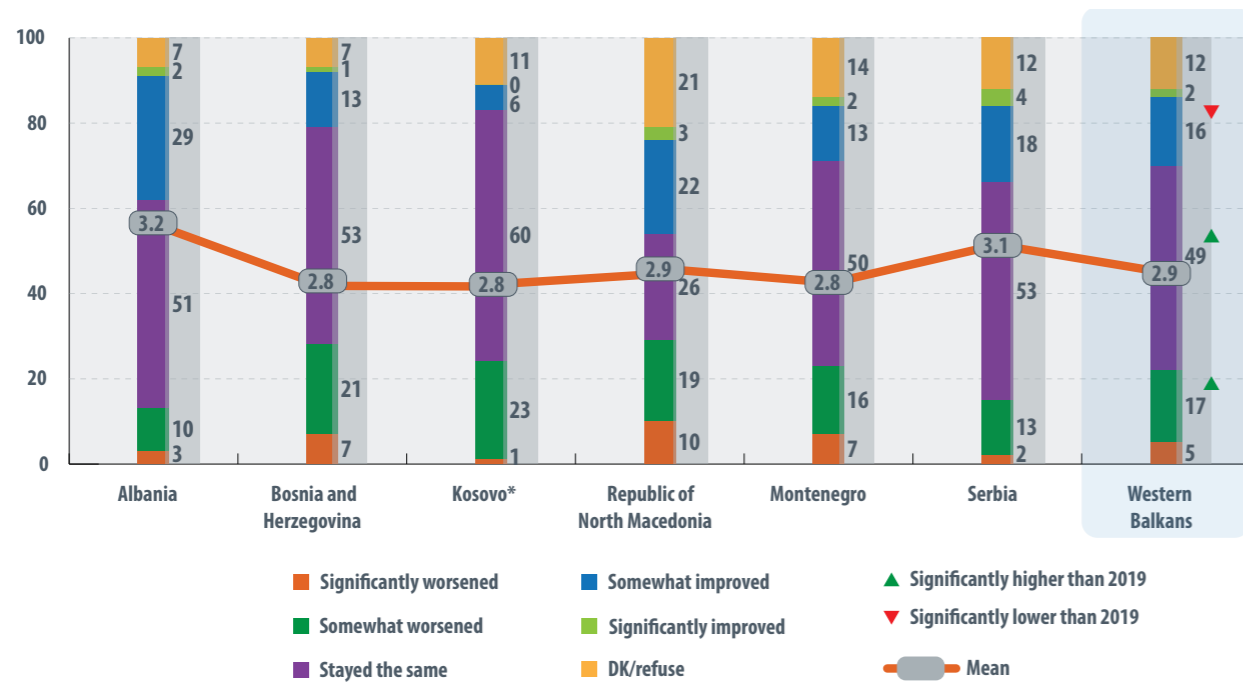


Finally, the assessment of the extent to which financial services in the economy are tailored to the industry demands reveals diverse picture (Figure 55). The laggards are again Bosnia and Herzegovina and Kosovo*, where 28% and 24%, respectively, revealed some or large worsening; while the frontrunners are Albania and Ser-

bia where 31% and 22%, respectively, considered improvement. Interestingly, Republic of North Macedonia stands in the middle, since it portrayed a large share of respondents considering worsening (29%), as well as a large share of them considering improvement (25%).

Figure 55 – How have the following characteristics of the business environment in your economy changed over the last 12 months? - Availability of financial services tailored by industry

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means significantly worsened and 5 significantly improved, share of total, %)

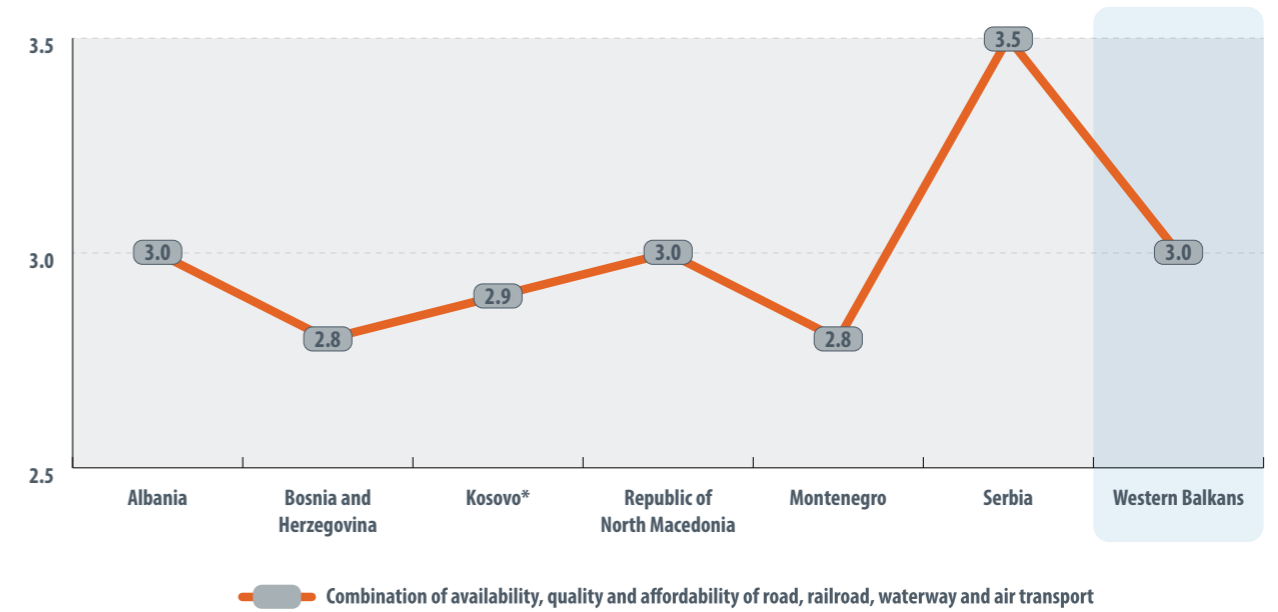


Western Balkans executives are moderately satisfied with the availability, quality, and affordability of transportation infrastructure (Figure 56). On 1-5 scale, it has been assessed with 3, a slight deterioration compared to 2019. There are some variations within the region, ranging from 2.8 in Bosnia and Herzegovina and Montenegro to 3.5 in Serbia. However, compared to 2019,

these differences somehow ironed out, since in 2019 the range was between 2.6 (Bosnia and Herzegovina) and 3.7 in Kosovo*. So, during the pandemic, Kosovo* is the largest decliner to 2.9, while Albania, Bosnia and Herzegovina and Serbia denoted enhancements. Infrastructural investment on the Corridors X and XI revealed a clear reflection in this indicator.

Figure 56 – 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=1200, scores are on a scale of 1 to 5 where 1 means very poor and 5 excellent, mean)

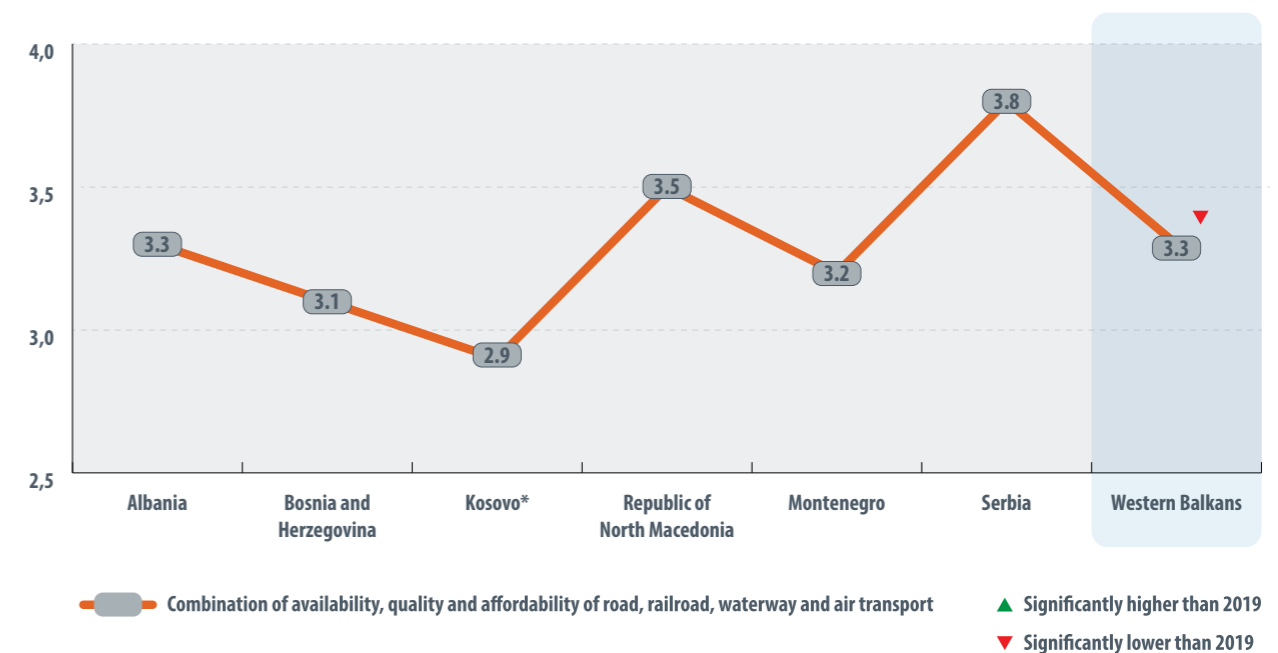


Executives in the Western Balkans are largely satisfied with energy infrastructure in their economies (Figure 57). However, the average score of the region of 3.3 is falling behind 2019's average by a significant 0.4 points. All WB economies except Albania noted a decline, while

Albania noted a small increase from 3.2 to 3.3. Differences across the region likewise ironed out, but Serbian managers are most satisfied with energy infrastructure in the region (3.8), while their Kosovar counterparts occupy the other end of the spectrum (2.9).

Figure 57 – For your business purposes, how would you rate the combination of availability, quality and affordability of electricity, gas and water supply in your economy?

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means very poor and 5 excellent, mean)

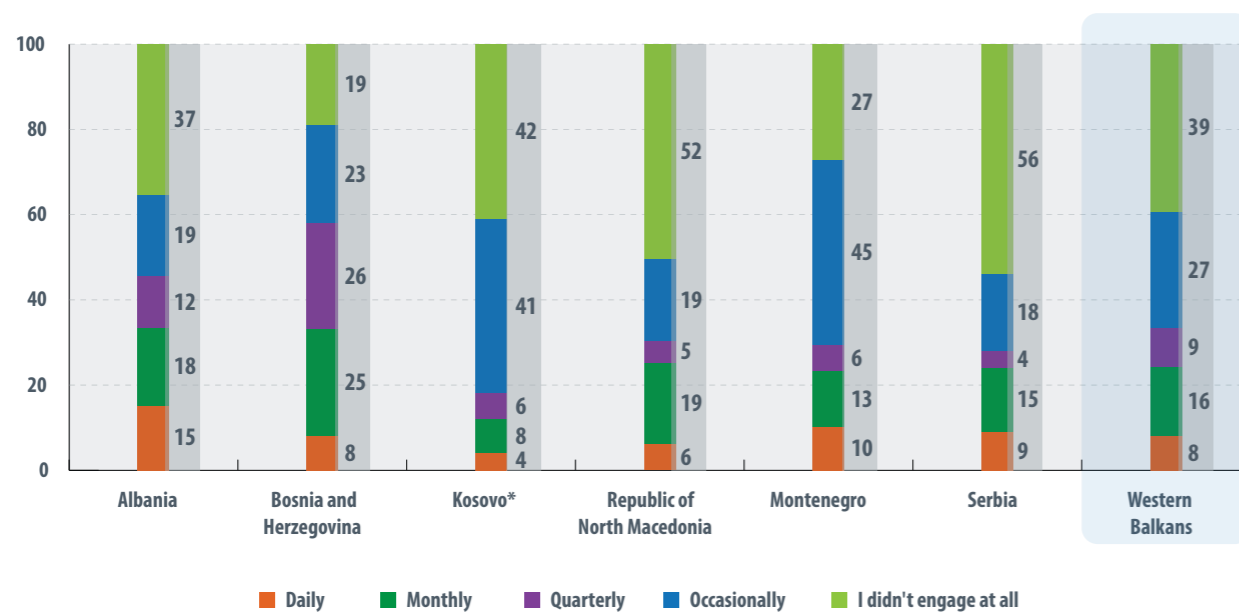


The next graphs observe certain recent developments induced either by the pandemic or by some initiatives inherent for the Western Balkans. **Figure 58** assesses the engagement of businesses in online trade in the last year. While we have no basis for comparison (as this issue popped up as important only in 2020 due to the pandemic circumstances), we observe large shares of blue in the figure, reflecting at least some degree of online trading. Even daily online trade had significant shares in the Western Balkans: on average 8%, and varying between 4% in Kosovo* and 15% in Albania. The monthly engagement in online trade averaged 16%,

with variation from 8% in Kosovo* to 25% in Bosnia and Herzegovina. Quarterly online trade averaged 9%, and ranged from 6% in Kosovo* to 26% in Bosnia and Herzegovina. While Bosnia and Herzegovina is the apparent frontrunner in online trade and Kosovo* is the apparent laggard in 2020, it comes as a surprise that more than half of businesses in Serbia (56%) and Republic of North Macedonia (52%) did not engage in online trade, while 45% in Montenegro did that only occasionally. Therefore, amid the pandemic, while online trade found its way and popularised in the Western Balkans, large shares of businesses still lagging behind in this regard.

Figure 58 – How often have you engaged in selling and buying online during the last year?

(All respondents - N=1200, share of total, %)

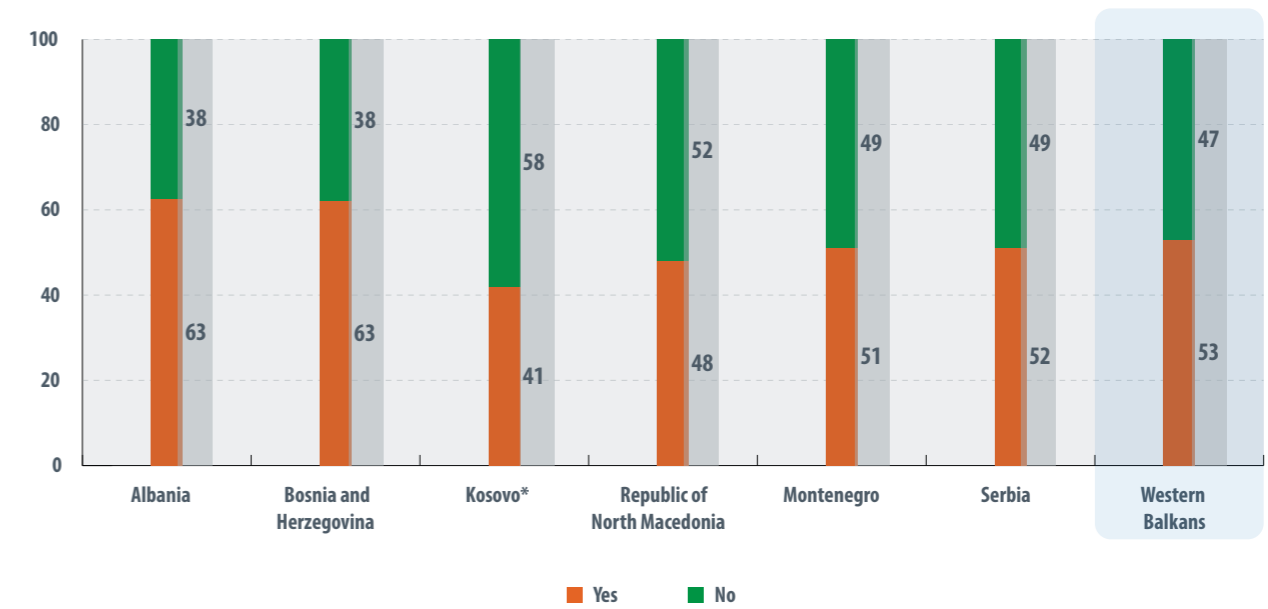


These findings are corroborated with the finding that 53% of businesses switched to more online/digital services during the pandemic (**Figure 59**). Albania and

Bosnia and Herzegovina made most of the advances (63% each), while Kosovo* and Republic of North Macedonia least of it (41% and 48%, respectively).

Figure 59 – Did you switch to more online/digital services during the last year?

(All respondents - N=1200, share of total, %)

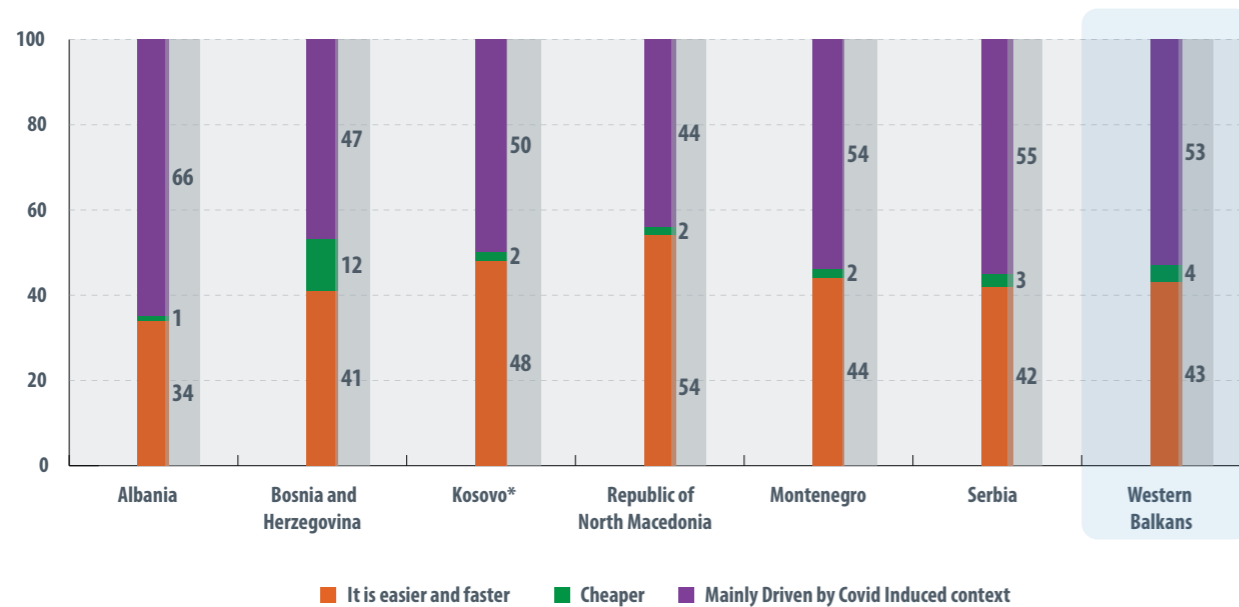


In Albania such a switch has been clearly driven by the Covid-19 crisis, as confirmed by two thirds of respondents (**Figure 60**). On the other hand, Bosnia and Herzegovina, which showed excellent results in online trade, reveals nearly half of it to be driven by the pandemic, but other 12% by the cost advantage of the sales method, which is hardly the case in other Western

Balkan economies. Republic of North Macedonia identified easiness and speed as more important reasons for the switch than the Covid-19 itself (54%). The graphs show the pandemic as a clear cause for the switch to more online trade, but also reveal other factors which may be equally relevant for businesses.

Figure 60 – The reason for switching to online/digital services

(Those who have switched to more online/digital services, N=633, share of total, %)

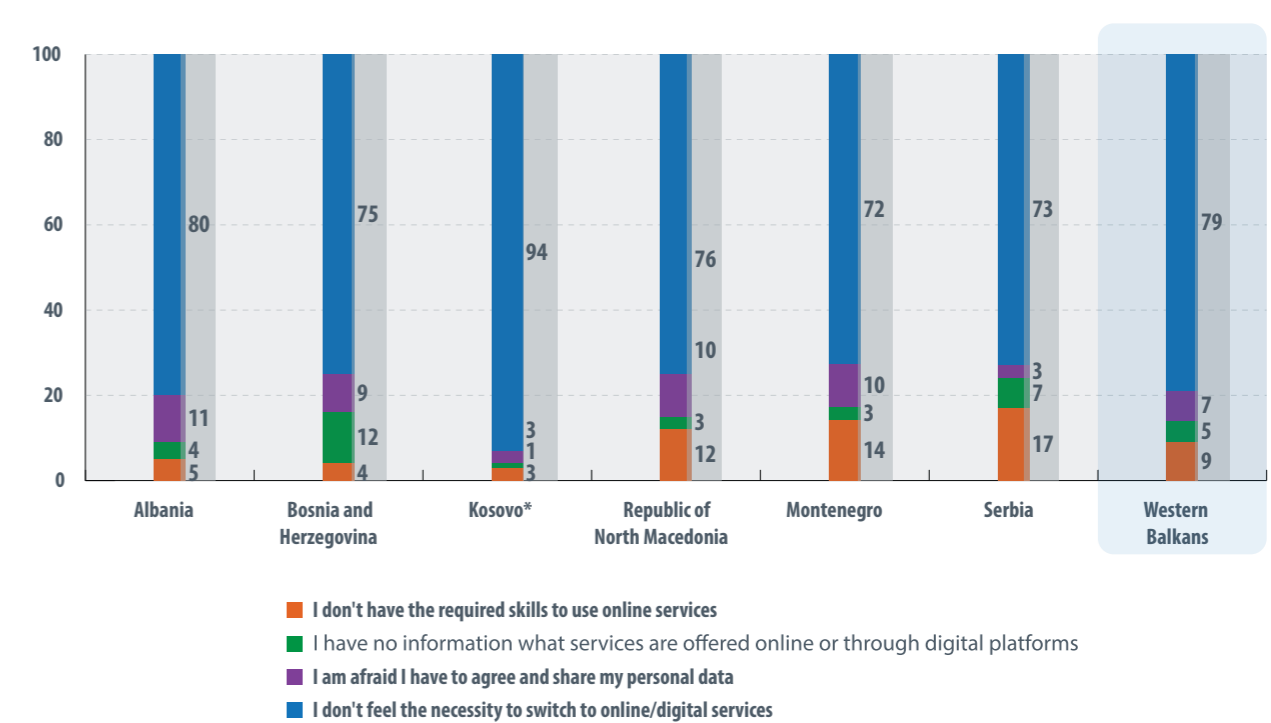


Those who did not switch to online trade (**Figure 61**) mainly did not feel necessity for so doing, on average 79%. Kosovo* has the largest share (94%) of non-switchers not feeling a necessity to go for online trade. Yet, it

is also important to note that on average 9% said they did not have the required skills to use online services and this share ranges from very small in Kosovo* (3%) to very large in Serbia (17%).

Figure 61 – The reason for NOT switching to online/digital services

(Those who have not switched to online/digital services- N=565, share of total, %)

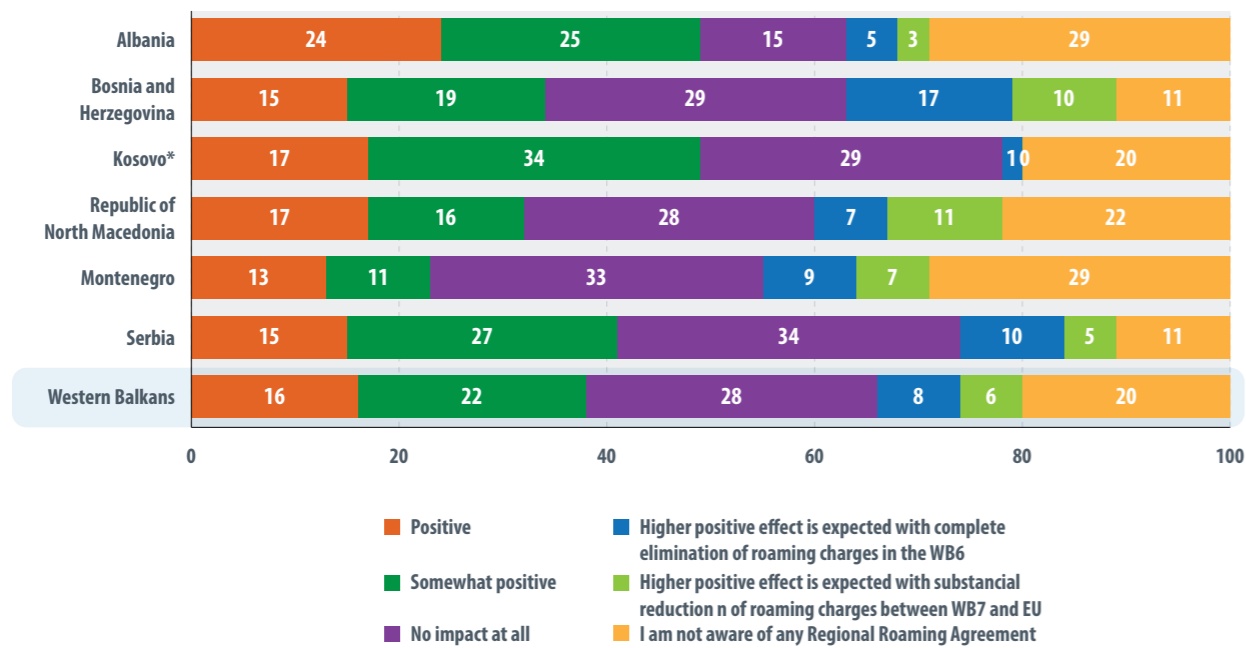


Beyond the pandemic consequences, businesspersons in the Western Balkan reiterated their positive attitude towards the Regional Roaming Agreement (**Figure 62**). 38% said that its impact had been positive or somehow positive, despite worrisome 28% who said there was no impact and 20% were not aware of it. A small share totalling 14% considered that its impact will be positive if all charges within the region are eliminated, and charges between the region and the EU are reduced.

Albanians and Kosovars have predominant positive attitude towards the Regional Roaming Agreement, as 49% and 51%, respectively, considered it positive or somehow positive. On the other hand, Serbians and Montenegrins were mostly hesitant, as 34% and 33%, respectively, judged no impact. Large shares in each economy were unaware of RRA, ranging from as small as 11% in Serbia and Bosnia and Herzegovina, to as large as 29% in Montenegro and Albania.

Figure 62 – How would you rate the impact the Regional Roaming Agreement has on your business operations? It had:

(All respondents - N=1200, share of total, %)

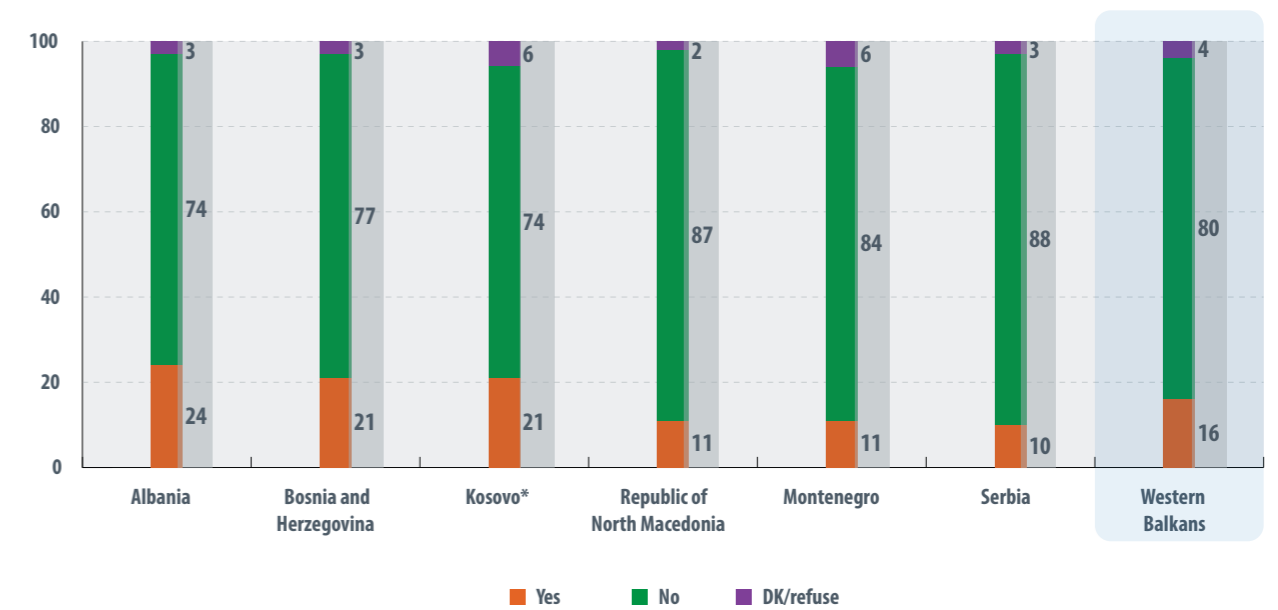


Western Balkan business owners or senior managers were predominantly resident of their own economy, i.e. did not spend time living and working abroad (Figure 63). This was the case, on average, for 80% of respondents, with shares ranging from 74% in Albania to

88% in Serbia. Albanians reported most of the cases, in relative sense, of those that spent time abroad (24%), followed by Bosnia and Herzegovina and Kosovo* (21% each), which may be a reflection of the size of diaspora of these economies.

Figure 63 – Have any of your company's owners or senior managers spent time living and working abroad as members of the diaspora?

(All respondents - N=1200, share of total, %)

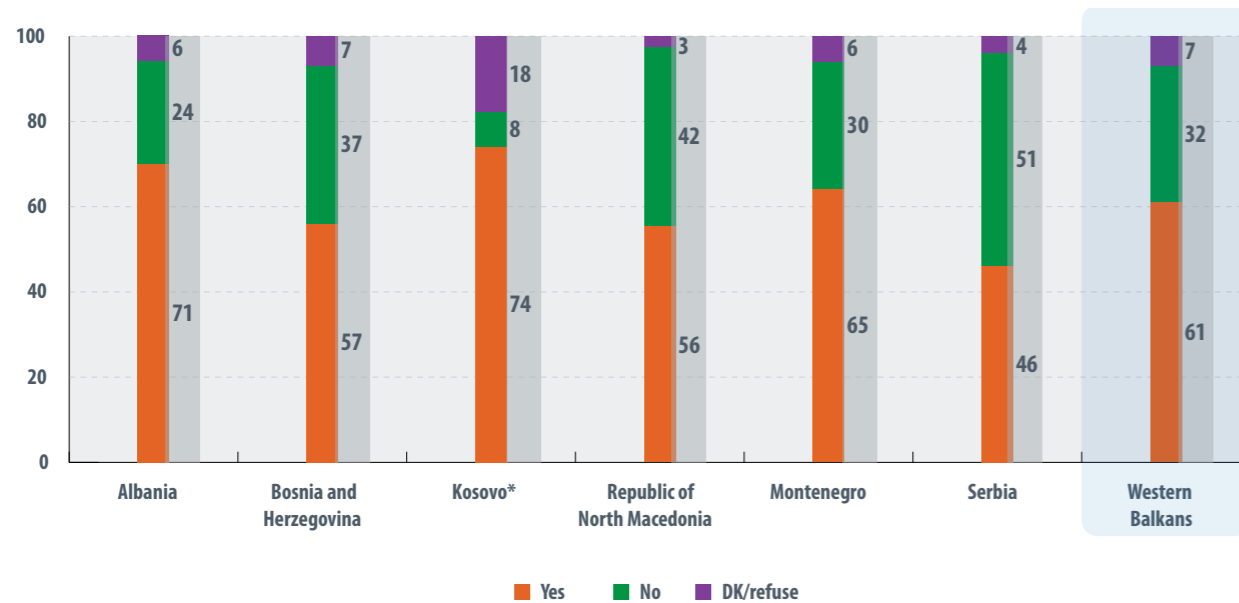


Finally, Western Balkan businesses will undoubtedly benefit from travelling across the region with ID cards only (Figure 64). 61% of respondents support this initiative which advanced to a considerable level, despite the travel between some of the economies of the region still remains with further hurdles. Albanians and Kosovars are those that support this initiative to the

largest extent (71% and 74%, respectively), while Serbians are the least in favour of it (46%). The latter may be driven by the fact that the Serbian economy is the largest in the region and hence the most self-sufficient, and by the unresolved political issues between Serbia and Kosovo*.

Figure 64 – Would it benefit your business if travel across the region was possible with a valid ID card only?

(All respondents - N=1200, share of total, %)



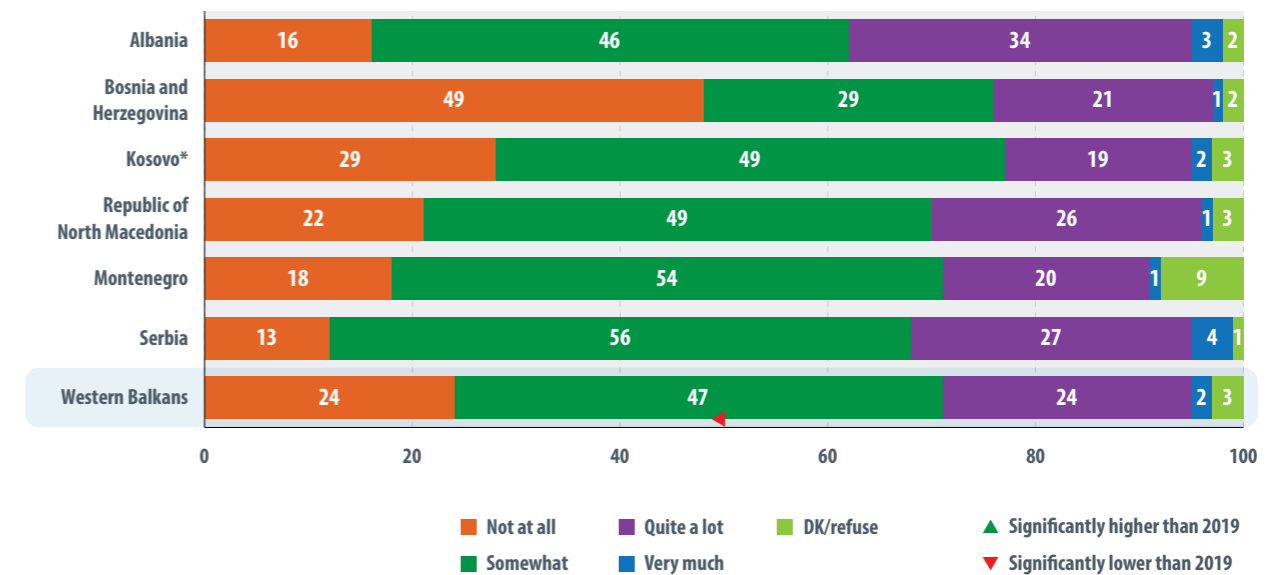
LEGAL AND REGULATORY FRAMEWORK

Businesses in the Western Balkans remain unsatisfied with the impact of their concerns in policymaking, with only limited progress since the last assessment. Aggregate findings on satisfaction with public sector performance broadly follow last year's pattern (**Figure 65**): 24% are not satisfied, 47% are neutral, while the rest is satisfied to some or full extent. There are some inter-regional variations, whereby businesses in Bosnia and Herzegovina again showed the largest dissatisfaction rate as 49% reported they were not happy with their

involvement in public policymaking. This share in Bosnia and Herzegovina is astonishingly high, as the second-ranked economy – Kosovo*, features only 29% of those dissatisfied. Serbia has the lowest rate of dissatisfaction (13%), while being dominated by those who said that concerns of businesses are somehow considered, 56%, and recording 31% of those who showed some or full satisfaction. The share of those satisfied is largest in Albania, 37%.

Figure 65 – How much do you feel the government of your economy takes into account the concerns of businesses?

(All respondents - N=1200, share of total, %)



Around 11% of respondents think that companies declare only half of their sales for tax purposes. Although a large part (44%) believes that companies engage in little or much in tax evasion (75%-100% of sales declared), it is important to notice that a considerable share of respondents (37%) did not want to answer. **Figure 66** presents the perceived share of grey economy through

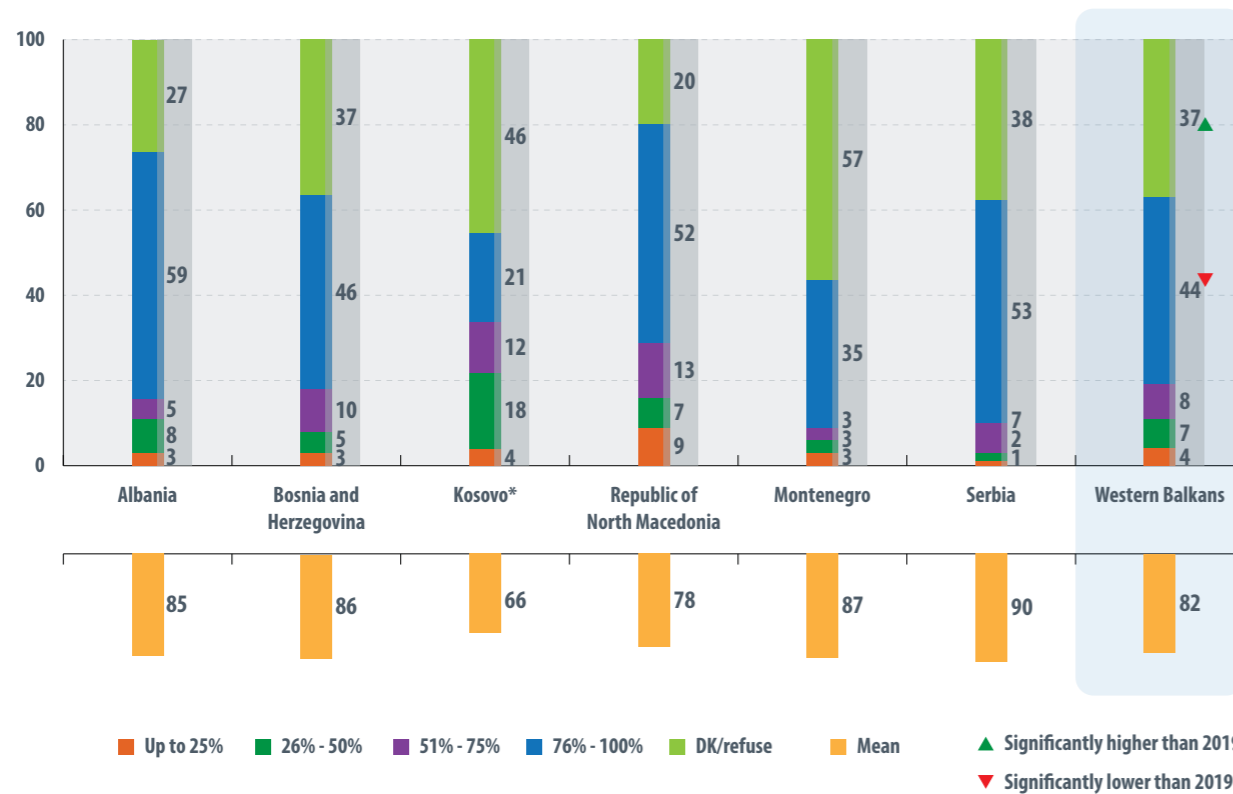
the lens of annual sales of firms and reveals that 19% in the Western Balkans claim there is considerable evasion, with some intraregional variations from 34% in Kosovo* to 10% in Serbia. Such distribution has been observed also in 2019, suggesting that Kosovo* did not make important progress in this regard. However, the overall increase of the percentage of perceived grey

sales suggests that the pandemic aggravated the issue. It is worth observing that the shares of respondents who refused to provide an answer is very high, up to

57% in Montenegro, which may reveal the hesitation and the propensity to turn to grey activities prompted by the uncertainties imposed by the crisis.

Figure 66 – What percentage of total annual sales would you estimate a typical firm in your area of business reports for tax purposes?

(All respondents - N=1200, share of total, %)

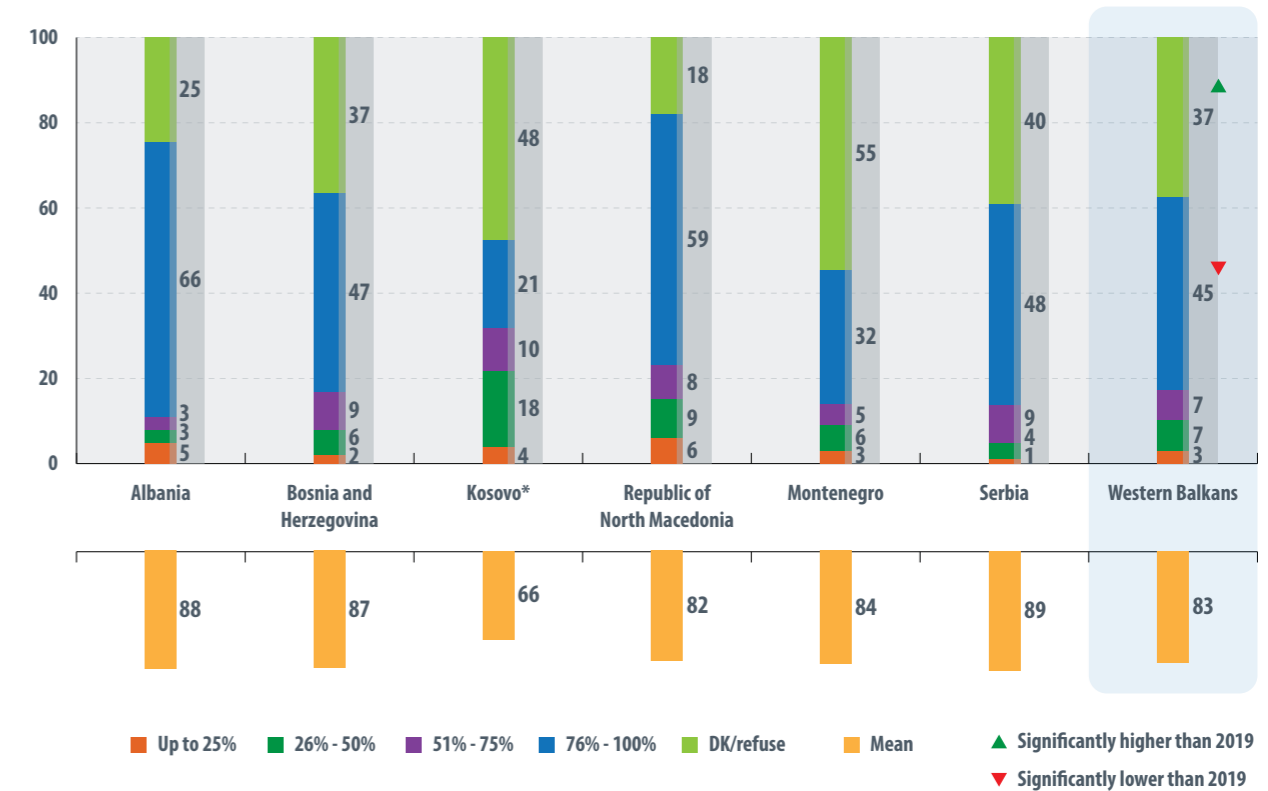


Similar share of respondents said that wages remain hidden from the formal economy, with 17% claiming that declaration is only up to 75% of the real wage (Figure 67). Again, the problem is pronounced in Kosovo* (32%), while the other Western Balkan economies hov-

er around the average. The large refusal rate for this question (also quite larger than in 2019) may suggest that the Covid-19 uncertainties led businesses to hide part of their activity, hence also concealing such information.

Figure 67 – What percentage of the actual wage bill would you estimate a typical firm in your area of business reports for tax purposes?

(All respondents - N=1200, share of total, %)



The grey area in the case of workers is most worrisome (Figure 68), primarily because the perceived share of unregistered workers climbs to 16% as compared to 10% in 2019. The situation may have been aggravated not but shutting down of jobs, but by more intense conversion into informal jobs. While this may be a temporary coping mechanism against the crisis,

authorities will need to pay special attention to it once the consequences of Covid-19 fade away. The share of unregistered workers is the highest in Kosovo*, 43%, presenting an increase from 38% in 2019. Kosovo* has also registered the highest share of respondents (53%) choosing not to answer this question, followed by Montenegro (52%).

Figure 68 – What percentage of the total number of employees would you estimate a typical firm in your area of business registers with the relevant authorities?

(All respondents - N=1200, share of total, %)

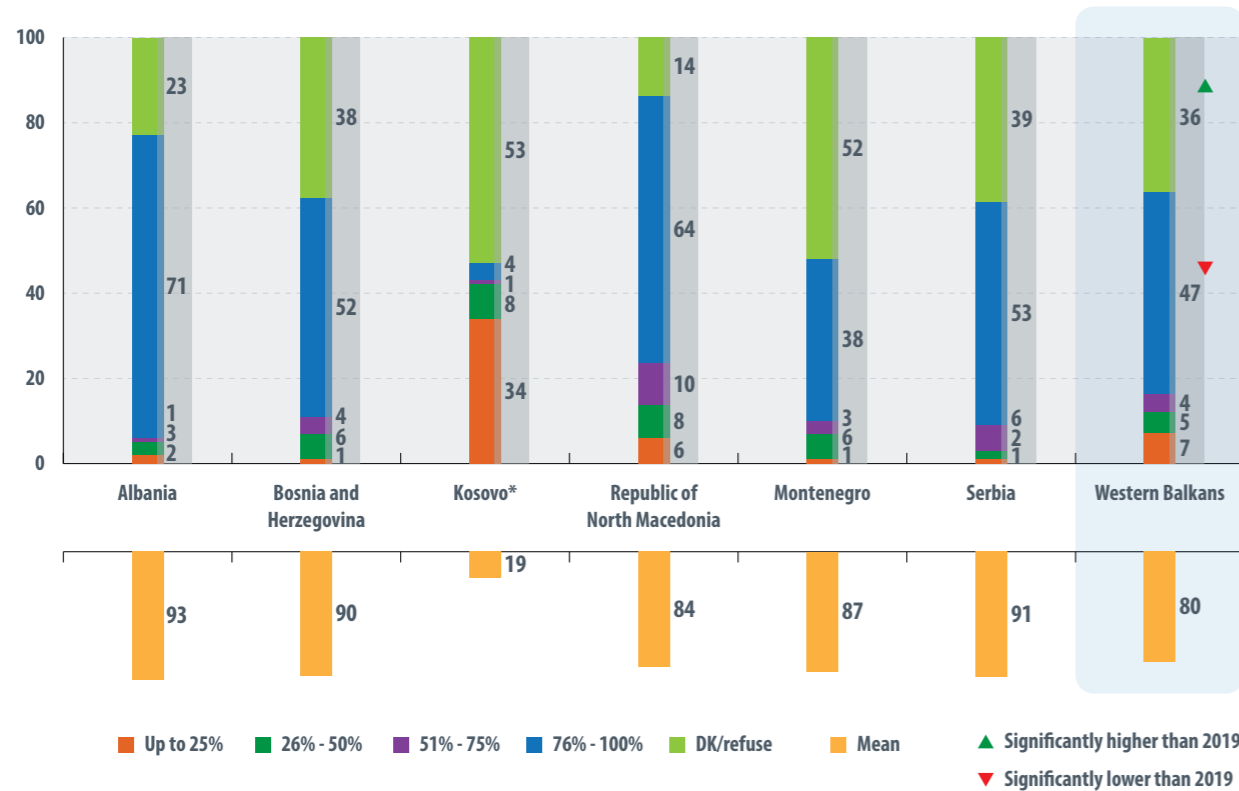


Figure 69 presents the opinion about the extent to which laws and regulations are clear and do not change frequently. On average, 44% of respondents agree to certain or full extent, but this share ranges from as low

as 26% in Bosnia and Herzegovina to as high as 64% in Republic of North Macedonia. The largest neutral stance (51%) is registered in Kosovo*.

Figure 69 – To what extent do you agree with the following statement - Laws and regulations affecting my company are clearly written, not contradictory and do not change too frequently?

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)

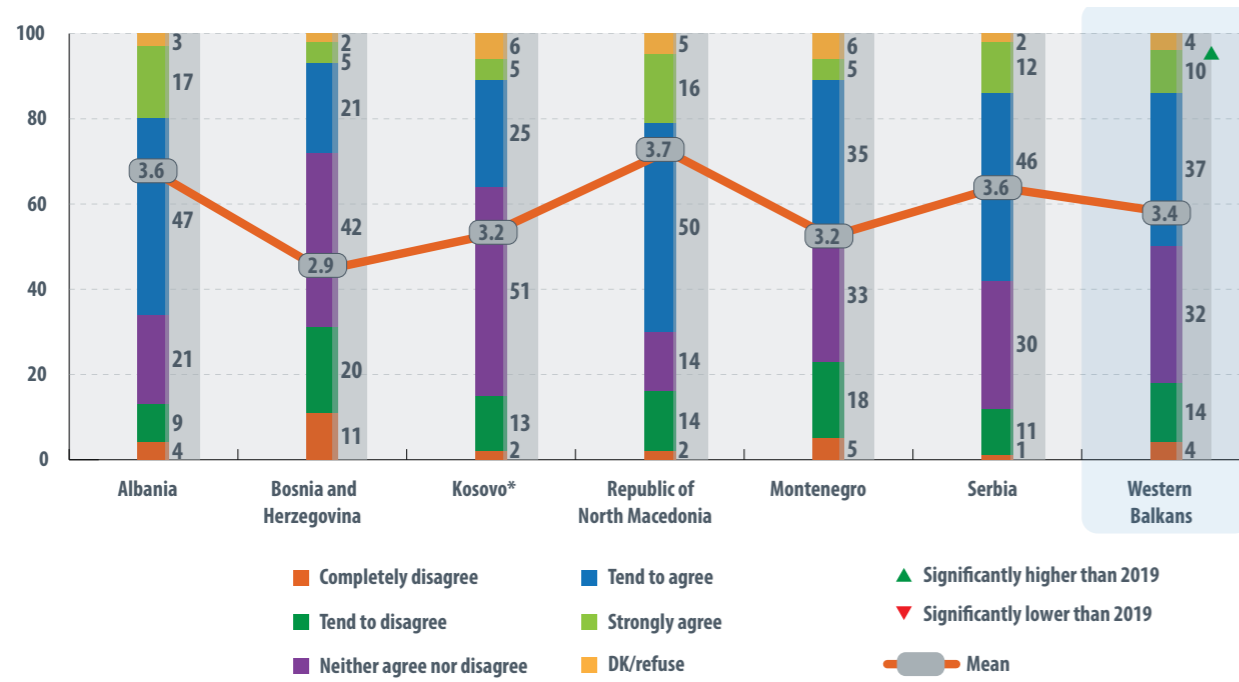


The flow of information about laws and regulations is likewise fairly well assessed (**Figure 70**). On average, 47% of respondents tended to or fully agreed that such information is easy to obtain from authorities, with this percentage being as high as 66% in Republic of North Macedonia and 64% in Albania. Bosnia and Herzegovi-

na (26%) and Kosovo* (30%) spell out as the laggards in obtaining information in an easy manner, and particularly so for Bosnia and Herzegovina where the share of those who completely or partially disagreed with the statement is the largest (31%).

Figure 70 – To what extent do you agree with the following statement - Information on the laws and regulations affecting my company is easy to obtain from the authorities?

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)

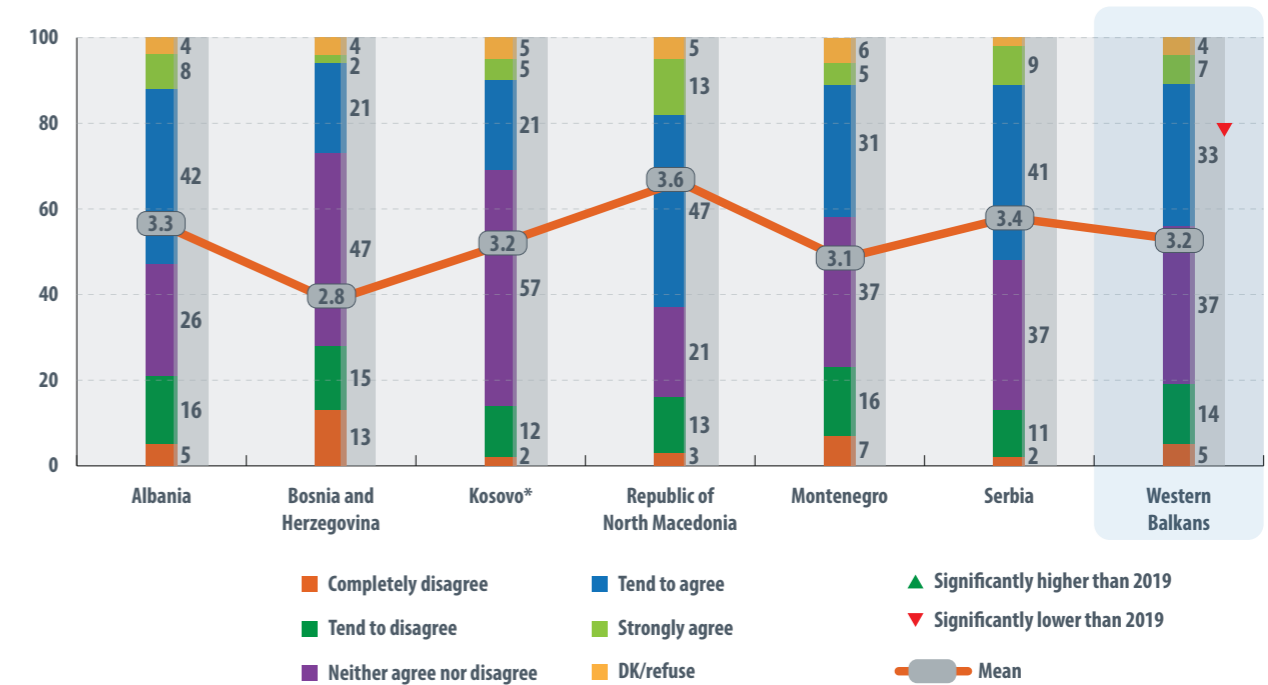


Similar rating is provided to the interpretation of laws and regulations by the state administration (Figure 71). 40% of respondents tend to or fully agree that administration makes such interpretation consistent and predictable, but such shares shrink to 23% and 26% in

Bosnia and Herzegovina and Kosovo*, respectively. The negative mood of respondents from Bosnia and Herzegovina and Kosovo* towards laws and regulations and their implementation is consistent all the way through.

Figure 71 – To what extent do you agree with the following statement - The state administration's interpretations of the laws and regulations affecting my company are consistent and predictable?

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



39% of respondents considered that information held by public authorities is granted in timely manner, but the share shrunk compared to 2019 (Figure 72). Such a share is as infinitesimal as 10% in Bosnia and Herzegovina, at the expense of those who completely disagreed (12%) or disagreed to some extent (28%). The winner in

regard to obtaining public information in timely manner is Albania and Republic of North Macedonia, where those satisfied have been 56% and 54%, respectively. The same conclusion follows on the pertinence and completeness of such public information (Figure 73).

Figure 72 – To what extent do you agree with the following statement - Requests for information held by a government agency are granted in timely manner?

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)

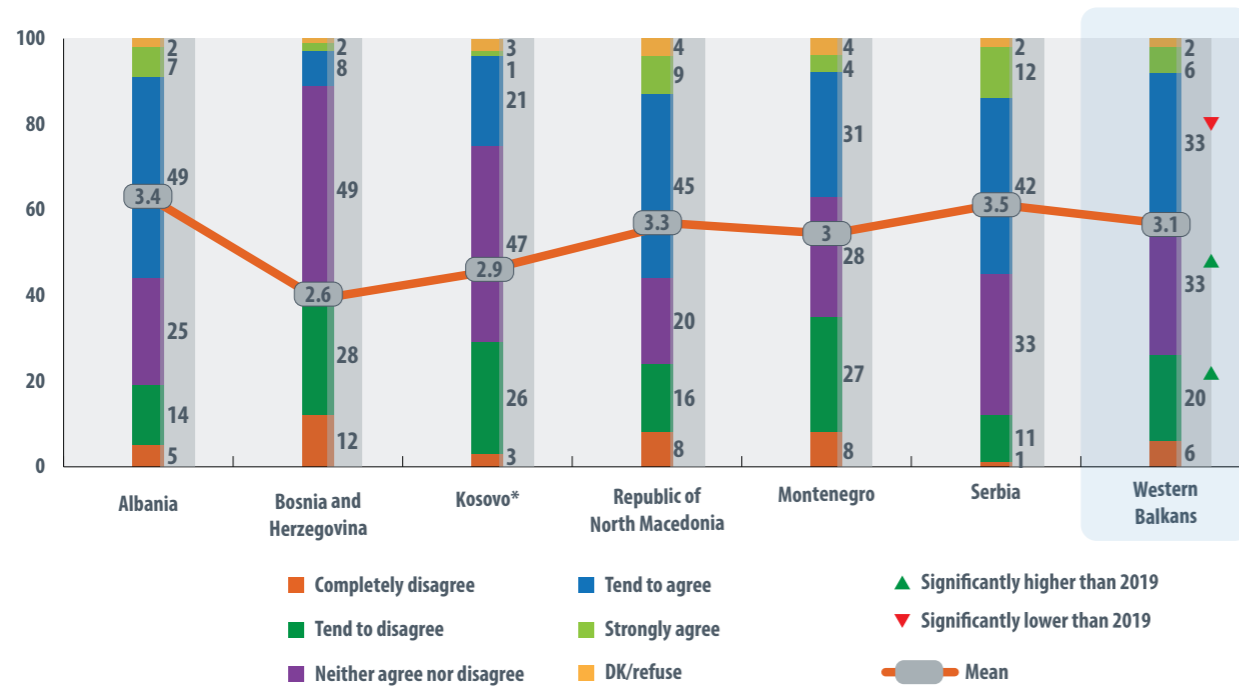
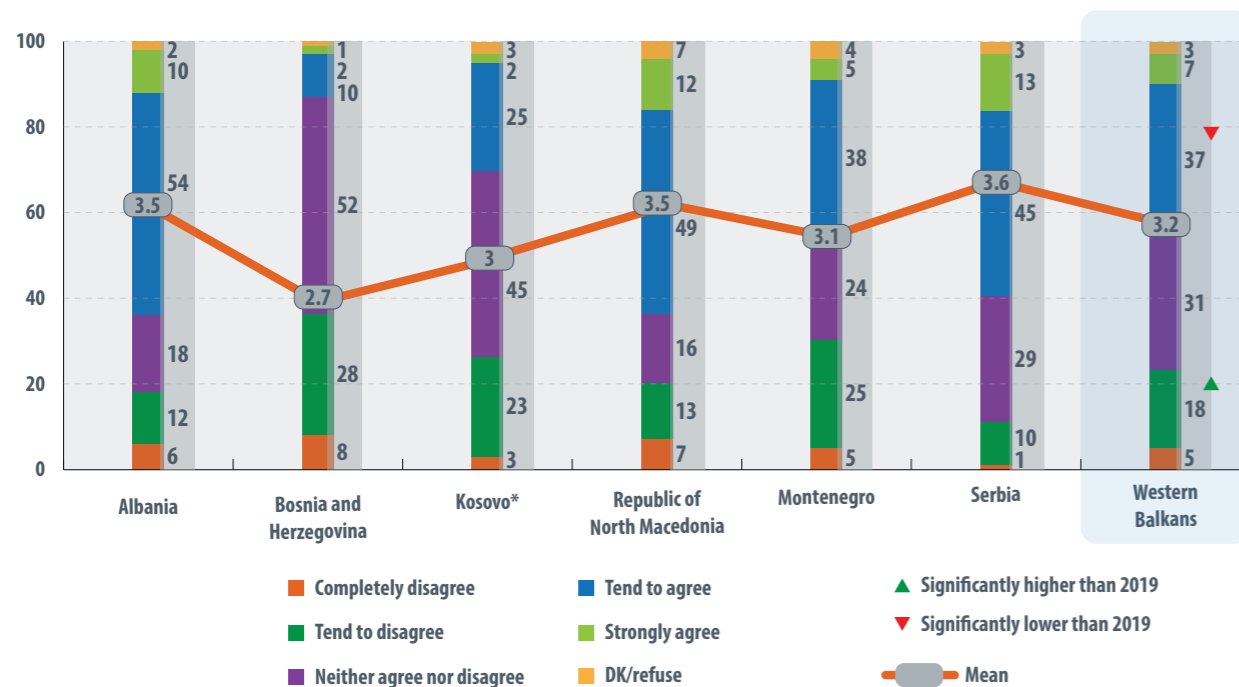


Figure 73 – To what extent do you agree with the following statement - The information provided is pertinent and complete?

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)

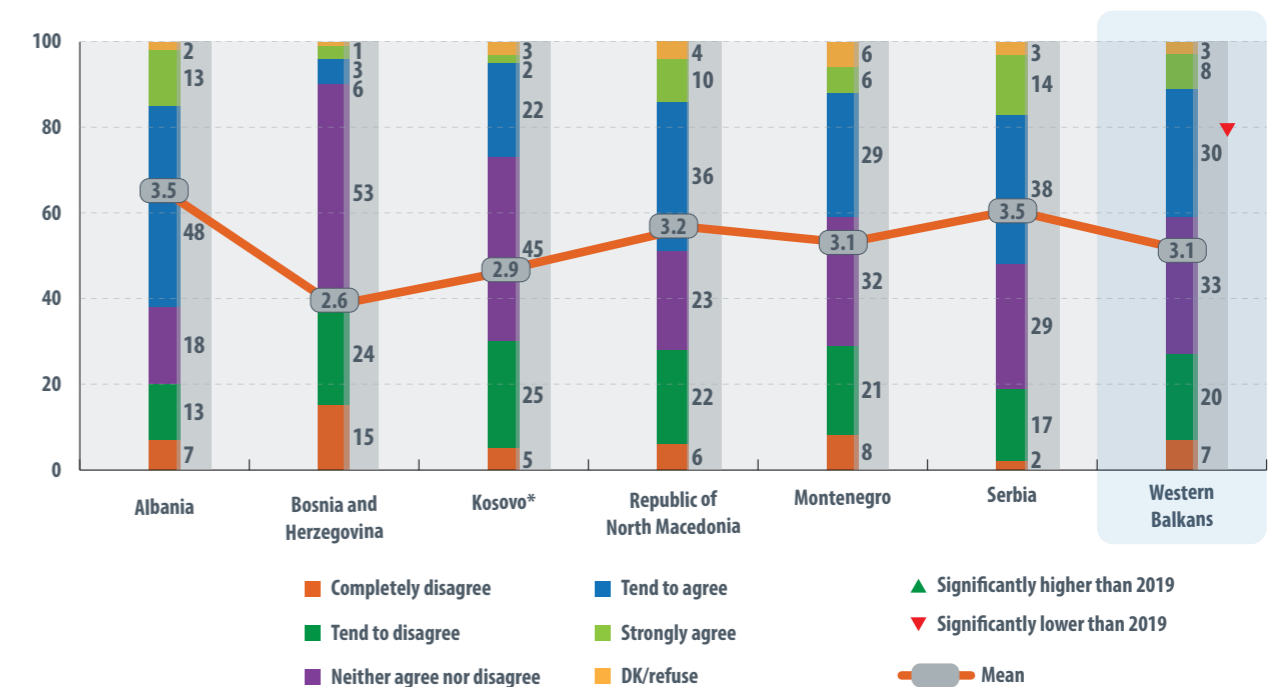


Finally, the cost for obtaining public information has been assessed as reasonable, on average, by 38% of respondents (Figure 74). They were mostly satisfied with the costs in Albania (61%), Serbia (52%) and Republic of

North Macedonia (46%), while, Bosnia and Herzegovina is the laggard with 39% of respondents showing dissatisfaction.

Figure 74 – To what extent do you agree with the following statement - Requests for information are granted at a reasonable cost?

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)

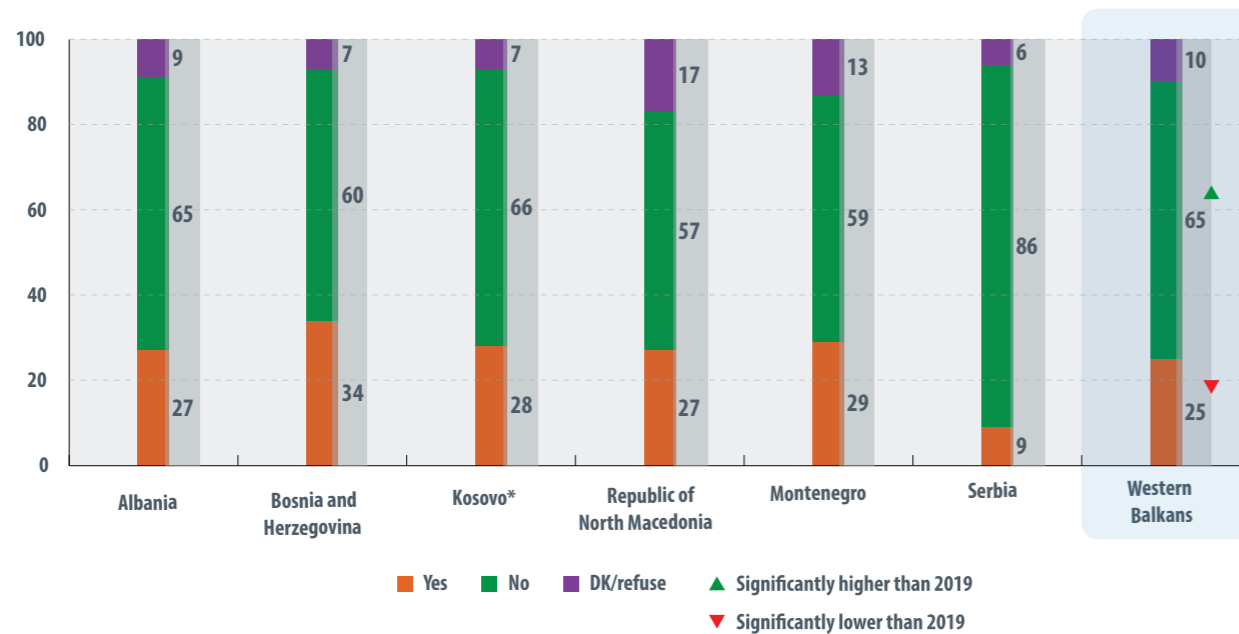


The share of businesses which refrain from taking part in a public tender or a public procurement procedure even though it could have offered the goods or services solicited is slowly reducing, reflecting the potential confidence accumulation in public authorities (Figure 75).

This share is very low in Serbia (9%), halving compared to 2019 (17%), while it is largest in Bosnia and Herzegovina (34%), yet representing a reduction from 2019 (40%).

Figure 75 – In the past three years, has your company decided not to take part in a public tender or a public procurement procedure even though you could have offered the goods or services solicited?

(All respondents - N=1200, share of total, %)

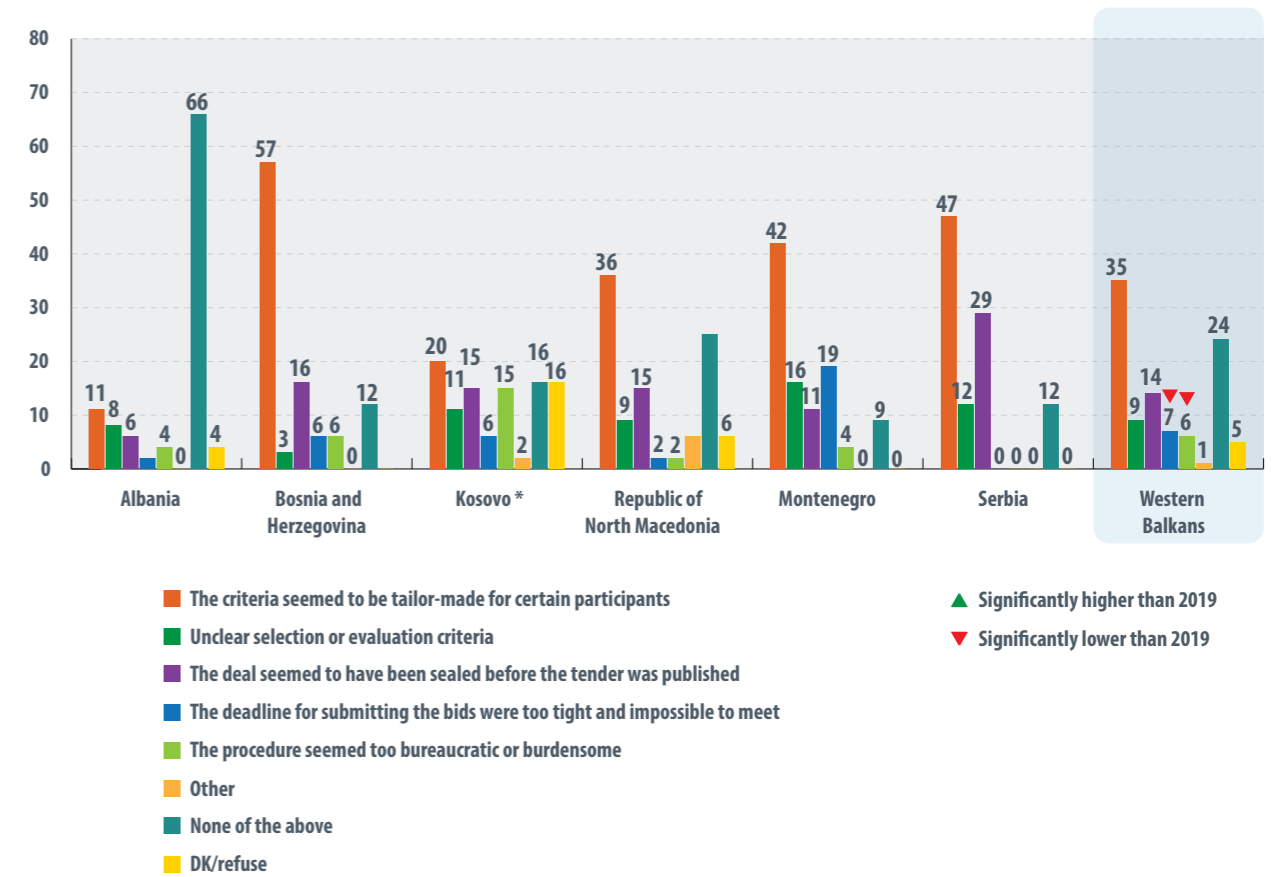


The key reason for non-participation in public tenders remains to be the widespread perception that criteria were tailor-made to fit specific tenderers (Figure 76). 35% of respondents who refrained from submitting a tender application provided this answer, on average, for the whole region. However, some intraregional differences are striking. For example, this is the top-ranked reason in all economies save Albania, with shares ranging from 20% in Kosovo* to 57% in Bosnia and Herzegovina. In Kosovo*, respondents who said

none of the supplied reasons or who refused to answer are almost equally shared. On the other hand, in Albania, two thirds of the respondents said none of the supplied reasons justified their non-appearance on a tender procedure despite being able to supply the requested goods and services. On the positive note also, the share of respondents in the whole region who complain about the tight deadlines (7%) and burden of the procedures (6%) declined (16% each in 2019), which is a considerable improvement.

Figure 76 – If yes, was it for any of the following reasons?

(Respondents whose company decided not to take part in a public tender or a public procurement procedure - N=303, share of total, %)



15% of turnover is derived from public procurement market in the Western Balkans (Figure 77). The share is double in Bosnia and Herzegovina (30%) and the smallest in Albania (9%), which may be correlated with the doubts that Bosnian businesses usually have regarding the procedure being tailor-made to a specific

company. 77% of businesses have not been contacted for any reason by public procurement entities (Figure 78), whereby this share is quite small in Bosnia and Herzegovina (57%), again resonating some potentially distinct processes pertinent to public procurements that could be taking place there.

Figure 77 – What is the share of the public procurement market in your company's last year overall turnover?

(All respondents - N=1200, share of total, %)

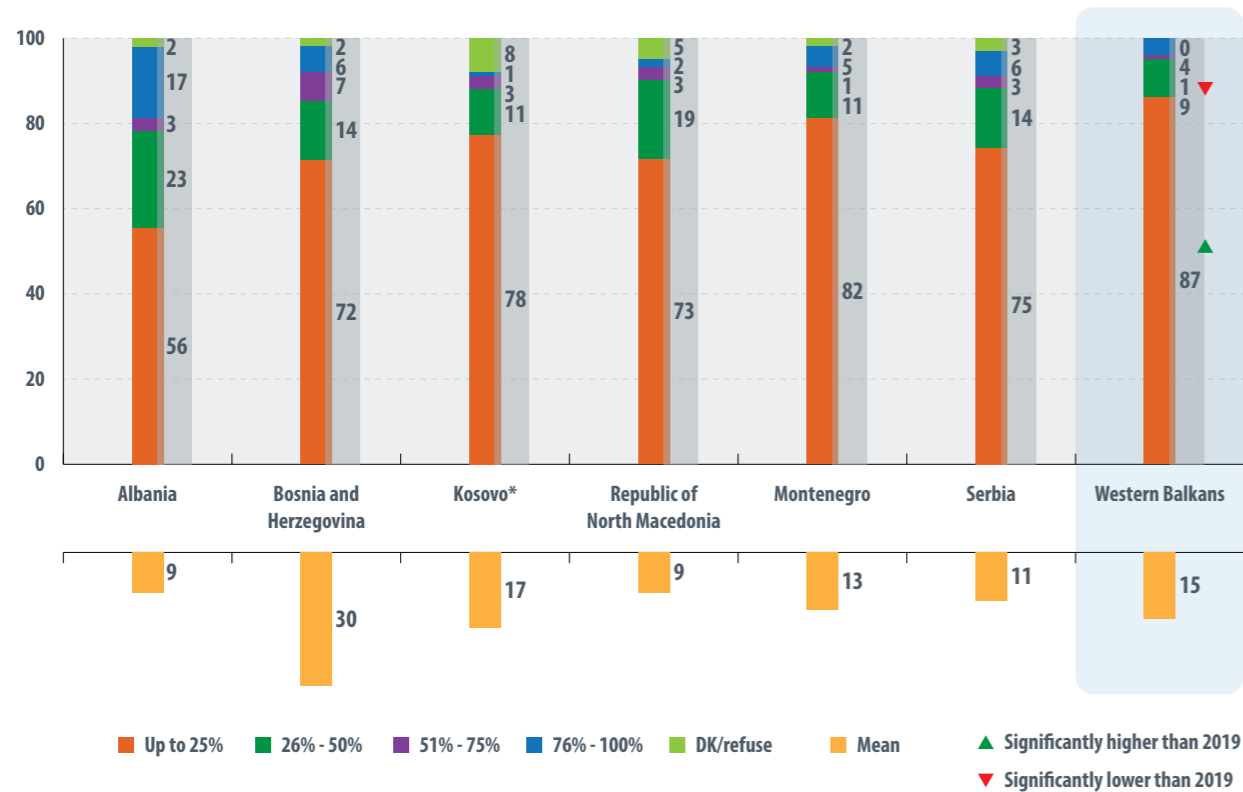
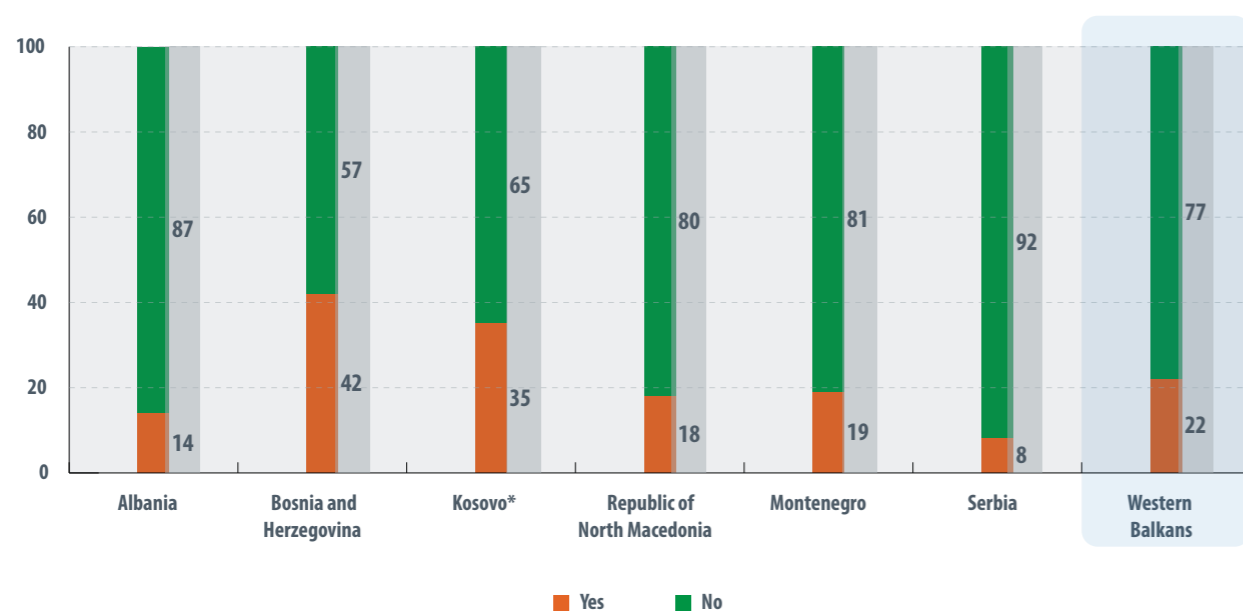


Figure 78 – Have you been contacted for any reason by some public procuring entity over the previous 3 years?

(All respondents - N=1200, share of total, %)

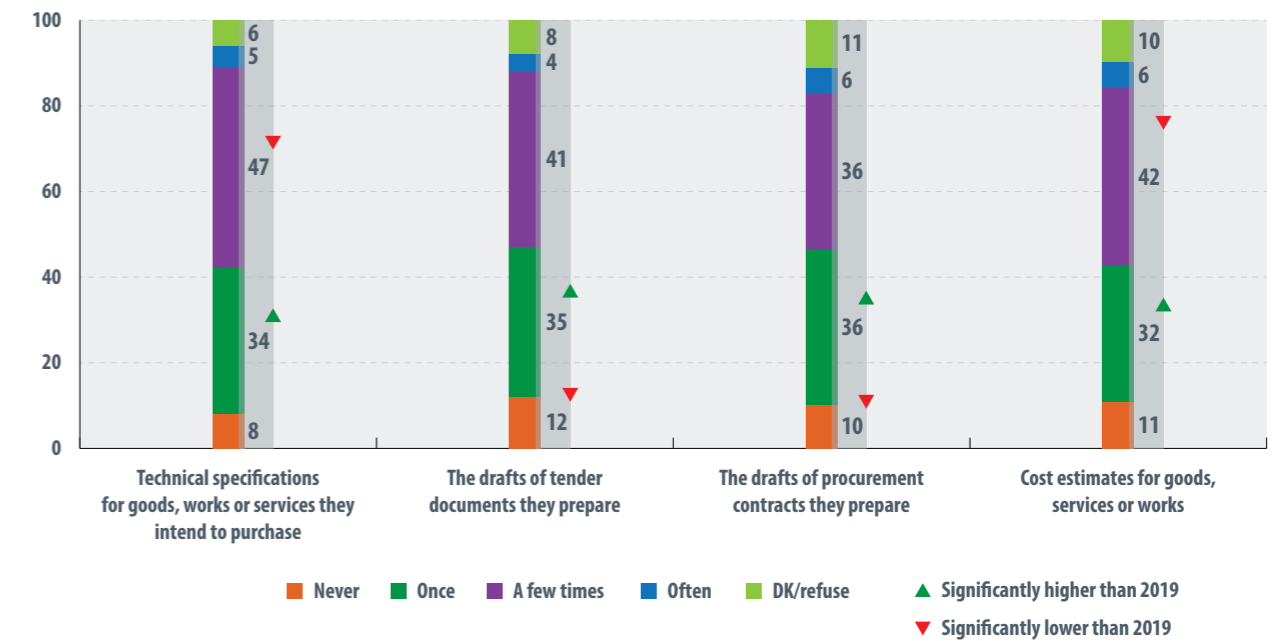


Public procurement entities across the Western Balkans contacted businesses on all aspects of the public procurement process (Figure 79). Asked about four facets: technical specifications, draft tender documents, draft

contracts and the cost estimates, businesses did not reveal significant differences in the manner in which they have been consulted. Yet, there have been some intra-regional variations, as presented on the next graphs.

Figure 79 – Over the past three years, how often have public procuring entities been in contact to consult you on the following?

(Respondents who have been contacted by some public procuring entities over the previous 3 years - N=269, %)

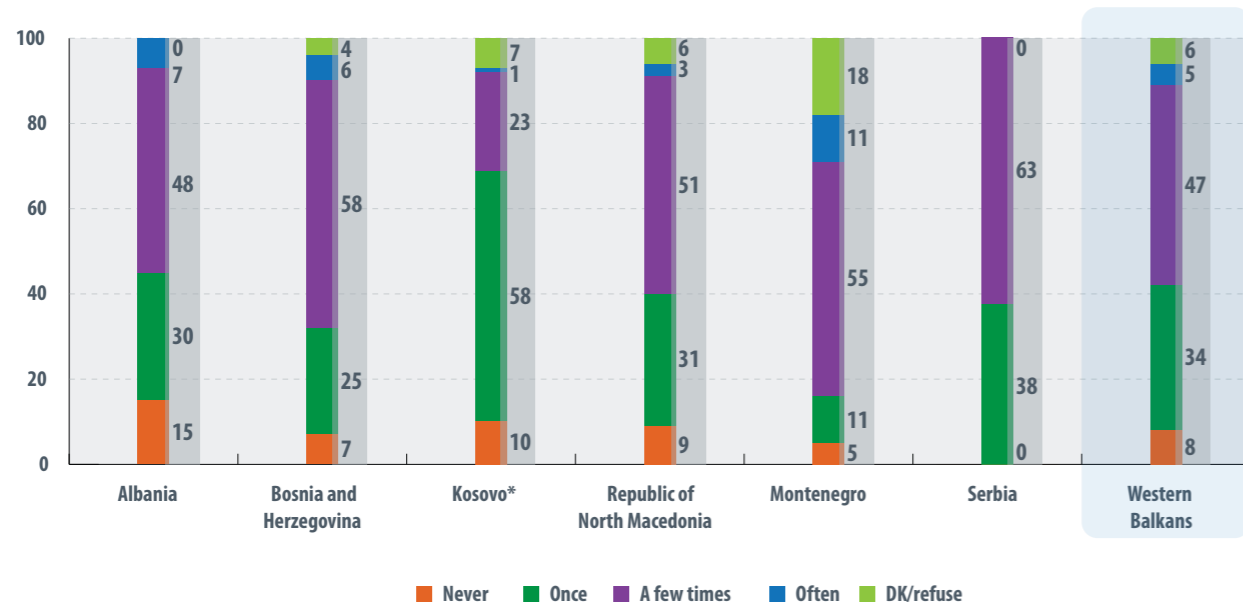


The consultation process on the technical specifications has been most advanced in Montenegro (Figure 80), as two thirds of respondents said they were contacted often or few times, followed by Bosnia and Herzegovina (64%) and Serbia (63%). Kosovo* is behind in

securing consultative processes in the drafting of technical specifications, since 58% of businesses have been contacted only once. In Albania, 15% - a non-negligible share - was never contacted.

Figure 80 – Over the past three years, how often have public procuring entities been in contact to consult you on the following? - Technical specifications for goods, works or services they intend to purchase

(Respondents who have been contacted by some public procuring entities over the previous 3 years - N=269, %)



The drafting of tender documentation has been subject to consultation, but slightly less often than in the case of the technical documents (Figure 81). In all economies, except Kosovo*, respondents have been contacted predominantly a few times, from 41% in Albania to 56% in Bosnia and Herzegovina. However, the frequency is quite lower in Kosovo*, where 61% of

businesses were contacted only once. Similar pattern is observed as regards the draft procurement contracts (Figure 82) and cost estimates of the purchases (Figure 83), whereby the consultative process has been most advanced in Bosnia and Herzegovina and – to an extent – in Republic of North Macedonia, and least advanced in Kosovo*.

Figure 81 – Over the past three years, how often have public procuring entities been in contact to consult you on the following? - The drafts of tender documents they prepare

(Respondents who have been contacted by some public procuring entities over the previous 3 years - N=269, %)

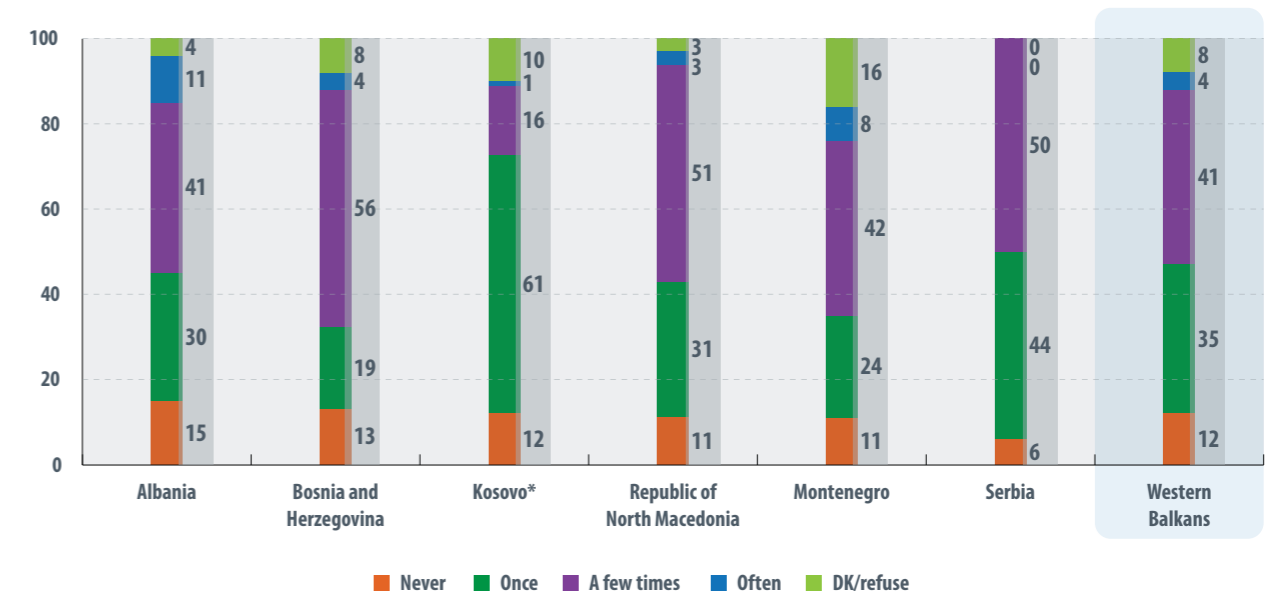
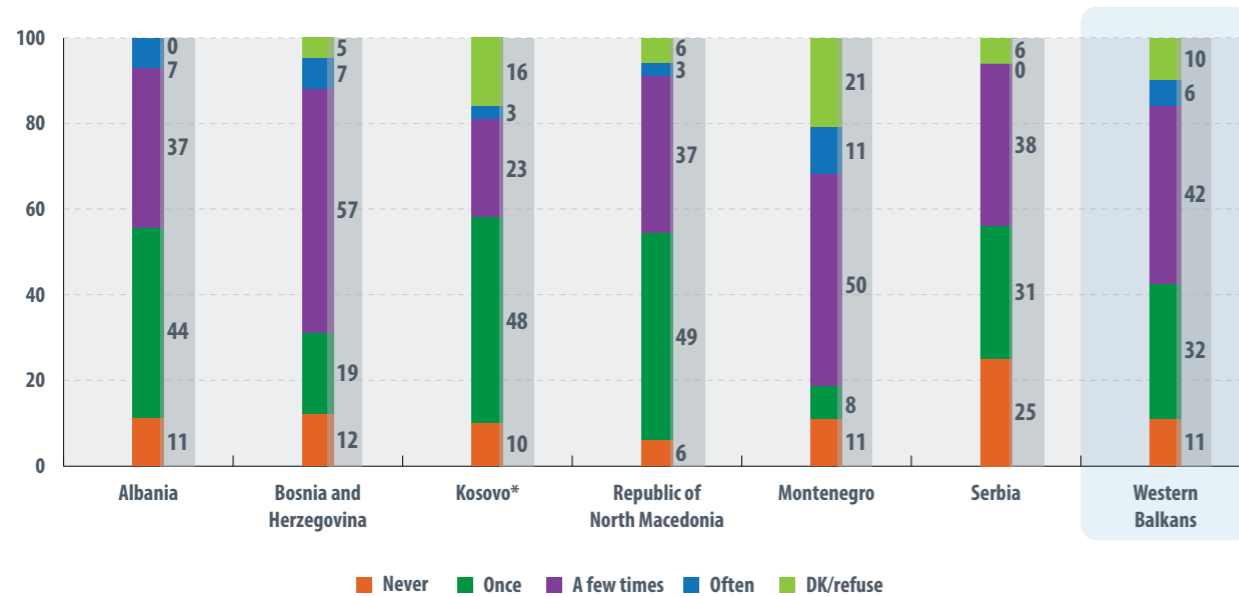


Figure 82 – Over the past three years, how often have public procuring entities been in contact to consult you on the following? - The drafts of procurement contracts they prepare

(Respondents who have been contacted by some public procuring entities over the previous 3 years - N=269, %)



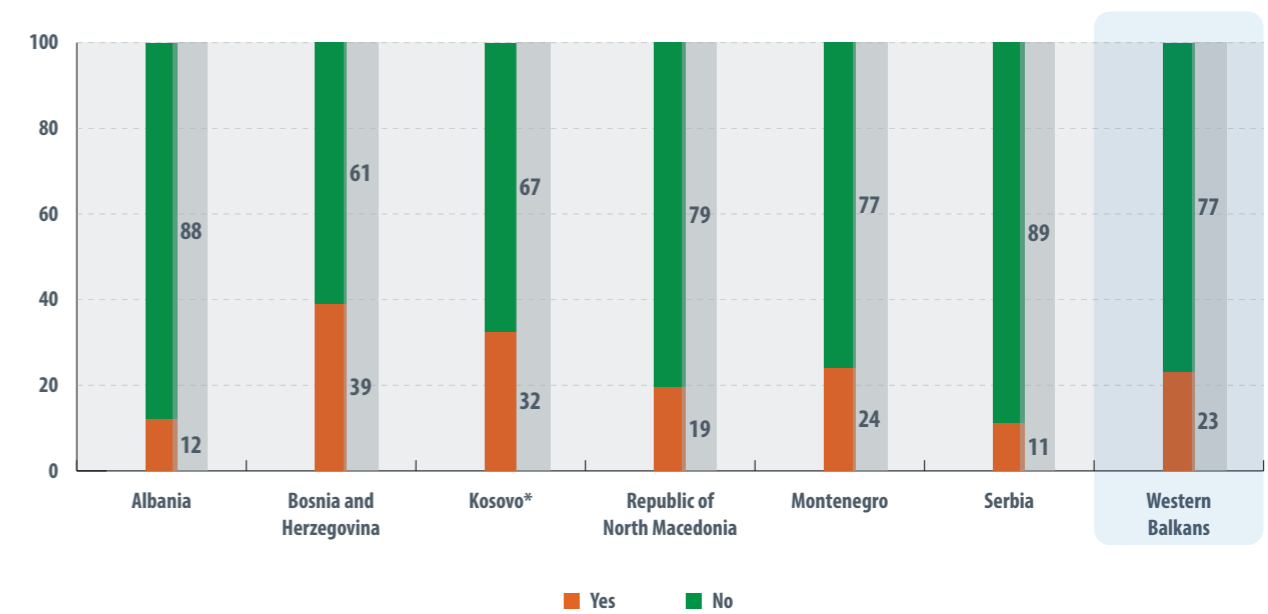
Figure 83 – Over the past three years, how often have public procuring entities been in contact to consult you on the following? - Cost estimates for goods, services or works
 (Respondents who have been contacted by some public procuring entities over the previous 3 years - N=269, %)



The reliance of businesses on guidelines or manuals produced by the domestic procurement authority declined in 2020 (Figure 84). Only 23% of respondents across the region said they used such guidelines and manuals, as opposed to 48% in 2019. Such practice

has been most prominent in Bosnia and Herzegovina (39%), while least prominent in Serbia (11%). Albania, Republic of North Macedonia and Serbia experienced the largest drops in usage of procurement manuals compared to 2019, when they scored over 50%.

Figure 84 – Have you used guidelines or manuals produced by domestic procurement authority in the past three years?
 (Base = All 1200 respondents, %)

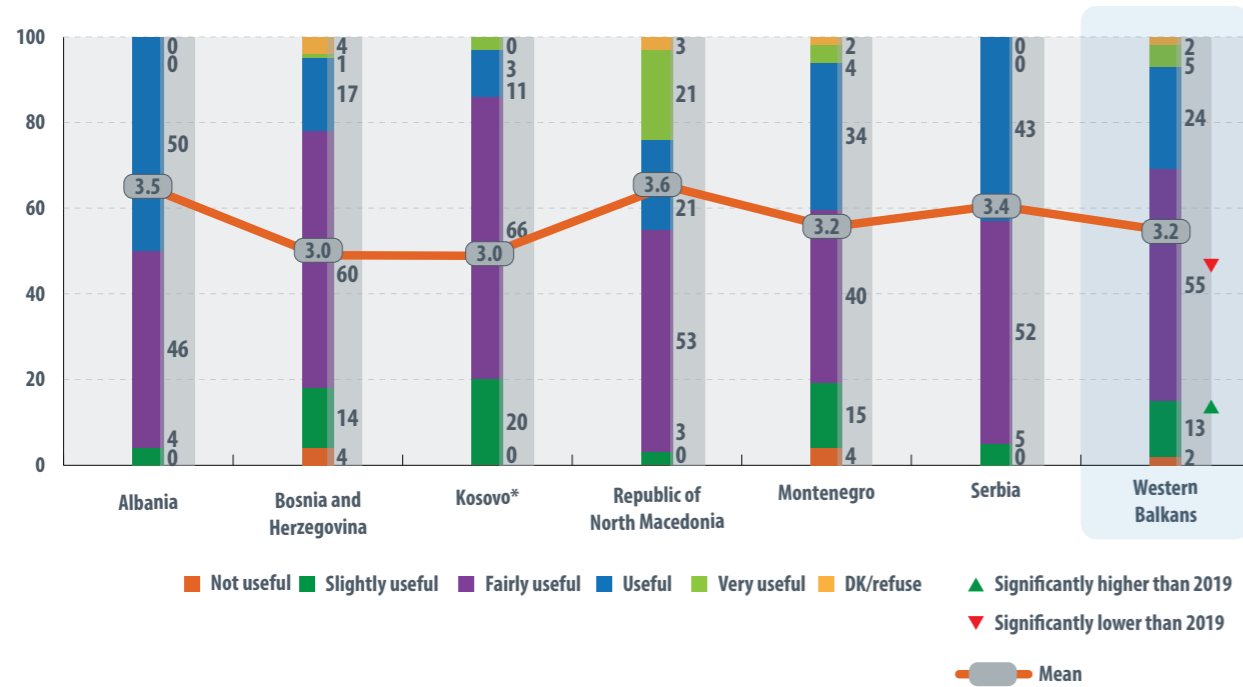


The usefulness of such guidelines and manuals is generally assessed as limited, since across the region 13% reported usefulness while another 55% usefulness to some extent (Figure 85). In particular, the share of those reporting slight usefulness increased from 6% in

2019, at the expense of those who reported usefulness to a large extent. The variation within the region reveals that Kosovars find such guidelines mostly useless, while the satisfaction is largest in Albania (50% reported usefulness) and Serbia (43%).

Figure 85 – Generally, how useful were the guidelines and manuals you used for solving your practical problems?

(Respondents who have used guidelines or manuals produced by domestic procurement authority in the past three years - N=271, scores are on a scale of 1 to 5 where 1 means not useful and 5 very useful, share of total, %, mean)



A quarter of respondents said they used the standard forms or models provided by the domestic procurement authority, a decline from 60% a year ago (Figure 86). Such share ranges from 15.5% in Albania to 36% in Bosnia and Herzegovina. Dissatisfaction with the standard forms or model plagued businesspersons in 2020, since 12% reported slight usefulness, while 52%

fair usefulness, compared to 9% and 33%, respectively, a year ago (Figure 87). The limited usefulness is mostly prevalent in Bosnia and Herzegovina and Kosovo*, while the best performer seems to be Republic of North Macedonia where 14% reported high usefulness and another 43% usefulness to a large extent.

Figure 86 – Have you used the standard forms or models provided by domestic procurement authority in the past three years?

(Base = All 1200 respondents, %)

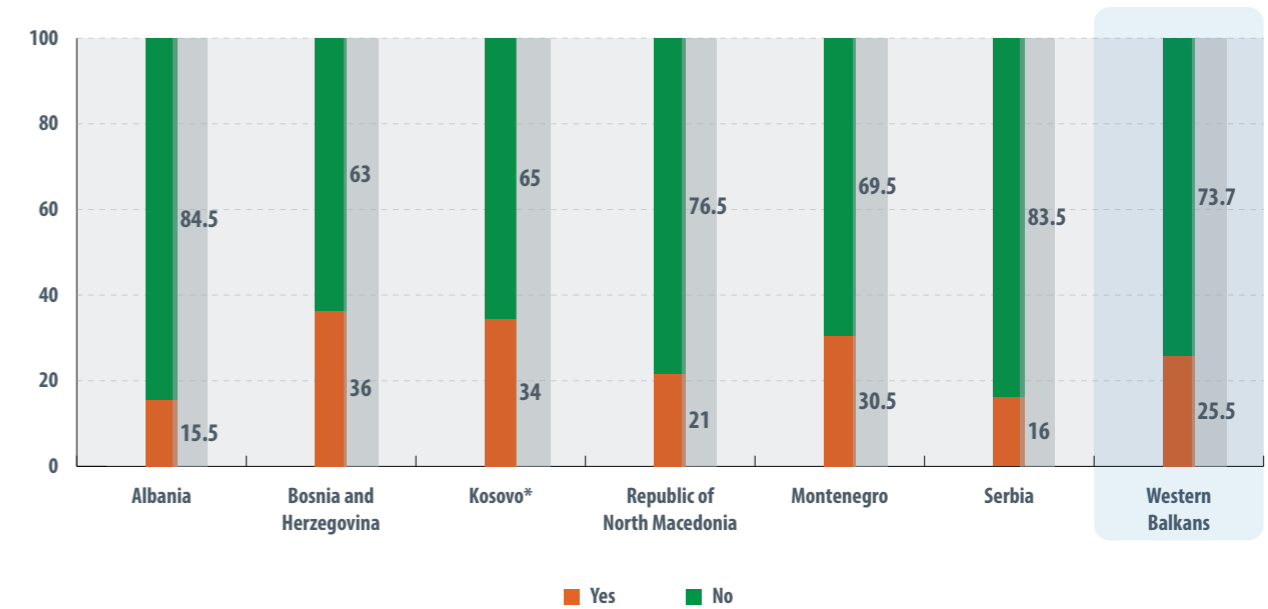
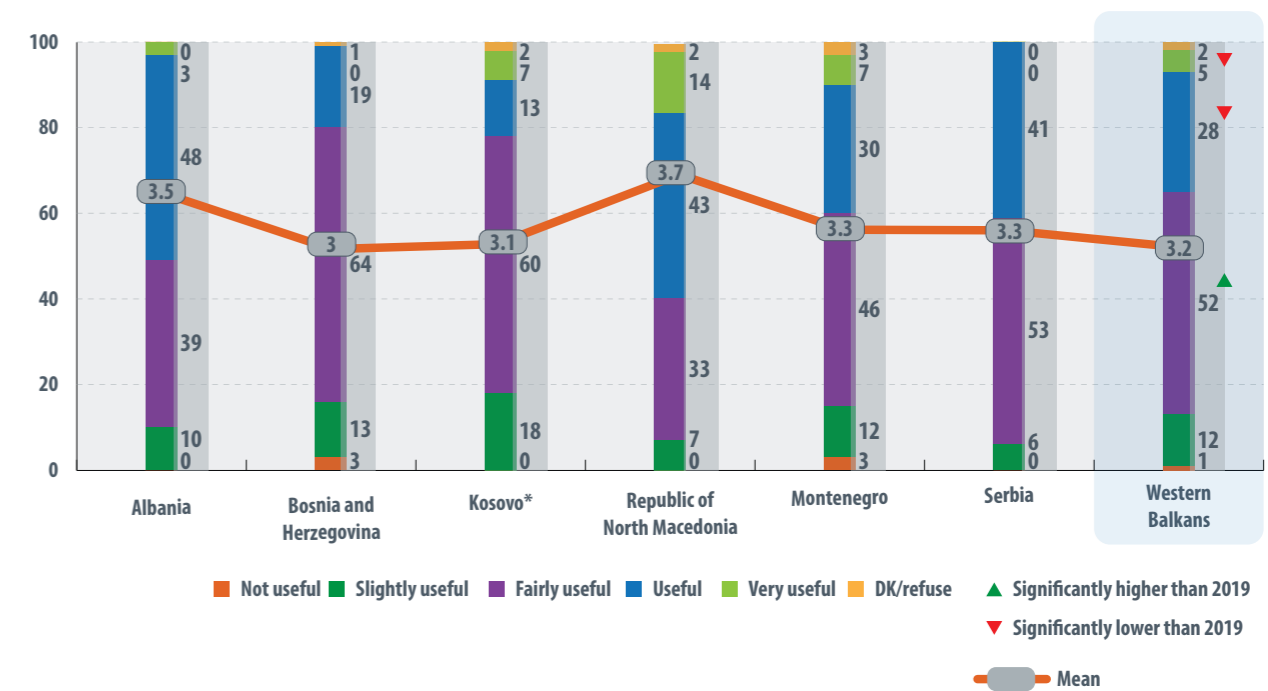


Figure 87 – How would you rate the usefulness of the standard forms or models?

(Respondents who have used the standard forms or models provided by domestic procurement authority in the past three years - N=306, scores are on a scale of 1 to 5 where 1 means not useful and 5 very useful, share of total, %, mean)



Most of the respondents did not attend any training in public procurement over the past three years (**Figure 88**), though a slight improvement is recorded relative to a year ago (88% in 2020 versus 90% in 2019). The most advantageous are businesspersons from Bosnia and Herzegovina, where a quarter attended training,

as opposed to only 4% in Serbia. In Bosnia and Herzegovina, 69% of respondents evaluated such training as fairly useful, while the highest satisfaction is found in Serbia, where a quarter reported high usefulness (Figure 89).

Figure 88 – Have you attended any training in public procurement in the past three years?

(All respondents - N=1200, share of total, %)

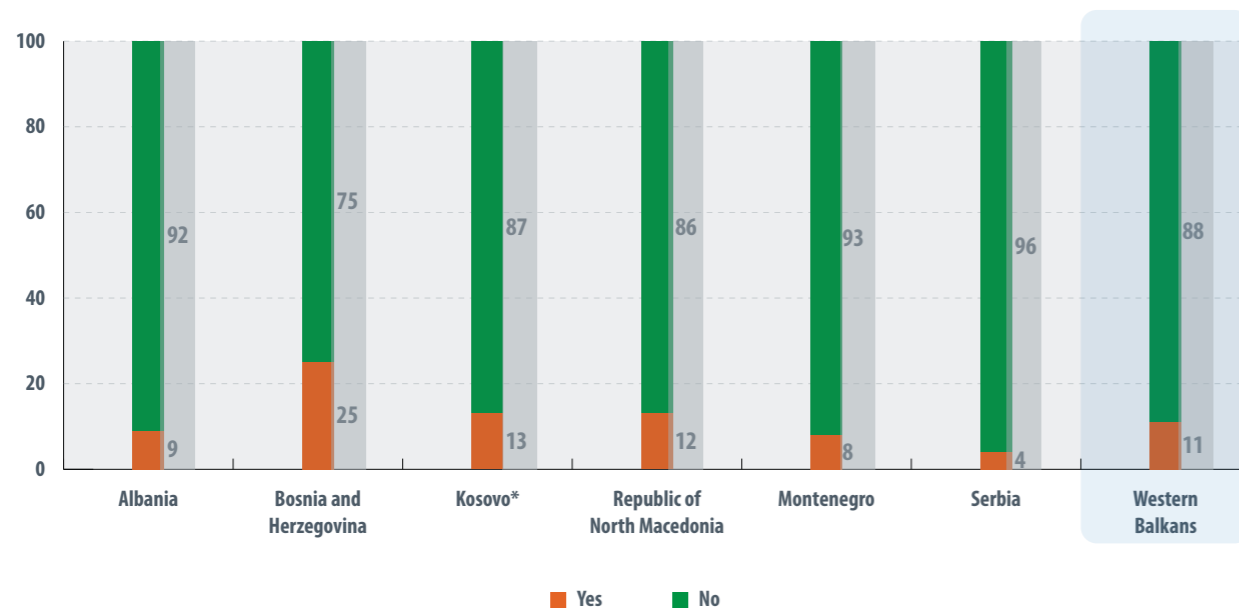
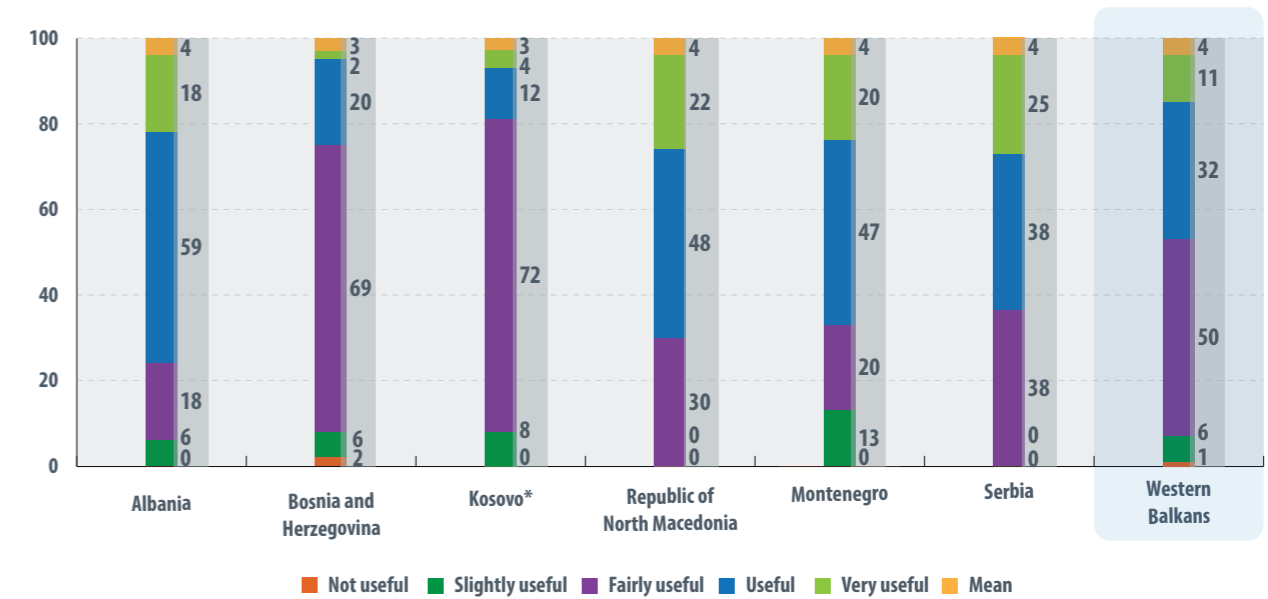


Figure 89 – How would you rate the usefulness of the training in general?

(Respondents who have attended training in public procurement in the past three years - N=137, scores are on a scale of 1 to 5 where 1 means not useful and 5 very useful, share of total, %, mean)



Only 17% of respondents contacted domestic procurement authority for advice or other support, a slight improvement than a year ago (15%) (**Figure 90**). Again, Bosnia and Herzegovina is ahead in this opportunity by 31%, while Serbia is behind the other economies (6%). The answers provided by procurement authorities were somewhat (60%) or fully (35%) useful (Figure 91). In Bosnia and Herzegovina, where such service was

mostly used, respondents indicated limited helpfulness of the answers (77%). The largest share of respondents who found such answers entirely helpful were those in Republic of North Macedonia (58%). Therefore, it seems that Republic of North Macedonia and Serbia, to a large extent, are the forerunners in the Western Balkans in terms of how they handle public procurements.

Figure 90 – Have you contacted domestic procurement authority for advice or other support in the past three years?

(All respondents - N=1200, share of total, %)

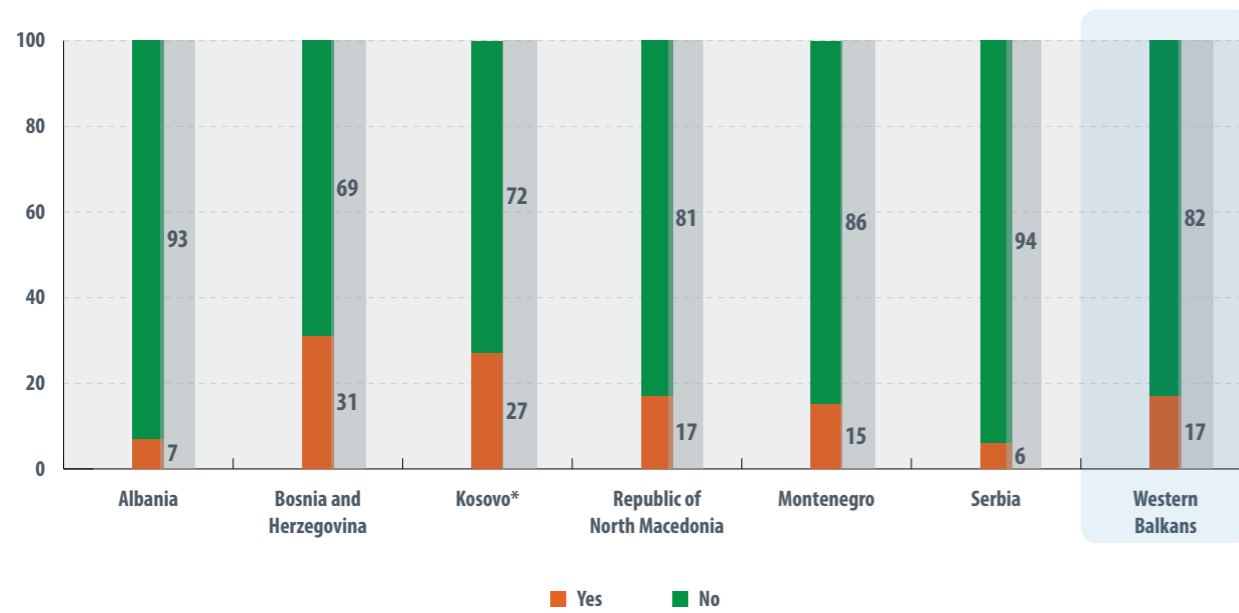


Figure 91 – Were the answers provided generally helpful?

(Respondents who have contacted domestic procurement authority in the past three years - N=202, %)

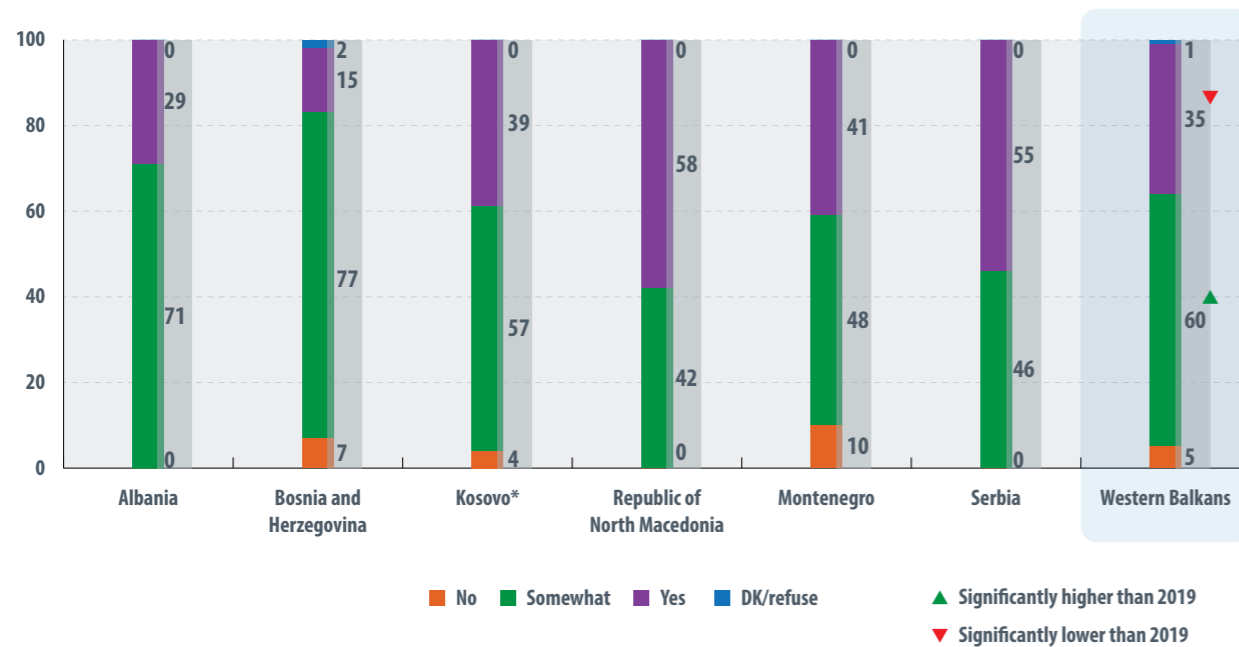
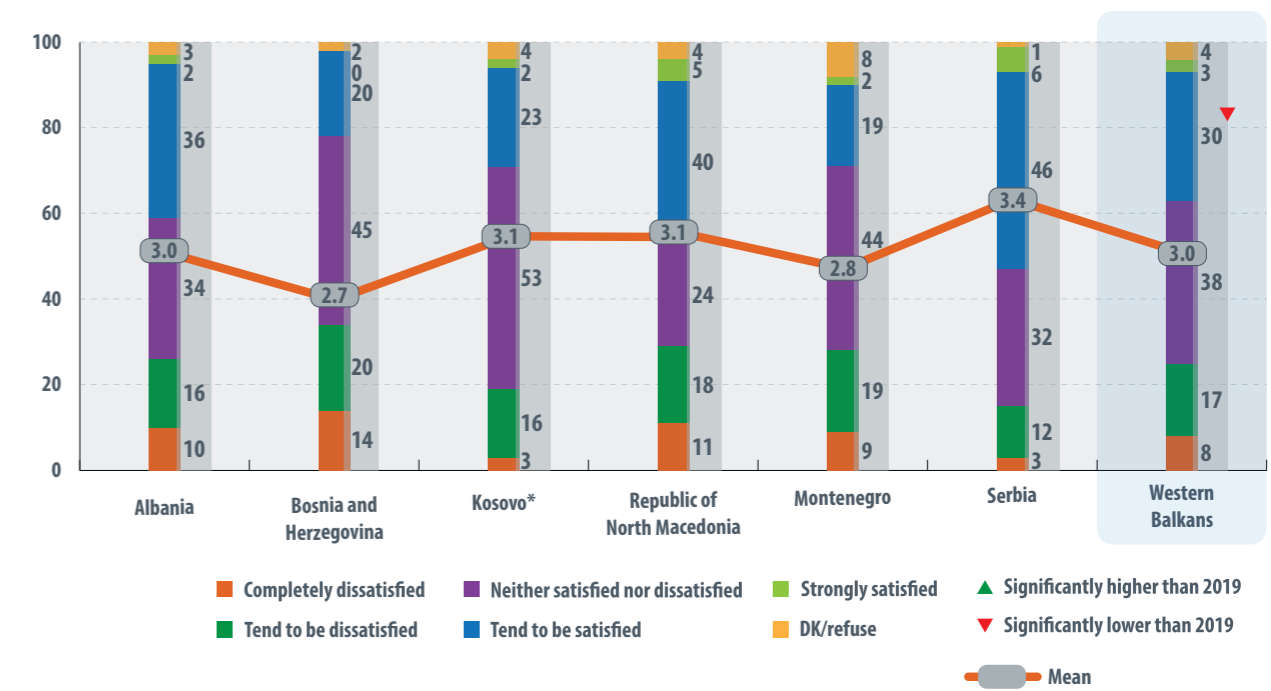


Figure 92 and **Figure 93** presents the satisfaction of businesses with the public and digital services provided to them. One-third of businesspersons reported some or strong satisfaction with the public services provided to them, a decline from 45% a year ago (**Figure 92**). This share is the largest in Serbia (52%), almost the same as in 2019 (51%), followed by Republic of North Macedo-

nia (45%), slightly more than in 2019 (42%). The neutral stance on public services for businesses is pronounced in Kosovo* (53%), Bosnia and Herzegovina (45%) and Montenegro (44%). Likewise, Bosnia and Herzegovina leads the share of the completely dissatisfied businesses (14%).

Figure 92 – Could you please tell me how satisfied are you with each of the following in your place of living - Public services for businesses?

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means completely dissatisfied and 5 strongly satisfied, share of total, %, mean)

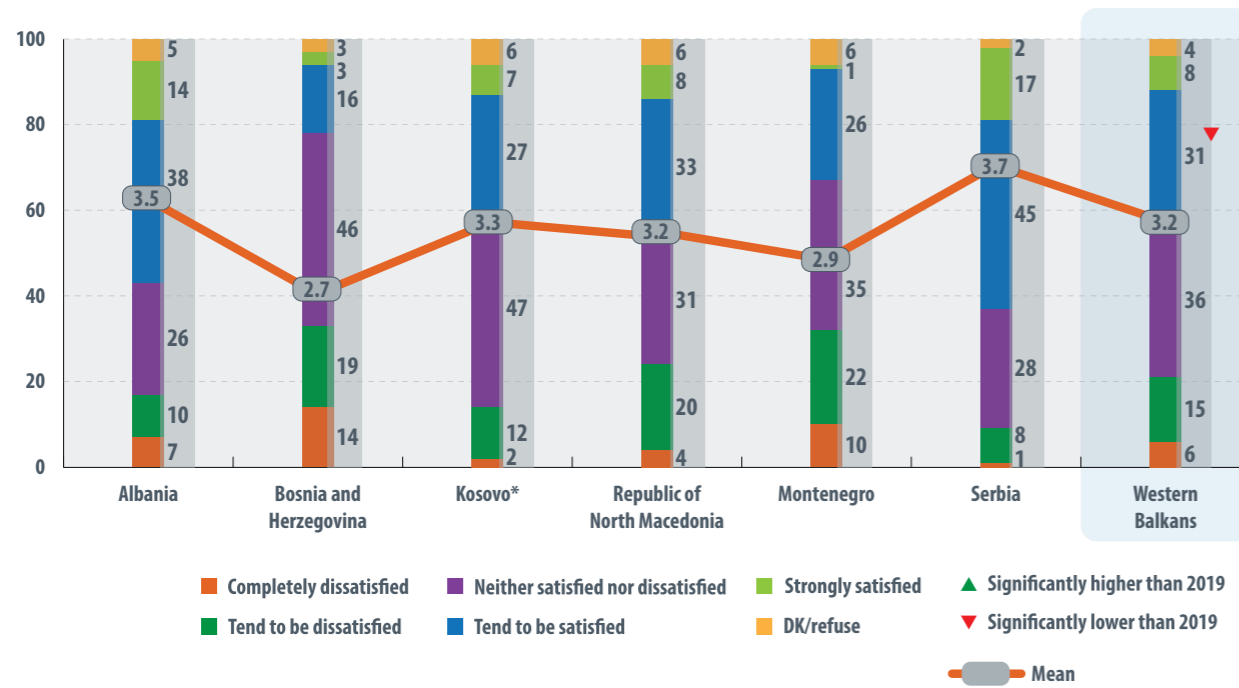


In terms of digital services for businesses, **Figure 93** shows that 39% of respondents reported some or strong satisfaction across the region, a large decline from 2019 (50%). Serbia leads with 62% of businesses

being satisfied, followed by Albania (54%), while neutral stance dominates in Kosovo* (47%) and Bosnia and Herzegovina (46%).

Figure 93 – Could you please tell me how satisfied are you with each of the following in your place of living - Digital services currently provided to business by public administration?

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means completely dissatisfied and 5 strongly satisfied, share of total, %, mean)

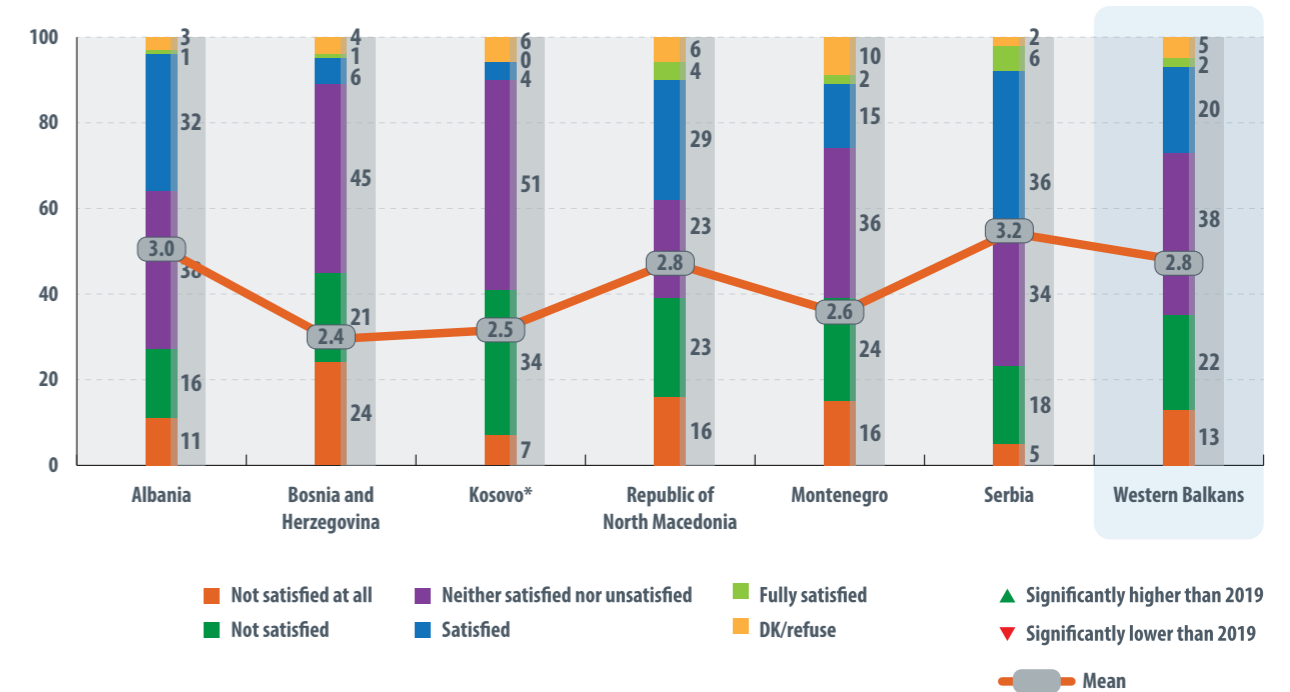


Businesses are prevalently dissatisfied with the extent to which the government consults and involves private sector when developing new laws and regulations relevant for doing business (Figure 94). A total of 35% of respondents across the region revealed full or some dissatisfaction, despite the share of those with neutral stance being of same magnitude (38%). The dissatisfaction shares have been on the decline compared to

2019 (37%). The highest dissatisfaction is present in Bosnia and Herzegovina, where 24% reported total dissatisfaction and another 21% some dissatisfaction. In Kosovo* these shares were 7% and 34%, respectively, albeit Kosovo* has a very large share of respondents with a neutral stance (51%). On the other hand, 42% of respondents in Serbia manifested some or full satisfaction, followed by those in Albania (33%).

Figure 94 – To what extent are you satisfied with how the government consults and involves private sector when developing new laws and regulations relevant for doing business?

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means completely dissatisfied and 5 strongly satisfied, share of total, %, mean)

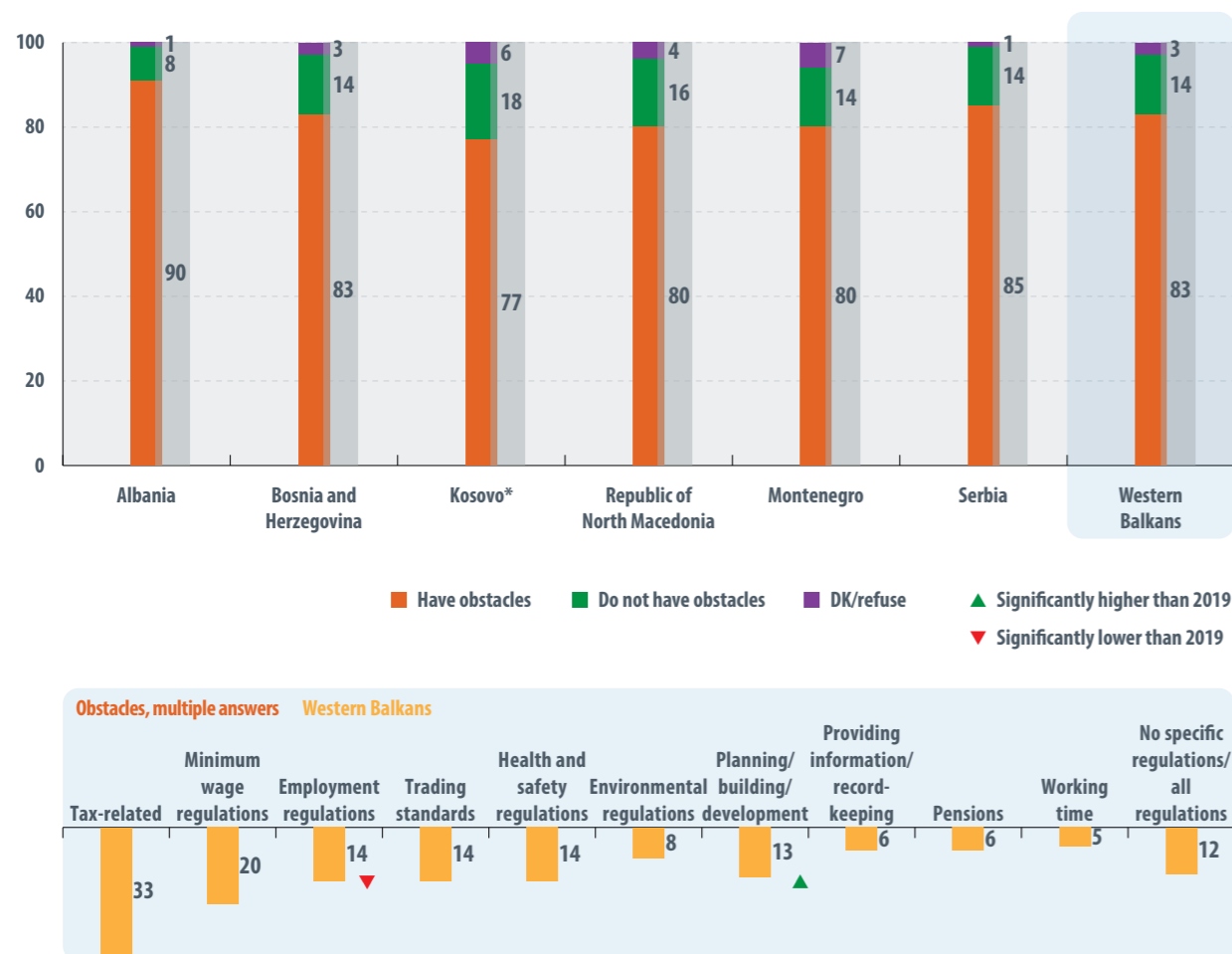


83% of respondents across the region suggested at least one obstacle to doing business (Figure 95), with a variation from 77% in Kosovo* to 90% in Albania. Predominantly, businesspersons identified tax-related issues as key obstacles (33%), followed by minimum-wage regulations (20%). This suggests that more than half of the respondents were concerned about

the cost of the production determined by tax and minimum wage laws as an impediment to doing business. Yet, compared to a year ago, the tax issues lost some prominence (41%), while issues pertinent to planning, building and development gained importance (from 9% in 2019 to 13% in 2020).

Figure 95 – Which regulations do you consider to be an obstacle to the success of a business?

(All respondents - N=1200, share of total, %)



Tax-related issues dominate as an obstacle in all Western Balkan economies (Table 2), from 25.5% of respondents pointing out to them in Republic of North Macedonia to 37% in Bosnia and Herzegovina. The weight on taxes increased in Republic of North Macedonia (from 18% in 2019) likely because of the failed attempt of the government to introduce progressive income tax, while in all other economies the issue lost importance (in Bosnia and Herzegovina it declined from 44.7% in 2019). This suggests that if the government had not made any significant changes in the tax structure, the predominantly flat tax income systems in the region would not be losing its importance.

The minimum wage was most pronounced in Republic of North Macedonia, Serbia and Albania, whereby the pressure to maintain or increase the existing minimum wage was sustained over the year. Employment regulations were considered burdening predominantly in Montenegro, Bosnia and Herzegovina and Serbia, while trading standards were considered a more important factor in Republic of North Macedonia, Kosovo* and Albania. A significant share of respondents said there was no specific burdening regulation in Bosnia and Herzegovina (19%), Serbia (17.5%) and Montenegro (16.5%).

Table 2 - Which regulations do you consider to be an obstacle to the success of a business?

(All respondents - N=1200, share of total, %)

	Western Balkans	Albania	Bosnia and Herzegovina	Kosovo*	Republic of North Macedonia	Montenegro	Serbia
Tax-related	32.8	36.5	37	34	25.5	33.5	30.5
Minimum wage regulations	20.4	27.5	17.5	8	24.5	17.5	27.5
Health and safety regulations	14.3	19	15	12	13	7	19.5
Planning/building/development	13.3	10	13.5	10	13.5	14	18.5
No specific regulations/all regulations	12.2	4.5	19	5.5	10	16.5	17.5
Employment regulations	13.8	11	14.5	14	12	16	15
Environmental regulations	8.3	10	11.5	7.5	5.5	5.5	10
Trading standards	13.5	19.5	9	15	16	13.5	8
None – no regulations an obstacle	10.4	9.5	4	21.5	15.5	5	7
Providing information/record-keeping	6	5.5	5.5	9.5	2.5	6.5	6.5
Working time	4.9	5.5	1	4	8.5	5.5	5

9 in 10 firms in the Western Balkan economies have not had any case in mediation courts (Figure 96). Only few cases in civil or commercial matters (1-3) were solved through mediation, with some intraregional variation (which is based on a small number of cases and firm conclusions cannot be derived) (Figure 97). 55% of firms found mediation to be an effective mechanism

for dispute resolution (Figure 98) and 35% do not have an opinion on whether they would consider mediation even in cases of cross-border conflict resolution for the settlement of disputes in civil and commercial matters so as to simplify and improve access to justice (Figure 99).

Figure 96 – Has your firm had any cases in mediation courts in the last 36 months?

(All respondents - N=1200, share of total, %)

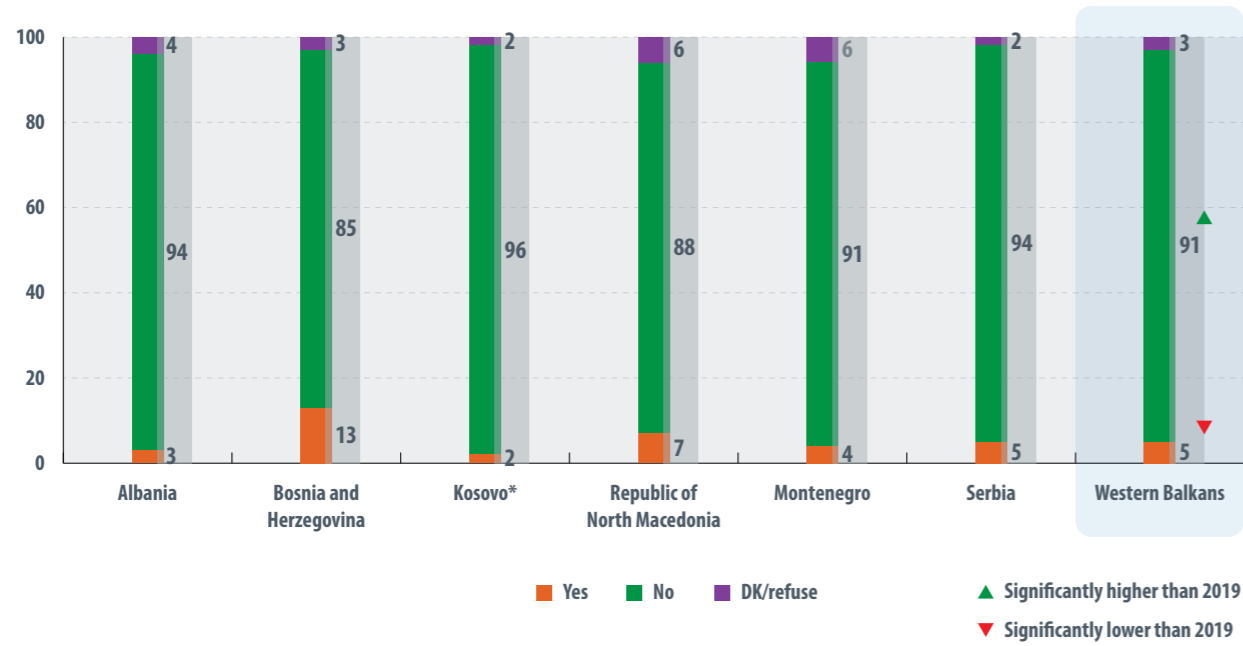


Figure 98 – Do you consider mediation as a quick and cost-effective extra judicial alternative to resolving disputes in civil and commercial matters?

(Respondents who had cases in arbitration courts - N=65, %)

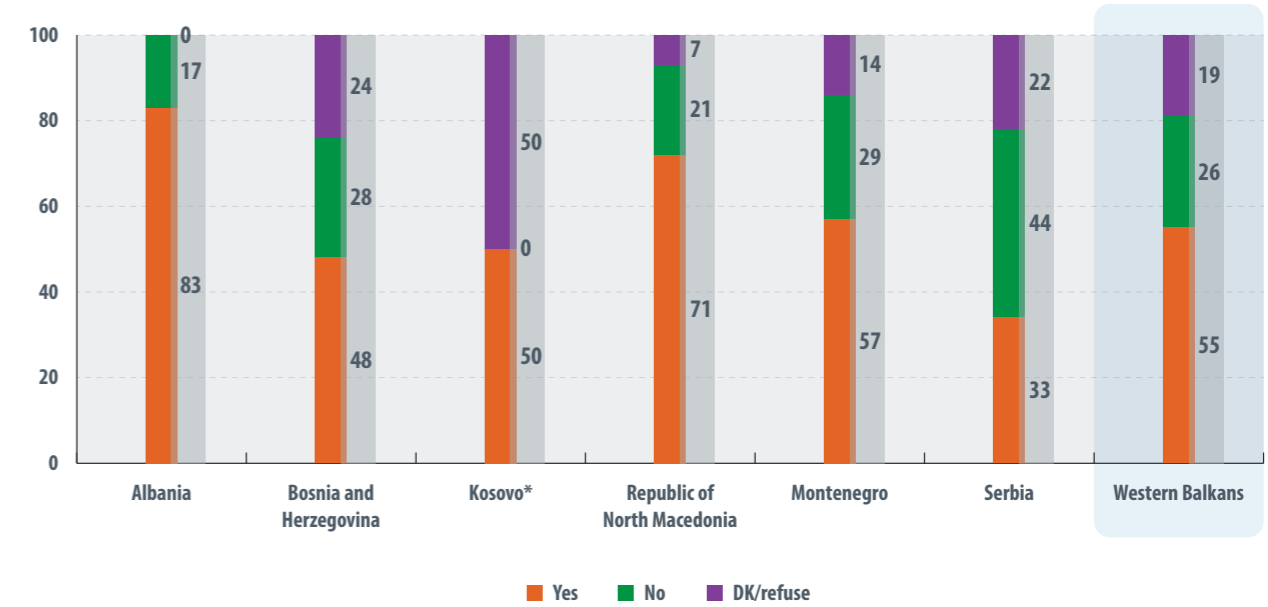


Figure 97 – How many cases in civil or commercial matters were solved by your company through mediation in the last 36 months?

(Respondents who had cases in arbitration courts - N=65, %)

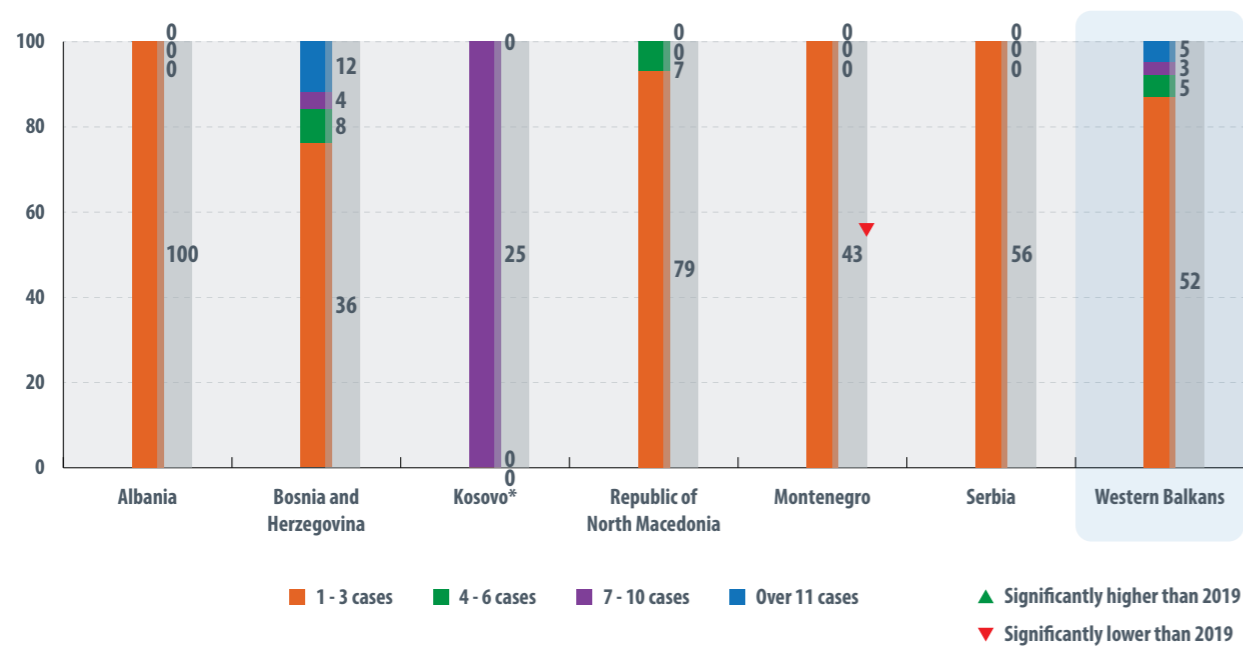
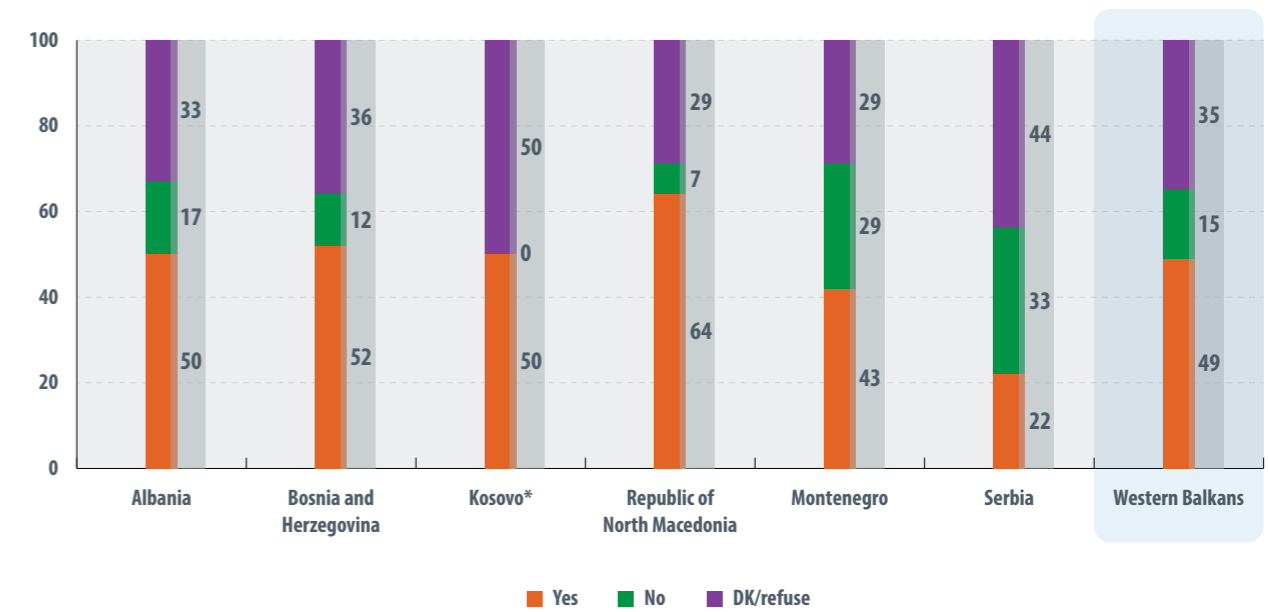


Figure 99 – Would your company consider mediation even in cases of cross-border conflict resolution for the settlement of disputes in civil and commercial matters so as to simplify and improve access to justice?

(Respondents who had cases in arbitration courts - N=65, %)

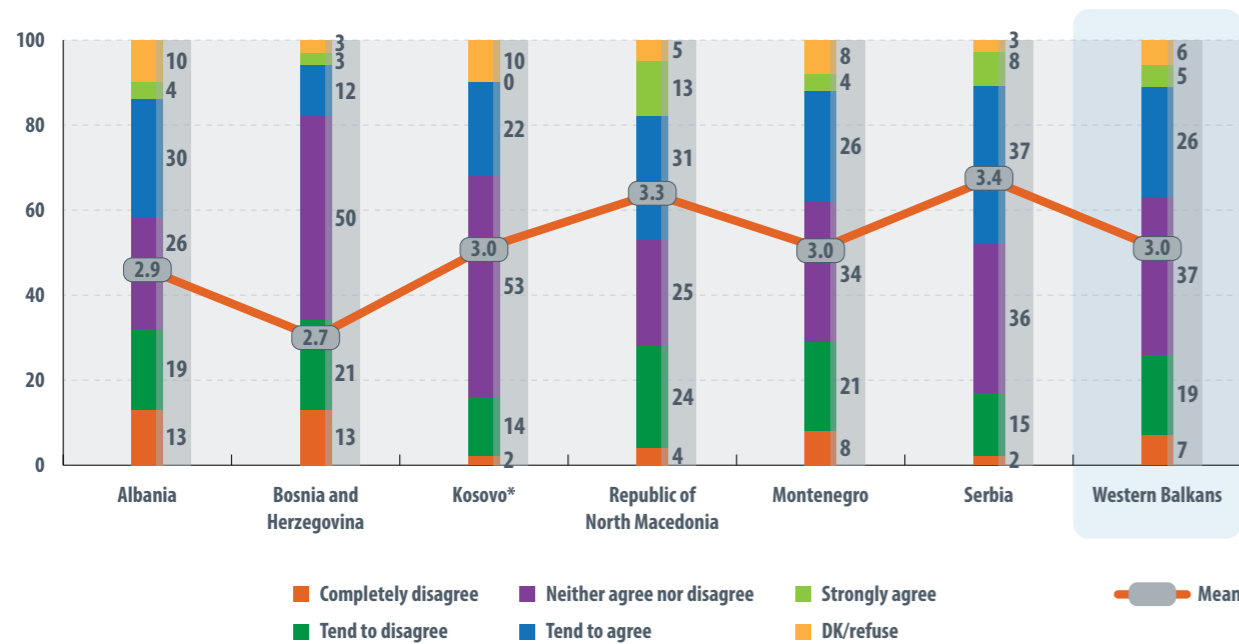


The following three graphs refer to how businesspersons perceive state aid. Businesspersons agree (31%) or are neutral (37%) on the statement that the access to information on state aid and grants to companies is accessible (Figure 100). Serbia and Republic of North Macedonia are the leaders, with 45% and 44% of re-

spondents, respectively, agreeing with the statement. Information on state aid is hard to find in Bosnia and Herzegovina as 34% of respondents fully or partially disagreed that information on state aid is accessible, followed by Albania (32%) and Montenegro (29%).

Figure 100 – Do you agree with the following statement about state aid - Citizens and companies have full access to information related to state aid policies and grants awarded to companies by the public authorities?

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



Information on state aid is publicly available, a statement with which most of Macedonians agree (Figure 101): 53% of them provided full or partial agreement. On the other extreme, such information is hard to obtain publicly, a position maintained by 38% of respondents in Bosnia and Herzegovina. The latter is dominated by those with neutral stance (48%), similarly as in Kosovo*. Interestingly, however, 45% of respondents in Republic of North Macedonia, at the same time, think

that the information on state aid received by companies should remain confidential among the signatory parties (Figure 102). In Albania and Serbia, this percentage is even higher, 49% in each of the economies. On the other hand, businesspersons in Bosnia and Herzegovina and Montenegro are against such confidentiality in the usage of public money: 40% and 42% of respondents, respectively, strongly or partially disagreed.

Figure 101 – Do you agree with the following statement about state aid - Sufficient information on the state aid given to companies by the public authorities is already publicly available.

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)

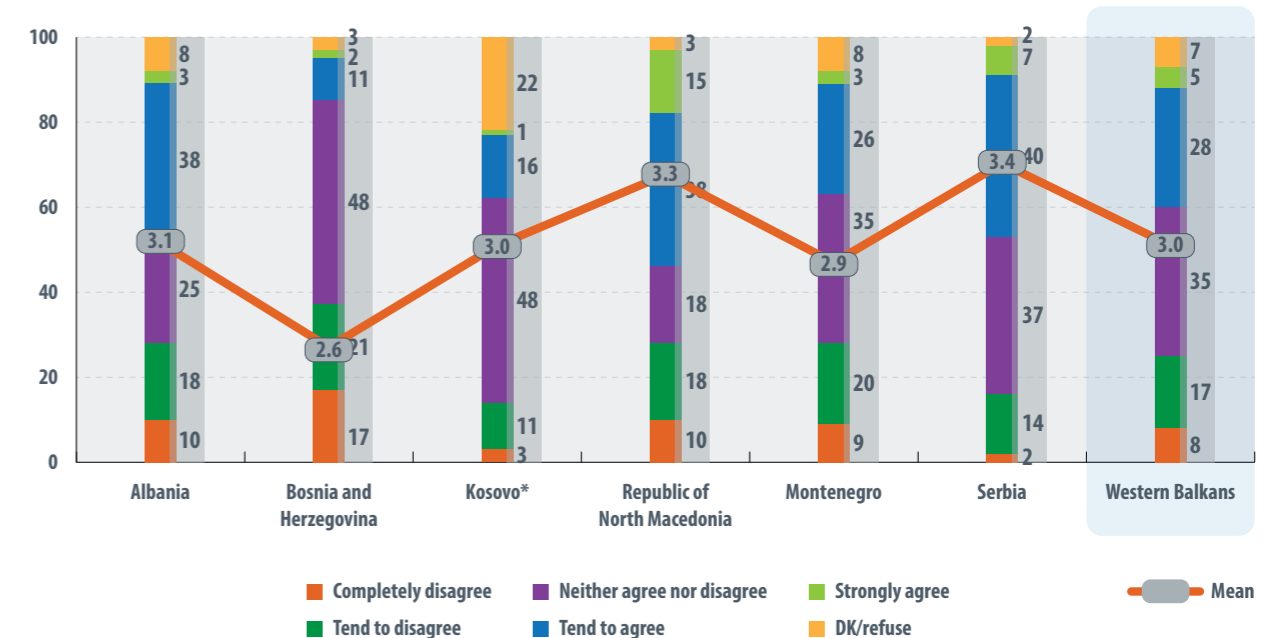
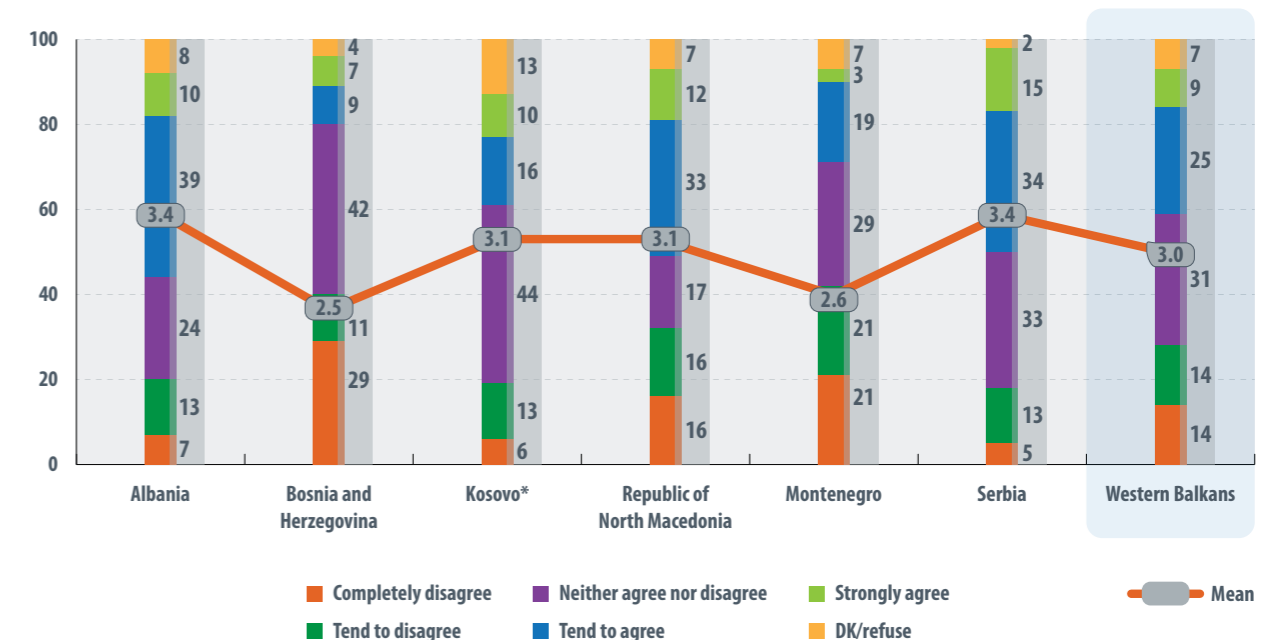


Figure 102 – Do you agree with the following statement about state aid - Information about state aid received by companies should remain confidential between public authorities and companies.

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, share of total, %, mean)



ACCESSIBILITY OF LOANS

Western Balkans businesses continue to finance their operations from internal funds and retained earnings, but their role as a source of financing declined compared to 2019 (55% vs. 70% of investments were financed from this source, respectively in 2020 and 2019) (Figure 103). During 2020, the share of other financing grew to 30%, likely a reflection of government support distributed as a response to the crisis imposed by Covid-19 spread. The share of working capital obtained through borrowing from the banking sector

and family/friends was maintained over 2020. Retained earnings are dominant in Kosovo* (74%), followed by Serbia (68%). On the other extreme, other sources of funding have been key in Bosnia and Herzegovina (64%), followed by Albania (34%) and Republic of North Macedonia (30%). Equity financing across the region remains scarce, as its share in funding ranges between 1% and 6% in 2020 and is on the lower band when compared to 2019 (Figure 104).

Figure 103 – 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=1200, share of total, mean)

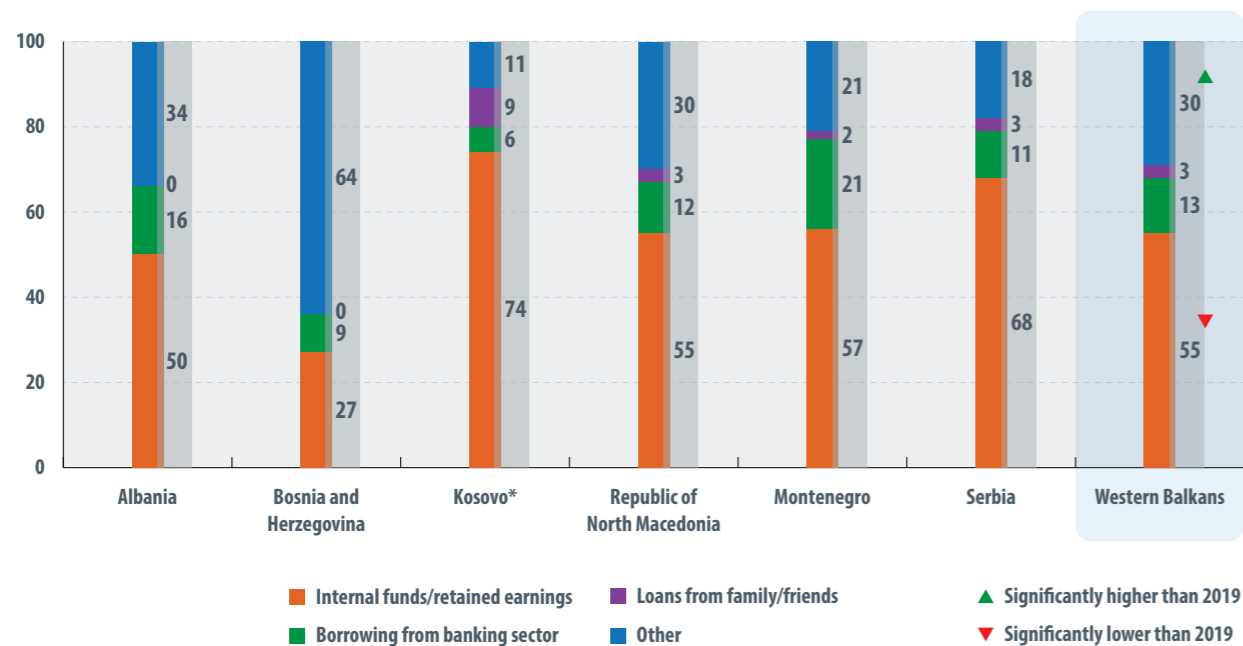
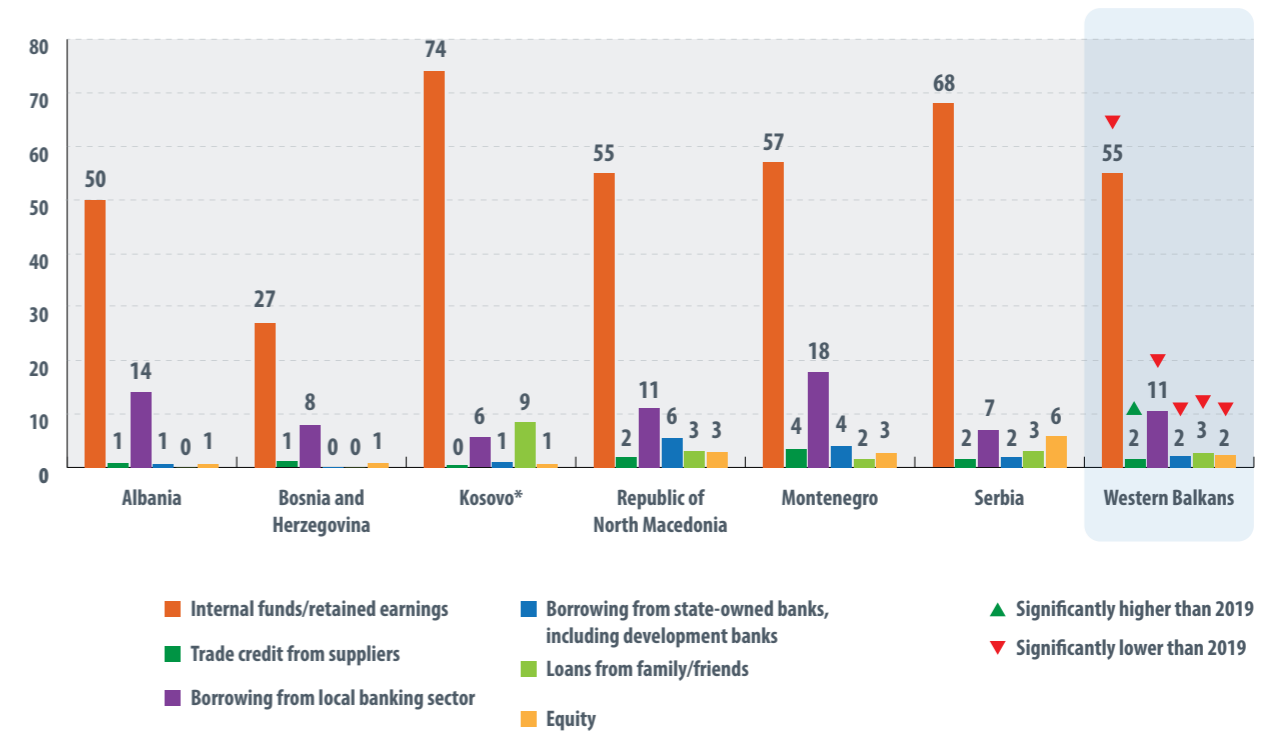


Figure 104 – What proportion of your firm’s working capital and new fixed investment has been financed from each of the following sources, over the past 12 months?

(All respondents - N=1200, share of total, mean)



Over the last year, 70% of companies did not apply for a bank loan (Figure 105), almost the same number as in 2019 (69%). The strongest loan demand is observed in Albania, where 52% of companies applied for a bank loan during the crisis, and the least demand is observed in Serbia (15%). On average, 17 days were needed to agree on a loan, almost the same number as in 2019 (Figure 106). The procedure is the lengthiest in Albania (22 days), and the shortest in Montenegro (9

days), while in the other economies it stands at around the average. In Serbia, this procedure extended from 9 days in 2019 to 15 days in 2020, which may be a consequence of the crisis which interrupted bank physical operations. A quarter of the loan applications was rejected in Kosovo*, followed by Montenegro (22%) and Republic of North Macedonia (21%). Albania is the leader in this regard, as only 1% of loan applications were rejected.

Figure 105 – Has your company applied for a loan from a bank in the past 12 months?

(All respondents - N=1200, share of total, mean)

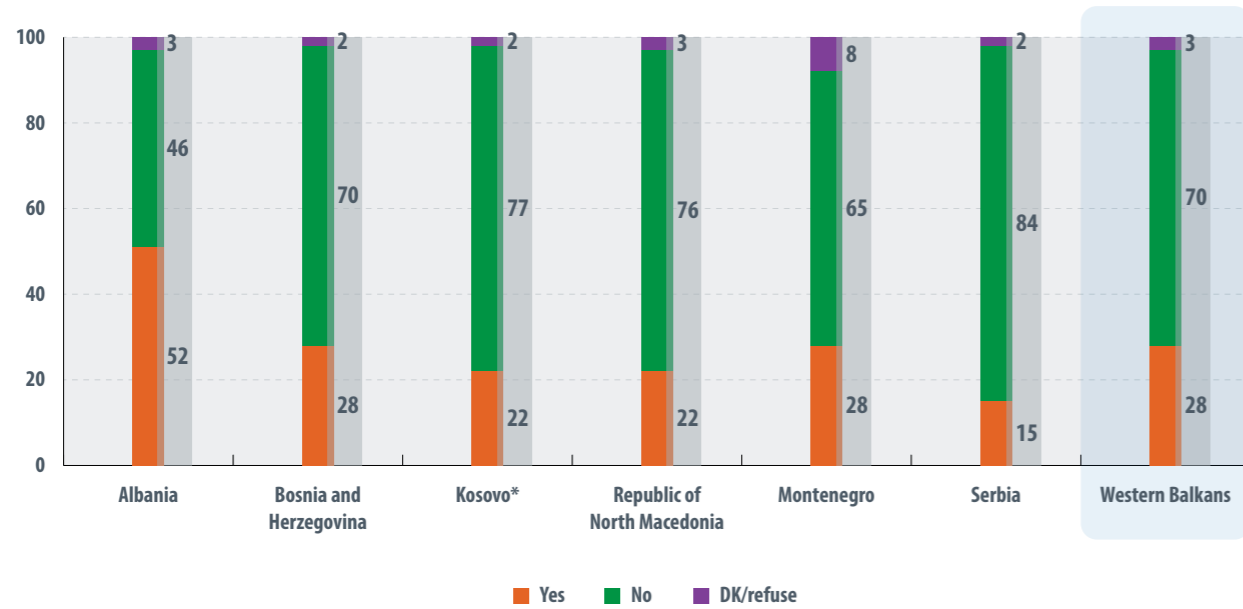
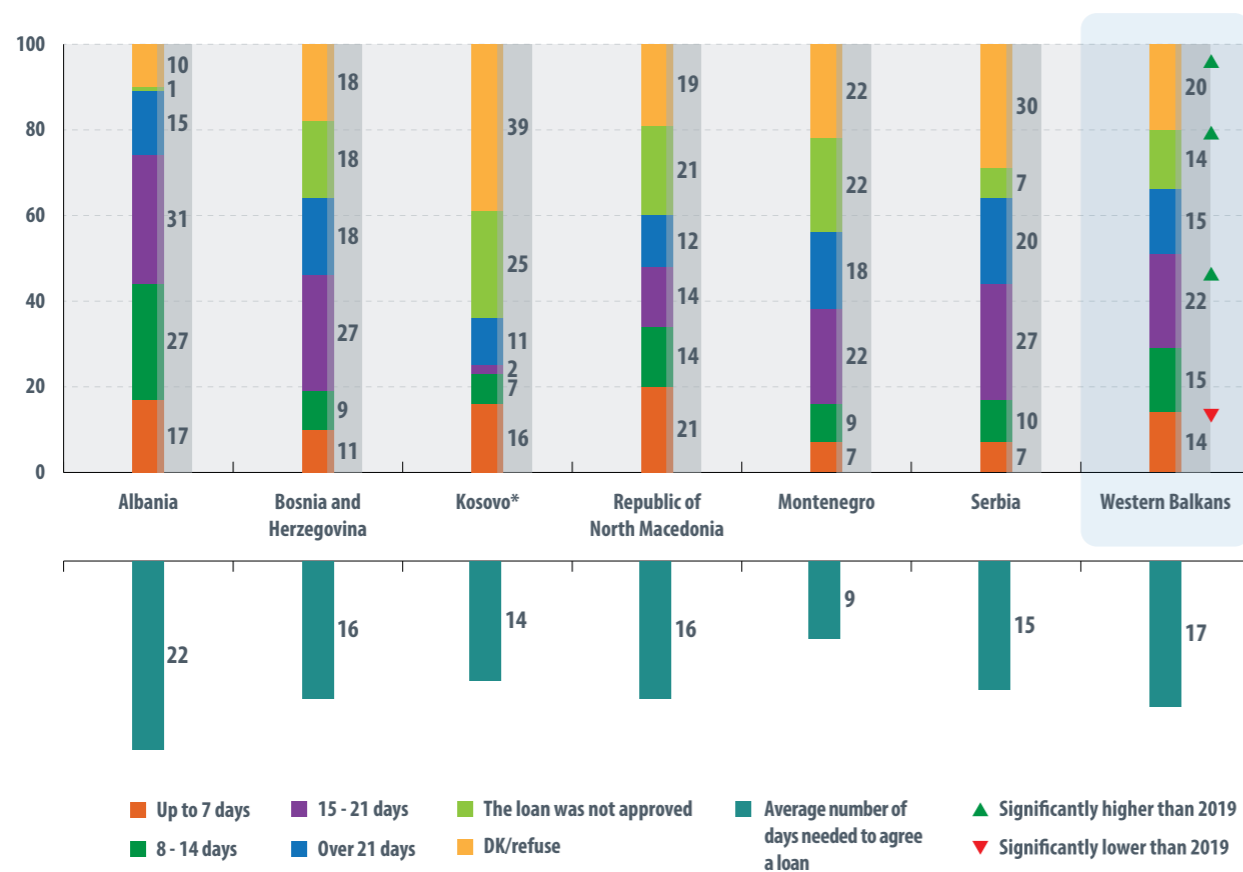


Figure 106 – How many days did it take to agree the loan with the bank from the date of application?

(All respondents - N=1200, share of total, mean)

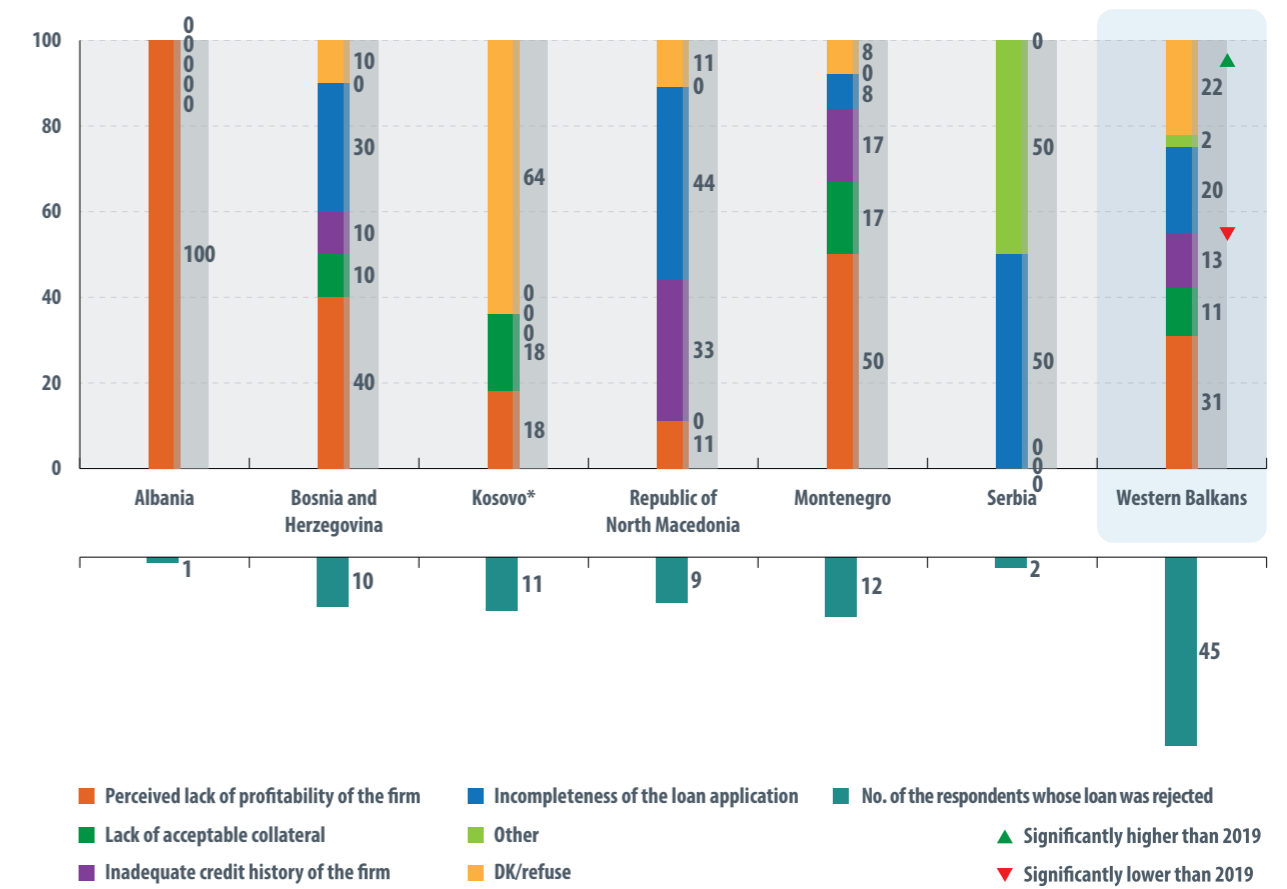


The dominant reason for loan rejection in Montenegro and Bosnia and Herzegovina was the perceived lack of company's profitability (Figure 107), while incompleteness of the loan application was an important

reason in Serbia and Republic of North Macedonia. Yet, these distributions need to be approached with caution due to the small number of observed respondents whose loan application was rejected.

Figure 107 – You said that you company's loan application was rejected, what was the main reason for that?

(All respondents - N=1200, share of total, mean)



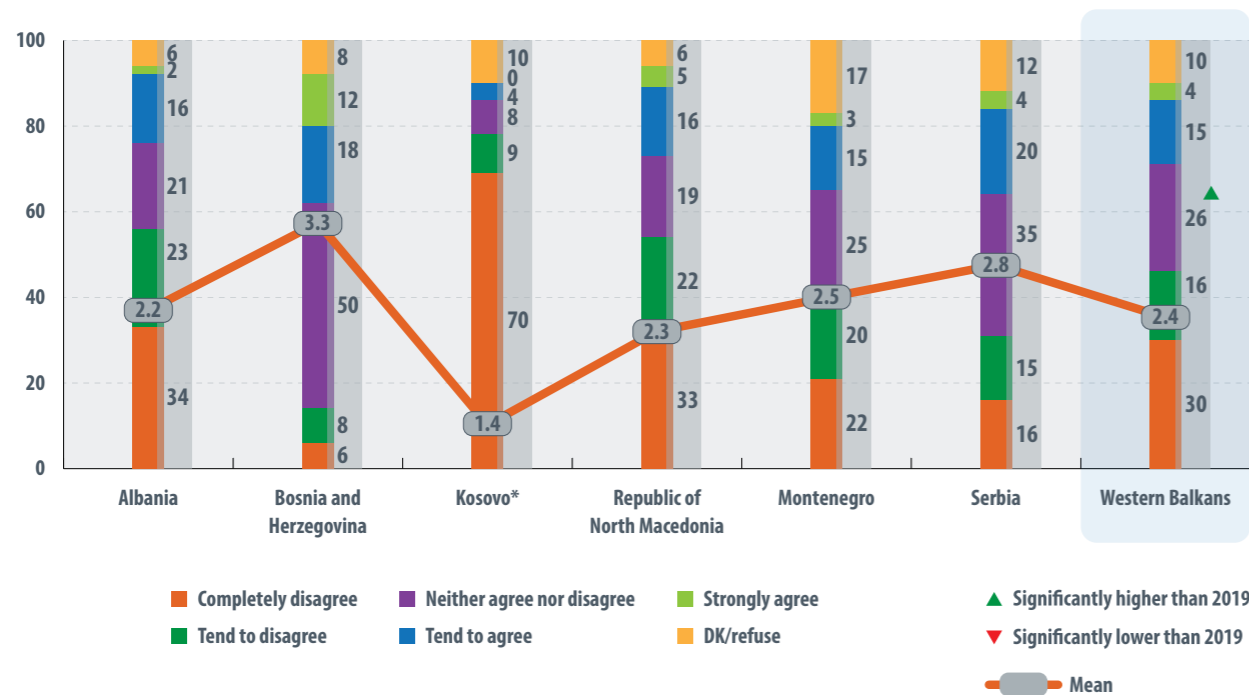
CORRUPTION

Corruption remains the ill-spot of the Western Balkan economies. Businesspersons evaluated two statements related to corruption. **Figure 108** presents the distribution of responses on the statement that it was common for companies to pay additional payments/gifts. The share of those who completely or partially disagreed with the statement slightly declined to 46% in 2020 from 50% in 2019 across the region. However, this was at the benefit of those with neutral stance,

while the share of those who agree with the statement remained intact (19%). There are pronounced varieties within the region, whereby Bosnia and Herzegovina presents the highest number of respondents (30%) who agreed or almost agreed with the statement confirming widespread corruption. On the opposite side, 79% of Kosovars completely or mostly disagreed with the statement.

Figure 108 – Thinking about officials, to what extent would you agree with the following statements? - It is common for companies in my line of business to have to pay some irregular “additional payments/gift” to “get things done”

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, %, mean)



18% of businesspersons knew the amount of the additional payment/gift in the Western Balkans (**Figure 109**). The share of respondents who disagreed with this statement declined to 38% in 2020 compared to

48% in 2019. Again, Kosovars mostly disagree (45%), Bosnians provided mostly neutral stance (48%) as well as an agreement (23%).

Figure 109 – Thinking about officials, to what extent would you agree with the following statements? - Companies in my line of business usually know in advance how much this ‘additional payment/gifts’ will cost

(All respondents - N=1200, scores are on a scale of 1 to 5 where 1 means completely disagree and 5 strongly agree, %, mean)

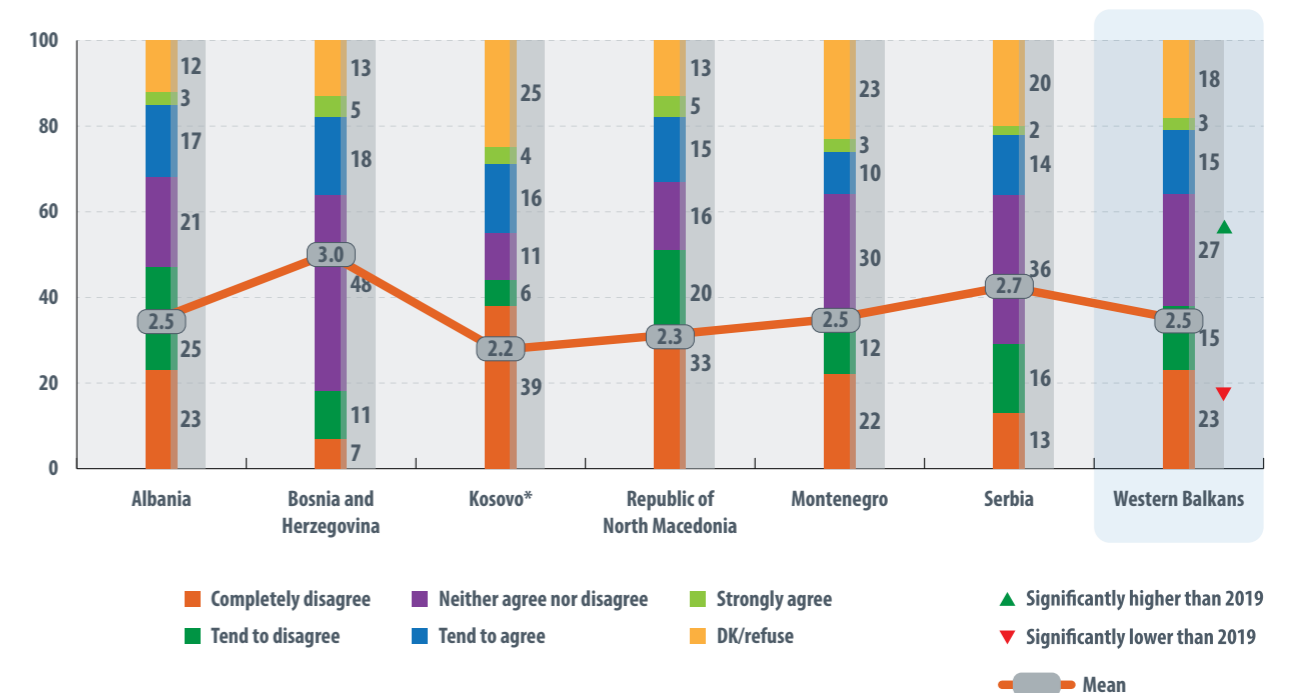
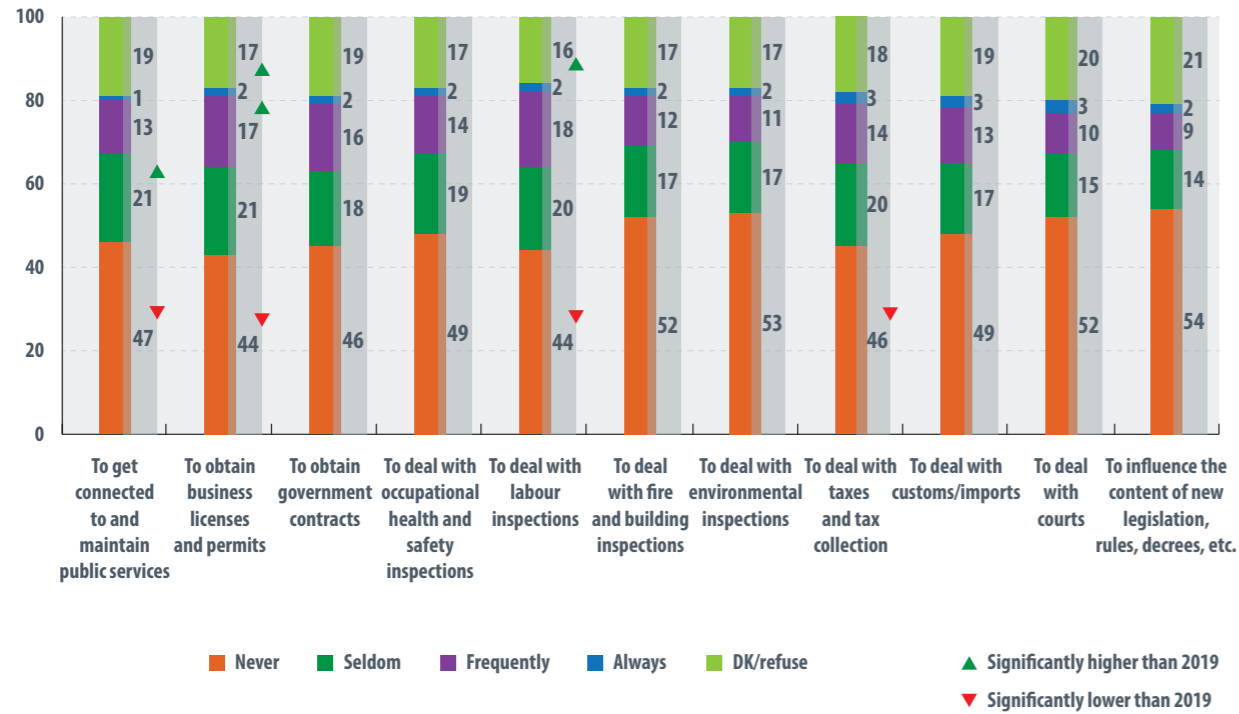


Figure 110 presents the frequency with which companies may have been in a situation to make various unofficial payments/gifts for 11 purposes, ranging from getting connected to public services to influencing the content of new legislation. Predominantly, in each purpose susceptible to unofficial payments, businesspersons never conducted an unofficial payment or gift,

which is the answer provided by nearly or about half the respondents. However, it is notable that such share shrunk compared to 2019 in the case of connecting to public services, obtaining licenses, dealing with labour inspection and taxes, which may be an indirect indication of the worsening effectuation of corruption across the region.

Figure 110 – Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often would they make payments/gifts for the following purposes?

(All respondents - N=1200, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)



In what follows, each of the 11 purposes is presented separately, revealing the within-region varieties (from **Figure 111** to **Figure 121**). For example, 47% of respondents on average reported no corruption related to getting connected to and maintain public services, but the situation is far worse the average in Serbia and Bosnia and Herzegovina, where businesspersons were frequently corrupted in 15% and 31% of the cases re-

spectively. A similar distribution is registered regarding the other reasons for business corruption. The average of those who said they frequently paid bribes goes from 6% to 31%, with respondents in Bosnia and Herzegovina presenting the biggest percentages. Advantageously, about three-fourths of Kosovars never extended unofficial payment on various grounds, which is the case for nearly two-thirds of Macedonians.

Figure 111 – Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often would they make payments/gifts for the following purposes? - To get connected to and maintain public services

(All respondents - N=1200, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)

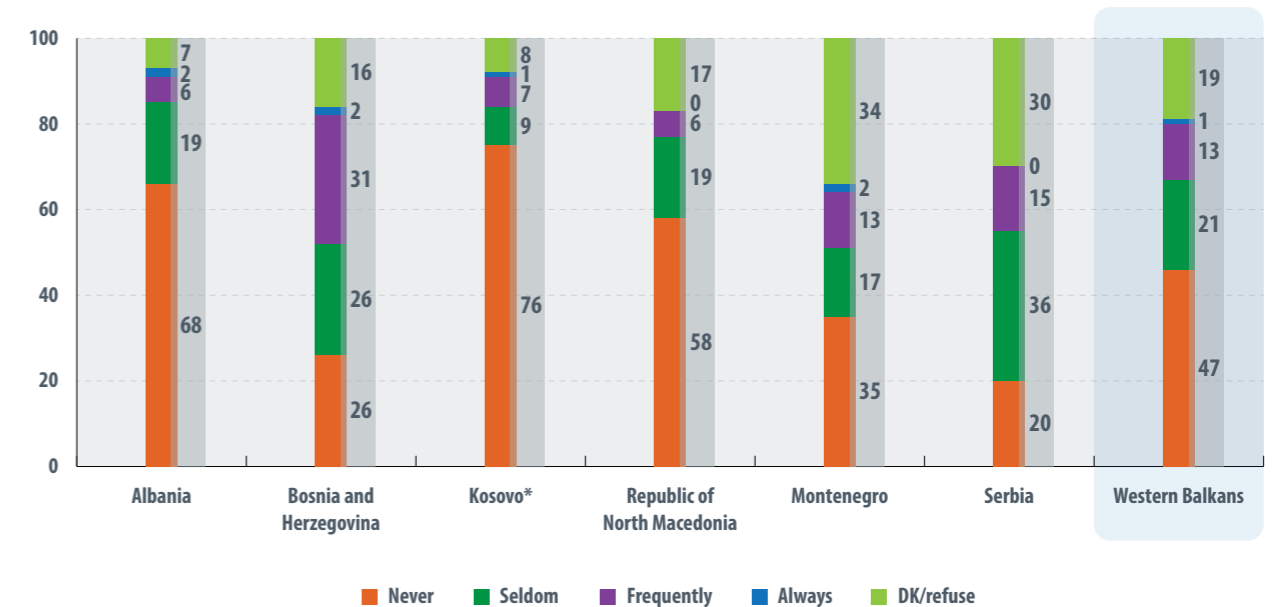


Figure 112 – Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often would they make payments/gifts for the following purposes? - To obtain business licenses and permits

(All respondents - N=1200, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)

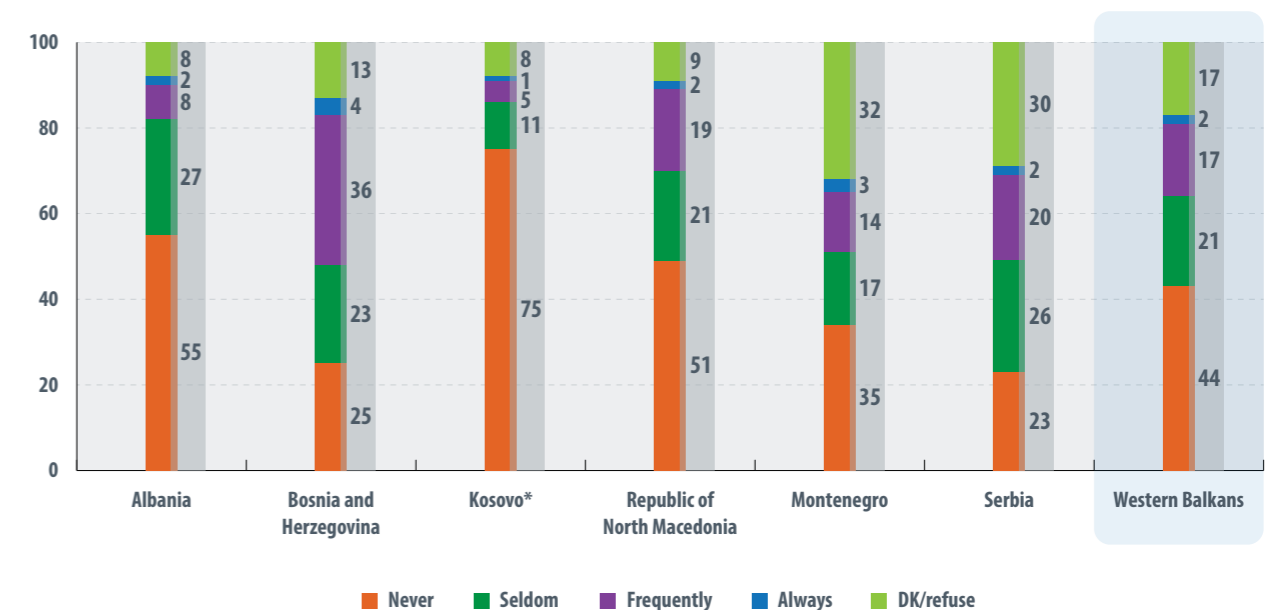


Figure 113 – Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often would they make payments/gifts for the following purposes? - To obtain government contracts

(All respondents - N=1200, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)

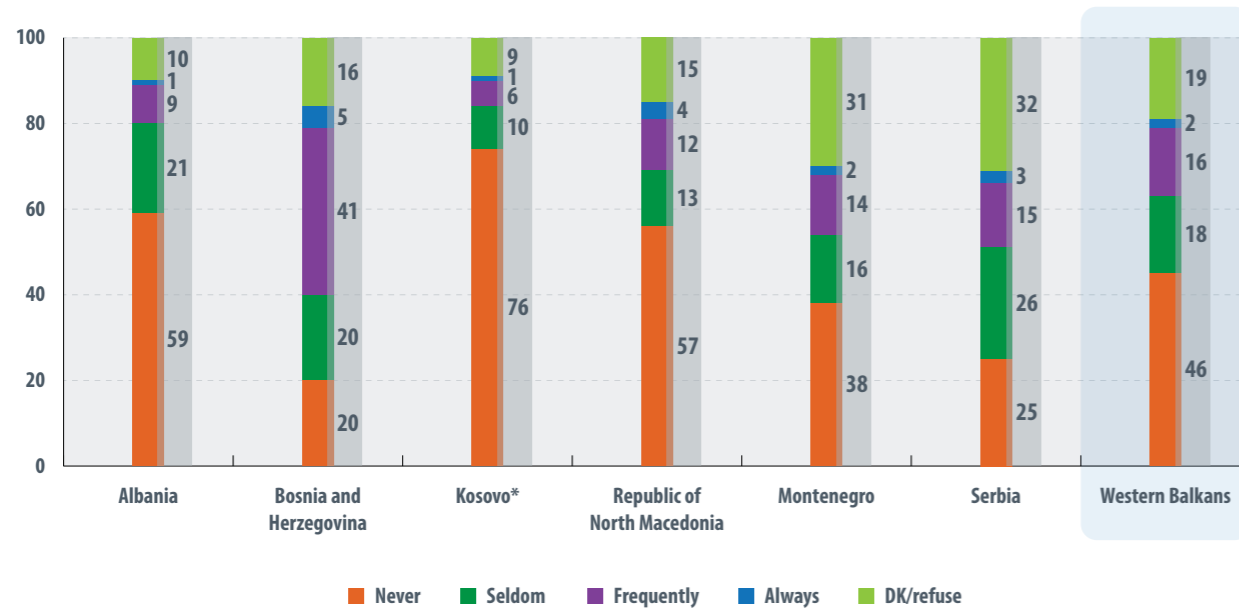


Figure 115 – Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often would they make payments/gifts for the following purposes? - To deal with labour inspections

(All respondents - N=1200, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)



Figure 114 – Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often would they make payments/gifts for the following purposes? - To deal with occupational health and safety inspections

(All respondents - N=1200, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)

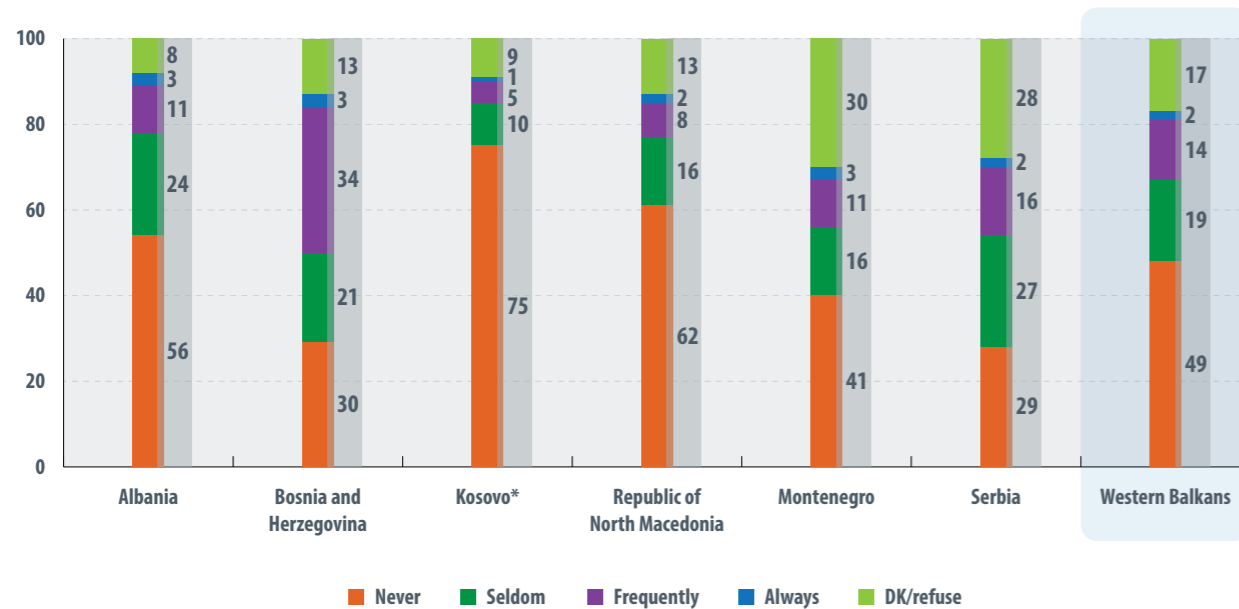


Figure 116 – Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often would they make payments/gifts for the following purposes? - To deal with fire and building inspections

(All respondents - N=1200, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)



Figure 117 – Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often would they make payments/gifts for the following purposes? - To deal with environmental inspections

(All respondents - N=1200, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)

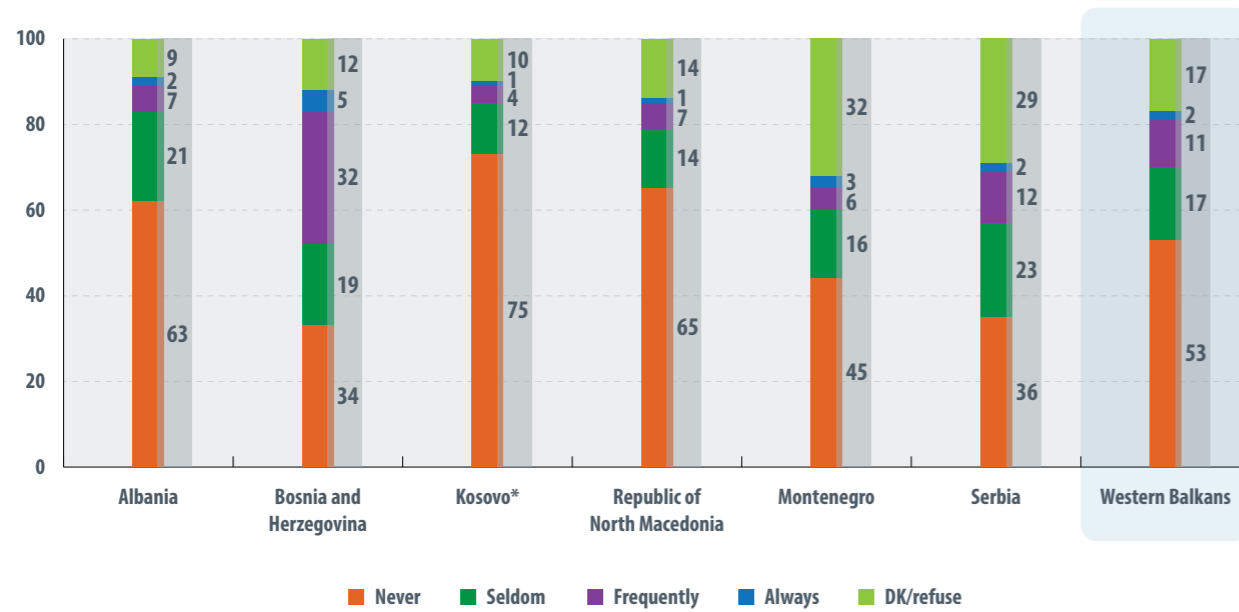


Figure 119 – Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often would they make payments/gifts for the following purposes? - To deal with customs/imports

(All respondents - N=1200, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)

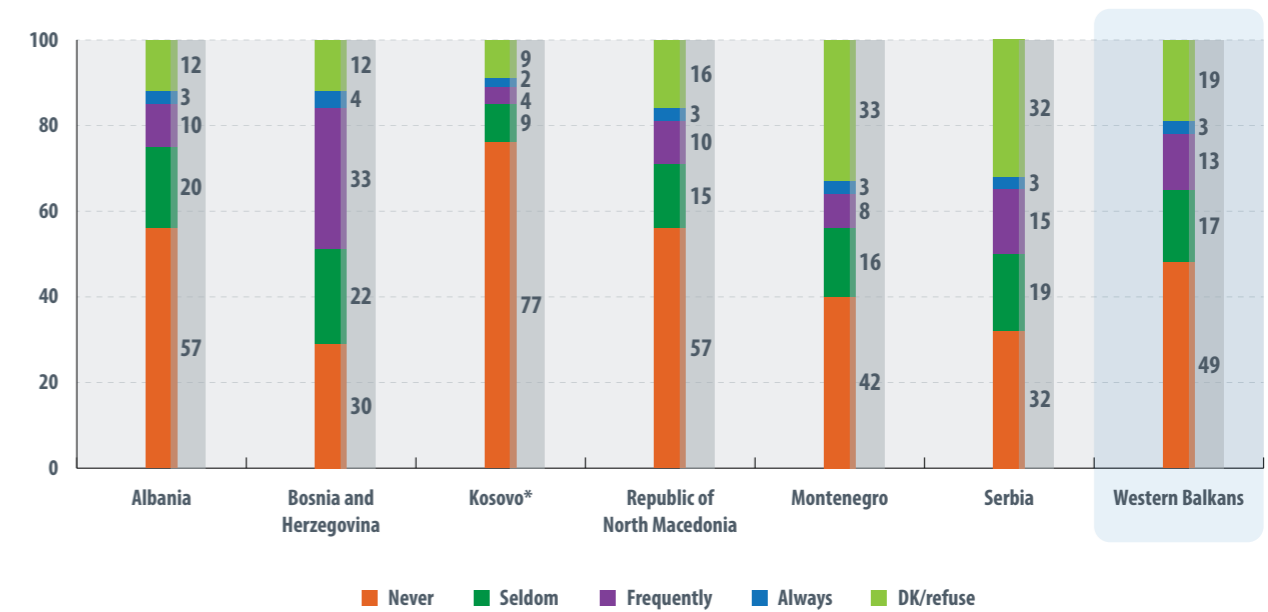


Figure 118 – Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often would they make payments/gifts for the following purposes? - To deal with taxes and tax collection

(All respondents - N=1200, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)



Figure 120 – Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often would they make payments/gifts for the following purposes? - To deal with courts

(All respondents - N=1200, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)

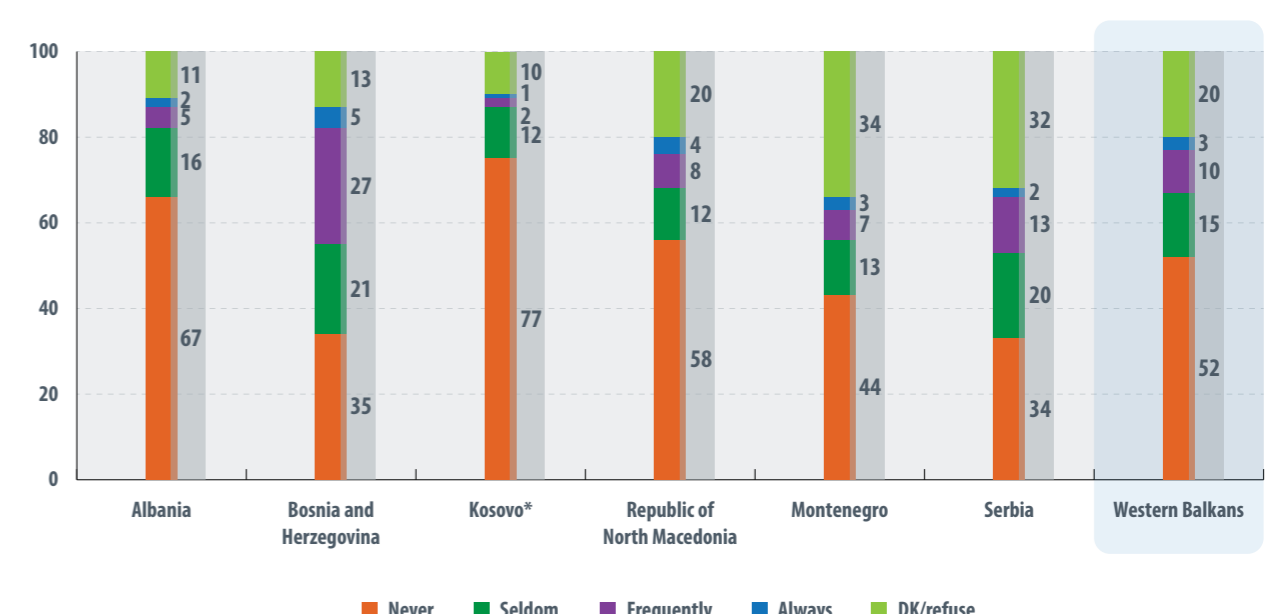


Figure 121 – Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often would they make payments/gifts for the following purposes? - To influence the content of new legislation, rules, decrees, etc.

(All respondents - N=1200, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)

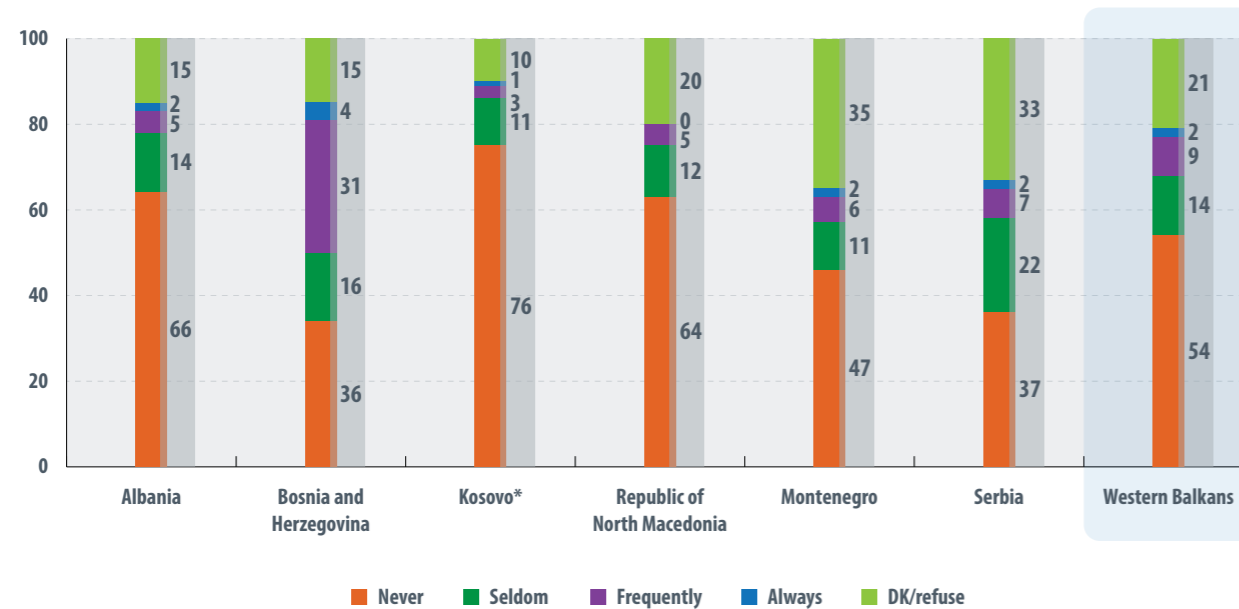


Table 3 - Please estimate what is the approximate amount (in EUR) of unofficial payments/gifts that companies like yours would make in a given year for the following purposes.

(Respondents who consider that unofficial payments/gifts are made at least seldom and did not mark DK/refuse, mean)*

Western Balkans 2019/20	Average amount of unofficial payments/gifts (EUR)	*Different base (No. of respondents) for each purpose
To get connected to and maintain public services	▲ 927	414
To obtain business licenses and permits	1785	477
To obtain government contracts	▲ 2963	429
To deal with occupational health and safety inspections	▲ 1400	417
To deal with labour inspections	▼ 880	478
To deal with fire and building inspections	▼ 743	375
To deal with environmental inspections	▲ 1721	359
To deal with taxes and tax collection	▲ 1099	430
To deal with customs/imports	▲ 1638	390
To deal with courts	▲ 2196	334
To influence the content of new legislation, rules, decrees, etc.	▼ 548	297

▲ Significantly higher than 2019
▼ Significantly lower than 2019

The costliest unofficial payment/gift is for obtaining government contracts (Table 3). With an average of 2,963 EUR, it surpassed its value of 2,507 in 2019 by nearly 20%. The second-ranked cost relates to dealing with courts, 2,196 EUR, which is near doubling over one year period (1,247 EUR in 2019), suggesting that at least the perception of corruption in judicial system surged in 2020. The bribery cost estimate for obtaining licenses and permits was maintained (1,785 EUR),

though dropped to the third place, rightly followed by the unofficial cost to deal with the environmental inspections (1,721 EUR), whose corruptive cost increased by an astonishing 50%. Dealing with customs (1,638 EUR) and occupational and safety inspections (1,400 EUR) belong to the group of costly unofficial payments that businesses in the Western Balkans face. It is striking that out of 11 costed bribes, 7 showed an increase in 2020.

Western Balkans businesspersons generally rate neutrally various institutions in charge of reporting on and processing corruption cases (Figure 122). The following institutional stakeholders were assessed: CSOs, media, police, other government agencies, prosecutor's office, courts and government overall. The neutral rating of these institutional actors ranges between 38% and 46%. Media saw the largest share of respondents

who considered them adequate (16%), while it was the police that saw 6% of respondents saying it to be exceptional. However, very rarely respondents articulate the role of these actors as exceptional. On the other extreme, in 21% of cases the government overall has been assessed as very poor, which has been the case only for 12% in the case of media.

Figure 122 – How would you rate the following entities in reporting and processing corruption cases, or providing support in the fight against corruption in your economy?

(All respondents - N=1200, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)

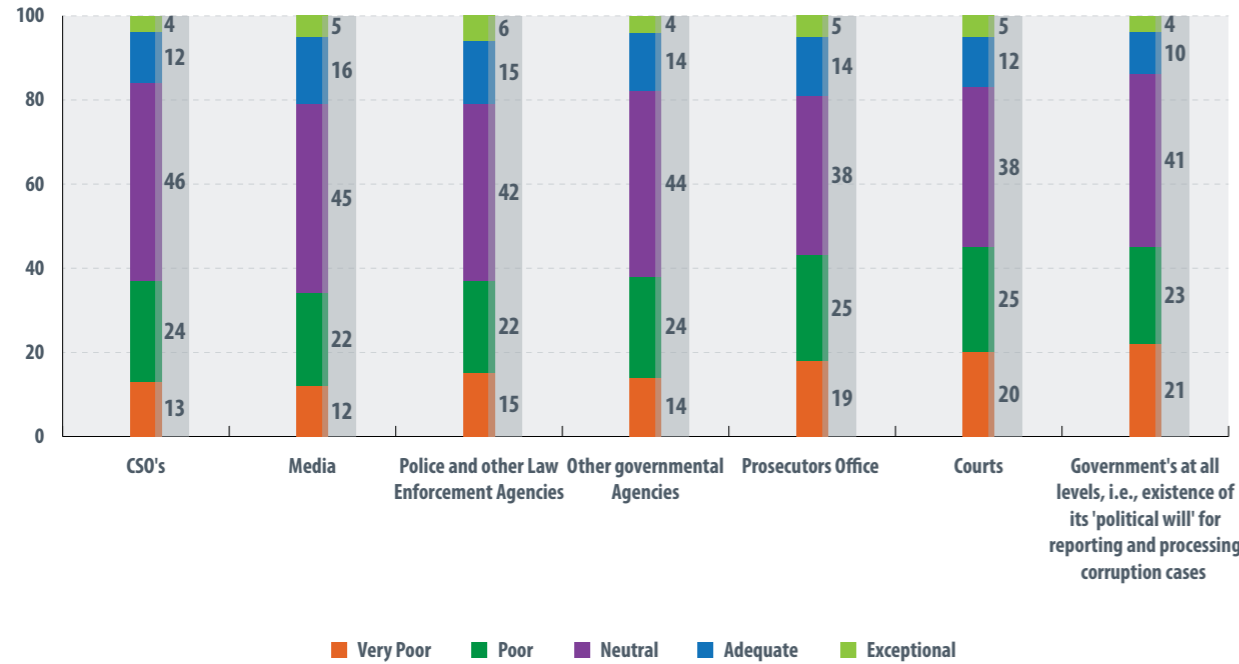


Figure 123 – How would you rate the following entities in reporting and processing corruption cases, or providing support in the fight against corruption in your economy? - CSO

(All respondents - N=1200, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)



Figure 124 – How would you rate the following entities in reporting and processing corruption cases, or providing support in the fight against corruption in your economy? - Media

(All respondents - N=1200, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)

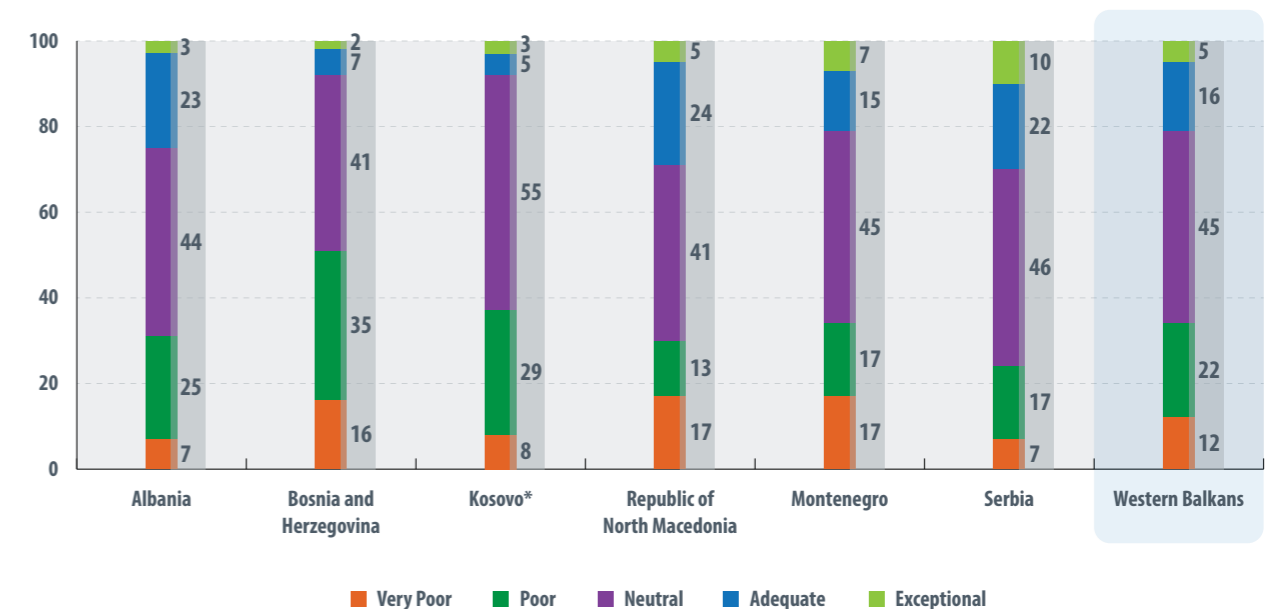


Figure 123 through Figure 129 evaluate institutional stakeholders one by one and offer an overview of within-region varieties. The emerging patterns are similar for the Western Balkan economies across the examined institutional players. Respondents in Bosnia and Herzegovina generally assess corruption-related stakeholders as least favourably in the Western Balkans: the share of those reporting very poor or poor performance ranges between 51% for the media and 71% for the government as a whole. K mainly reflected neutral stance with 49% for the government as a whole to 55%

for the media; followed by Montenegrins who did so in 37% of responses about the prosecutor's office and 52% for CSOs. On the other extreme of the spectre are Serbia and Republic of North Macedonia. 24% of Macedonians assessed police and media as adequate, while a quarter of Serbians said so for the police and prosecutor's office. Serbians are the leaders in assessing the corruption-related players as 'exceptional', despite this share remaining low overall: from 7% for other governmental agencies to 11% for courts and the government overall.

Figure 125 – How would you rate the following entities in reporting and processing corruption cases, or providing support in the fight against corruption in your economy? - Police and other law enforcement agencies

(All respondents - N=1200, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)

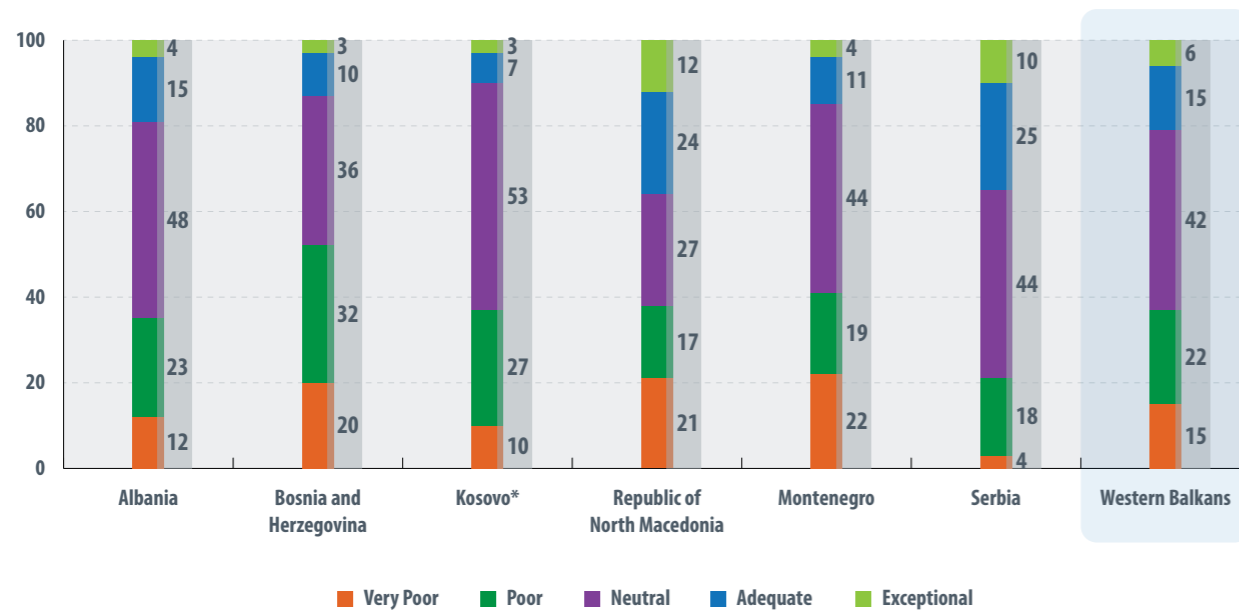


Figure 126 – How would you rate the following entities in reporting and processing corruption cases, or providing support in the fight against corruption in your economy? - Other governmental agencies (i.e. supreme audit institutions, tax offices, inspections)

(All respondents - N=1200, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)

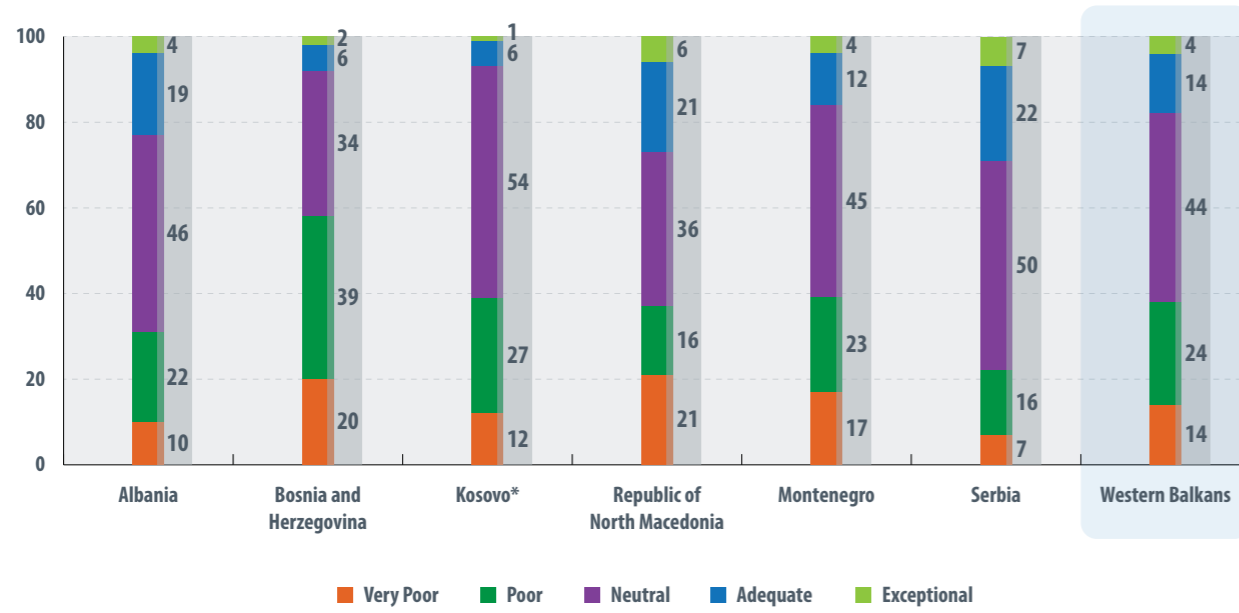


Figure 127 – How would you rate the following entities in reporting and processing corruption cases, or providing support in the fight against corruption in your economy? - Prosecutor's Office

(All respondents - N=1200, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)

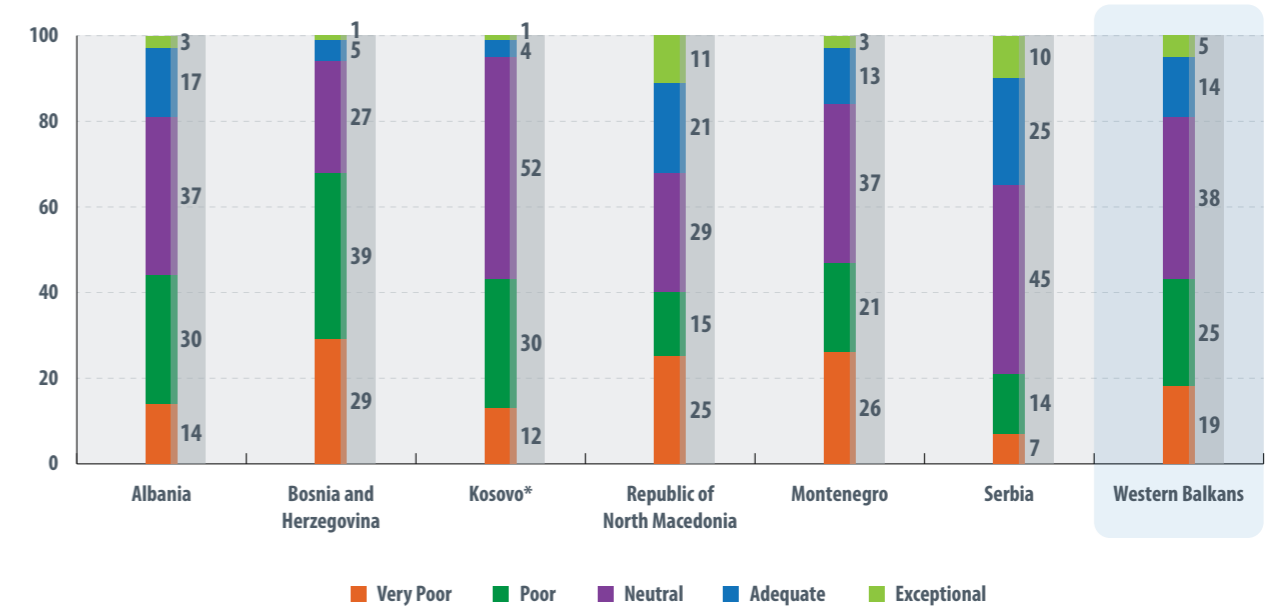


Figure 128 – How would you rate the following entities in reporting and processing corruption cases, or providing support in the fight against corruption in your economy? - Courts

(All respondents - N=1200, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)

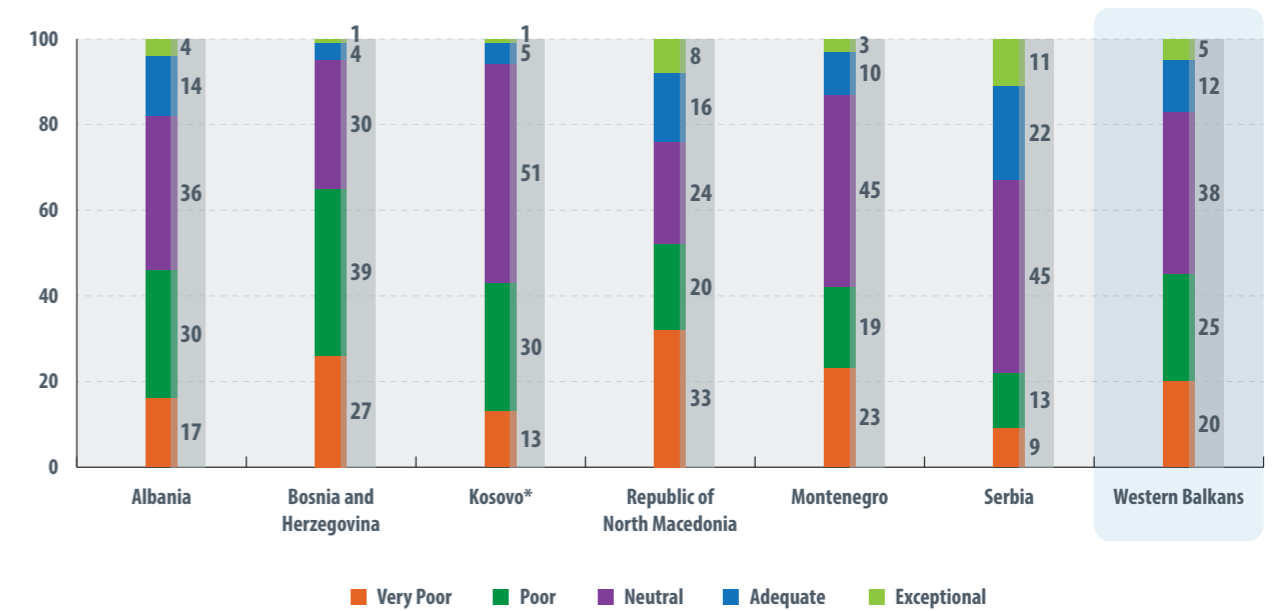
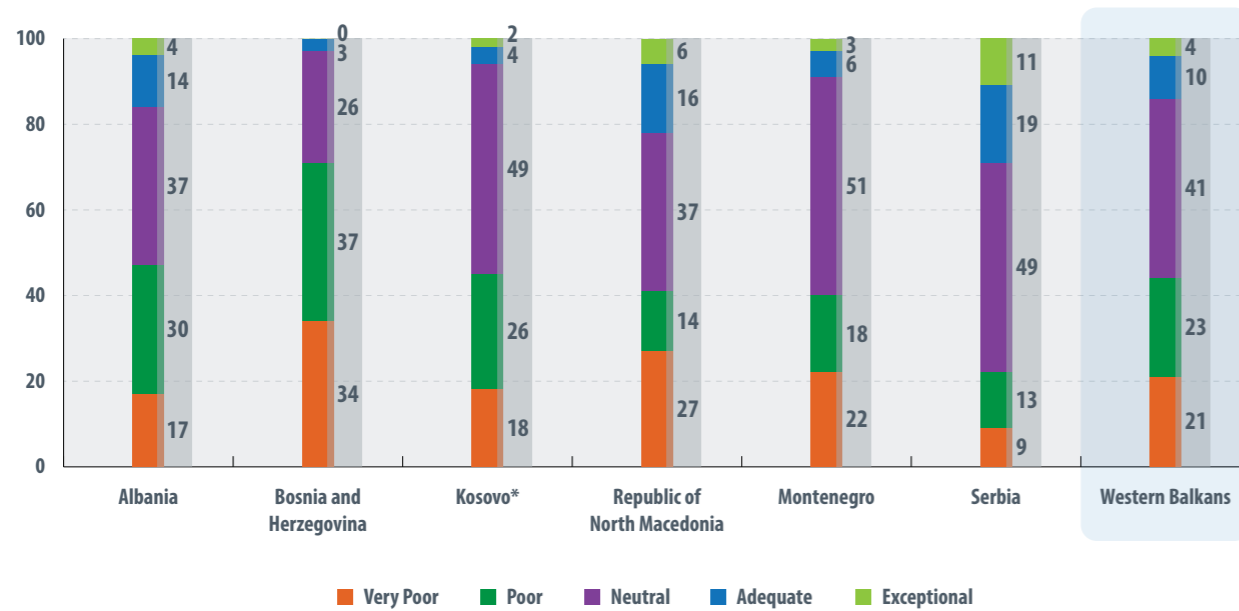


Figure 129 – How would you rate the following entities in reporting and processing corruption cases, or providing support in the fight against corruption in your economy? - Government at all levels, i.e. existence of its “political will” for reporting and processing corruption cases

(All respondents - N=1200, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)

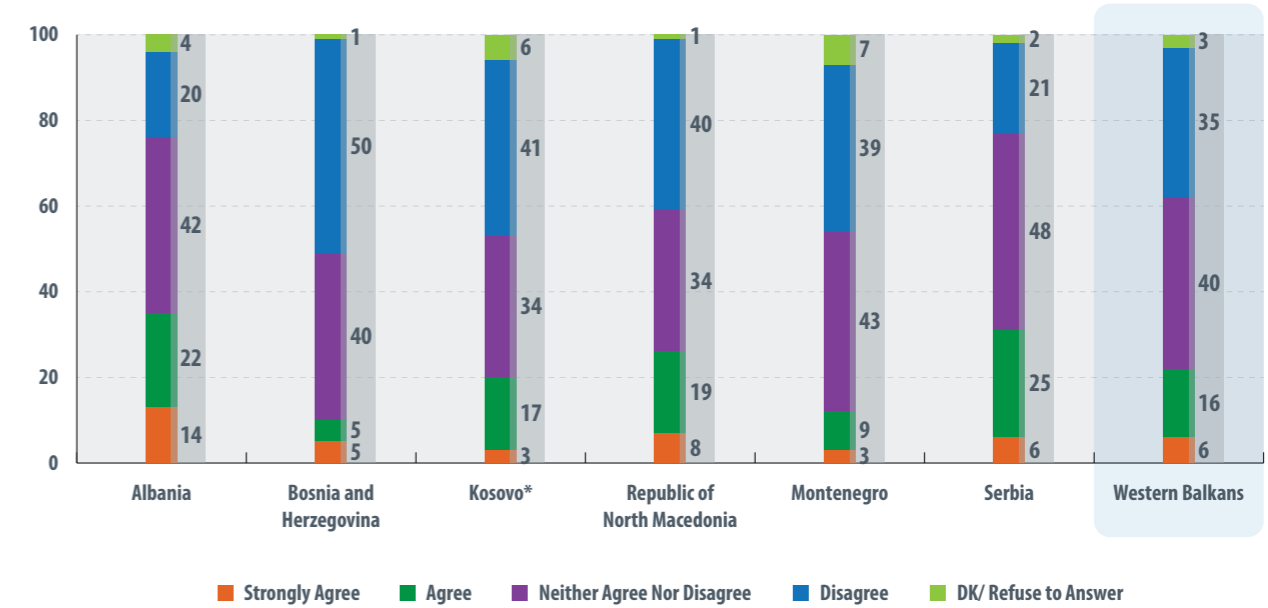


22% of Western Balkans businesspersons agreed, fully or partially, that the fight against corruption is effective (Figure 130). 40% were neutral, while 35% disagreed. It is mostly Bosnians who consider the fight against corruption to have been ineffective (50%), followed by dominant shares in Kosovo* (41%) and Republic of

North Macedonia (40%). Respondents in Serbia, Albania and Montenegro maintained a dominant neutral stance, with 48%, 42% and 43%, respectively, despite the share of those who agreed being large in Serbia (31%) and Albania (36%).

Figure 130 – How much do you agree or disagree with the following statement: Fight against corruption in my economy is effective

(All respondents - N=1200, share of total, %)



Respondents were supportive of digitalisation of public services as a vehicle to reduce corruptive practices (Figure 131). A large majority, 82%, considered it would exert full or some positive impact across the region, with this share being largest in Albania (92%). Yet,

within such positive inclination, the share of those who give prevalence to marginal rather than full positive impact is very large in Bosnia and Herzegovina (64%), followed by Kosovo* (54%).

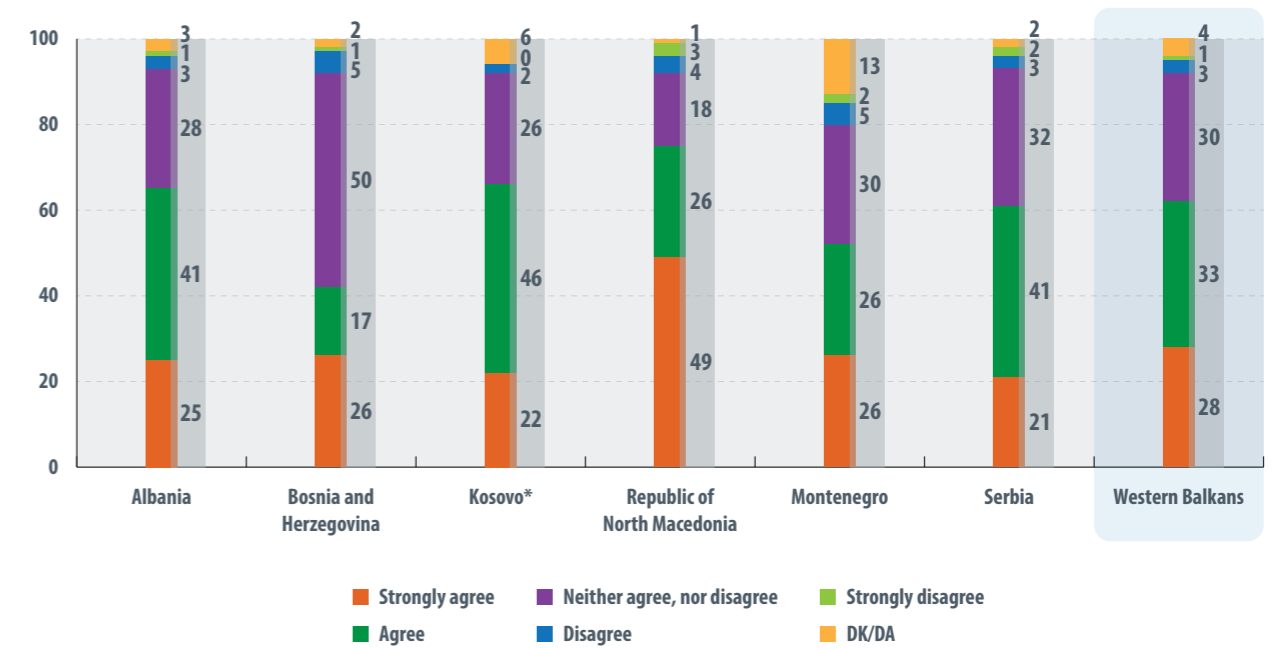
Figure 131 – To what extent do you believe digitalisation of public services would have a positive impact on preventing corruptive practices?

(All respondents - N=1200, share of total, %)



Figure 132 – How much do you agree or disagree that the international community should prioritise addressing issues of corruption to improve business climate in your economy?

(All respondents - N=1200, share of total, %)



Finally, respondents in the Western Balkans are mainly in favour of international community prioritising addressing issues of corruption in order to improve business environment (**Figure 132**). A sheer majority, across the region, of 61% supported this attempt, as opposed to only 4% being against. Macedonians are

most supportive (75% said they agreed strongly or to an extent), while Bosnians the least (43%). The latter have been predominantly hesitant (half responded neutrally), while the strong opposition remained considerably attenuated in all Western Balkan economies.



TRADE AND INVESTMENT

Large majority of companies did not pursue nor planned any investments abroad in 2020 (Figure 133). With 88%, the share was slightly lower than a year ago (90%), yet of the same magnitude. Companies in Bosnia and Herzegovina were most inclined to making a foreign investment (21% responded they invested or planned an investment), while the hesitancy was strongest in Republic of North Macedonia (only 5% did or planned an investment). Of the small share which pursued or planned an investment, there has been

an even distribution across the region to invest within the Western Balkans (37%), in the EU (30%) and in both (30%) (Figure 134). While even distribution was retained in Albania, in the other Western Balkan economies the propensity varied: from predominant investment within the region of the Kosovar and Macedonian businesses (two thirds of businesses in each economy said they did or planned an investment); to predominant investment in the EU by Montenegrin businesses (62%).

Figure 133 – Has your company invested abroad, or plans to do so in the next 12 months?

(All respondents - N=1200, share of total, %)

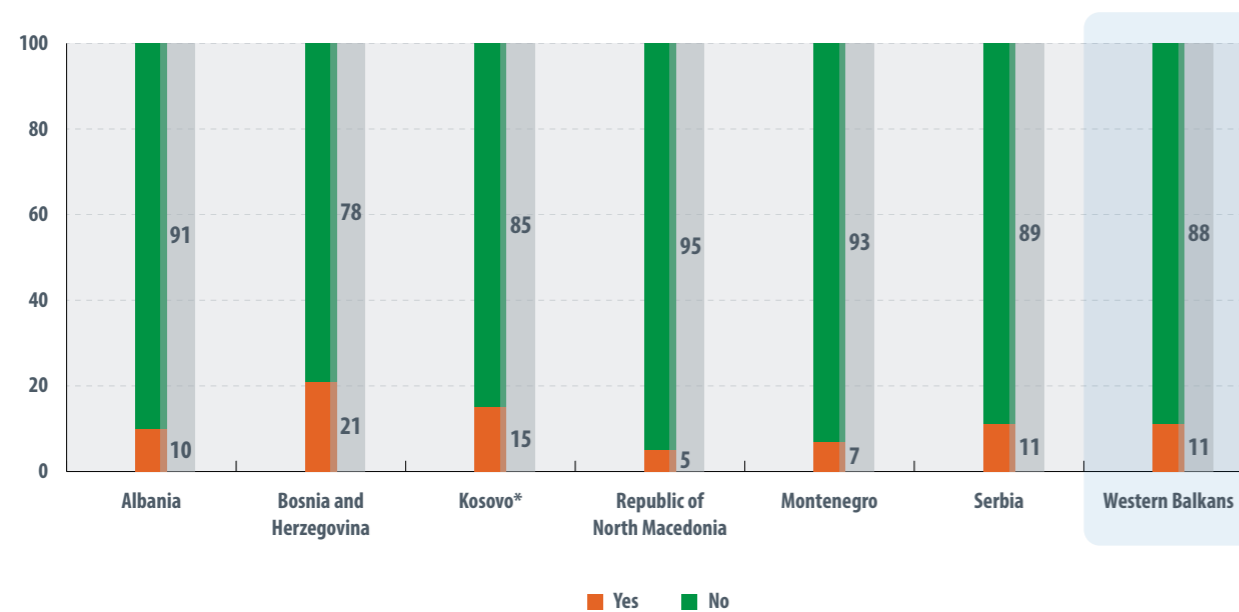


Figure 134 – Where did you invest or plan to do so?

(Those who invested or plan to invest abroad in the next 12 months, N=134, share of total, %)

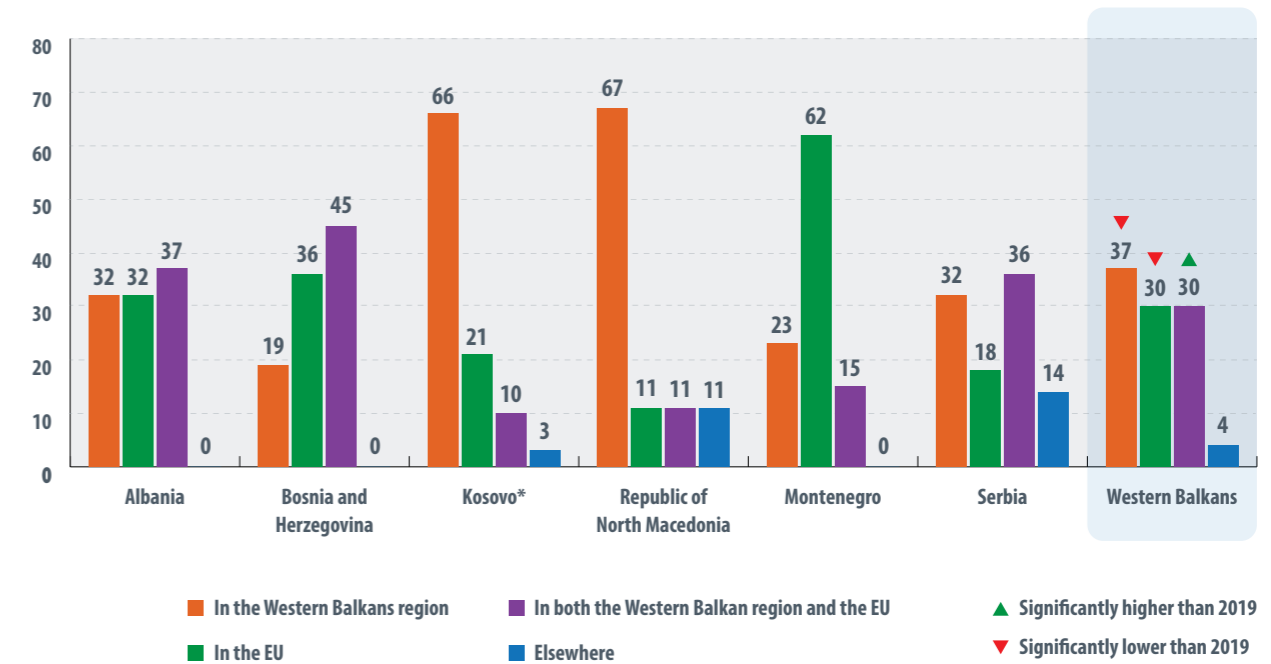


Figure 135 presents a set of reasons underlying the company's motivation to invest abroad; companies were asked to rank these motivators from most to least important. All five motivators obtained fairly similar within-ranking, although the intention to access new markets has been first-ranked with 24% of businesses

reporting it as most important. The access to natural resources as a motivator gained predominantly neutral rank (one-third of respondents said it was medium important), while the share of least ranked is highest for the lower costs as a motivator (26%).

Figure 135 – Which of the following reasons best describes your company’s motivation to invest abroad?

(All respondents - N=1200, share of total, %)

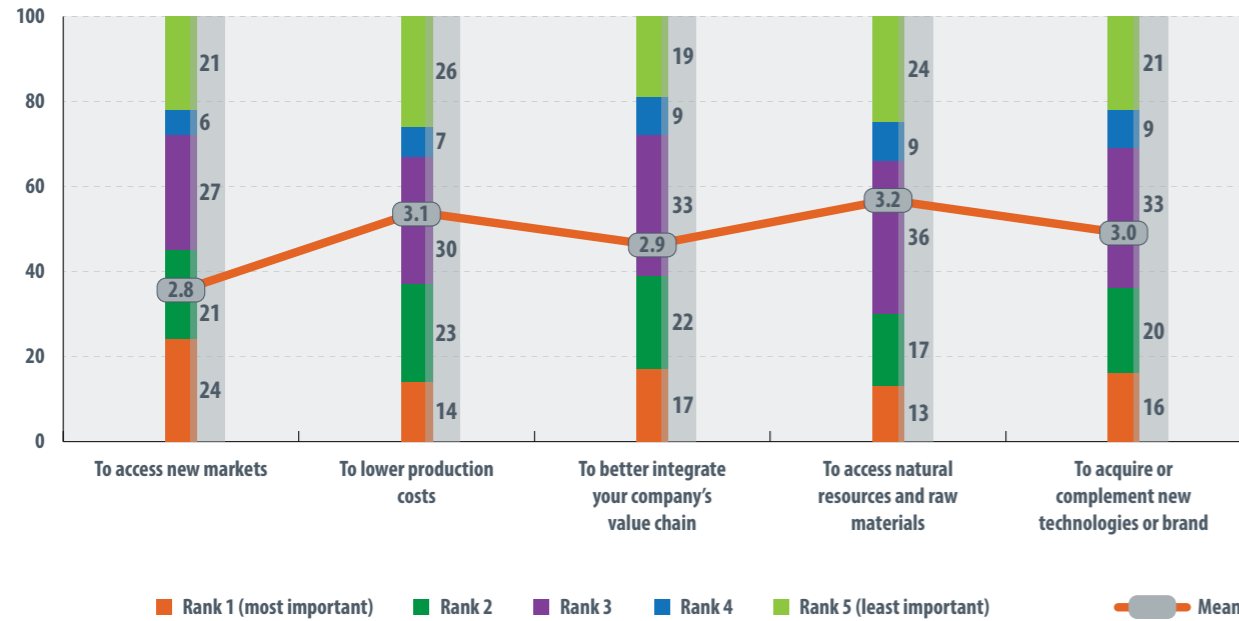


Figure 136 – Which of the following reasons best describes your company’s motivation to invest abroad? - To access new markets

(All respondents - N=1200, share of total, %)



Figure 137 – Which of the following reasons best describes your company’s motivation to invest abroad? - To lower production costs

(All respondents - N=1200, share of total, %)



Motivators have different weight across the Western Balkan economies: they are presented one-by-one in **Figure 136** through **Figure 140**. The importance of access to new markets is the highest in Montenegro, as 37% of companies ranked it first. Interestingly, the access to new markets is least important in Kosovo*, as half the respondents assigned it rank 5, this being somewhat peculiar given the small size of the economy. Lower costs are most important in Republic of North Macedonia and Serbia, where 22% and 23% of respondents in each of the two economies, respectively, assigned it rank 1. Again, lower costs are not

important to Kosovars (51% assigned rank 5). Better integration into the global value chain is very important in Republic of North Macedonia, where 27% ranked it in first place, reckoning the importance assigned to the expansion of FDIs and their rooting in the domestic economy. The same holds true for the access to natural resources and new technologies, which Macedonian businesses ranked first more than the other Western Balkan businesses. On the other side, Kosovars consistently assigned low rank to all motivators for most of the time.

Figure 138 – Which of the following reasons best describes your company's motivation to invest abroad? - To better integrate your company's value chain

(All respondents - N=1200, share of total, %)



Figure 139 – Which of the following reasons best describes your company's motivation to invest abroad? - To access natural resources and raw materials

(All respondents - N=1200, share of total, %)



Figure 140 – Which of the following reasons best describes your company's motivation to invest abroad? - To acquire or complement new technologies or brand

(All respondents - N=1200, share of total, %)



When deciding where to invest abroad, businesspersons ranked tax rates as very important in 35% of the cases (Figure 141). All the other aspects are evaluated as important; for example: availability of financial capital (36%), labour costs (35%), domestic rooting

(35%). The access to land or real estate was the only factor ranked as not important (a total of 9% of respondents), although all factors got only small shares of respondents assigning no importance to them (hovering around of less than 5%).

Figure 141 – In the process of choosing where to invest abroad, how important were the following factors?

(All respondents - N=1200, share of total, %)

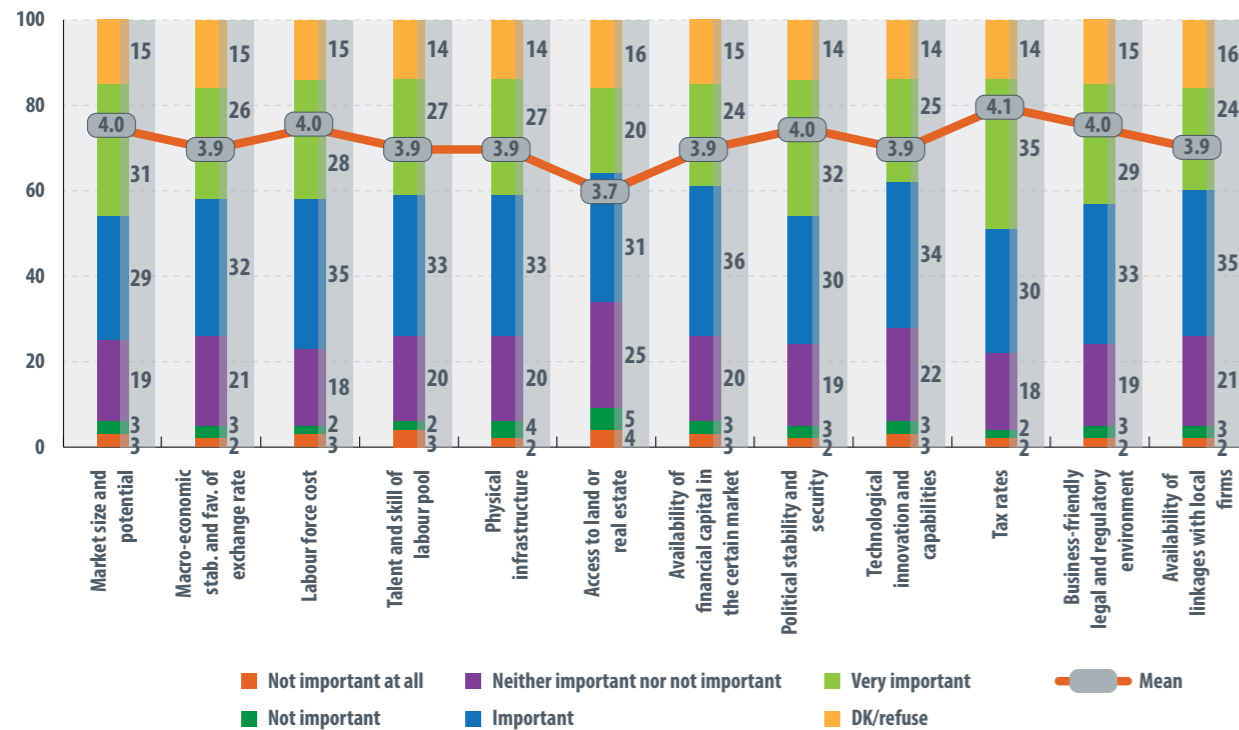


Figure 142 – When investing abroad, how much do available investment incentives influence the decision on where to invest?

(Those who invested or plan to invest abroad in the next 12 months N=134, share of total, %)

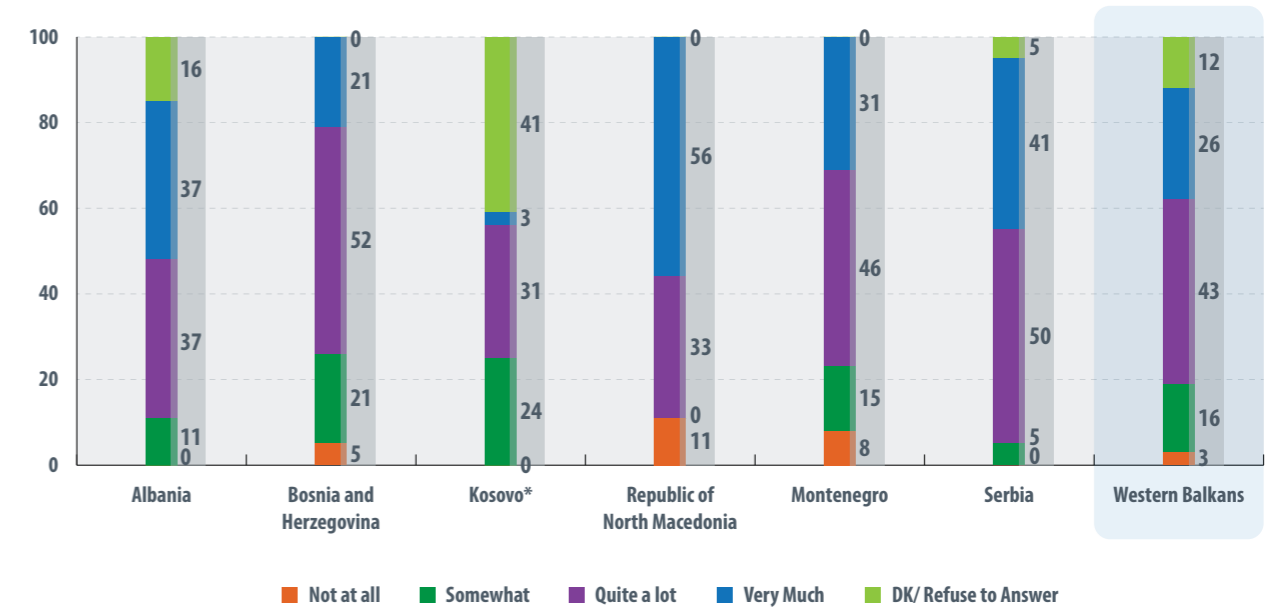
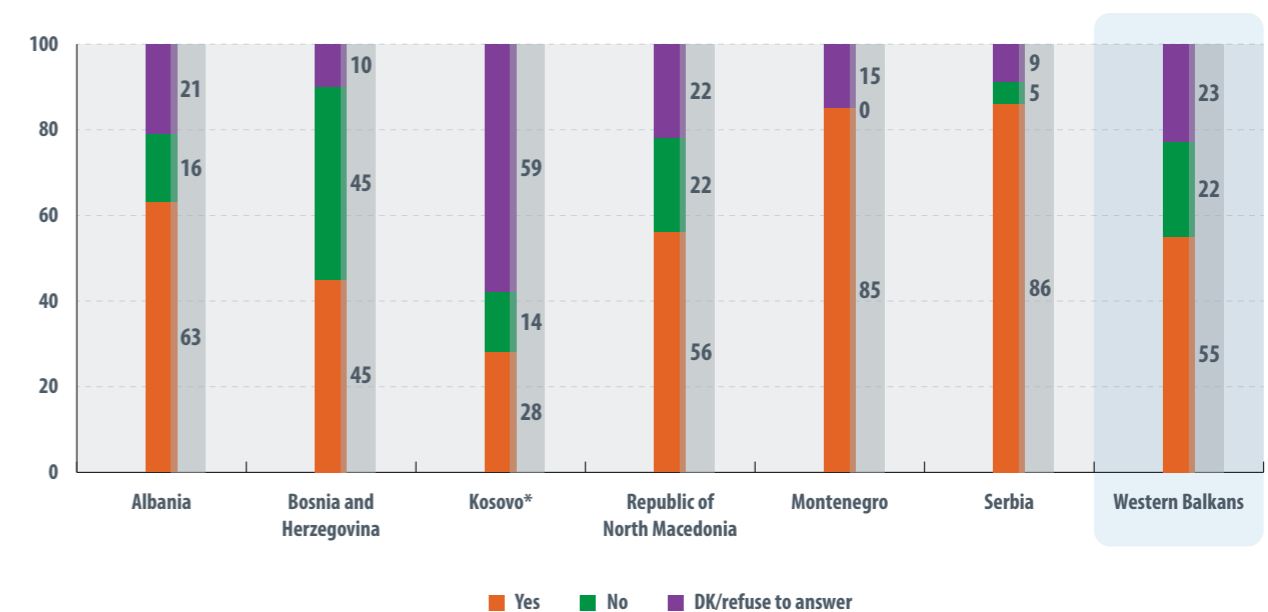


Figure 143 – Could they be considered transparent?

(Those who invested or plan to invest abroad in the next 12 months N=134, share of total, %)



Investment incentives abroad are quite important for Western Balkans' businesses (Figure 142). 26% of them responded that such incentives were very much important, while 43% said they were quite important. However, some within-region differences are quite striking. For example, such incentives are strongly important for Macedonian businesses (56%), while quite important for Bosnians (52%), Serbians (50%) and Montenegrins (46%). On the other hand, the share of respondents assigning low value to such incentives is

pronounced in Kosovo* (24%) and Bosnia and Herzegovina (26%). The majority of respondents considered such investment incentives transparent (55%, Figure 143), although this share varied from 28% in Kosovo* to 86% in Serbia. Kosovars, however, mostly refused to answer the question about the transparency (59%), while it was Bosnians who considered investment incentives abroad as equally transparent and non-transparent (45% for each alternative).

Western Balkan businesses remain stuck on the domestic market (Figure 144). 86% of them responded they have been selling only domestically, an increase from 84% a year ago. This is not strange given the economies of the Western Balkan are dominated by micro and small enterprises, which could hardly join global value chains and compete on the foreign market. Only 7% exported to the Western Balkans, 6% in the EU and 1% elsewhere. Within-region variation is limited, the only exception being Bosnia and Herzegovina where by companies manifested higher propensity to export:

15% said they exported to the Western Balkans, 16% to the EU and 2% elsewhere. Expectedly, 57% of those companies that did not export revealed they did not have capacity to export, a surge from 19% a year ago (Figure 145). The second-ranked reason (41%) is the lack of plans to export. These two reasons top the list in each of the Western Balkan economies, albeit they are quite pronounced in Kosovo* (79% and 61%, respectively) and Albania (60% and 54%, respectively) and less so in the other four economies.

Figure 144 – What percentage of your company’s sales are made domestically, exported to the WB region, to the EU or to the third countries?

(All respondents - N=1200, share of total, %)

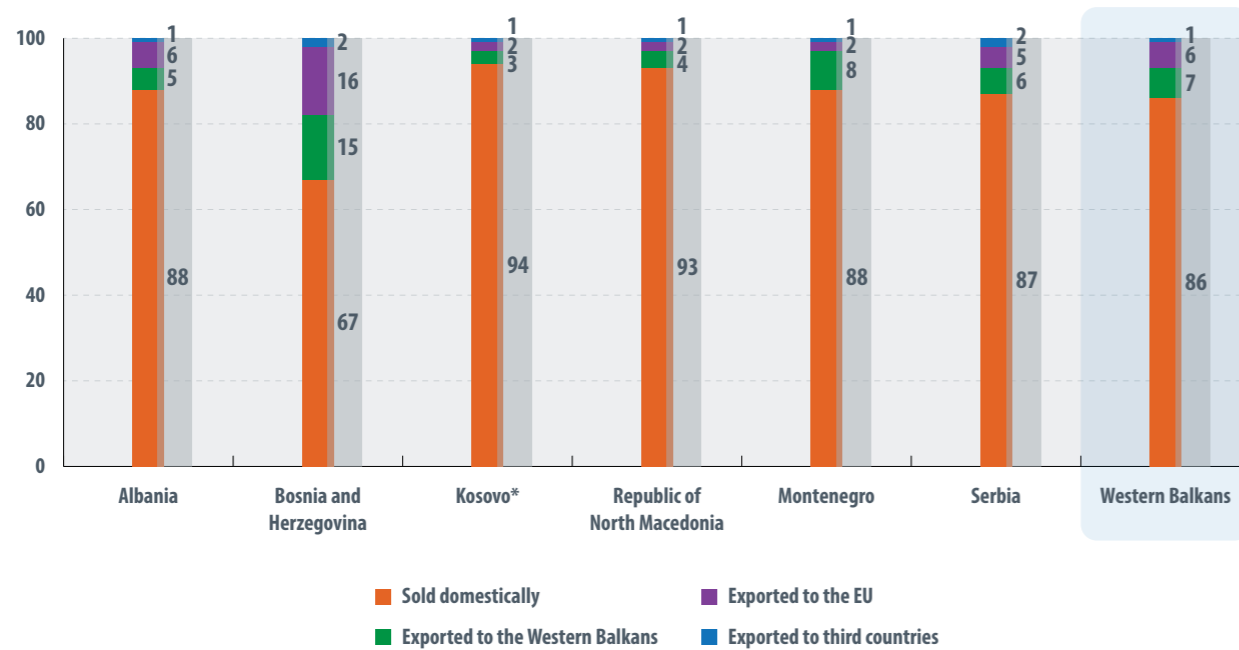
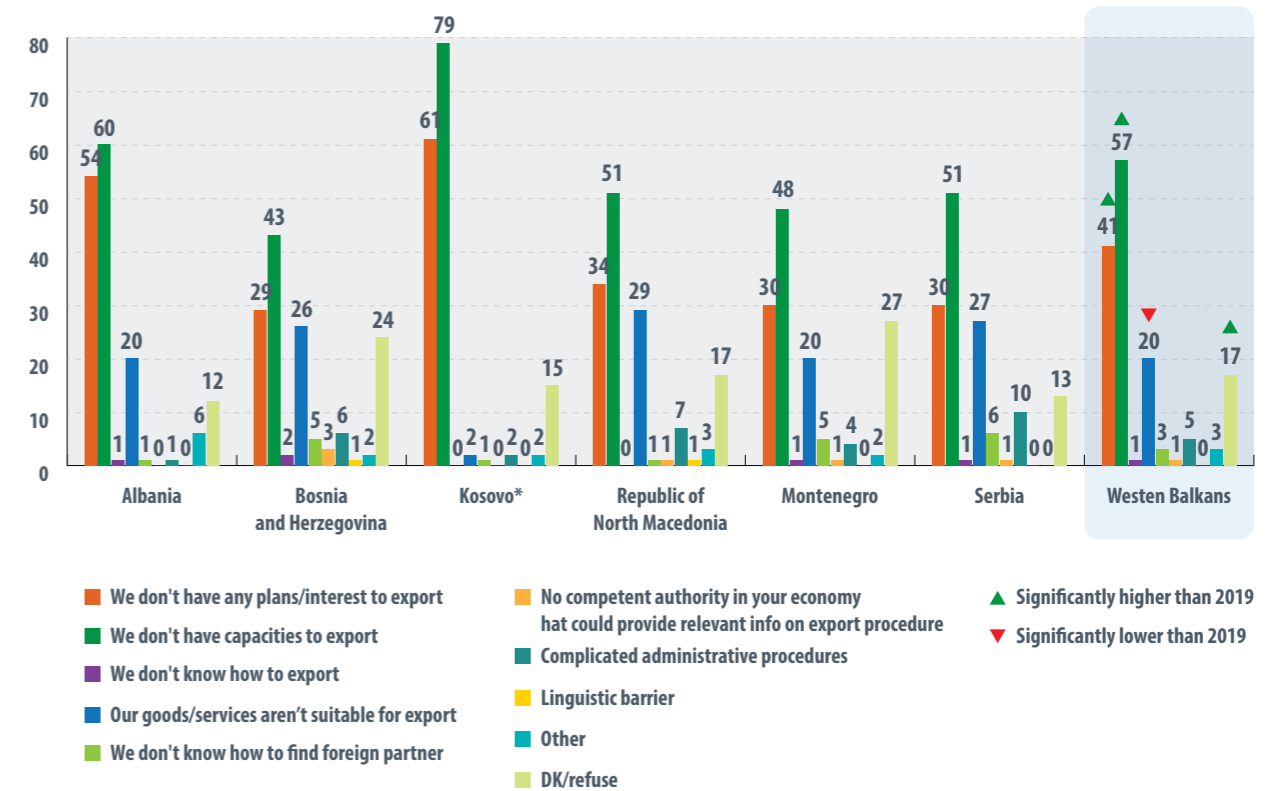


Figure 145 – Why doesn't your company export?

(Respondents whose companies are non-exporters, N=883, %)



Non-exporters lack integration into the global value chain on the side of imports as well (Figure 146), as a large majority of 80% of them purchase their inputs only domestically, with variation from 75% in Bosnia and Herzegovina and Montenegro, to 89% in the Republic of North Macedonia. This drastic shift from the previous year (where only 56% declared to purchase only domestically) is due mostly to the pandemic and its restriction measures. On the other hand, 43% of non-exporters produce for small companies and individuals (Figure 147), while only 11% of them belong to a (multinational) group and hence produce for their parent company or affiliated subsidiaries. Still, there are intraregional differences. In Serbia, a large share

of non-exporters produces for small companies and individuals (73%), while this is the case for only 30% of non-exporters in Republic of North Macedonia. Non-exporters in the Republic of North Macedonia are embedded in the value chain of their group in 14% of the cases, while 10% produce for the government institutions. While the latter constitute large shares in the Republic of North Macedonia, they are even larger in Albania (24% produce for their company's group and 12% produce for the government). In Montenegro and Bosnia and Herzegovina, the share of non-exporters producing for large domestic companies is important, 18% and 13%, respectively.

Figure 146 – What percentage of your company's inputs and supplies are...

(Respondents whose companies are non-exporters, N=1200, %)

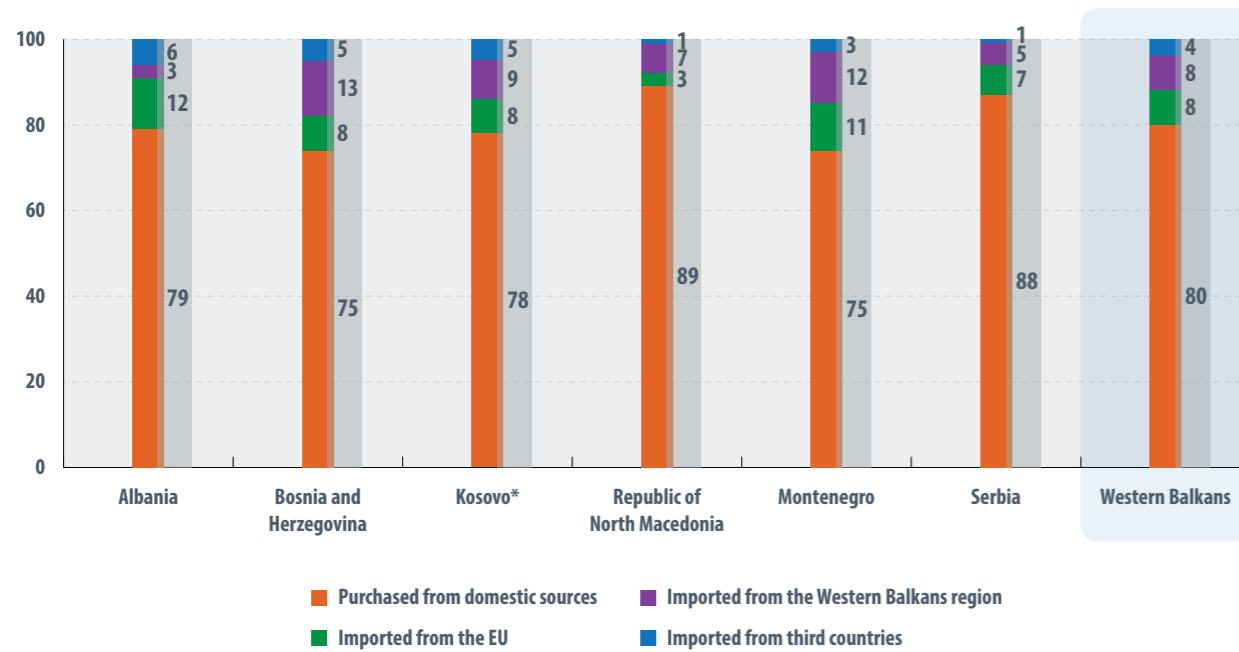
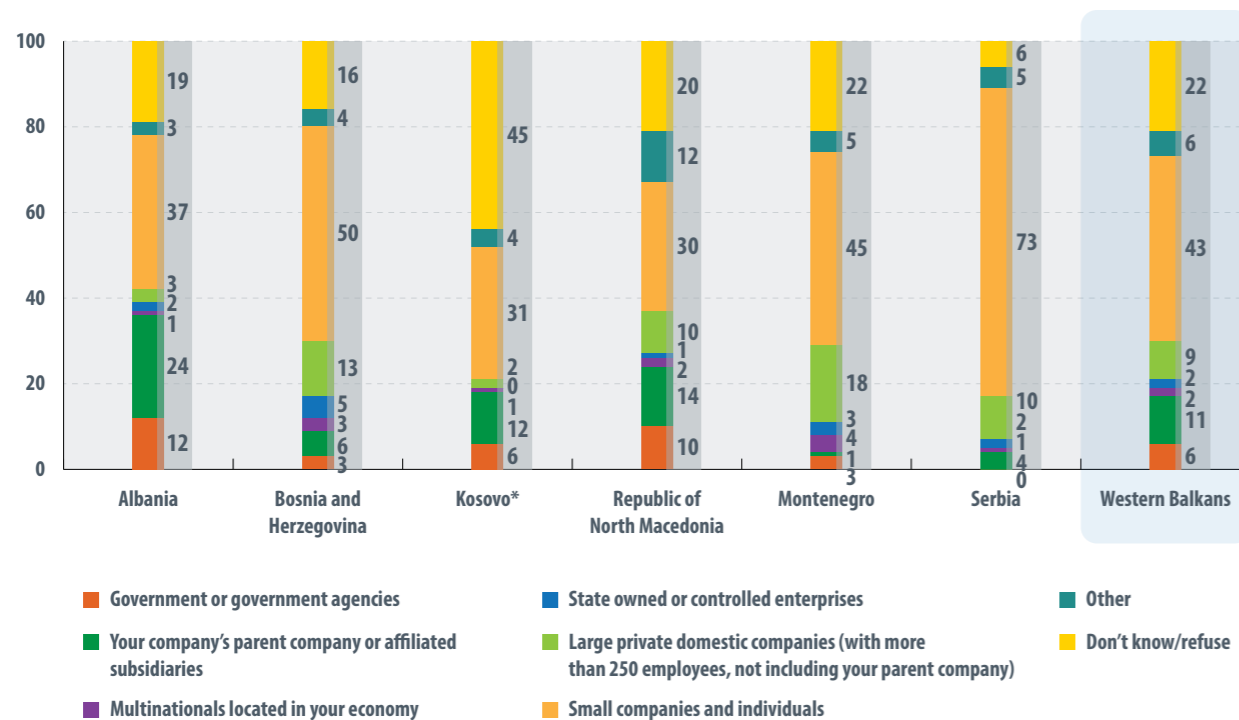


Figure 147 – What percentage of your domestic sales are made to?

(Respondents whose companies are non-exporters, N=883, %)

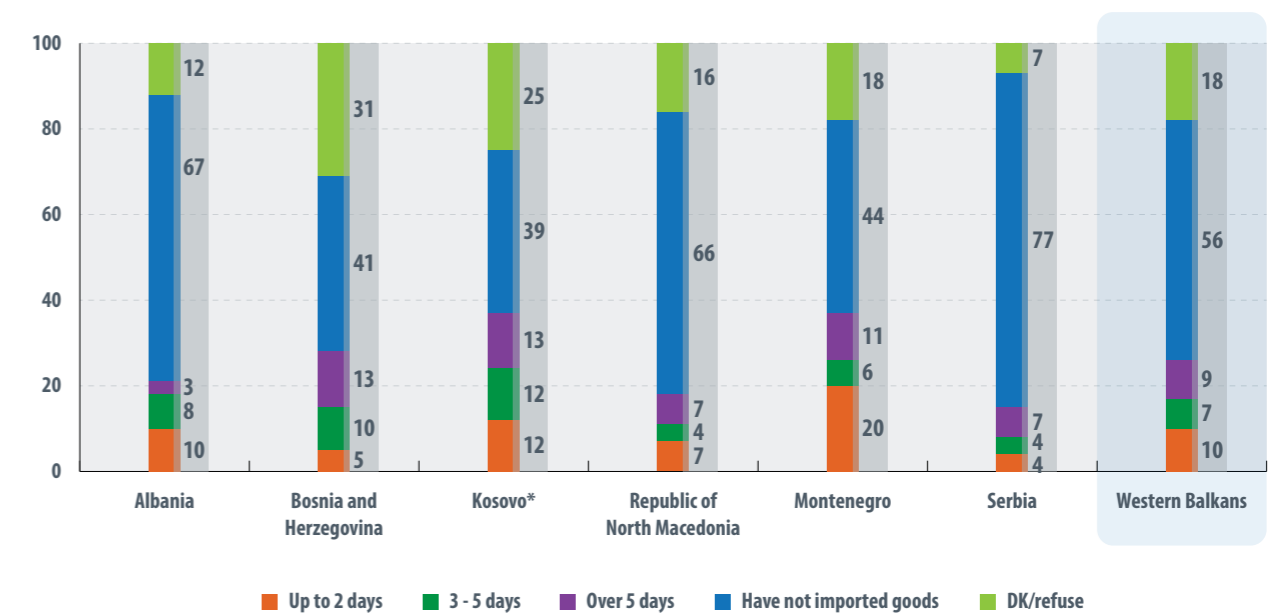


56% of non-exporters reported that they did not import, similar as in 2019 (Figure 148). However, the share of those who needed up to two days for customs clearance for their imports halved in 2020 (10%) compared to 2019 (19%), following a decline that had started earlier. Within the region, such customs clearance of imports seems to have been the speediest in Montene-

gro, since one-fifth of non-exporters managed to finish it in up to two days. Over five days were predominantly needed in Bosnia and Herzegovina and Kosovo* (13% each), but it should be noted that these two economies had lowered the share of non-exporters who did not import, when compared to the average (41% and 39%, respectively).

Figure 148 – If you have imported goods in the past 12 months, what is the average number of days to clear imports through customs?

(Respondents whose companies are non-exporters, N=883, %)

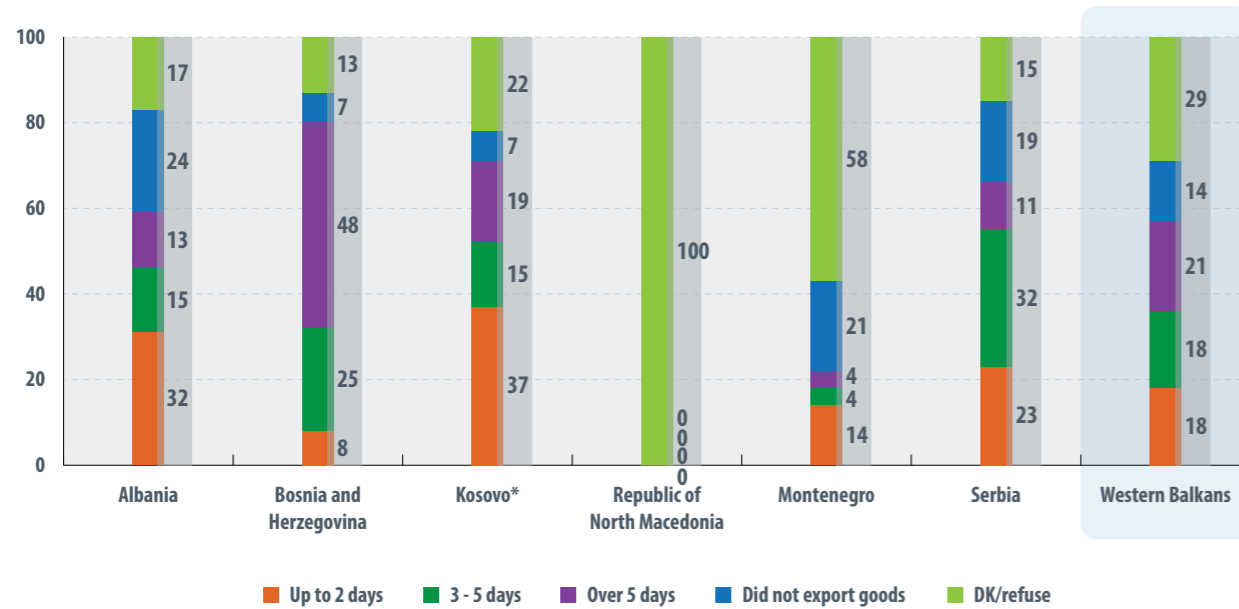


The customs clearance related to exports offers a more varied picture (Figure 149). 21% needed more than 5 days to clear exports, while 36% needed less than 5 days. Surprisingly, the refusal rate on this question is quite high (29% for the total region and full for Republic of North Macedonia), which may undermine the

credibility of the conclusions due to the small sample size. Yet, it is apparent that Kosovo* and Albania are the speediest in export clearance (37% and 32%, respectively, responded they needed fewer than two days to export), while nearly half the Bosnian firms needed over 5 days.

Figure 149 – If you have exported goods in the past 12 months, what is the average number of days to clear exports through customs?

(Respondents whose companies are exporters, N=317, %)



Only 19% of exporters said they exported in the Western Balkan region, varying from 9% in Kosovo* to 27% in Bosnia and Herzegovina (Figure 150). The share for the entire region declined from 31% in 2019. The key obstacle identified by exporters to the Western Balkans has been the need for licenses and permits (19%) and hardcopy documentation (18%), although the importance of the two significantly dwindled compared to 2019 (33% and 41%, respectively). Yet, there are a couple of intraregional differences in regards to obstacles

(Table 4). For example, the importance of the obstacles in Albania is spread among documents, licenses, inconsistent rules of origin, physical inspections, VAT and slow procedures (each ranging between 21% and 26%). VAT dominates in Bosnia and Herzegovina (41%), and documentation and licenses in Montenegro and Serbia. The readers should note that responses in Kosovo* and the Republic of North Macedonia to this question lack sufficient number and conclusions cannot be drawn.

Figure 150 – If your company exports to the Western Balkans region, what are the main obstacles to your exports?

(All respondents - N=1200, share of total, %)

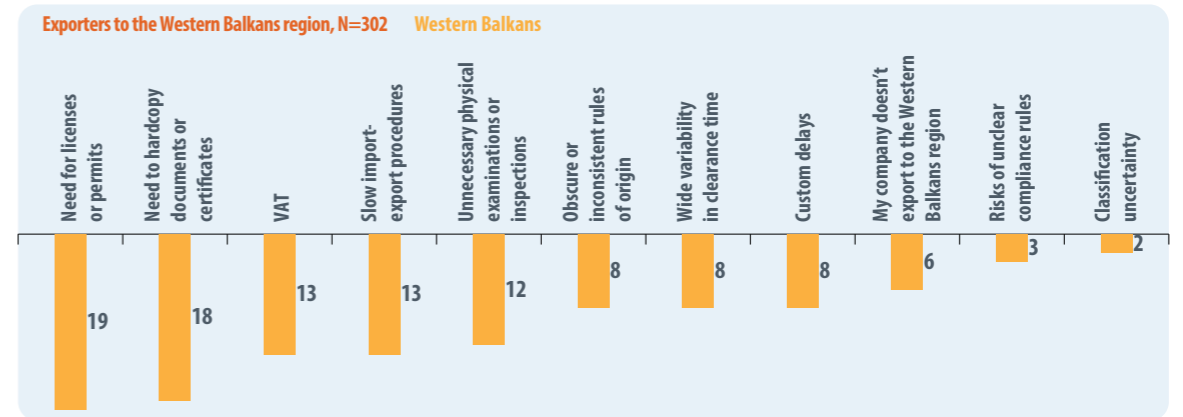
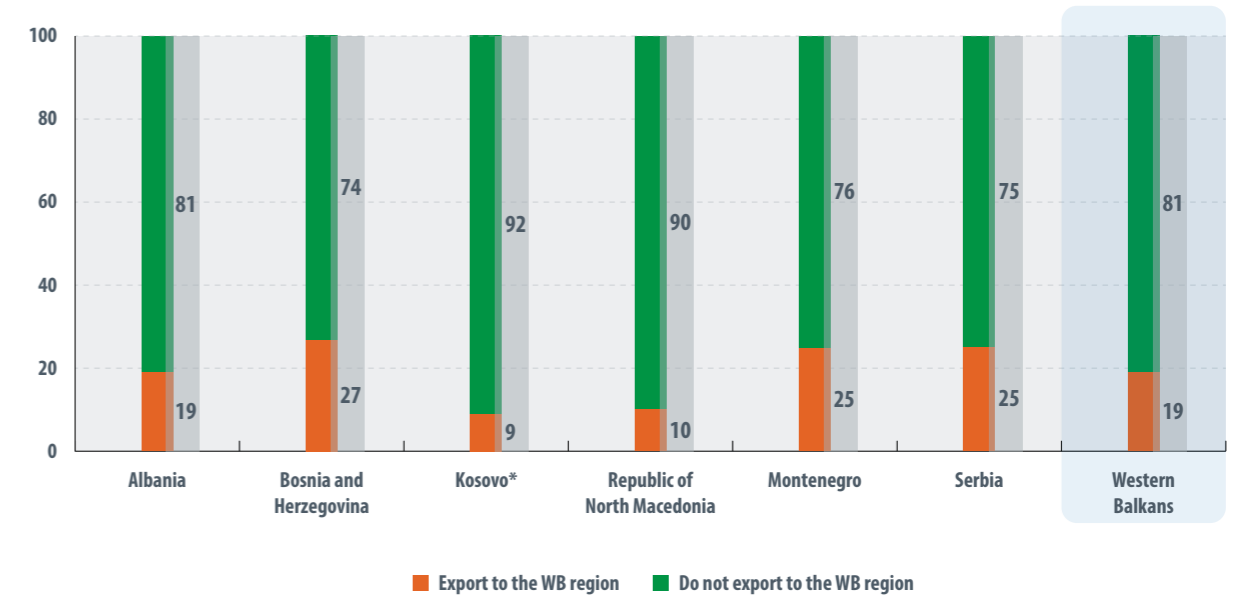


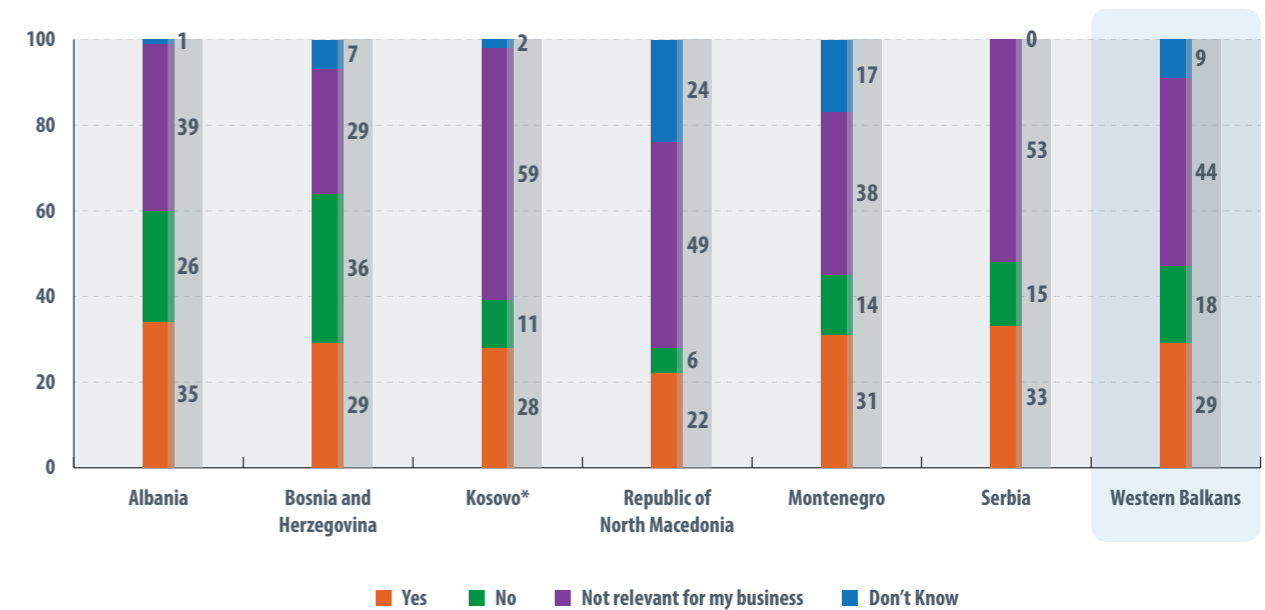
Table 4 - If your company exports to the Western Balkan region, what are the main obstacles to your exports?

(Respondents whose companies export to the Western Balkans, N=277, %)

	Western Balkans	Albania	Bosnia and Herzegovina	Kosovo*	Republic of North Macedonia	Montenegro	Serbia
Need to hardcopy documents or certificates	11	26	12	0	8	32	18
Need for licenses or permits	29	23	6	0	12	28	19
Obscure or inconsistent rules of origin	3	25	12	0	2	4	8
Unnecessary physical examinations or inspections	11	21	18	0	2	16	12
VAT	5	25	41	0	0	14	13
Slow import-export procedures	18	26	6	0	2	12	13
Wide variability in clearance time	5	13	0	0	4	16	8
Classification uncertainty	5	2	0	0	0	2	2
Custom delays	16	13	6	0	0	10	8
Risks of unclear compliance rules	3	0	0	0	4	6	3
My company doesn't export to the Western Balkans region	5	0	0	0	16	6	6

Figure 151 – Do you think that cross-border transaction costs are too high among Western Balkan economies?

(All respondents - N=1200, share of total, %)



One-third of respondents consider their own company is threatened by global competition, slightly more than in 2019 (27%) (Figure 152). It is businesses in Bosnia and Herzegovina who reported threat from the world

competition (56%), while this share has been the lowest in Kosovo* (14%) (nevertheless, Kosovo* has the highest refusal rate on this question).

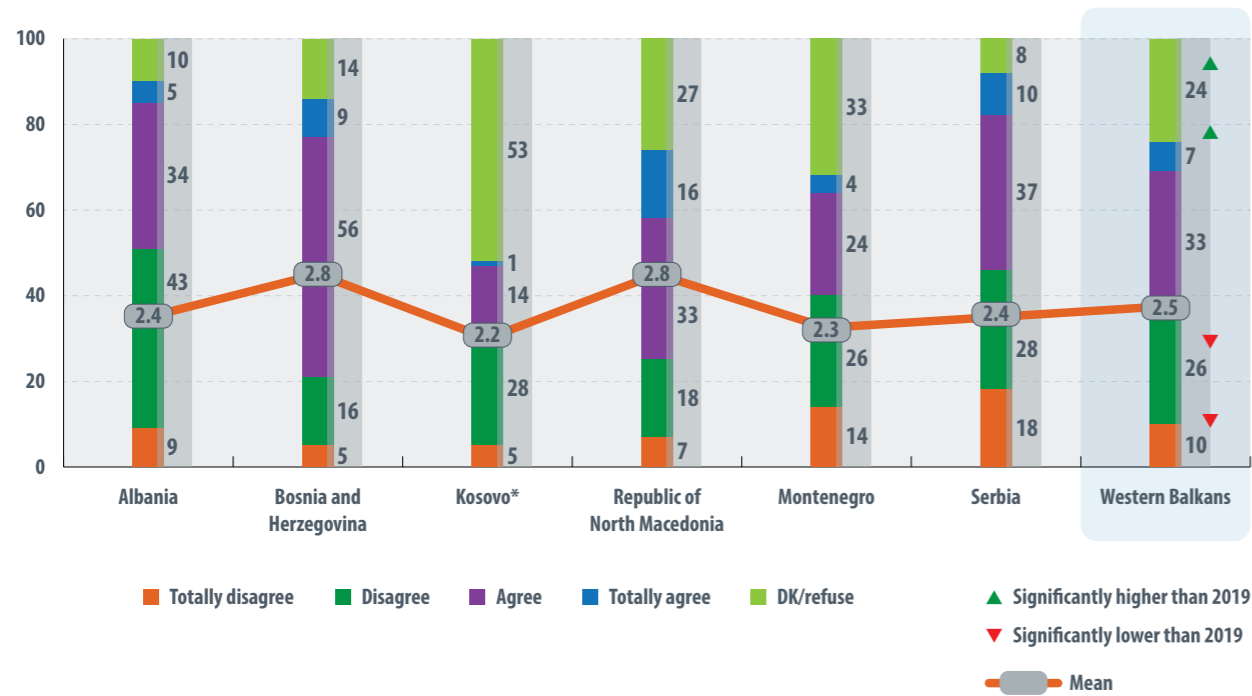
29% of respondents said cross-border transaction costs are too high among Western Balkan economies (Figure 151), with slight variation between 22% in the Republic of North Macedonia to 35% in Albania. 44% of respon-

dents revealed cross-border transaction costs were not relevant for them, and this percentage has been the highest in Kosovo* (59%), and the lowest in Bosnia and Herzegovina (29%).



Figure 152 – To what extent do you agree that your company is threatened by the global competition? Please use scale from 1 to 4, where 1 means totally disagree, 2 – disagree, 3 – agree and 4 means totally agree.

(All respondents - N=1200, share of total, %)

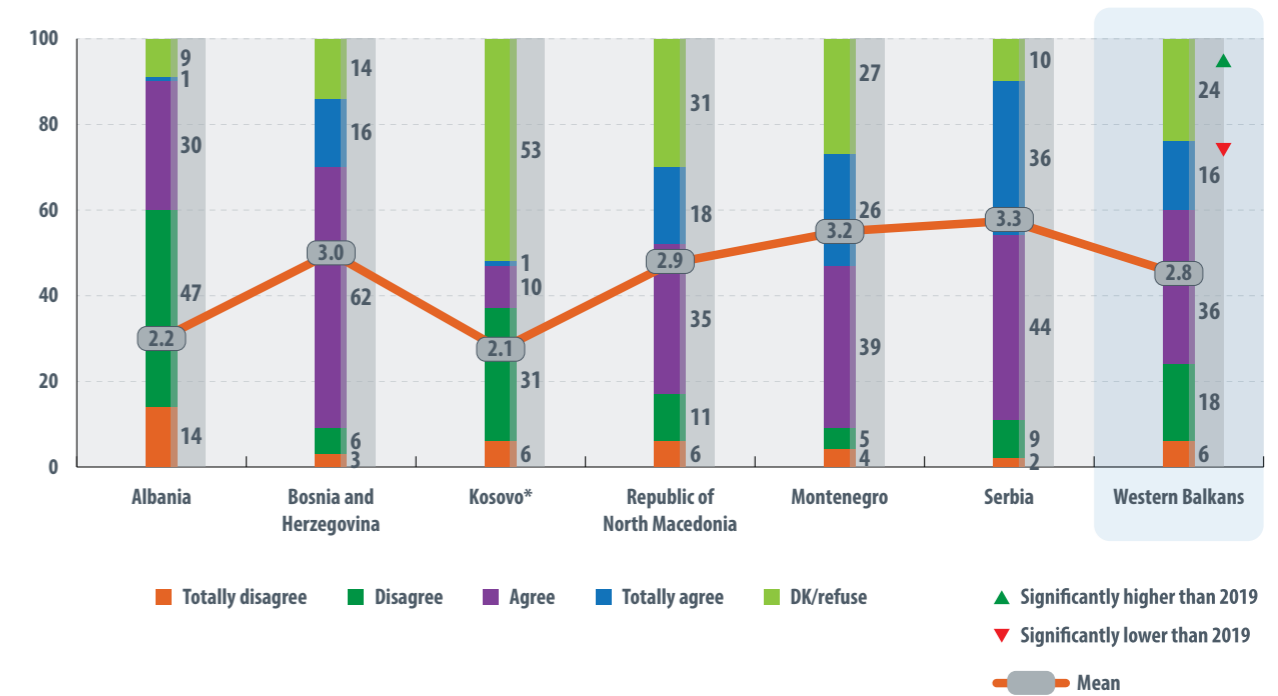


When it comes to the competition on the Western Balkans' market (Figure 153), businesses showed stronger confidence. On average, 52% agreed that their products, goods and services can compete well with products, goods and services from the Western Balkans (yet representing a reduction of the share compared to 2019 mainly because of the high rate of refusal). Serbi-

an companies felt the strongest regional competitive spirit, as 80% agreed they were capable to compete, followed by 78% in Bosnia and Herzegovina. On the other hand, Albanians were mostly sceptical, as 61% disagreed that their products and services could compete well on the regional market.

Figure 153 – To what extent do you agree with the following statements - My company's products, goods and services can compete well with products, goods and services from the Western Balkans?

(All respondents - N=1200, share of total, %)

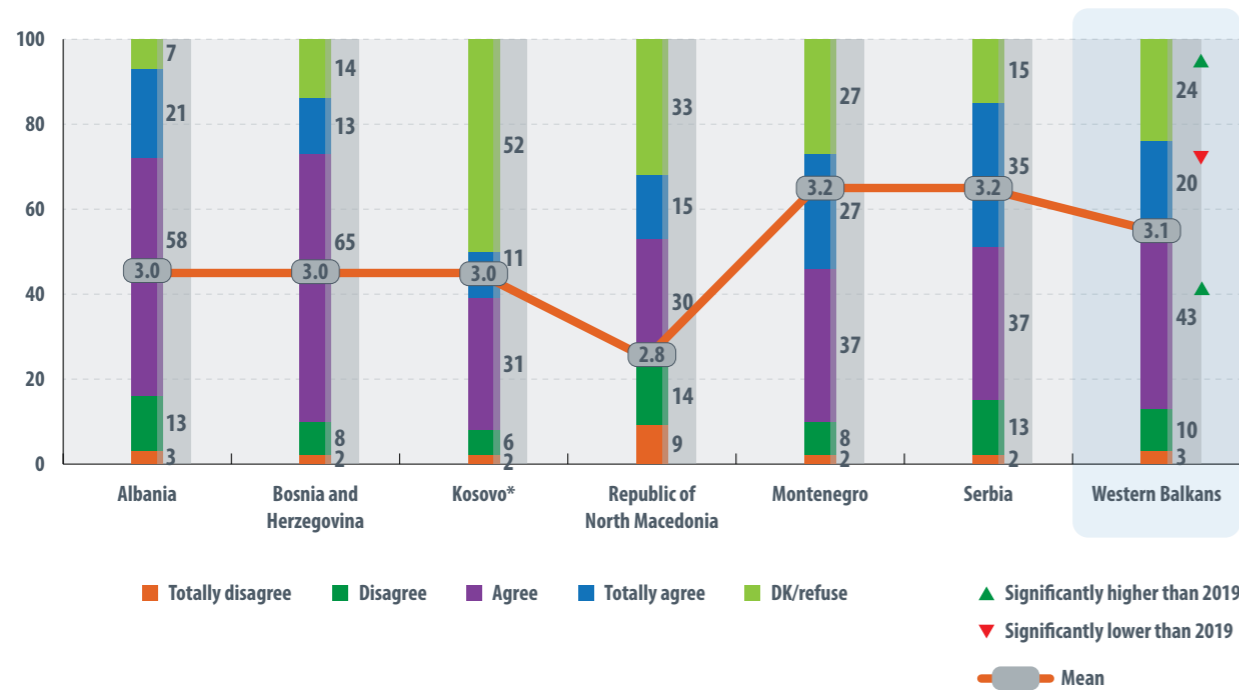


Surprisingly, the confidence in own products and services on the EU market is stronger (Figure 154). 63% of respondents in the region said their products could compete well with those on the EU market, the percentage being the highest in Albania (79%) and the lowest in Kosovo* (42%). Such confidence slightly declined

compared to 2019, when 77% of respondents across the region agreed that their products and services are competitive for the EU standards. In 2020, the confidence was the lowest in the Republic of North Macedonia, where 23% of companies reported hesitance concerning their competitiveness on the EU market.

Figure 154 – To what extent do you agree with the following statements - My company's products, goods and services can compete well with products, goods and services from other EU countries?

(All respondents - N=1200, share of total, %)

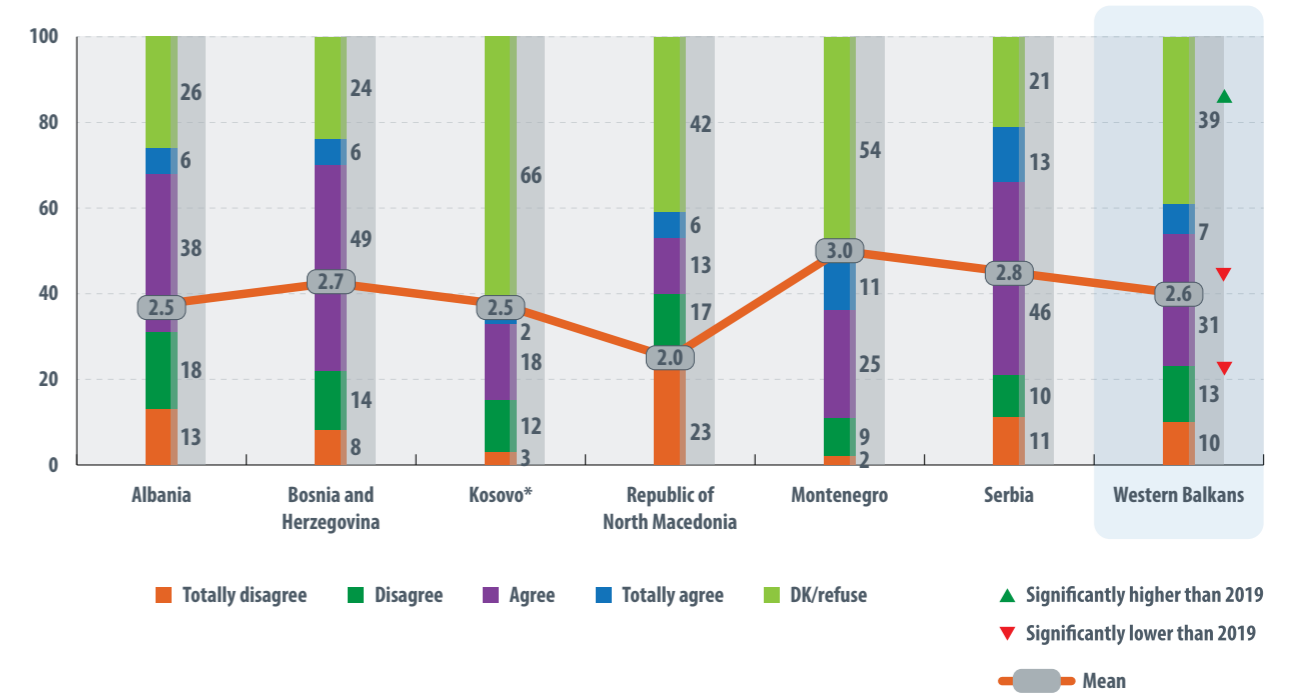


CEFTA 2006 played a more positive than negative effect in the region: 38% of respondents said that their company benefited from the regional free trade agreement (Figure 155). However, the large refusal rate (39%) prevents drawing of strong conclusions. Mostly Serbians agreed with the positive role of CEFTA 2006 (59%), fol-

lowed by Bosnians (55%) and Albanians (44%). In the Republic of North Macedonia, the sentiment towards CEFTA 2006 has been predominantly negative, as a sizeable 40% of respondents disagreed it played a beneficial role for their company.

Figure 155 – To what extent do you agree with the following statements - "My company has benefited from the regional free trade agreement (CEFTA 2006)"?

(All respondents - N=1200, share of total, %)

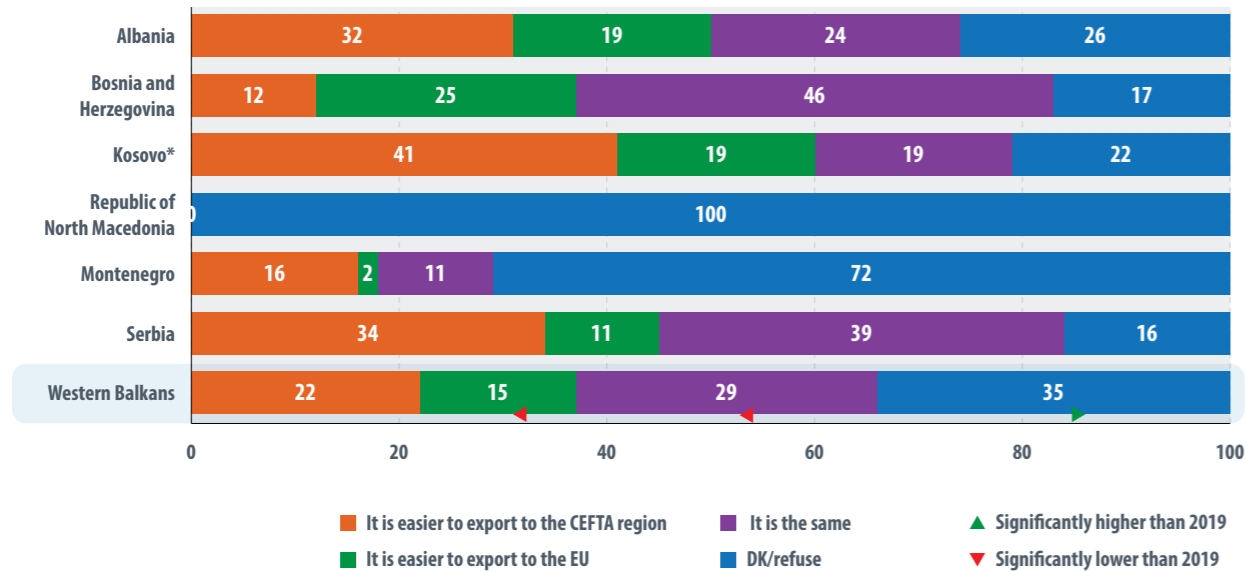


On average, exporters have been ambivalent about the easiness of exporting to CEFTA 2006 or the EU (Figure 156). 22% reported it was easier to export to the CEFTA 2006 parties, but 29% reported it was the same to export to CEFTA 2006 and to the EU. Still, the sentiment is not equal across the region: Kosovars, Serbians and

Albanians found export to CEFTA 2006 to be easier than to the EU, while Bosnians were divided between the two trading blocks. The large refusal rate in Montenegro and the Republic of North Macedonia prevents drawing of credible conclusions there.

Figure 156 – If your company is an exporter, can you tell us whether it is easier to export to the CEFTA region, or to the EU?

(Respondents whose companies export, N=317, %)

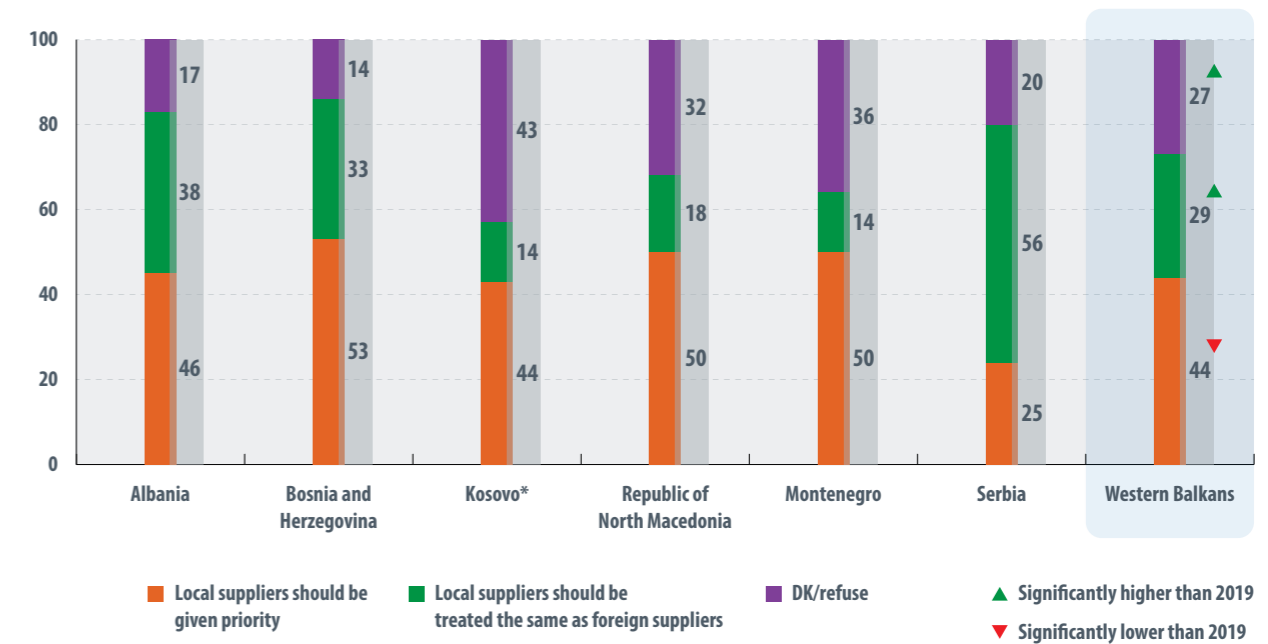


On average, Western Balkans' businesses are more geared towards local suppliers (Figure 157), as 44% of them reported they should be given priority in government procurement. But this is a strong decline of the support to local supplies compared to a year ago (73%). Within the region, only Serbia manifested the opposite opinion to the average one: 56% of the respondents

there thought that local and foreign suppliers should be treated equally. When it comes to social businesses, the average opinion on the Western Balkans is that they should be given equal treatment, more frequently than preferential treatment over the other enterprises.

(Figure 157 – 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 are equal)?

(All respondents - N=1200, share of total, %)

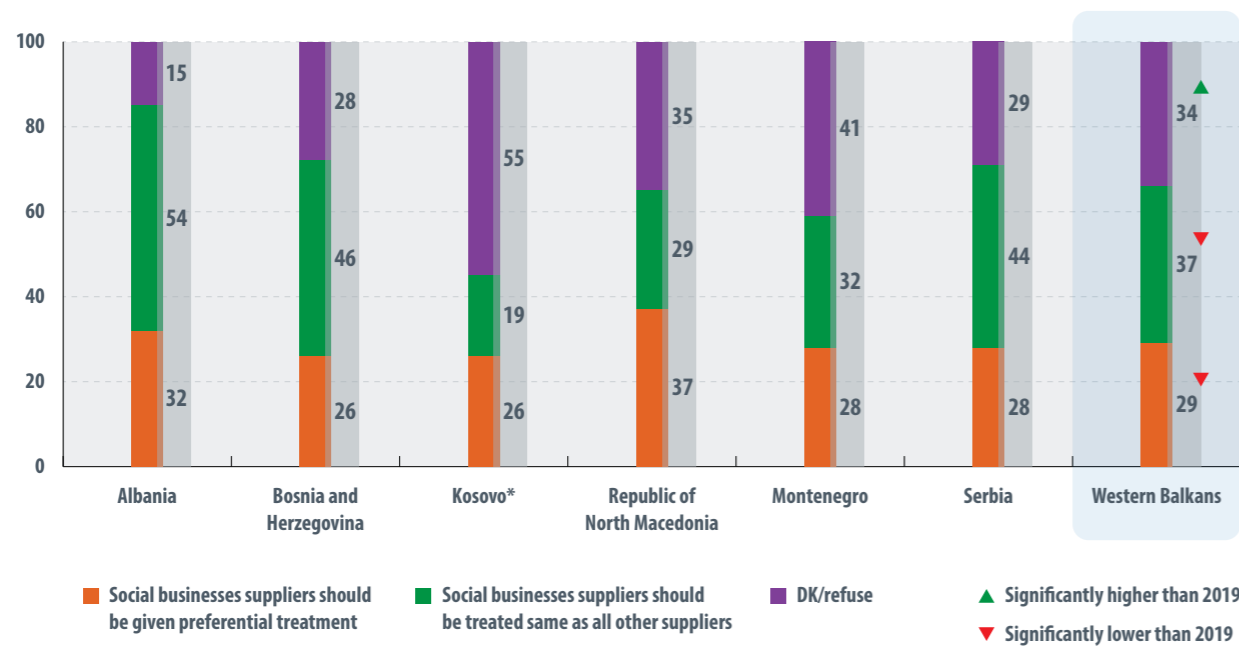


(Figure 158). Such an opinion is particularly sharpened in Albania (54%), Bosnia and Herzegovina (46%) and Serbia (44%). In the Republic of North Macedonia

and Kosovo*, the opinion is leaning towards social businesses, but the two economies also feature a large share of refusal.

Figure 158 – In your opinion, when procuring products and services, should the governments in the region give preferential treatment to suppliers which are social businesses, or should they be treated the same as all other suppliers (provided price and quality are equal)?

(All respondents - N=1200, share of total, %)



Albanian businesses consider the Bosnian and Serbian markets to be the least open in the region, while Bosnian businesses think the same for Albanian and Macedonian markets. Macedonian businesses consider the Bosnian and Montenegrin markets to be the least open, while Montenegrin business maintain such an opinion on the Macedonian market. Kosovo* respon-

dents consider the Montenegrin and Serbian markets to be the most closed, while Serbians do so for the markets in Kosovo* and the Republic of North Macedonia (Figure 159 and Table 5). These conclusions must be approached with caution because the patterns just described may be also a reflection of the intra-regional political considerations.

Figure 159 – According to your opinion, which market in the WB region is the most open one? Please give us your opinion no matter if you/your company had direct experience with it. Rank these 7 markets from 1 (most open) to 7 (least open).

(All respondents - N=1200, mean)

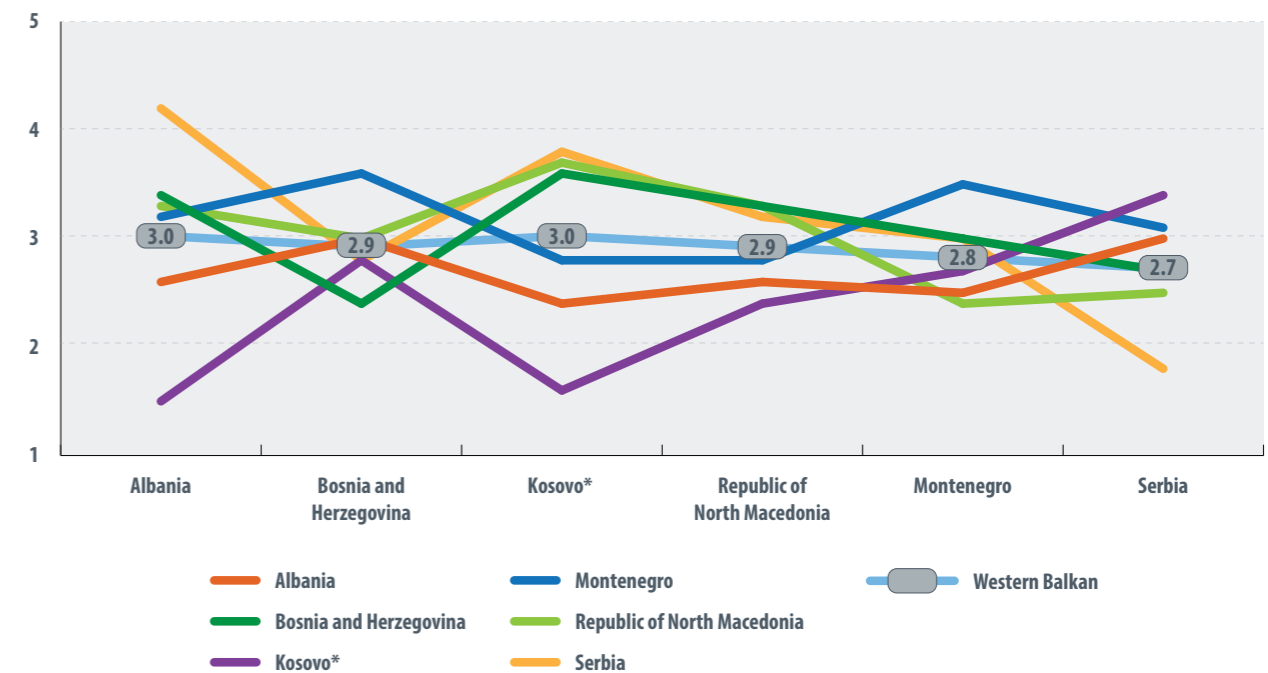


Table 5 - According to your opinion, which market in the WB region is the most open one? Please give us your opinion no matter if you/your company had direct experience with it. Rank these 7 markets from 1 (most open) to 7 (least open).

(All respondents - N=1200, mean)

	Western Balkans	Albania	Bosnia and Herzegovina	Kosovo*	Republic of North Macedonia	Montenegro	Serbia
2020							
Albania	3	2.6	3.4	1.5	3.2	3.3	4.2
Bosnia and Herzegovina	2.9	3	2.4	2.8	3.6	3	2.8
Kosovo*	3	2.4	3.6	1.6	2.8	3.7	3.8
Republic of North Macedonia	2.9	2.6	3.3	2.4	2.8	3.3	3.2
Montenegro	2.8	2.5	3	2.7	3.5	2.4	3
Serbia	2.7	3	2.7	3.4	3.1	2.5	1.8

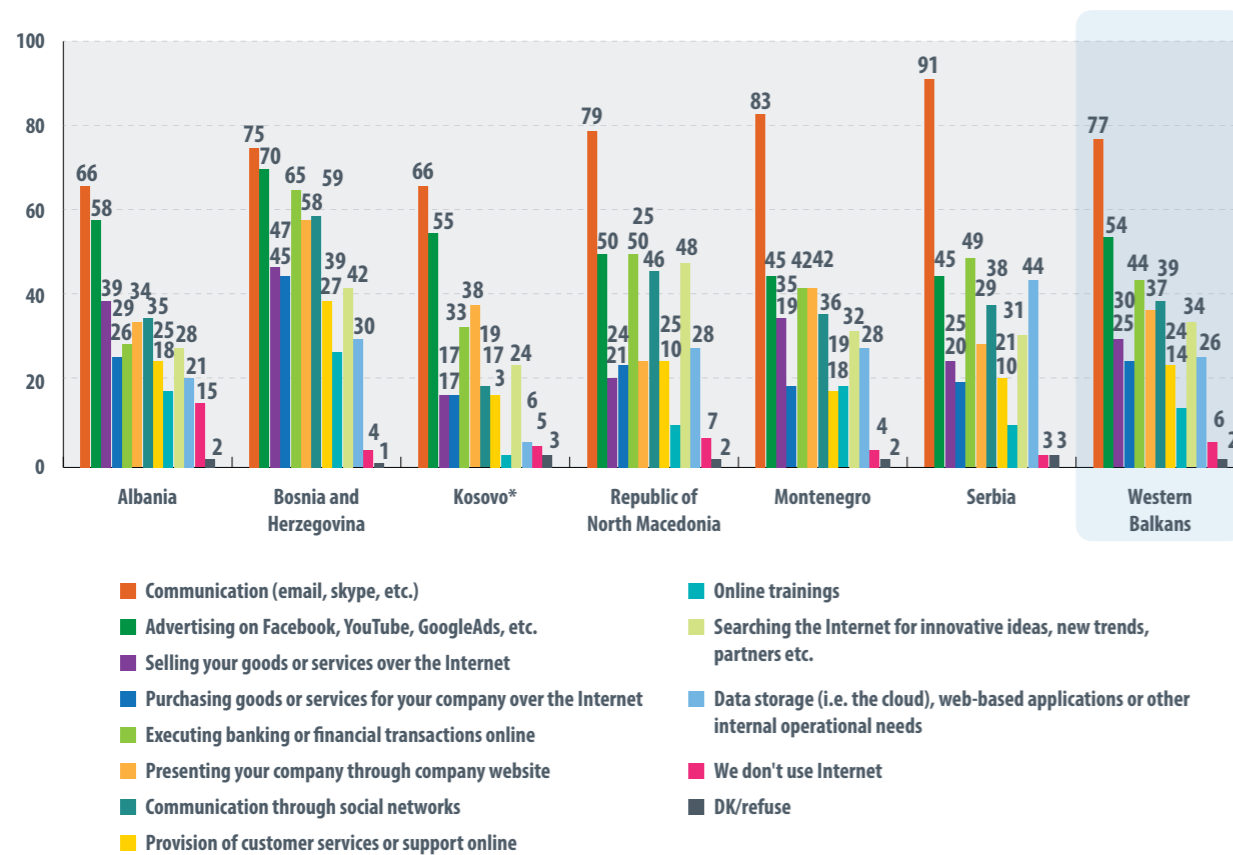
INNOVATION AND TECHNOLOGY

There is a widespread use of the internet by businesses across the region (**Figure 160**). 77% of businesses reported they used the internet for usual communication and this is the key reason for usage across all the Western Balkan economies. The second-ranked reason is advertising on social media channels, while the third reason is conduct of financial transactions. Roughly, this is the sequence concerning the usage of internet across all Western Balkan economies, although in some, like Albania, Montenegro and Bosnia and Herzegovina, the share of those who reported internet usage for online sales is important: 39%, 35% and 47%, respectively.

son is conduct of financial transactions. Roughly, this is the sequence concerning the usage of internet across all Western Balkan economies, although in some, like Albania, Montenegro and Bosnia and Herzegovina, the share of those who reported internet usage for online sales is important: 39%, 35% and 47%, respectively.

Figure 160 – Does your company use the Internet for...?

(All respondents - N=1200, share of total, %)

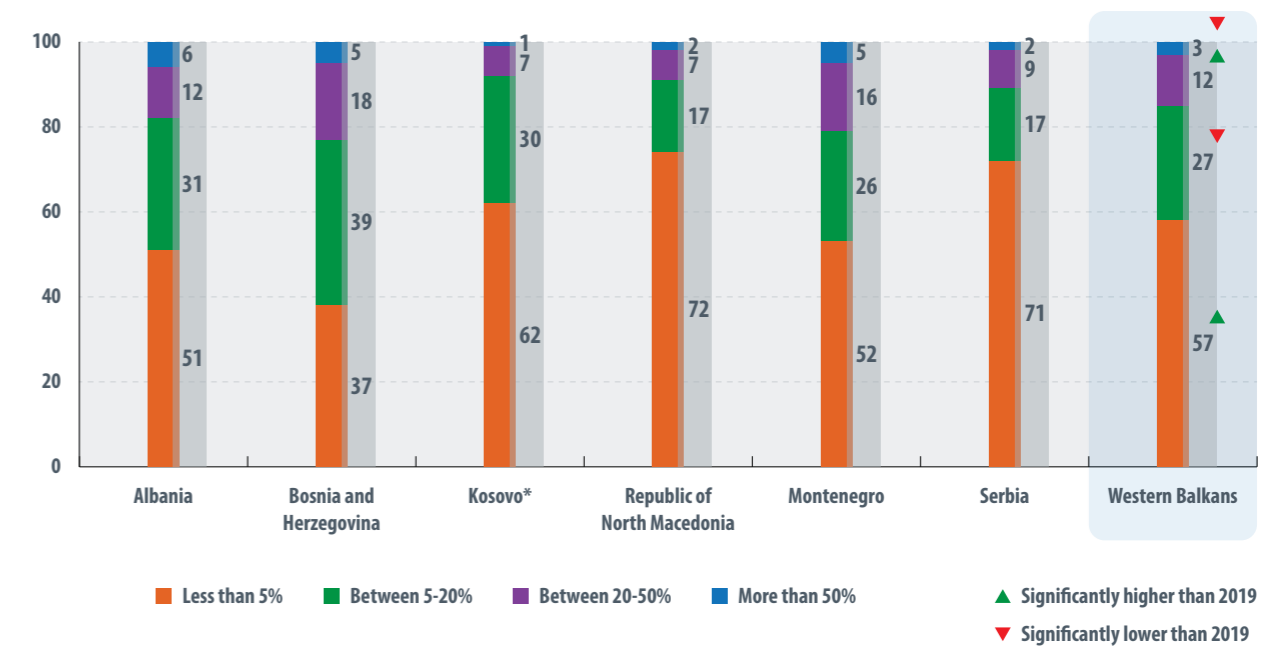


Despite widespread internet usage, not much of companies' sales in the region are generated online (**Figure 161**). 57% of respondents said sales of less than 5% was generated online, which is quite an increase (from 42% compared to a year ago). Such a result may be striking, given that the pandemic prompted companies to ori-

ent towards online sales. The percentage is the largest in the Republic of North Macedonia and Serbia (72% and 71%, respectively), and the lowest in Bosnia and Herzegovina (37%). Bosnian companies predominantly reported 5-20% of online sales (39%) compared to a year ago. Such a result may be striking, given that the pandemic prompted companies to ori-

Figure 161 – What percentage of your total sales is currently generated through online sales?

(Respondents who sell their goods or services over the Internet - N=1116, %)



Viruses were the most common problem businesses faced with respect to internet usage viruses, as reported by 54% of them (**Figure 162**). This is the most common problem across the entire region, although in Bosnia and Herzegovina the other problems gained

prominence, like the illegal access, network attacks and ID theft. 86% of respondents were satisfied with their internet connection, a slight decline from 2019 (91%) (Figure 163). Montenegrins are the most satisfied (94%), and Albanians the least (59%).

Figure 162 – In the last six months, have you experienced any of the following Internet security problems?

(Respondents who sell their goods or services over the Internet - N=1116, %)

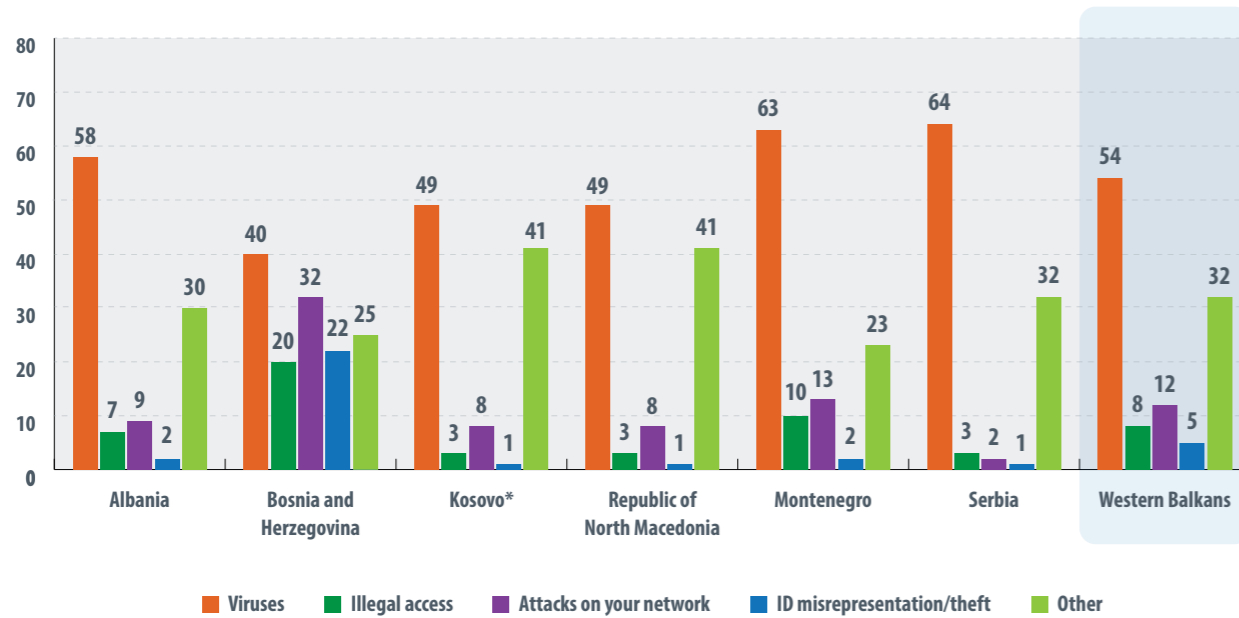
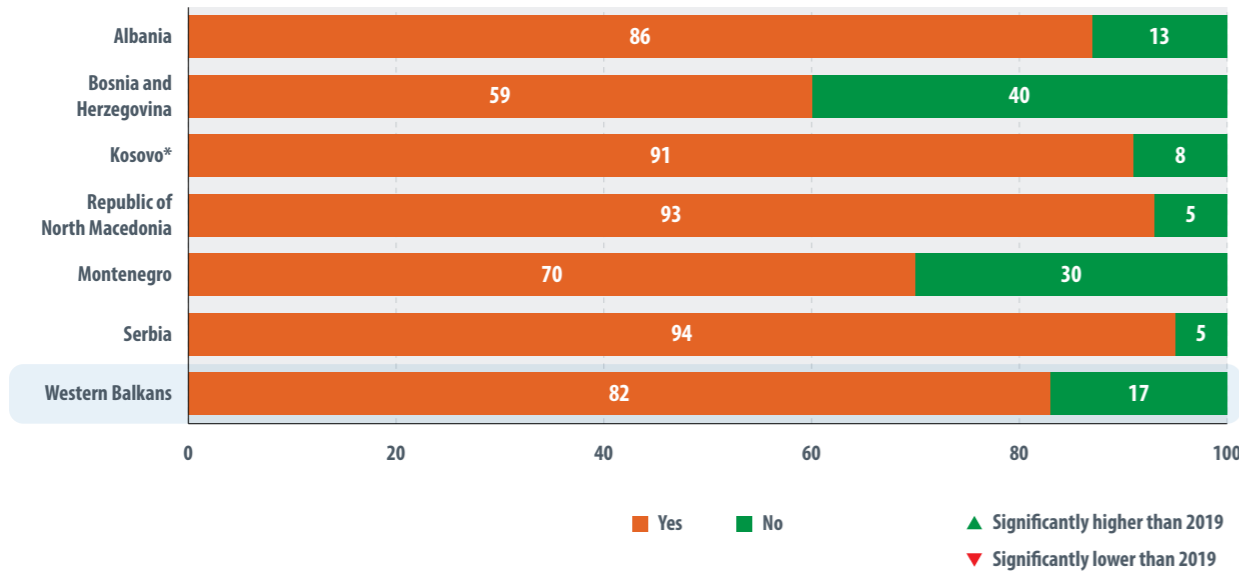


Figure 163 – Are you satisfied with your Internet connection?

(Respondents who sell their goods or services over the Internet - N=1116, %)

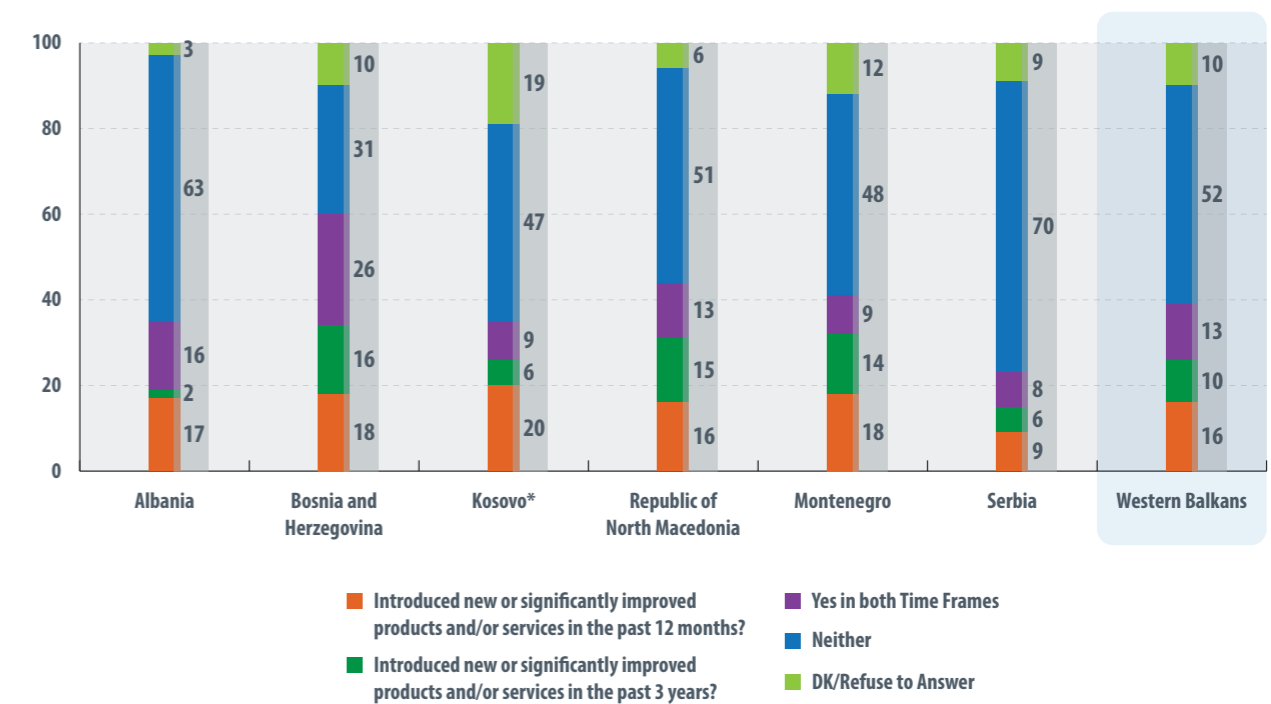


In 2020, Western Balkans' businesses experienced subdued innovation activity, as only 16% introduced a new or a significantly improved product/service in the past 12 months (Figure 164), a decline from 29% in 2019. Additional 10% of businesses did so in the last three years. However, the share of those who introduced a new product in the two-time frames is 13%, suggesting

yet a similar level of innovation activity than a year ago. There is some variety across the region, with Bosnia and Herzegovina being ahead of the other economies in this regard, where 60% of respondents said they innovated in the past three years, while Serbia is the laggard with only 23%.

Figure 164 – Have you introduced new or significantly improved products?

(All respondents - N=1200, %)



Enterprises themselves were those that predominantly developed these product innovations, with 63% (Figure 165). However, compared to 2019, the other approaches to developing of innovation gained prominence: for example, co-innovation with other enterprises was reported in 27% of the cases, as opposed to 18% a year ago. Another 26% said they innovated through adaptation of processes developed elsewhere,

which is a significant increase over a year (9% in 2019). Within the region, Kosovars mainly relied on themselves on the product innovation (86%), Macedonians, Montenegrins, Serbians and Albanians mainly on this approach, while the picture in Bosnia and Herzegovina slightly differs. Bosnian companies devoted almost even efforts to innovation alone (46%), together with other enterprises (54%), and through adaptation (54%).

Figure 165 – Who developed these product innovations?

(Respondents who introduced new or significantly improved products and/or services, N=465, %)

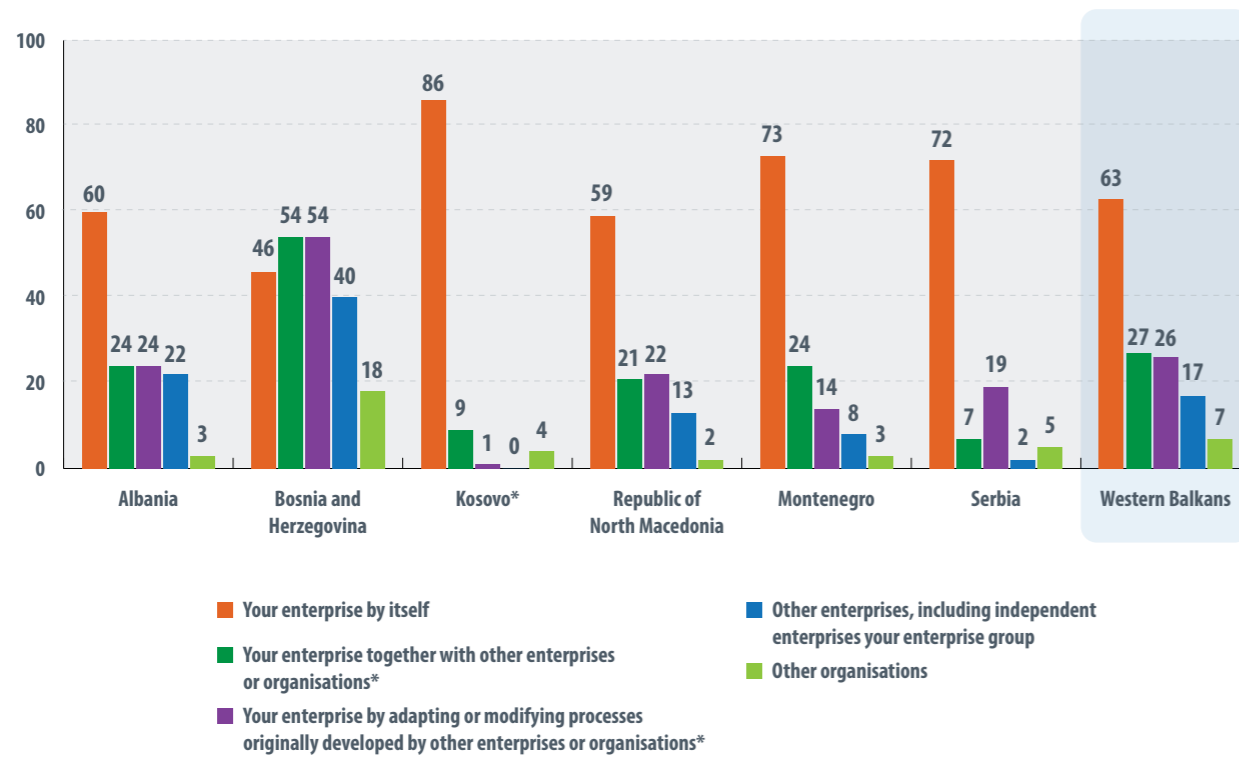
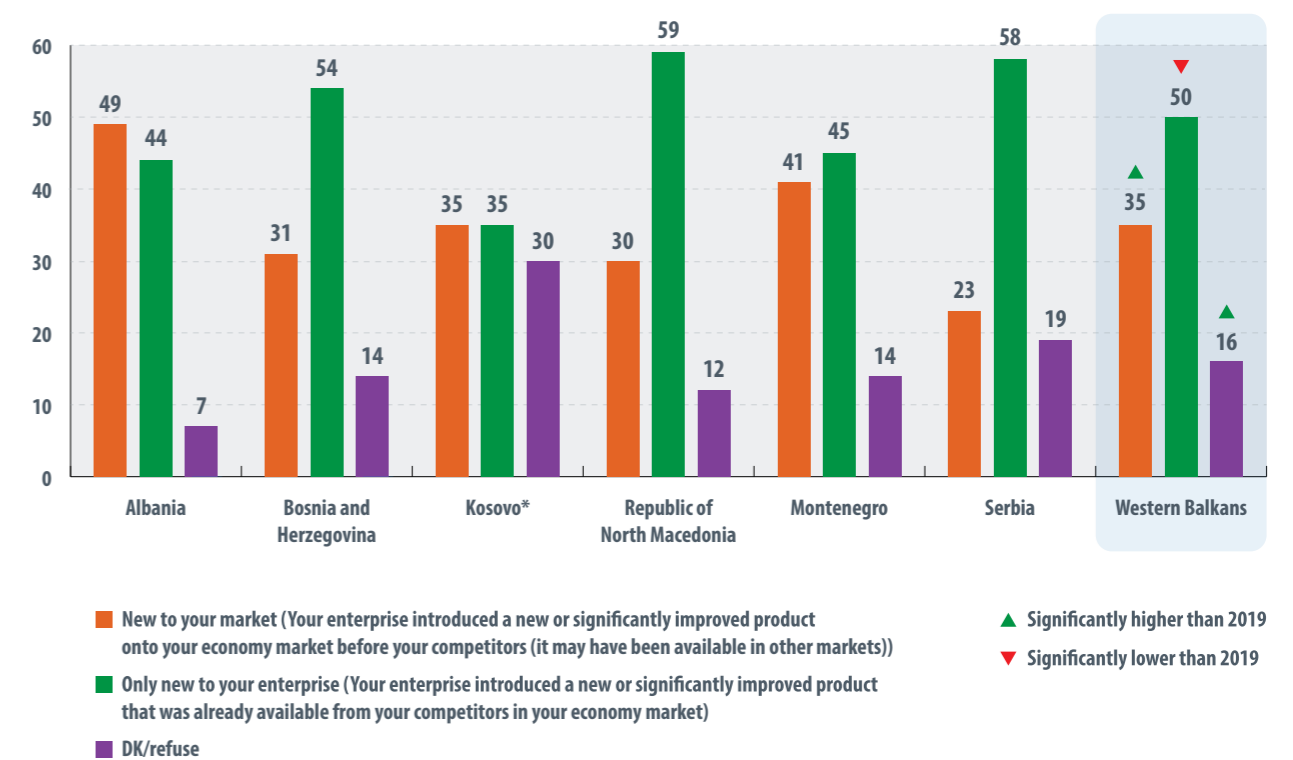


Figure 166 – Were any of your product innovations (goods or services)?

(Respondents who introduced new or significantly improved products and/or services, N=465, %)



In half of the cases, the product innovations were only new to the enterprise itself (hence the product was present on the market by competitors), although the share of pure innovation grew to 35% from 26% a year ago (Figure 166). The pure innovation dominates in

Albania (49%), while it is equally worth as within-enterprise innovation in Kosovo* (35%) and Montenegro (41%). The other three economies are yet lagging behind in their innovation efforts and are still at the level of within-enterprise innovations.

About a third of the products were first in the own economy (Figure 167), a share that grew from 26% in 2019, corroborating the increased innovation activity economy-wide. Albania is the leader in this regard, as almost half of the products were first in the economy, followed by Montenegro (41%), while the laggard is Serbia (23%). 13% of the products were first in Europe

(Figure 168) and in the world (Figure 169). Both represented a notable increase from 2019 (4% and 3%, respectively). Albania is again the clear leader with 38% reported new products in Europe and 32% at the global level. Montenegro showed the least innovation activity both at the European and world levels.

Figure 167 – To the best of your knowledge, were any of your product innovations during the three years 2018 to 2020 – A first in your economy

(Respondents who introduced new or significantly improved products and/or services, N=465, %)

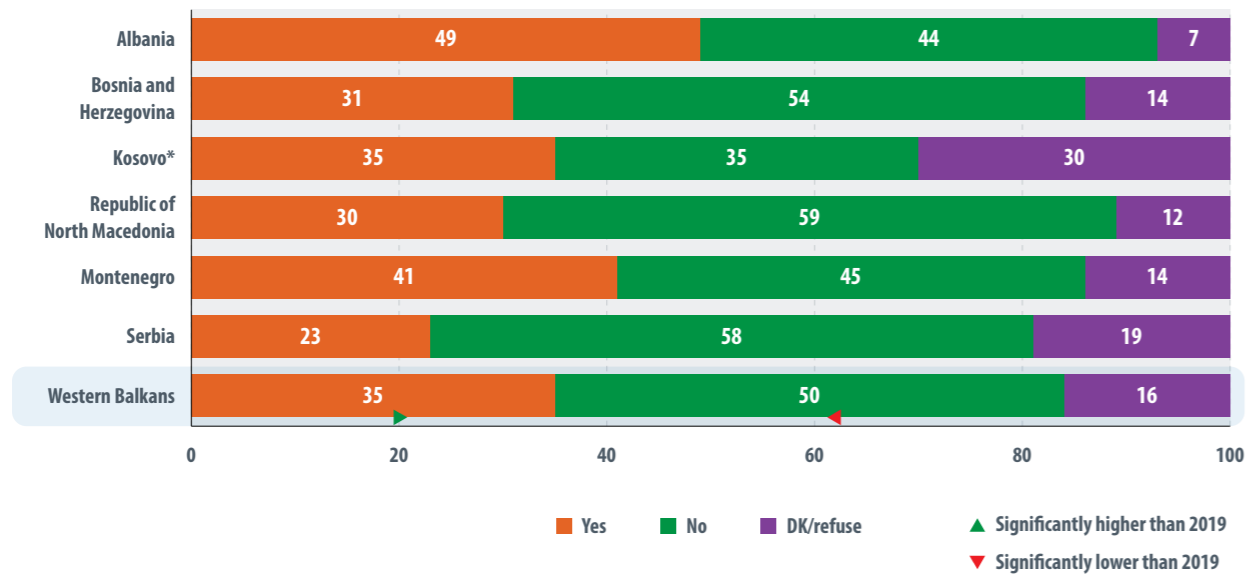


Figure 169 – To the best of your knowledge, were any of your product innovations during the three years 2018 to 2020 – A world first

(Respondents who introduced new or significantly improved products and/or services, N=465, %)

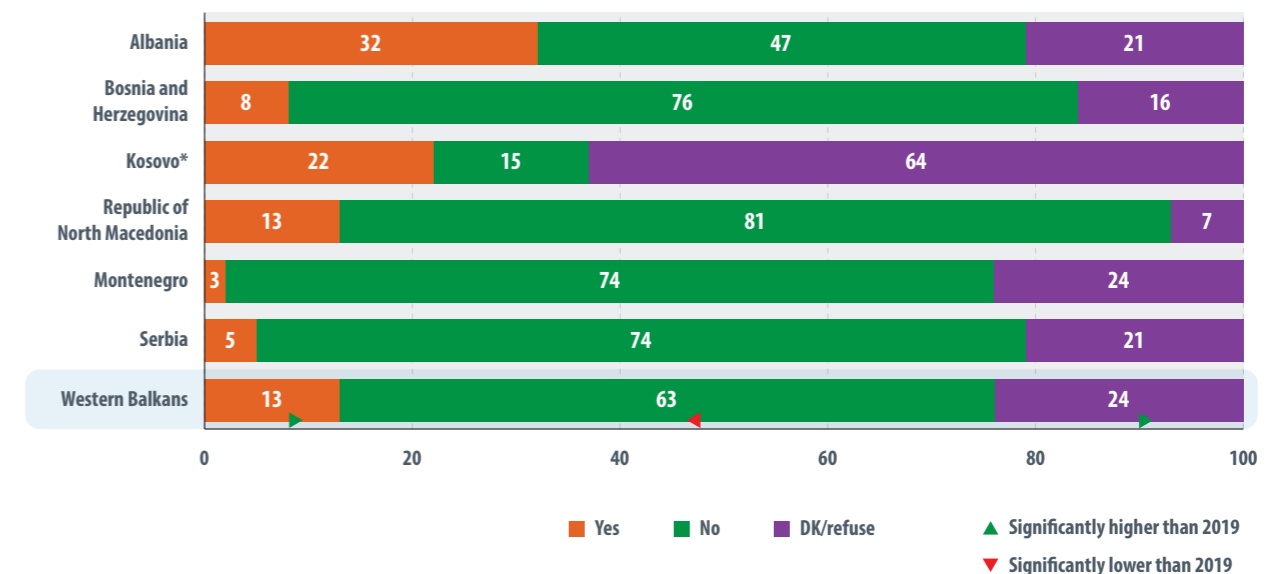
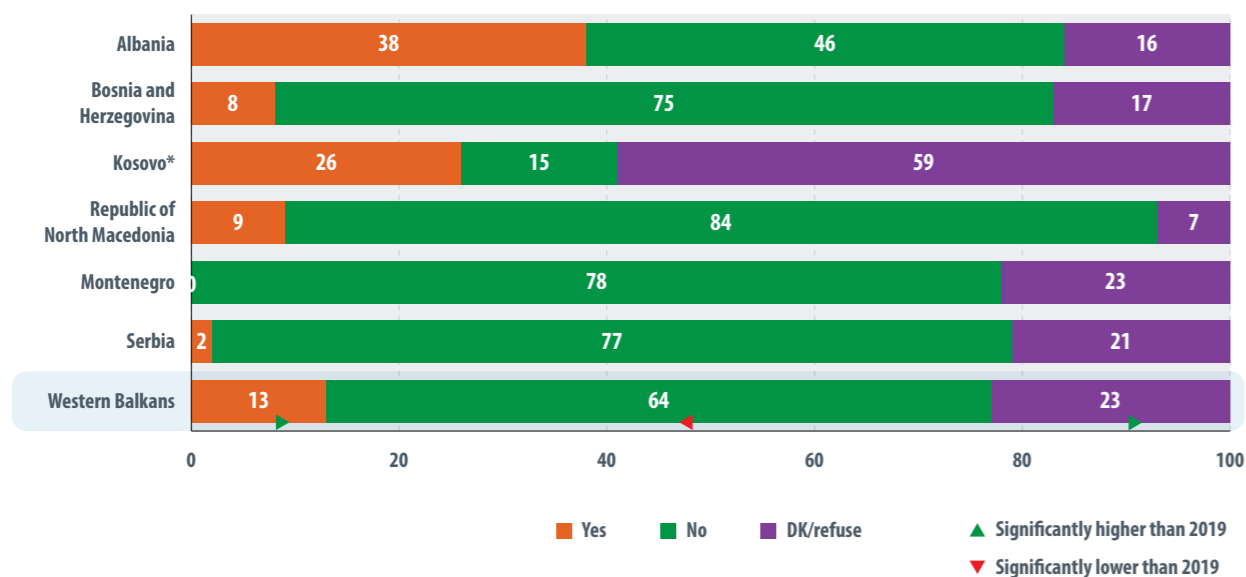


Figure 168 – To the best of your knowledge, were any of your product innovations during the three years 2018 to 2020 – A first in Europe

(Respondents who introduced new or significantly improved products and/or services, N=465, %)



Businesspersons were offered seven aspects of innovation policies in their economies to rank from complete satisfaction to complete dissatisfaction, including: policies promoting innovation, innovation infrastructure, university-business cooperation, public services that support innovation, and so on (Figure 170). The general

impression is that Western Balkans' businesses became more satisfied with the innovation-supporting environment than in 2019. However, majority of respondents (a third to 40%) remained neutral on all aspects, while about a quarter showed strong or some satisfaction.

Figure 170 – Could you please tell me how satisfied are you with each of the following in your economy:

(All respondents - N=1200, %)

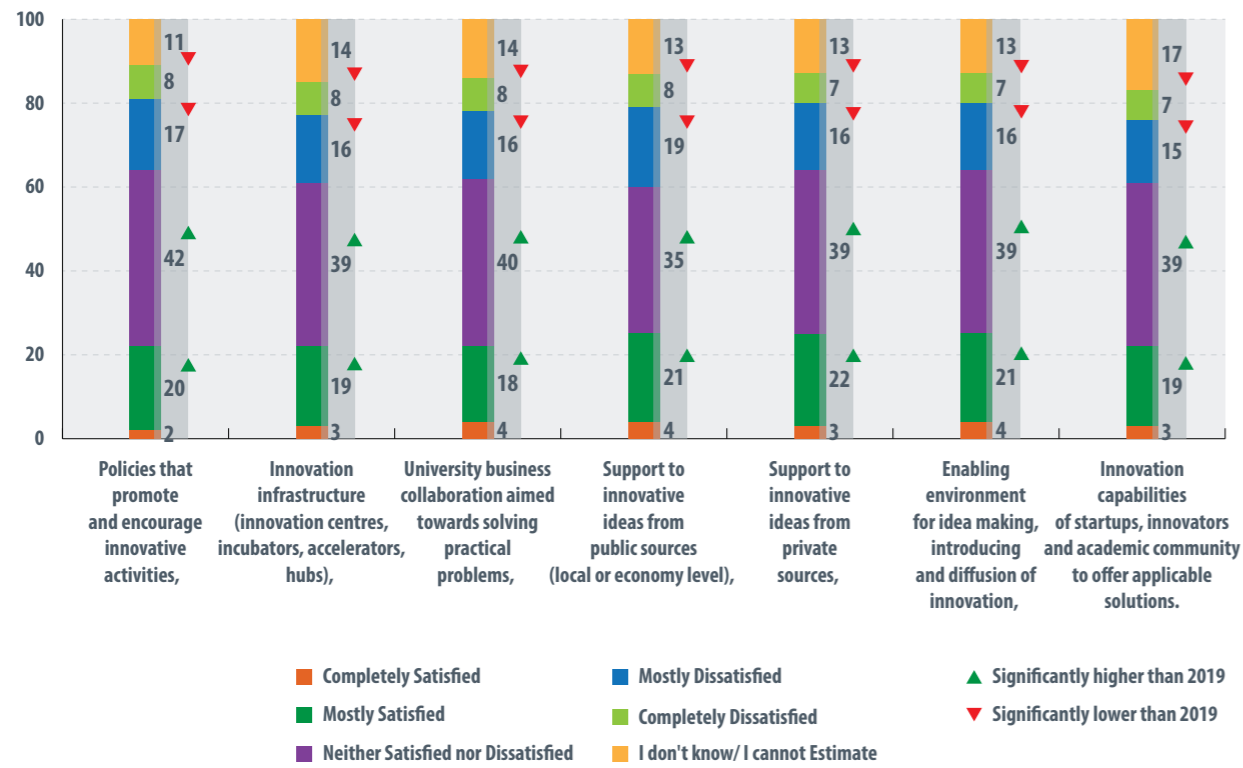


Figure 171 – During the past three years (2018 to 2020), did your enterprise receive any public and/or donor's financial support for innovation activities from the following levels of government? - Local or regional authorities

(All respondents - N=1200, %)

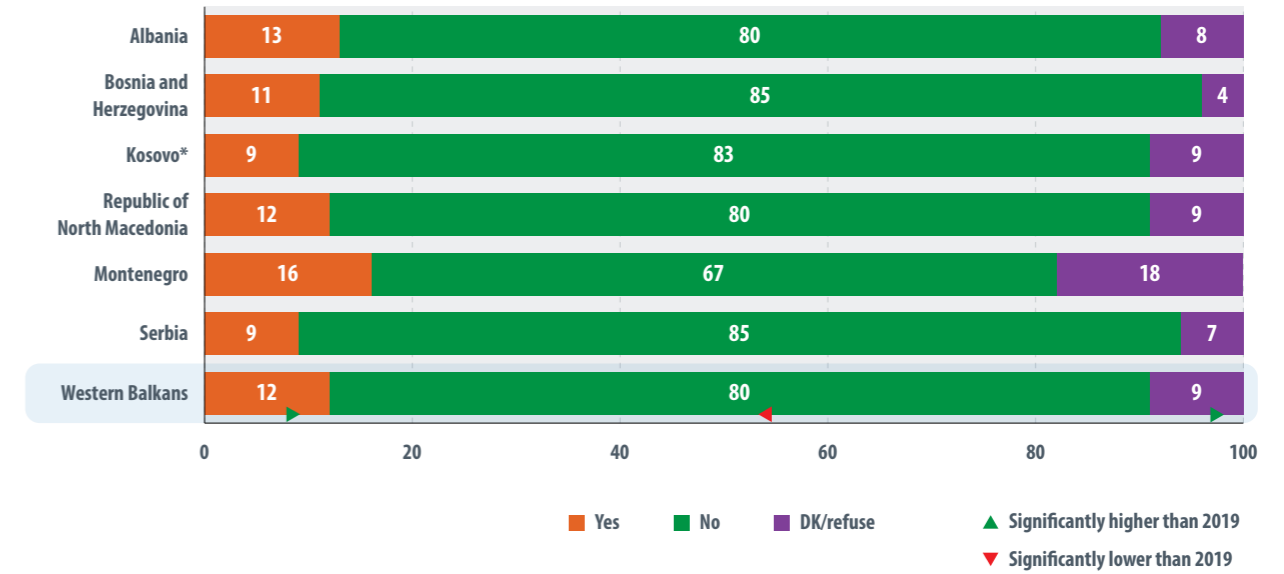
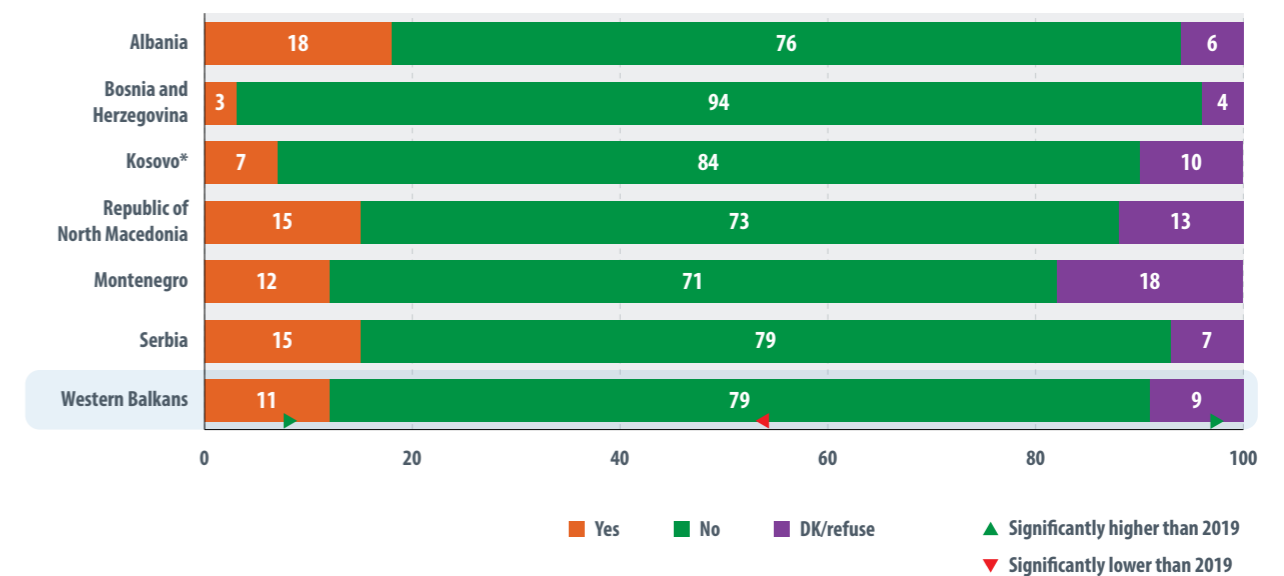


Figure 172 – During the past three years (2018 to 2020), did your enterprise receive any public and/or donor's financial support for innovation activities from the following levels of government? - Central government (including central government agencies or ministries)

(All respondents - N=1200, %)

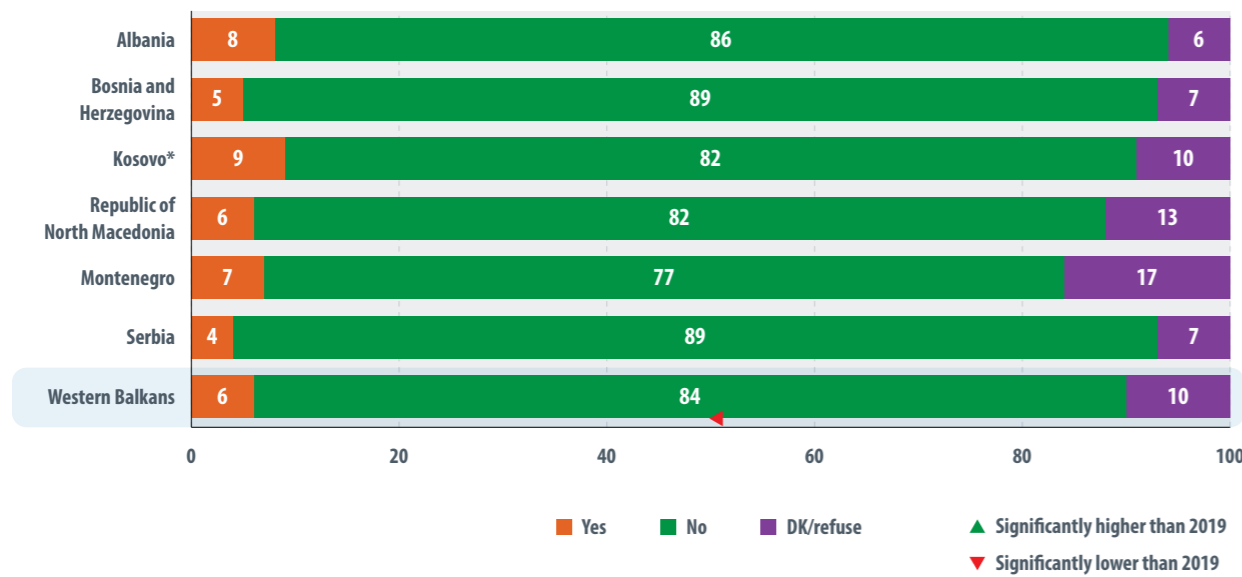


During the last three years, 12% of enterprises obtained support from local or regional authorities, 11% from central government and 6% from the EU or other donors (Figure 171 through Figure 173). Although these numbers may seem small, they reveal an expanding financial envelope for innovations compared to the situation a year ago. There are no striking differences

among the economies of the Western Balkans in this regard, although, for instance, local authorities were more active to support innovation in Montenegro with 16%, while regarding central authorities, the ones in Albania, Republic of North Macedonia and Serbia have been considered as the most supportive.

Figure 173 – During the past three years (2018 to 2020), did your enterprise receive any public and/or donor’s financial support for innovation activities from the following levels of government? - The European Union (EU) or other donors

(All respondents - N=1200, %)



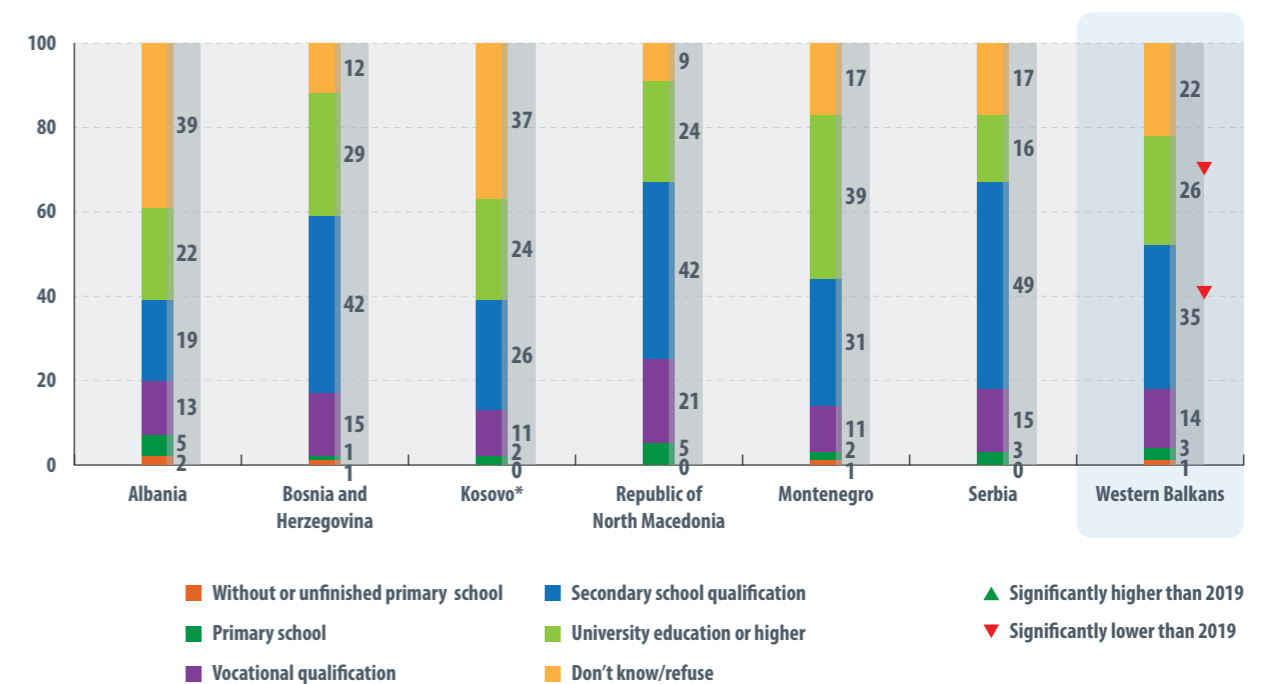
HUMAN CAPITAL

Finding an applicant with the required set of skills is a considerable challenge for employers in the Western Balkans. Namely, more than a quarter of companies in the region have reported struggling to fill vacancies, with the most commonly cited reason being the lack of necessary skills by prospective applicants. With this issue likely to become increasingly important in the near future, policymakers must invest considerable effort in increasing the size of the labour pool through activation, training, and education of both the inactive and the unemployed. With women more frequently inactive due to various reasons, including social stereotypes and marginalised positions in Western Balkan societies, special tailored programmes should be designed and deployed to ensure their inclusion into the labour pool.

Employed individuals in the Western Balkans are predominantly with secondary school education (35%) (Figure 174). The share of respondents with university education is likewise large, 26%, though on average it is not very high in Western Balkans companies. The region largely eradicated complete illiteracy among working population, although the share of the employed with completed primary education remains considerable. Montenegro has the most educated working population (39% of the employed completed tertiary education), while Serbia has the largest pool of workers with secondary education. It is worth noting that the share of employees with vocational qualifications (usually the secondary school level) is less than half of the share of those with secondary general education.

Figure 174 – What percentage of the workforce at your firm has the following education levels?

(All respondents - N=1200, mean)

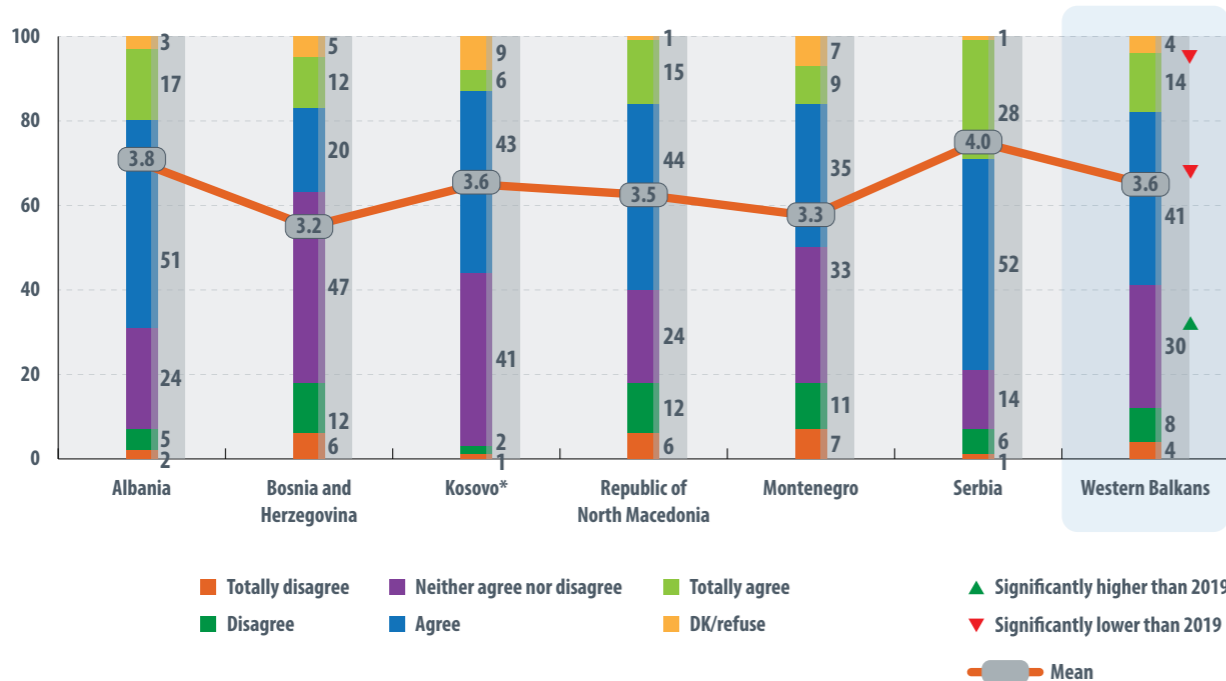


Businesspersons offer a variety of opinions when asked if the skills taught in their educational systems meet the demand (Figure 175). Across the entire region, on average they agreed (55%) that this is the case, though with a shrinking share (63% in 2019). Serbian businesspersons are in most agreement that the supply of skills meets the demand (80%), while this is the least the

case in Bosnia and Herzegovina, where the majority of respondents articulated neutral stance (47%), followed by Kosovars (41%). The hesitance around the adequacy of generated skills is the largest in Bosnia and Herzegovina, the Republic of North Macedonia and Montenegro, where 18% of respondents in each economy expressed disagreement.

Figure 175 – Would you agree that the skills taught in the educational system of your economy meet the needs of your company?

(All respondents - N=1200, %)

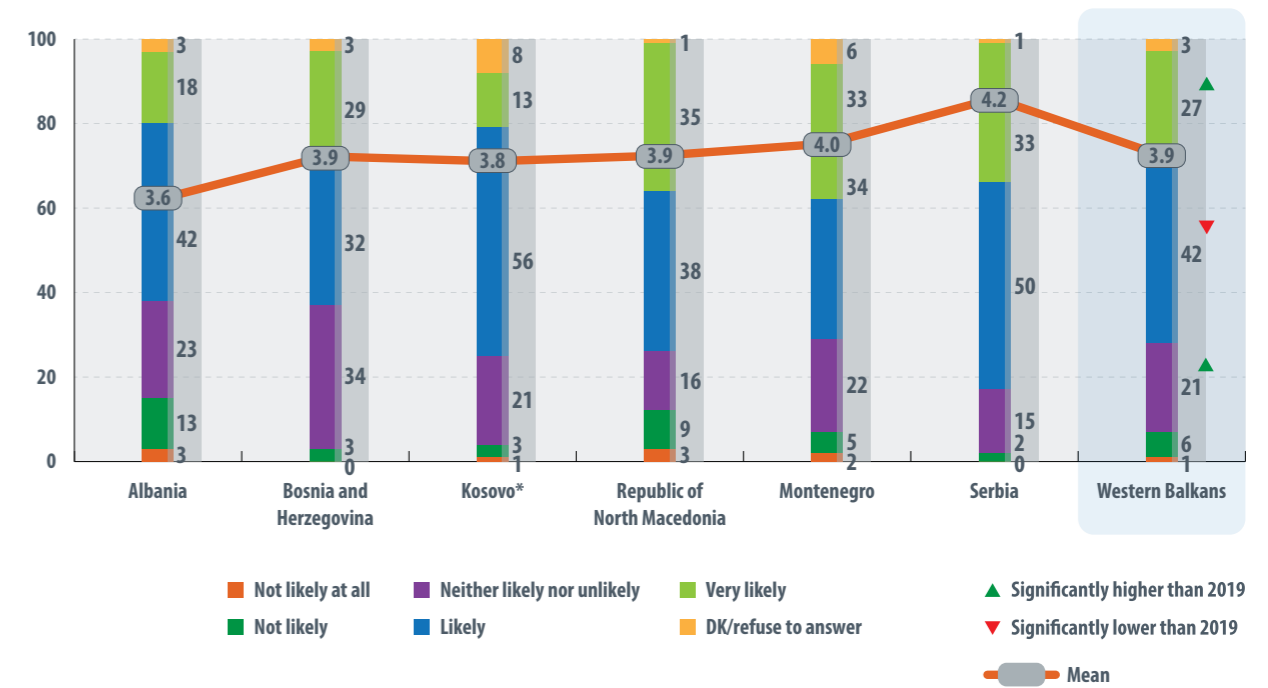


Such a stance is also reflected in the likelihood that the company would hire a young person with no experience whose educational profile completely meets the needs of the business (Figure 176). On average, 69% of companies responded likely or very likely, with such

a share being as large as 83% in Serbia and as small as 60% in Albania. Therefore, businesspersons across the region are quite confident that they could find the required skill on the market, generated solely by the educational system and not by previous experience.

Figure 176 – How likely would it be for you to hire a young person whose educational profile completely meets the needs of your business, but without work experience?

(All respondents - N=1200, %)

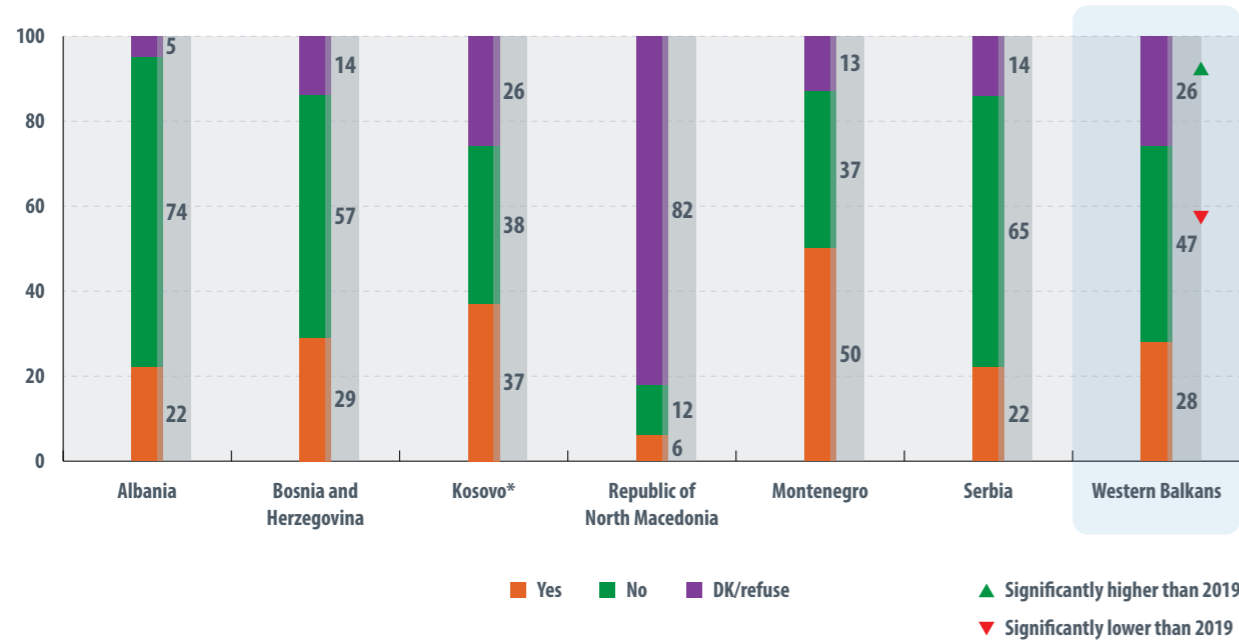


Speaking about experience, internship – as a vehicle to obtaining initial work experience – is not that widespread in the region (Figure 177). On average, 28% of respondents said they introduced or planned to introduce an internship or apprenticeship programme in

their company, a no change with respect to 2019. The tentativeness surrounding internship is the lowest in Montenegro (50% opened internship positions), and the highest in Albania (74% of respondents said they were not planning any internship offerings).

Figure 177 – Have you already, or do you plan to introduce an internship or apprenticeship programme in your company?

(All respondents - N=1200, %)



Digital skills remain important for the companies in the Western Balkans (Figure 178). 29% of respondents said they were very important, while another 48% said somewhat important – roughly the same shares as in 2019. The same appreciation of digital skills is present across the region, although Montenegrins assigned the largest importance to it (41% evaluated digital skills as very important), while the hesitancy has been the largest in the Republic of North Macedonia (29% referred to digital skills as unimportant). In spite of the fact that a sound 77% of respondents confirmed that digital

skills are somewhat important or very important for their company, they have not turned this into actions towards improving their employees' skills (Figure 179). Of those who undertook such activities, it was mainly on-the-job/internal training (23% of all respondents, decreased by half from 45% a year ago). It was mostly Montenegrins who invested in digital skills through internal training (38%), but also through online courses (22%) and workshops (13%). The attitude towards investing in digital skills was less positive in the other economies of the Western Balkans.

Figure 178 – How important are digital skills for your company?

(All respondents - N=1200, %)

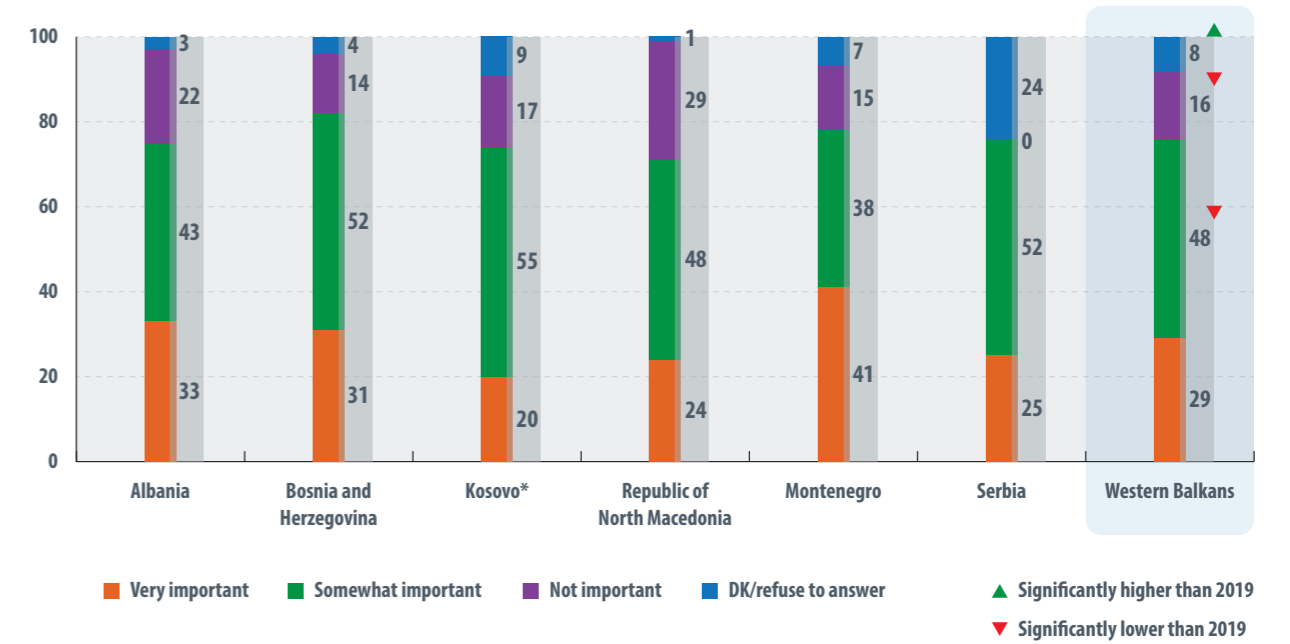
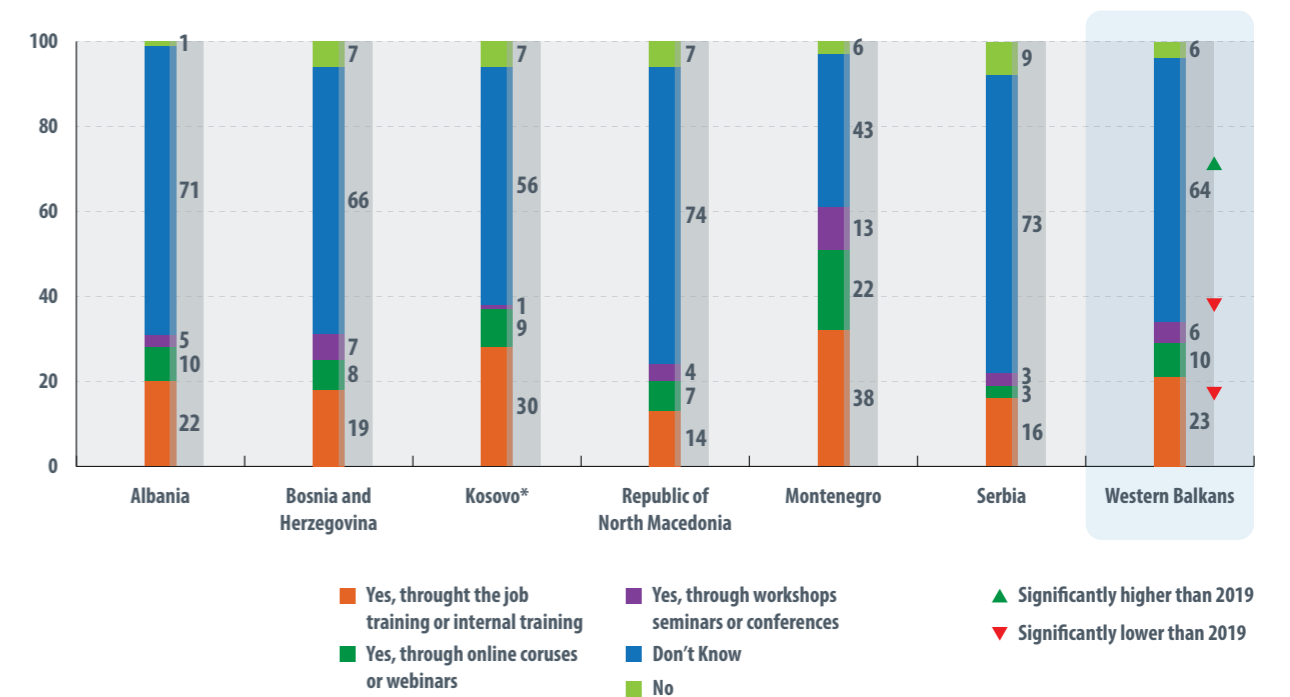


Figure 179 – Do you take concrete measures to improve the digital skills of your employees?

(Respondents who marked digital skills as very important and somewhat important - N=918, %)



The pandemic dwindled the pressure that hard-to-fill vacancies exerted before (Figure 180). Only 16% of respondents said this was the case in the last 12 months, as opposed to 28% a year ago. The pressure relieved throughout the entire region, but it was the lowest in the Republic of North Macedonia (9%) and the highest in Montenegro (25%). Two key problems stand out as reasons for the hardship to fill vacancies (Figure 181): lack of skills (44%) and emigration (37%). The two

reasons dominate in all Western Balkan economies, although emigration is more important in Serbia and Bosnia, while the opposite is the case in the other economies. A year ago, in 2019, skills were the dominant underlying reason behind the hardship to fill vacancies. Surprisingly, the salary as motivator was less frequently chosen by respondents in 2020, despite the non-negligible share ranging from 5% in Kosovo* to 19% in Serbia.

Figure 180 – Did you have vacancies over the past 12 months that have proved hard to fill?

(All respondents - N=1200, %)

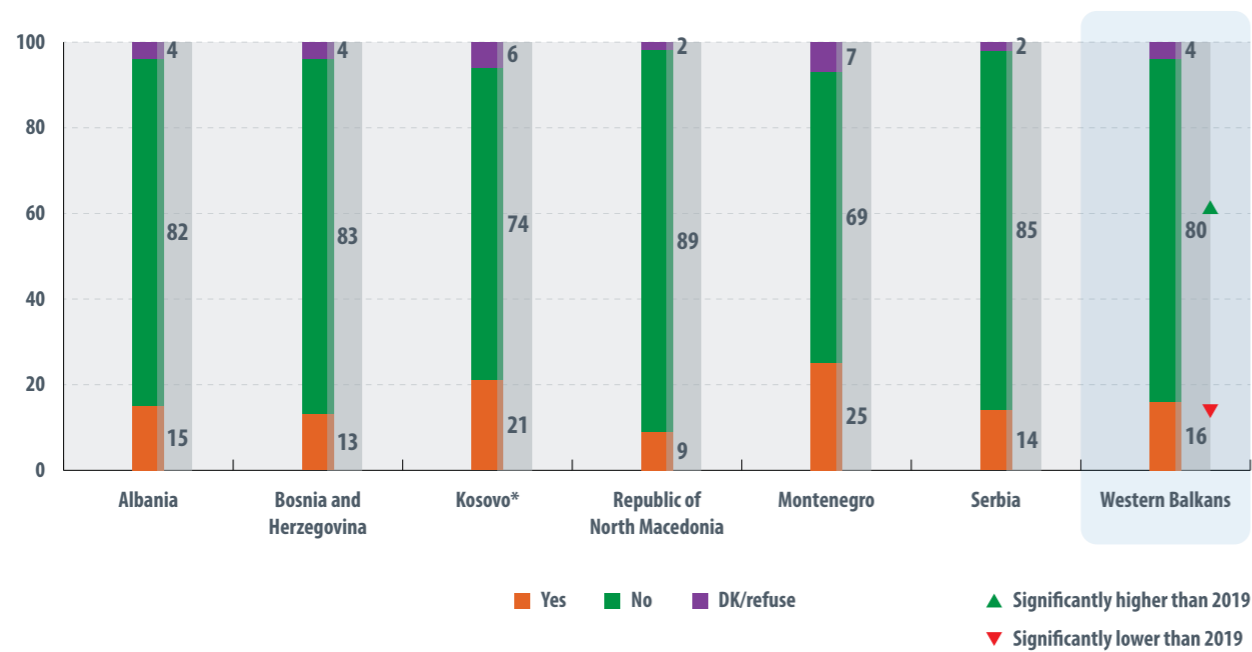
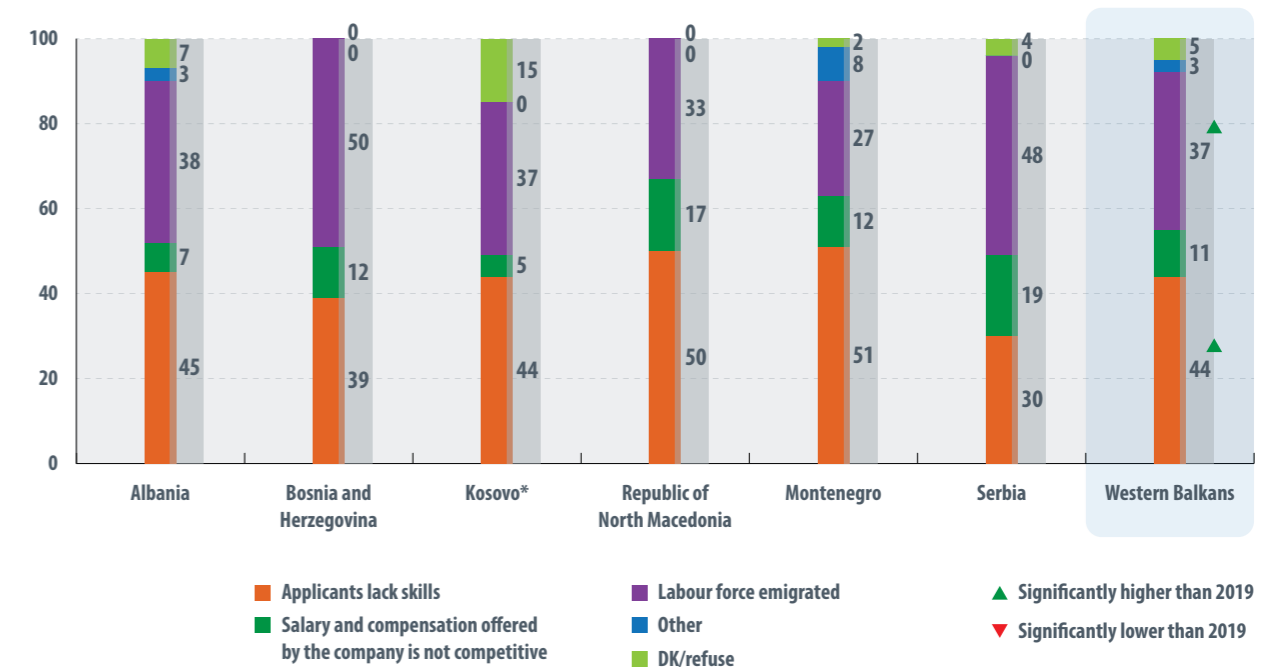


Figure 181 – Why do you think this is the case?

(Respondents who had difficulty in filling vacancies, N=190, %)



While complaining about the availability and scarcity of skills, businesspersons in the Western Balkan economies have not been undertaking any training for their staff in 70% of the cases (Figure 182). It was mostly Montenegrins who invested in non-formal education (39% responded they organize some kind of training), while Macedonians did so the least (18%). In addition, majority of companies (39%) do not review their skill

and training needs of the individual employees (Figure 183). Yet, this picture observes a slight improvement compared to 2019, when the share of 'no' respondents was 45%. Again, it was mostly Montenegrins who pursue such review (45% responded they regularly reviewed the skill and training needs of individual employees), as compared to Macedonians who did it the least (17%).

Figure 182 – 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 for training required by the law?

(All respondents - N=1200, %)

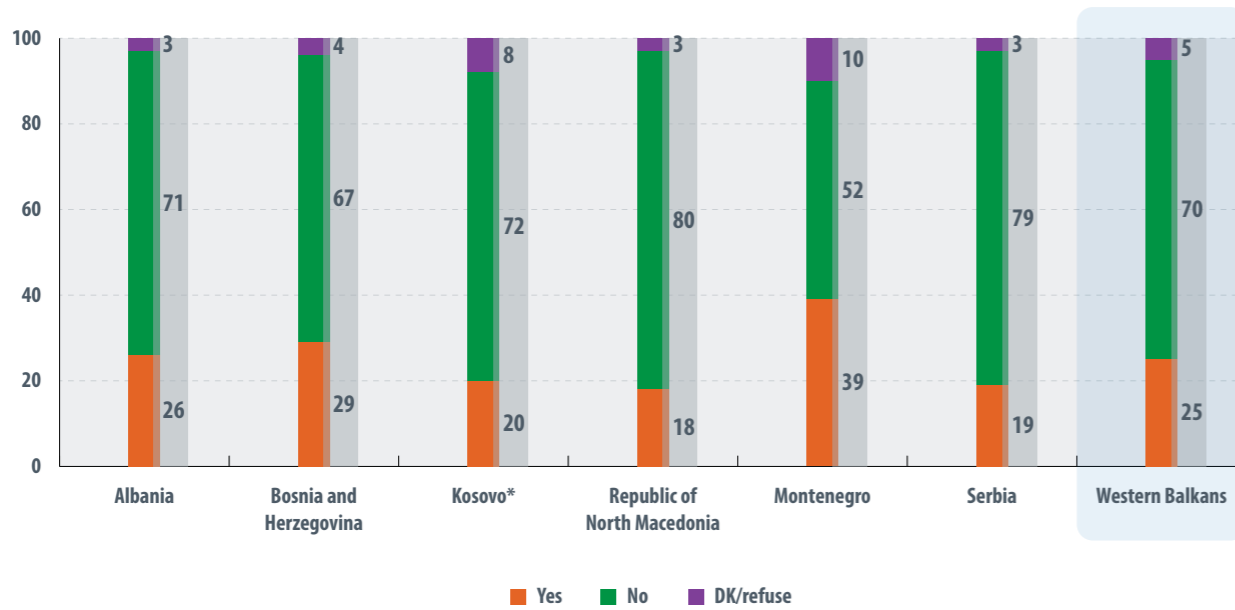
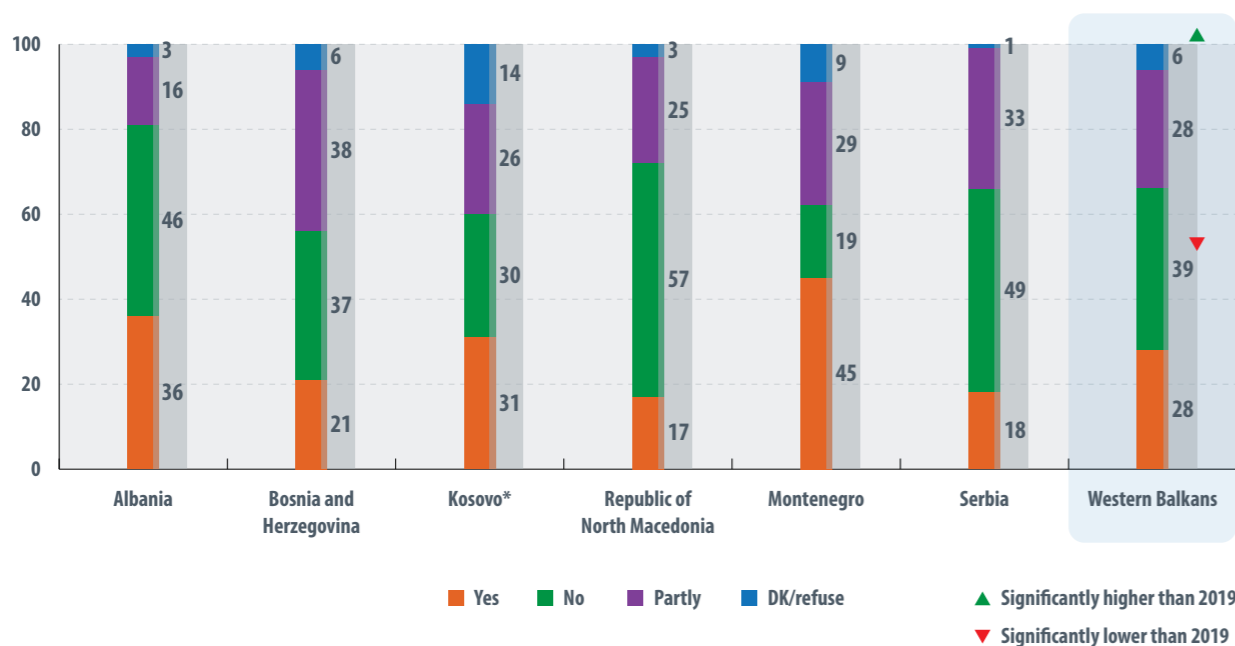


Figure 183 – Thinking about skills requirements, does your company regularly review the skill and training needs of individual employees?

(All respondents - N=1200, %)

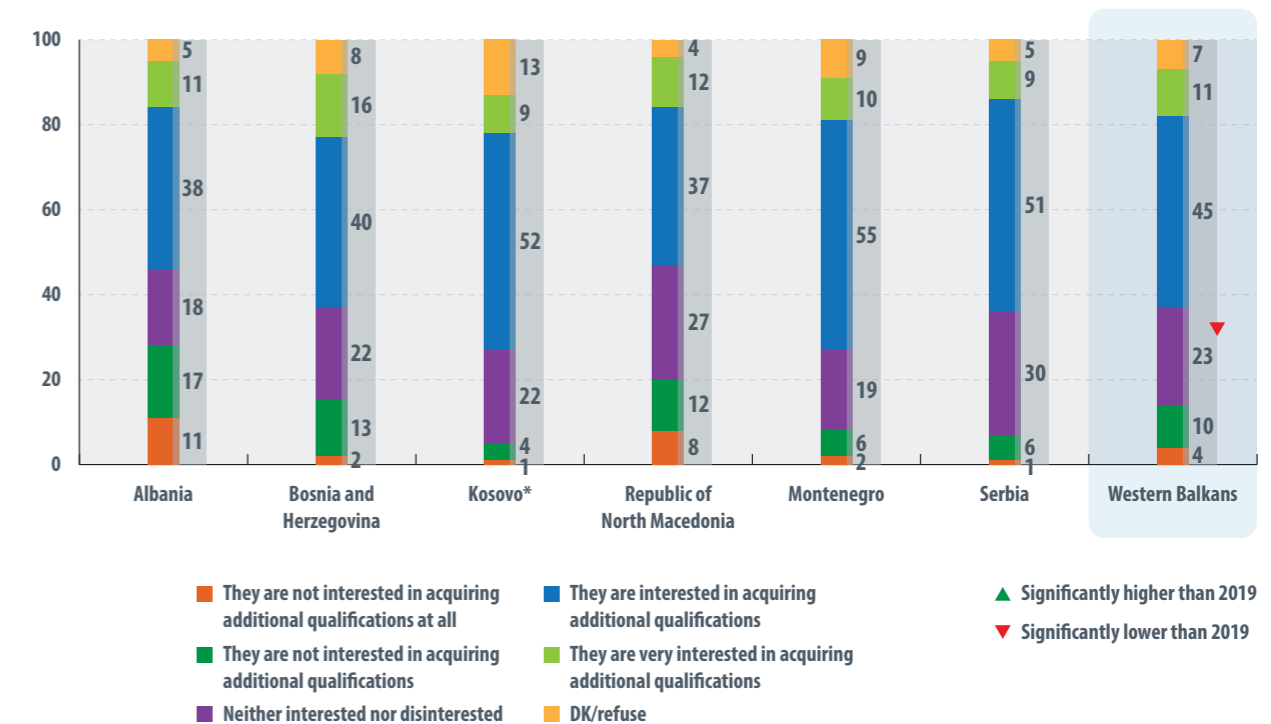


As opposed to the scarcity of training opportunities, employees generally show readiness for acquiring new knowledge (Figure 184). 56% of them responded their employees were interested or very interested in acquiring additional qualifications, with such share being

dominant across all the Western Balkan economies. Yet, employees in the Republic of North Macedonia are the least motivated to pursue additional qualifications, as 27% were neutral, while 20% were not interested.

Figure 184 – How would you assess the readiness of employees in your company to acquire additional qualifications in order to advance and get promoted?

(All respondents - N=1200, %)



The gender pay equality is the key way to increase the number of women on the labour markets of the Western Balkans (Figure 185). On average, 47% of respondents said that paying women and men the same would increase women's participation in the labour market, placing this as the most rated and effective way. However, in Bosnia and Herzegovina and the Republic of North Macedonia, two other ways stand out:

accessible childcare and ability of combining jobs with household chores. Other ways were likewise identified as potentially effective in the region; e.g. the availability of flexible working arrangements (48% in Bosnia and Herzegovina); absence of discrimination (36% in the Republic of North Macedonia); access to decent jobs (27% in Serbia).

Figure 185 – In your opinion, what are the most effective ways to increase the number of women in the labour market?

(All respondents - N=1200, %)

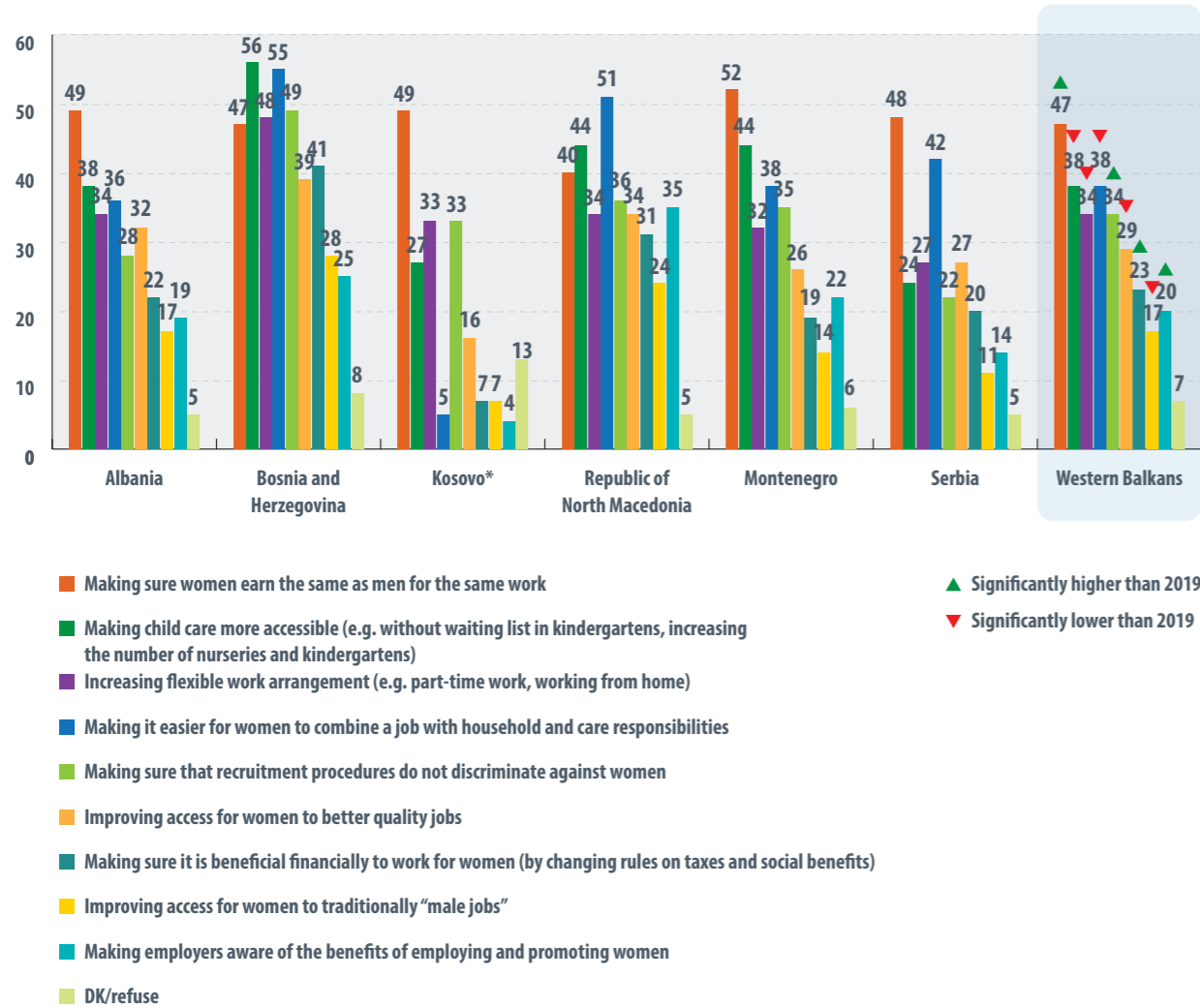
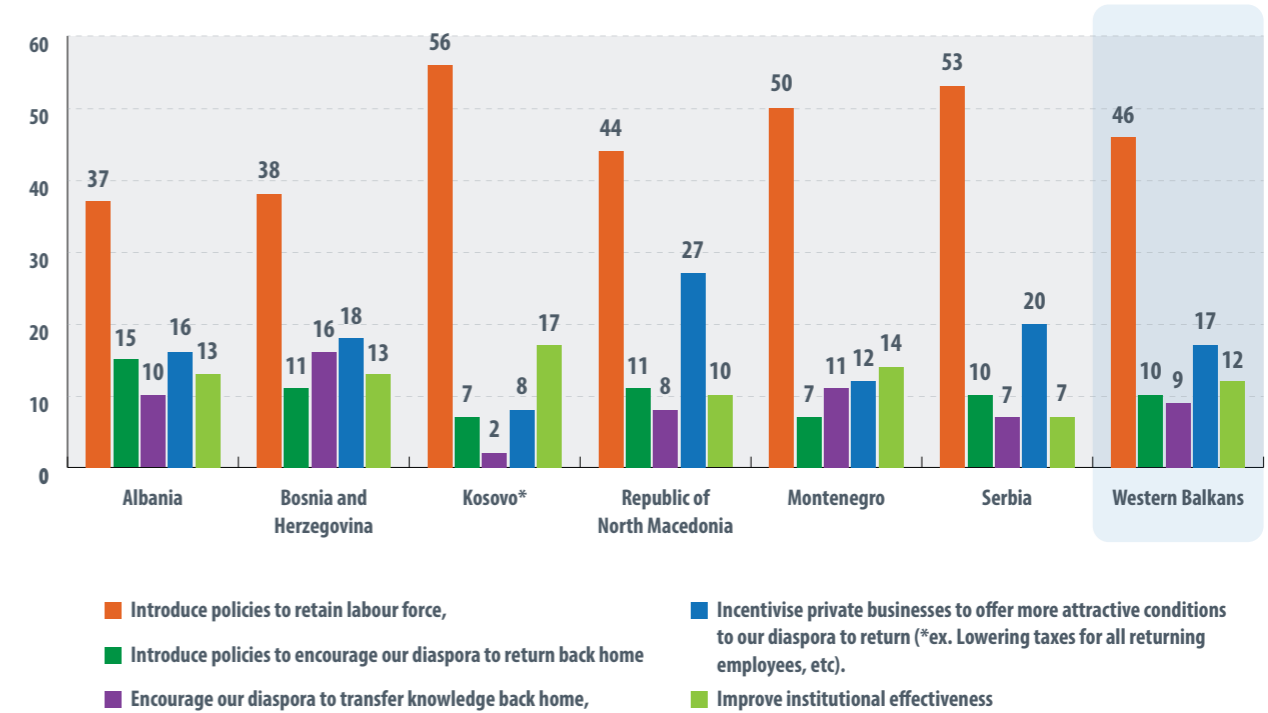


Figure 186 – To curb the problem of labour force shortages and brain drain, our government should:

(All respondents - N=1200, %)



Finally, respondents consider that the governments should introduce policies to retain the labour force in the Western Balkan economies as key to curbing the problem of labour force shortages and brain drain (Figure 186). 46% of respondents provided this answer, ranging from 37% in Albania to 56% in Kosovo*. A second-ranked policy alternative was subsidising more attractive employment conditions and encouraging the return of migrants), an option most pronounced in the

Republic of North Macedonia (27%). Incentivising diaspora to return and/or encouraging transfer of knowledge by the diaspora were policy options that gained some attention among respondents. Yet, in some of the Western Balkan economies, institutional effectiveness was identified as the key to curbing the brain drain; e.g. in Kosovo* and Montenegro, this option was third-ranked.

EMPLOYMENT PRACTICES

Western Balkans' businesses rely on various practices to hire new employees, though with different intensities (Figure 187). The most often used practice is through personal contact, as 49% of respondents marked, though a decline from 59% a year ago. Advertisements in papers and online have been used often in 30% of the cases, and sometimes in 46% of the cases. Surprisingly, the intermediation of the employment agencies

is used sometimes (38%) or never (42%), signifying the potential mistrust that employers from the region nest in the employment service agencies. Likewise, hiring through cooperation with the educational institutions remains low, as 58% responded that never did that, while 28% did sometimes. On the far end, "poaching" of employees from competitors has never been used as a hiring practice in more than two thirds of the cases.

Figure 187 – How often do you use the following when hiring new employees?

(All respondents - N=1200, %)

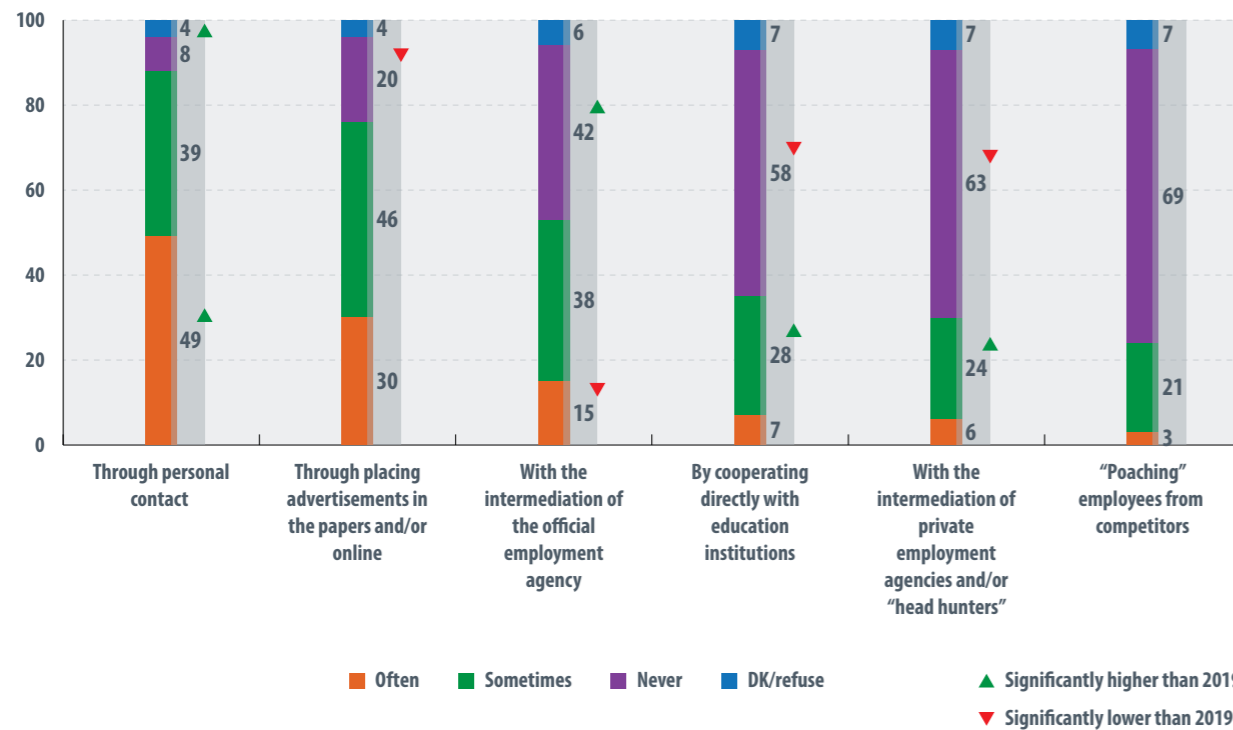


Figure 188 through Figure 193 report the preferences in employment practices among the Western Balkan economies. Personal contacts as vehicles for employment are widespread across the region, yet from levels as high as 60% in the Republic of North Macedonia and Montenegro to 29% in Bosnia and Herzegovina. Actually, in Serbia, Bosnia and Herzegovina and Albania, the share of respondents who said this practice was

sometimes used is high: 52%, 46% and 44%, respectively. Advertising is most often used in Kosovo* (39%), Montenegro (37%) and the Republic of North Macedonia (34%), although the share of respondents who used it sometimes remains prevalent in all Western Balkan economies. On the contrary, the usage of employment agencies is prevalently seldom or excluded across the Western Balkans: from 52% of respondents that nev-

er used it as employment practice in the Republic of North Macedonia, to 29% in Serbia. Likewise, direct cooperation with educational institutions is an even rarer employment practice: 42% of respondents in Montenegro never used it, to as many as 73% in the Republic of North Macedonia. The Western Balkans' businesses

revealed a similar attitude towards private employment agencies. Finally, on the positive side, 'stealing' of employees from competition is still seldom: 53% (Bosnia and Herzegovina) to 75% (Serbia) of respondents said they never used such practice, while the share of those who often used it is negligible.

Figure 188 – How often do you use the following when hiring new employees? - Through personal contact (following recommendations of friends and colleagues)

(All respondents - N=1200, %)

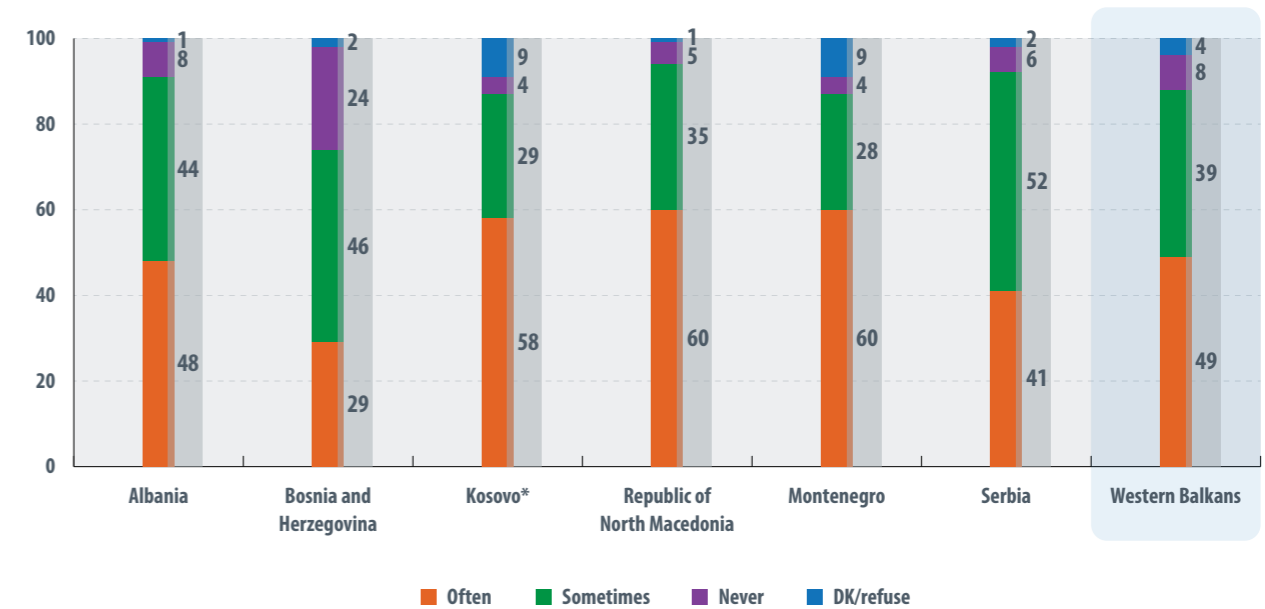


Figure 189 – How often do you use the following when hiring new employees? - Through placing advertisements in the papers and/or online

(All respondents - N=1200, %)

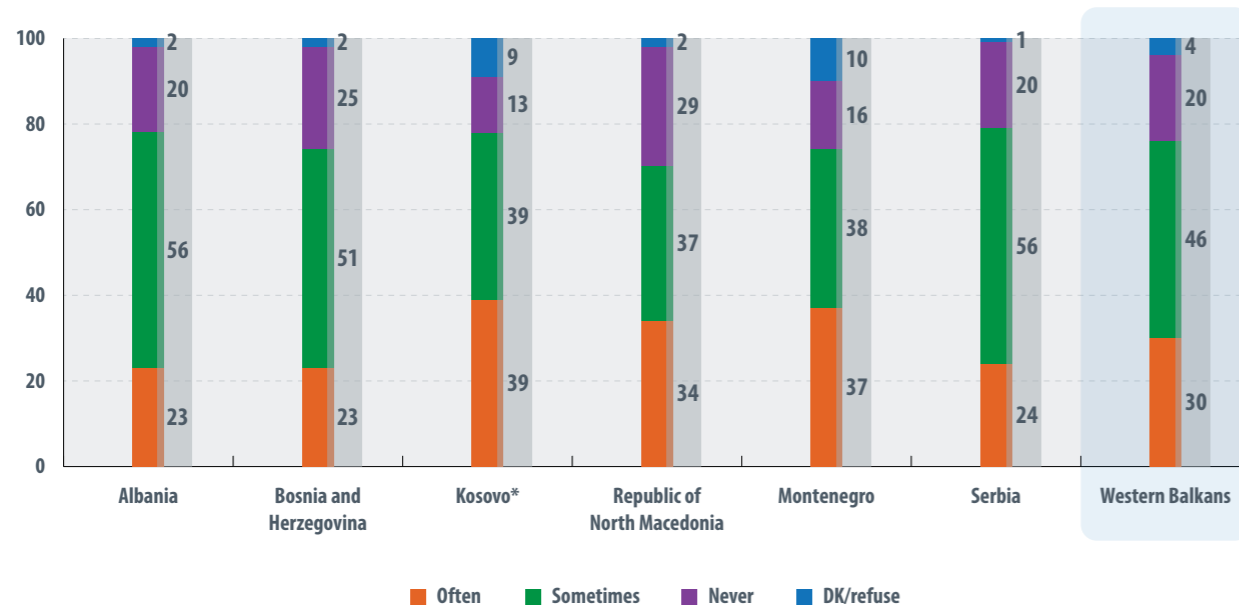


Figure 191 – How often do you use the following when hiring new employees? - By cooperating directly with education institutions

(All respondents - N=1200, %)

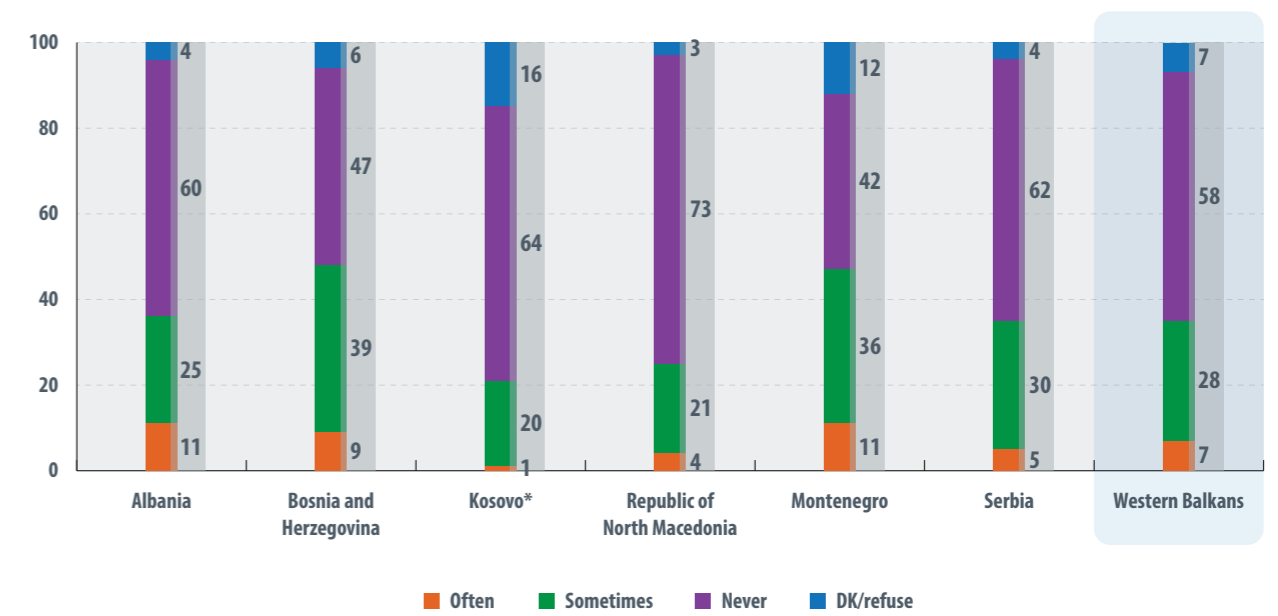


Figure 190 – How often do you use the following when hiring new employees? - With the intermediation of the official employment agency

(All respondents - N=1200, %)

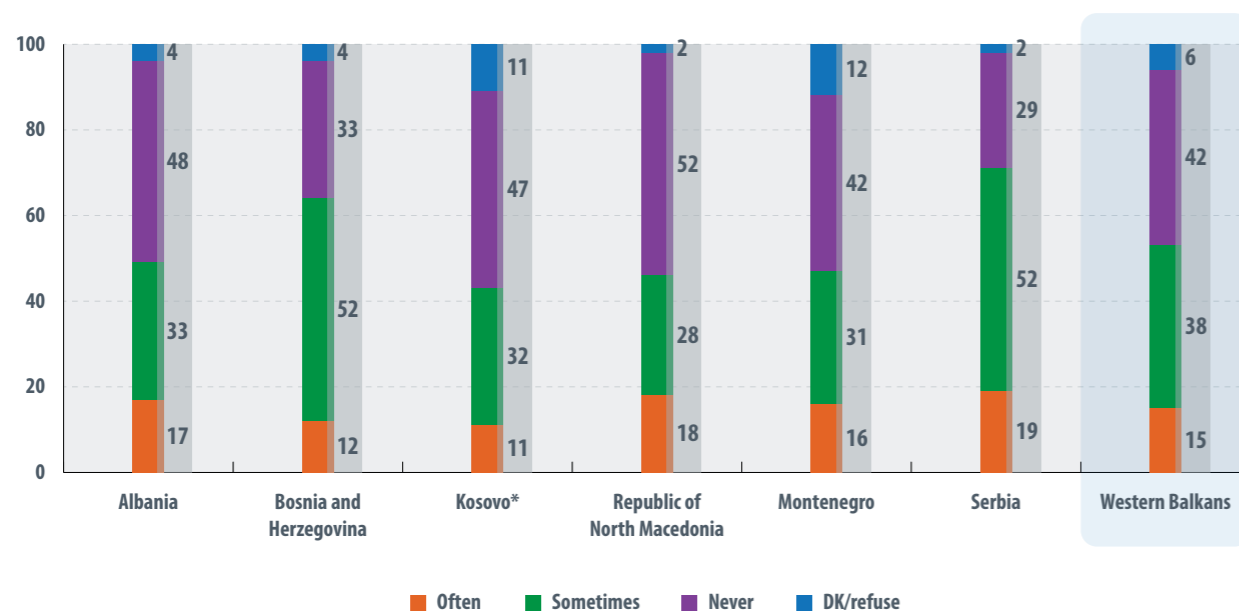


Figure 192 – How often do you use the following when hiring new employees? - With the intermediation of private employment agencies and/or head hunters

(All respondents - N=1200, %)

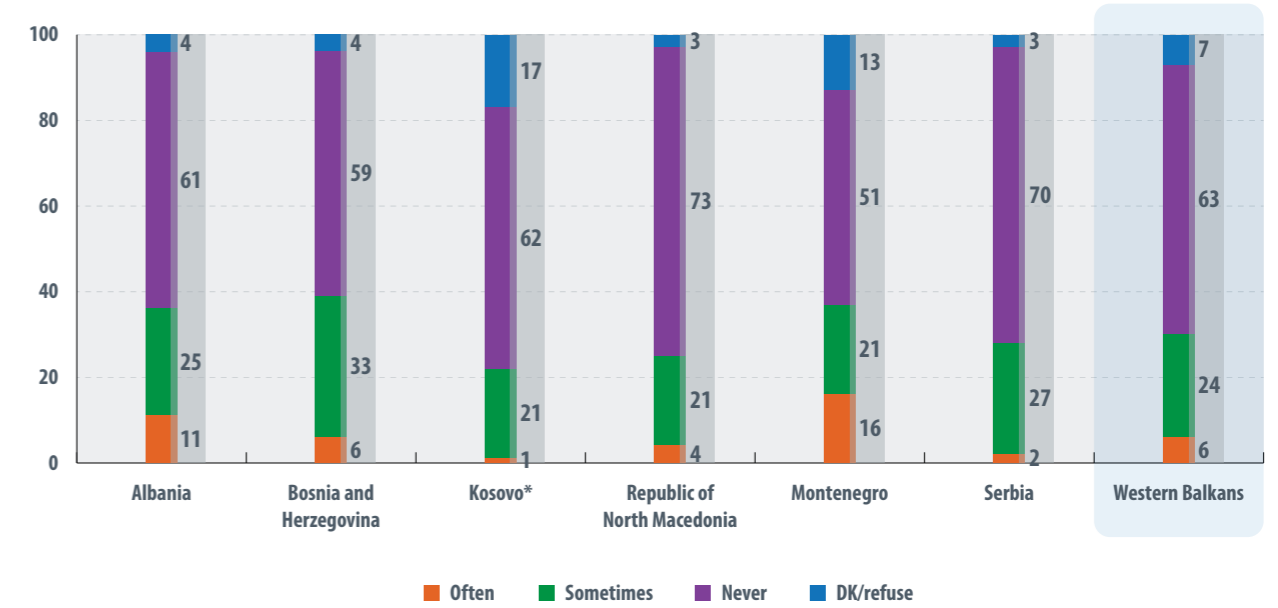
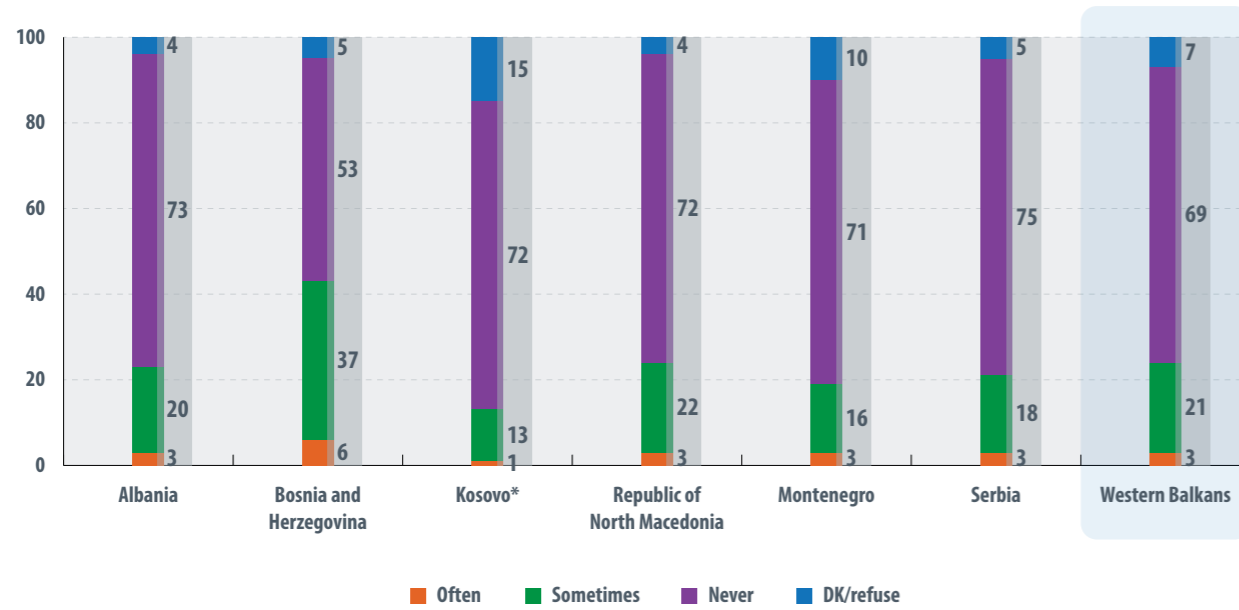


Figure 193 – How often do you use the following when hiring new employees? - “Poaching” employees from the competitors

(All respondents - N=1200, %)

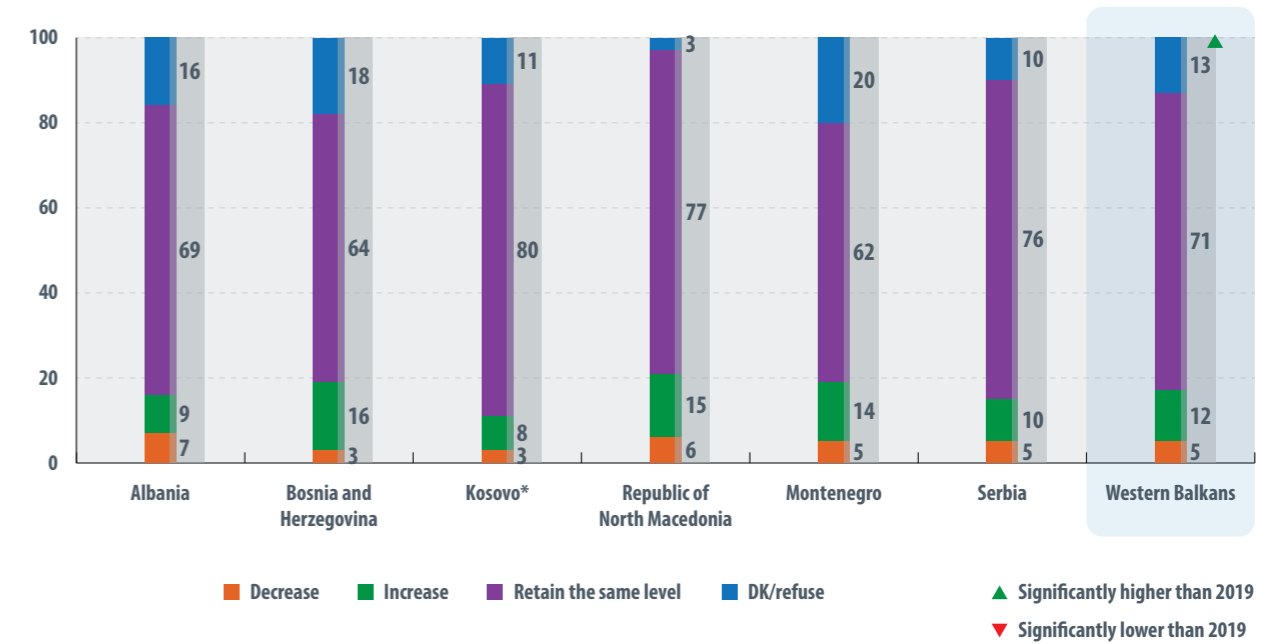


On the assumption that employers were offered further flexibilisation in hiring and firing procedures, they said they would mostly retain their current number of employees (Figure 194). This may be a reflection of the

sufficient level of flexibility attained in the regulation of the labour markets in the Western Balkans. The share of respondents who said so varies from 62% in Montenegro to 80% in Kosovo*, yet remaining dominant.

Figure 194 – If you could change the number of full-time workers your company currently employs without any restrictions, what would be your optimal level of employment as a percent of your existing workforce? Would you decrease, increase or retain the same level of employees?

(All respondents - N=1200, %)



The gender distribution of workers corroborates present gender employment gaps in the region, i.e., the higher employment rates observed among men than among women. Figure 195 reveals that two thirds of

workers are men and such a gap is wider in the Republic of North Macedonia, where 77% of workers are men. In the other economies, the share of male workers hovers around 60%.

Figure 195 – Of the total number, how many of your employees are men and how many women?

(All respondents - N=1200, %)

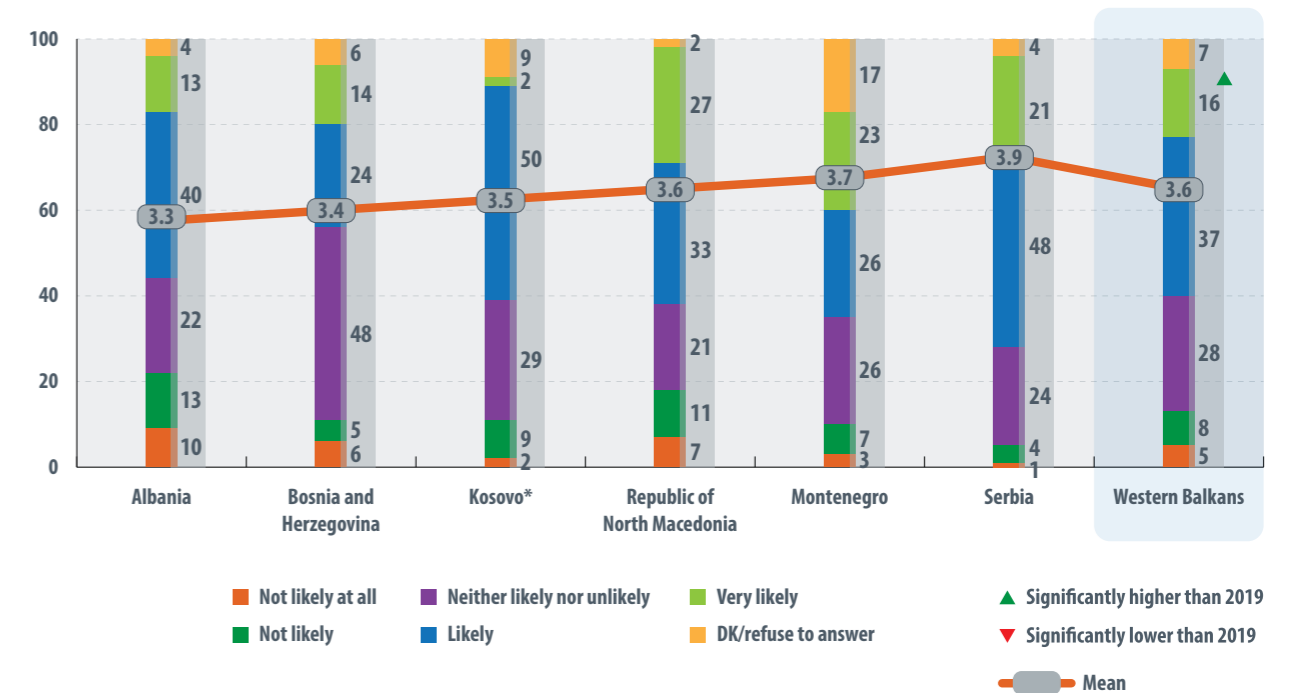


The attitude towards Roma as workers changes in the region for the worse. 37% of respondents said they would likely hire a Roma person with adequate competences, and another 16% responded with 'very likely'. But, altogether, this share is lower than in 2019 (39% and 27%, respectively). The negative attitude towards Roma people is the strongest in Albania, as 23% of re-

spondents said it was unlikely or very unlikely that they would employ a Roma person, followed by the Republic of North Macedonia (18%). Bosnia and Herzegovina reflected the most neutral stance (48%), while Serbia was predominantly positive towards employing Roma persons as 69% responded with likely or very likely.

Figure 196 – How likely would it be for you to hire a Roma person whose educational profile and experience completely meet the needs of your business?

(All respondents - N=1200, %)

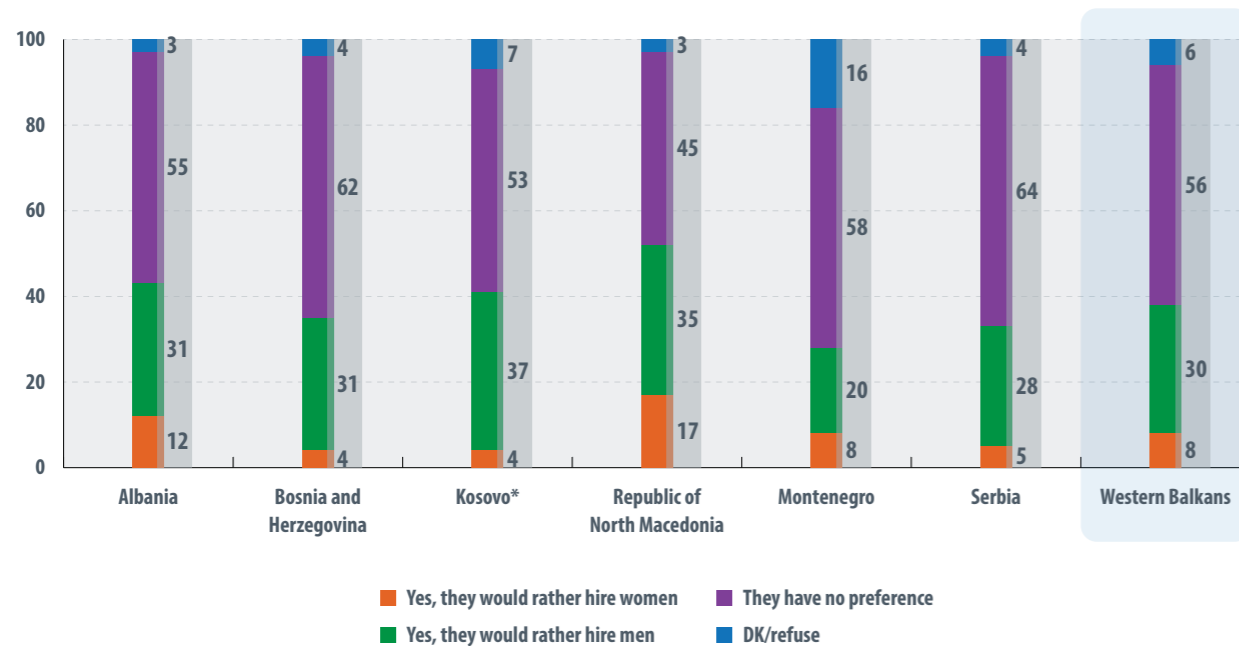


The majority of companies in the Western Balkans reported no gender preference in hiring, 56% (Figure 197). However, of those with gender preferences, large majority revealed preference to employ a man (30% of total respondents). No large variations are present across the region, yet, gender stereotyping in hiring is

the most present in the Republic of North Macedonia, where 35% expressed preference to employ a man and 17% to employ a woman. Preferences towards women are the lowest in Bosnia and Herzegovina and Kosovo* (4%) each, while Montenegro has the lowest gender preference towards men (20%).

Figure 197 – In your opinion, do companies like yours have a gender preference in terms of hiring?

(All respondents - N=1200, %)

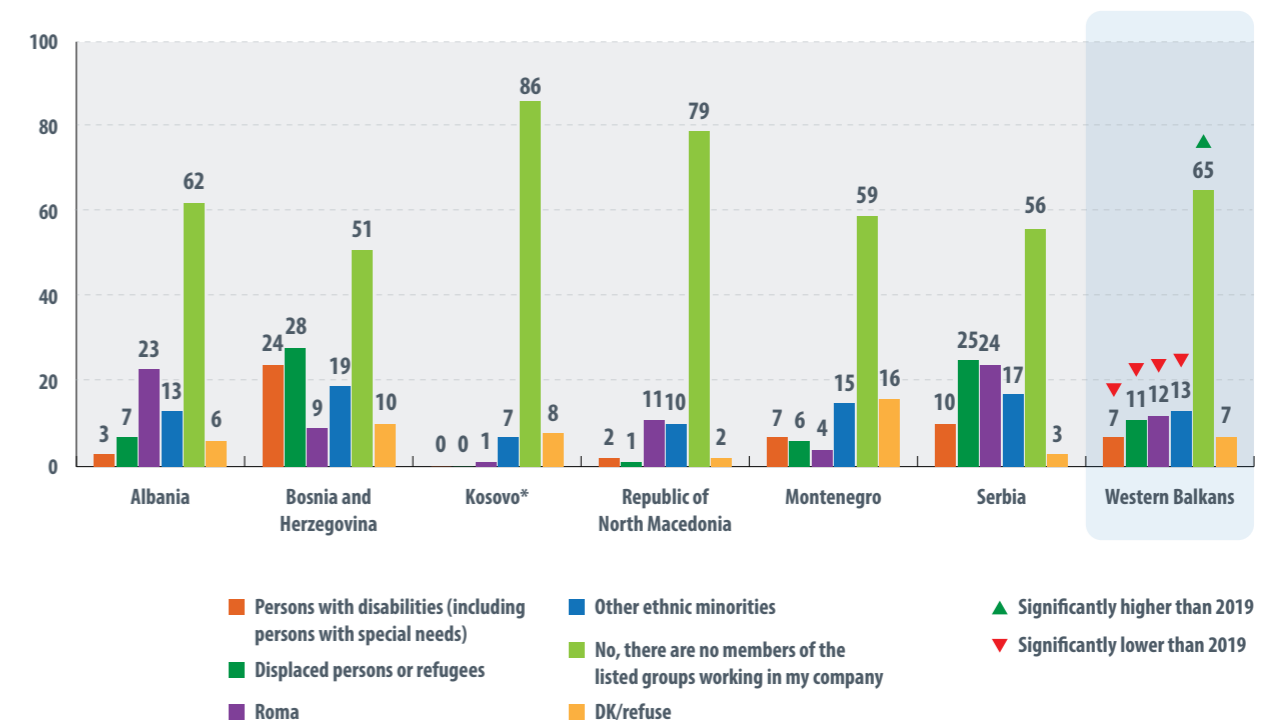


Sheer majority of respondent companies do not employ a representative from the depicted vulnerable groups: persons with disabilities, displaced persons or refugees, Roma and other ethnic minorities (Figure 198), almost two thirds. This is a considerable increase from 55% in 2019, at the expense of all these groups. Employment attitude against vulnerable groups is the strongest in Kosovo*, where 86% of respondents reported no vulnerable worker hired, followed by the Republic of North Macedonia (79%). Yet, in the Republic of North Macedonia, 11% hired a Roma and 10% hired

other ethnic minorities. The picture is more colourful in other economies: for example, the attitude towards hiring Roma is the highest in Serbia (24%) and Albania (23%), while attitudes towards displaced persons and persons with disabilities are higher for both in Bosnia and Herzegovina, with 28% and 24%, respectively for each category. These shares, however, are not a pure reflection of the attitudes of employers, but also of the participation of vulnerable groups in the working-age population in the respective economies.

Figure 198 – Do you have somebody from the below mentioned vulnerable groups working in your company?

(All respondents - N=1200, %)

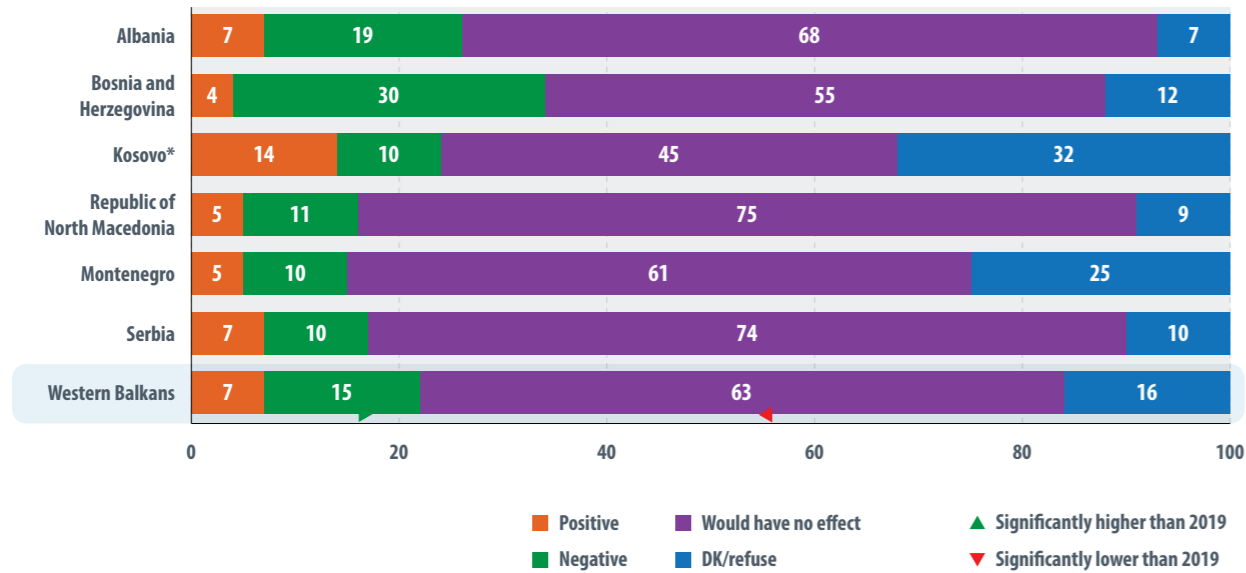


63% of respondents consider employing Roma as neutral for the sales and the working environment (Figure 199). However, 15% revealed negative assertiveness, a small increase compared to 2019. Such negative attitude is the strongest in Bosnia and Herzegovina (30%),

and the least strong in Kosovo*, Montenegro and Serbia (10% each). Notwithstanding the prevalent neutral stance across the region, the still high 14% in Kosovo* considered Roma workers as beneficial for their company's sales and working environment.

Figure 199 – Do you think that employing Roma persons would affect company sales or the working environment in a positive or a negative way?

(All respondents - N=1200, %)



The attitude towards employing foreigners in the Western Balkans is inconclusive (Figure 200), as 27% considered this as likely, while 28% as unlikely, and another 28% of respondents expressed neutral stance. Yet, the situation is striking in the Republic of North Macedonia, where 48% expressed strong hesitation against em-

ploying foreigners, and another 24% expressed some unlikeliness. On the contrary, Kosovars were mostly in favour of foreign workers, with 51% saying that such a practice would be likely. Employers manifested a similar attitude towards workers from other economies in the Western Balkans (Figure 201).

Figure 200 – How likely would you employ workers from abroad in your company?

(All respondents - N=1200, %)

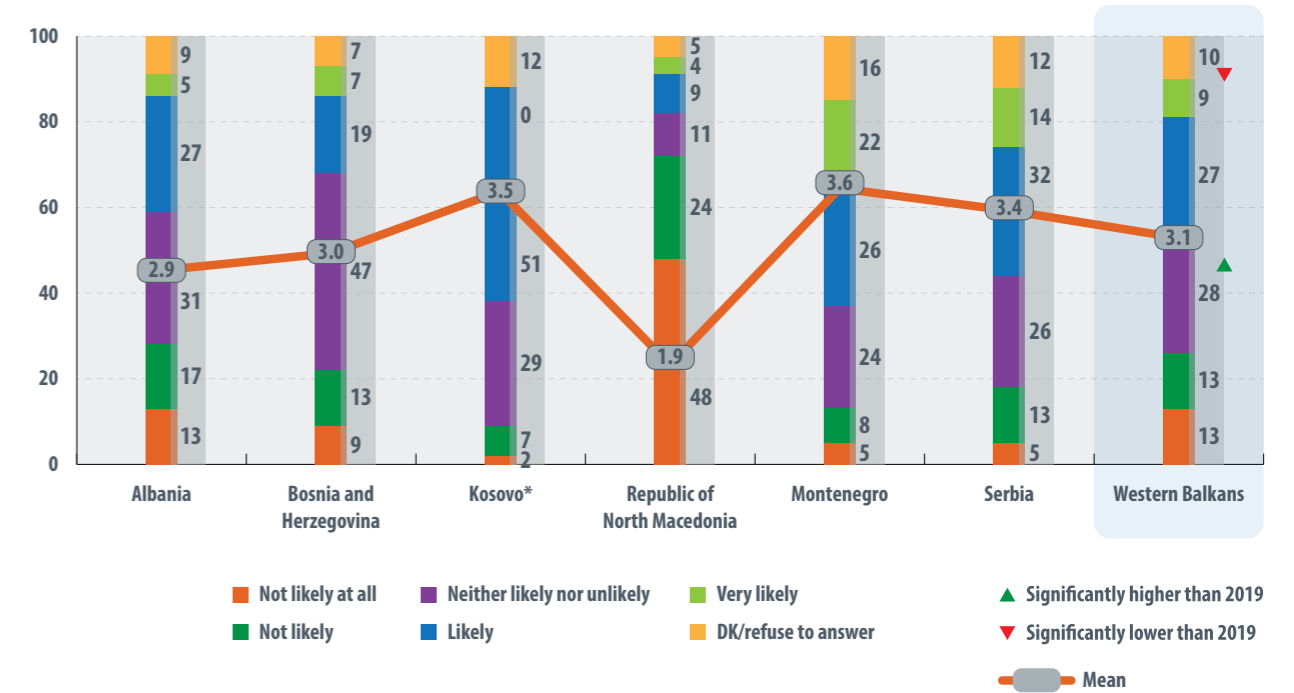
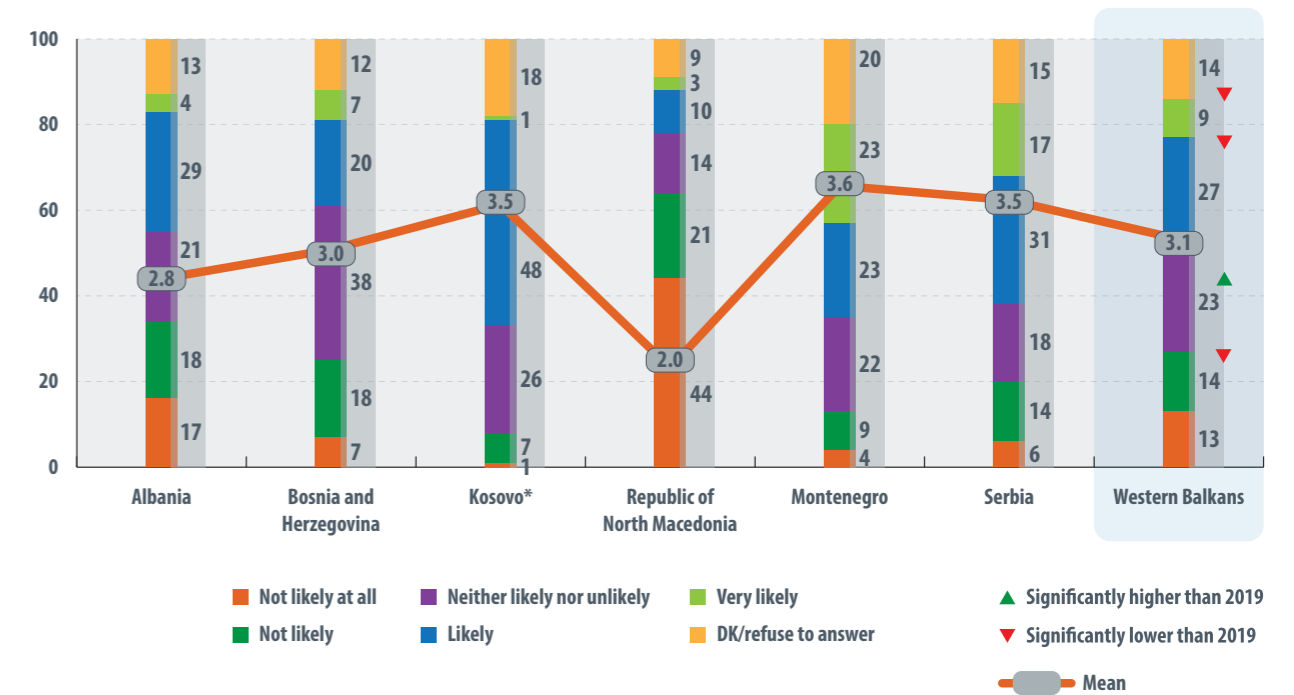


Figure 201 – How likely would you employ workers from the WB region in your company?

(All respondents - N=1200, %)

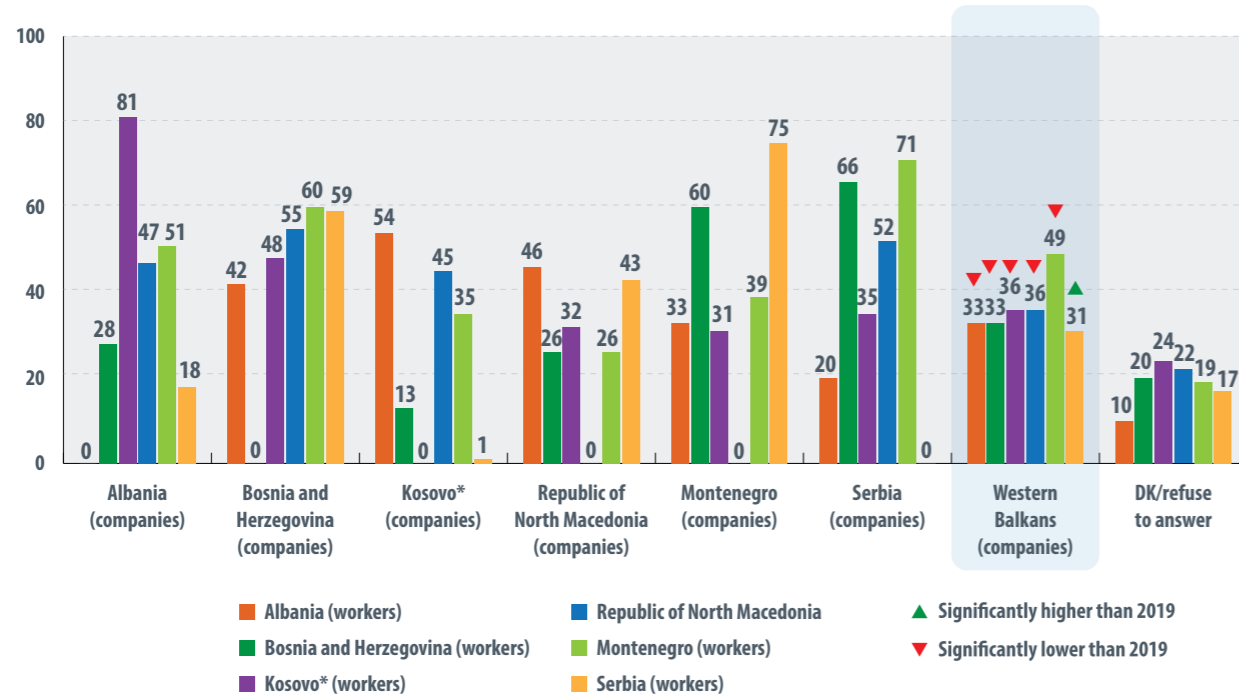


Those who responded that they would employ workers from the Western Balkan economies reflect a variety of attitudes (Figure 202). For example, Albanians are mostly in favour of hiring Kosovars (81%), probably reflecting the absence of a language barrier. On the other hand, while 54% of Kosovars reported that they would prefer Albanians, they were also in favour of Macedonians (45%) and Montenegrins (35%). Serbians mostly

favour Montenegrin (71%) and Bosnian (66%) workers, again a reflection of the language advantage, and the preference is mirrored in Montenegro. Macedonians prevalently favour Albanian workers (46%) and Serbian ones (43%). The preference in Bosnia and Herzegovina is more evened out with respect to the workers from the other Western Balkan economies.

Figure 202 – You said that you would employ workers from the WB region in your company, from which economy/economies exactly?

(respondents who would likely employ workers from the region, N=704, %)

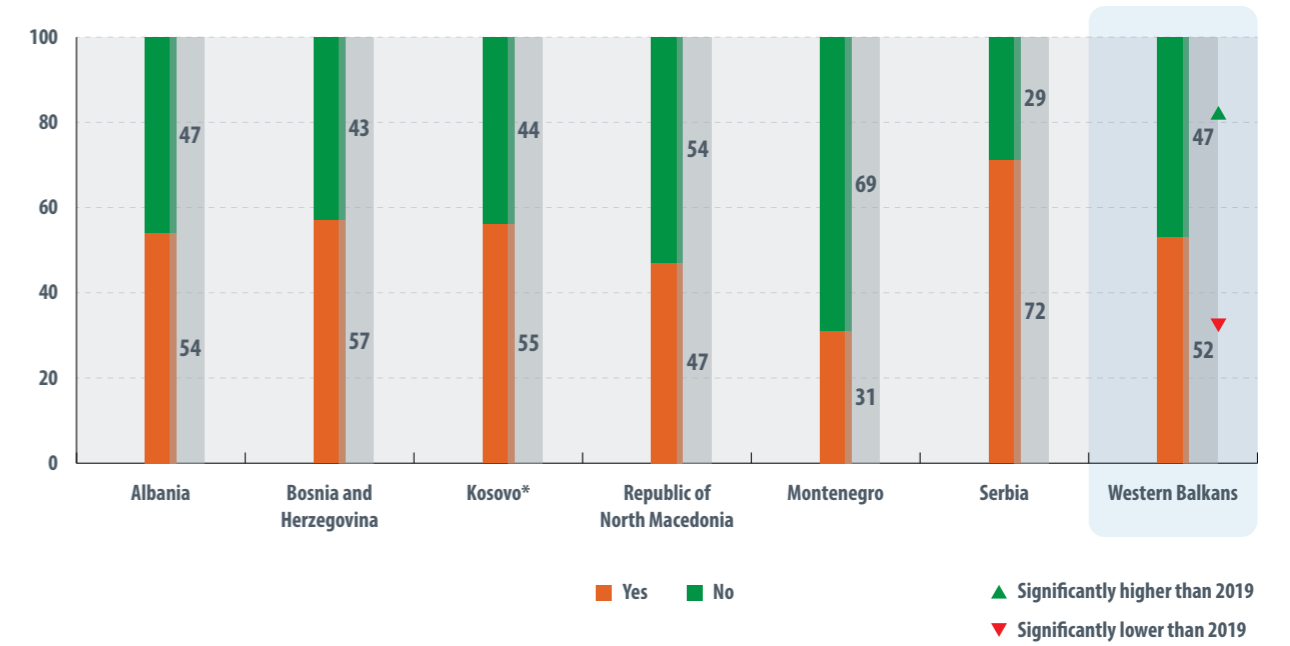


47% of businesspersons in the Western Balkans have not heard of the Regional Cooperation Council, which is an increase from 31% a year ago. The most advantageous in this regard are Serbians, where 72% of busi-

nesspersons know about the RCC, while the least advantageous are Montenegrins, where such share is only 31% (Figure 203).

Figure 203 – Have you heard of the Regional Cooperation Council?

(All respondents - N=1200, %)



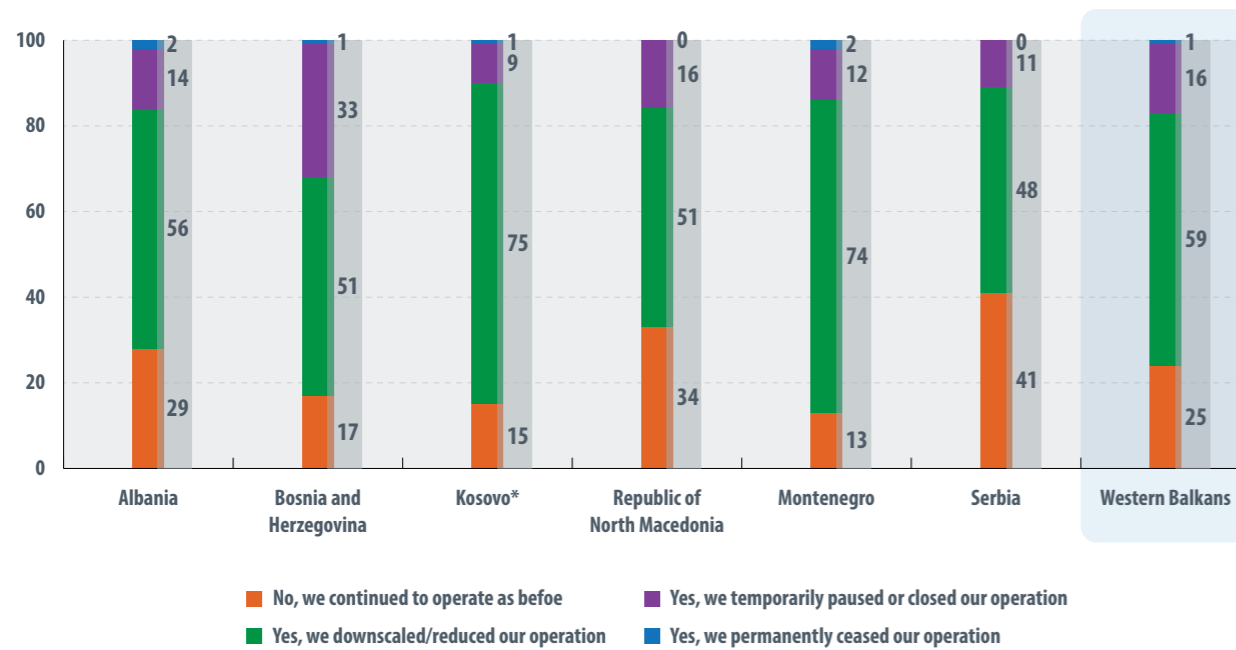
COVID-19 IMPACT

The crisis caused by the outbreak and the spread of Covid-19 has been an unprecedented challenge for Western Balkans' businesses as elsewhere. The large majority (59%) responded to it with a reduction of their operations (Figure 204). Yet, a quarter remained intact, at least when judged based on the load of their operation, while the share of those who reported a

permanent closure was almost zero. The intraregional variation reveals that Serbian businesses fared the best through the crisis, as 41% reported that they normally continued their operations, while enterprises in Bosnia and Herzegovina did the worst, because 51% reported downscaling of production, and another third faced a temporary closure.

Figure 204 – Has your business been affected in any way by the spread of coronavirus/ COVID-19?

(All respondents - N=1200, %)

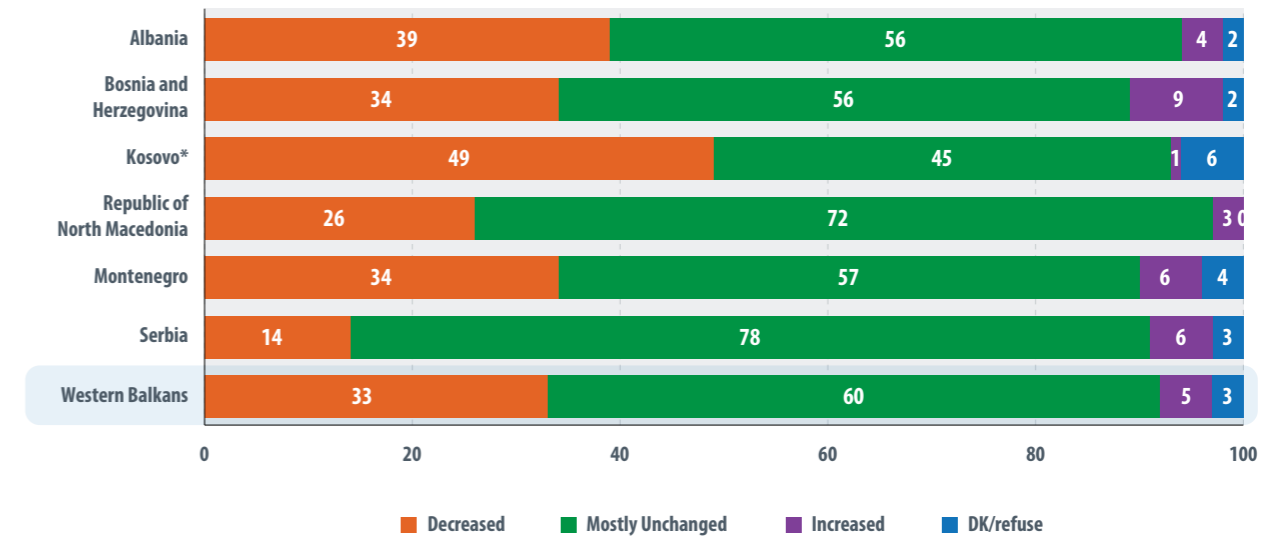


The production response was largely reflected in employment (Figure 205). For 33% of Western Balkan companies, the number of workers was reduced during COVID-19. The economy most affected by the changes is Kosovo* (49%), followed by Albania (39%).

In Serbia and Republic of North Macedonia, businesses have predominantly maintained the number of workers (78% and 72%, respectively). At the regional level, 60% of businesses managed to retain their employees in the past 12 months.

Figure 205 – How has your company's total employment changed over the past 12 months?

(All respondents - N=1200, %)

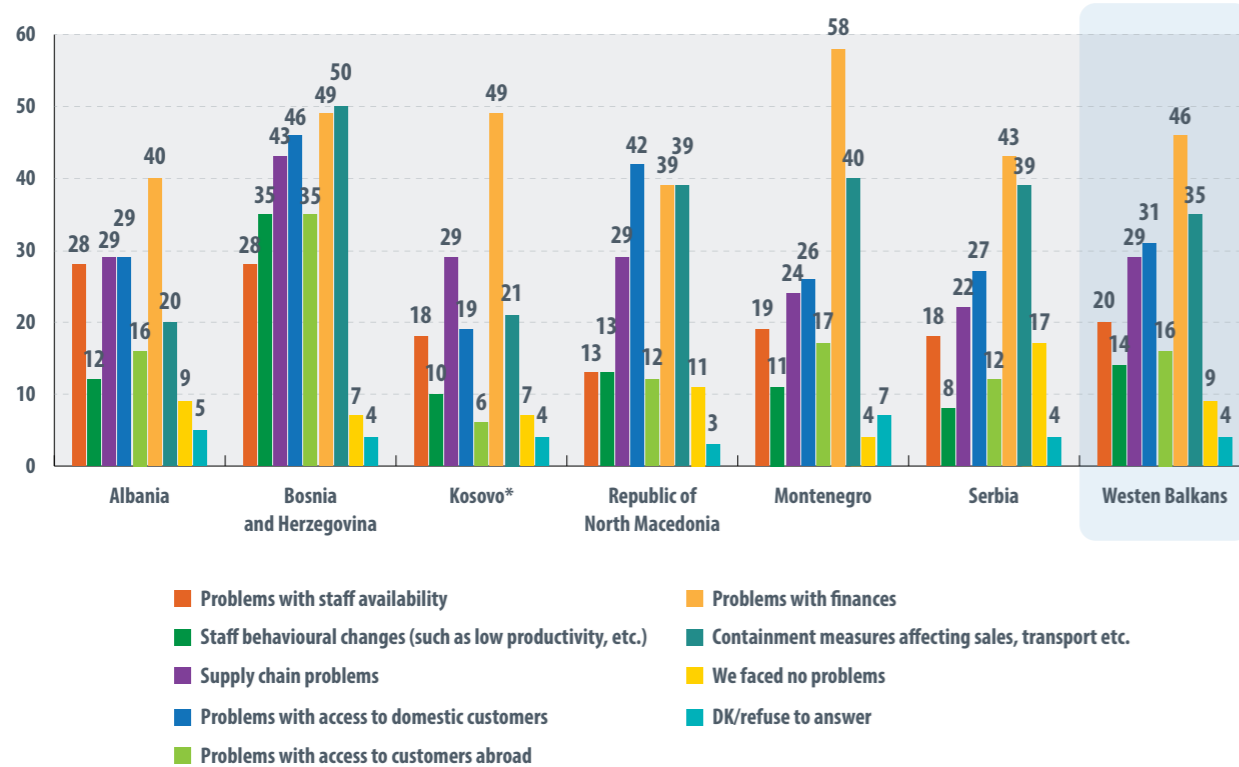


The key problem revealed by businesspersons pertinent to Covid-19 has been the access to finance (46%), suggesting that Covid-19 could be perceived mainly as a liquidity crisis. However, when the variety of measures deployed by the government are considered, then it is likely that this problem is revealed as a mixture of Covid-19 pressure and inherited structural issues that had existed even before. Containment measures, on the other hand, could be clearly related to the

Covid-19, and these were pointed out by 35% of companies. These two topped the list in almost all Western Balkan economies, though with some variation. For example, the supply-chain problems are revealed as second-ranked in Kosovo*, while in Albania, problems with staff, supply chain and access to domestic customers, have all been reported as the ones with the biggest impact.

Figure 206 – In what ways has your business been affected, i.e. what specific problems, if any, has your business faced?

(All respondents - N=1200, %)

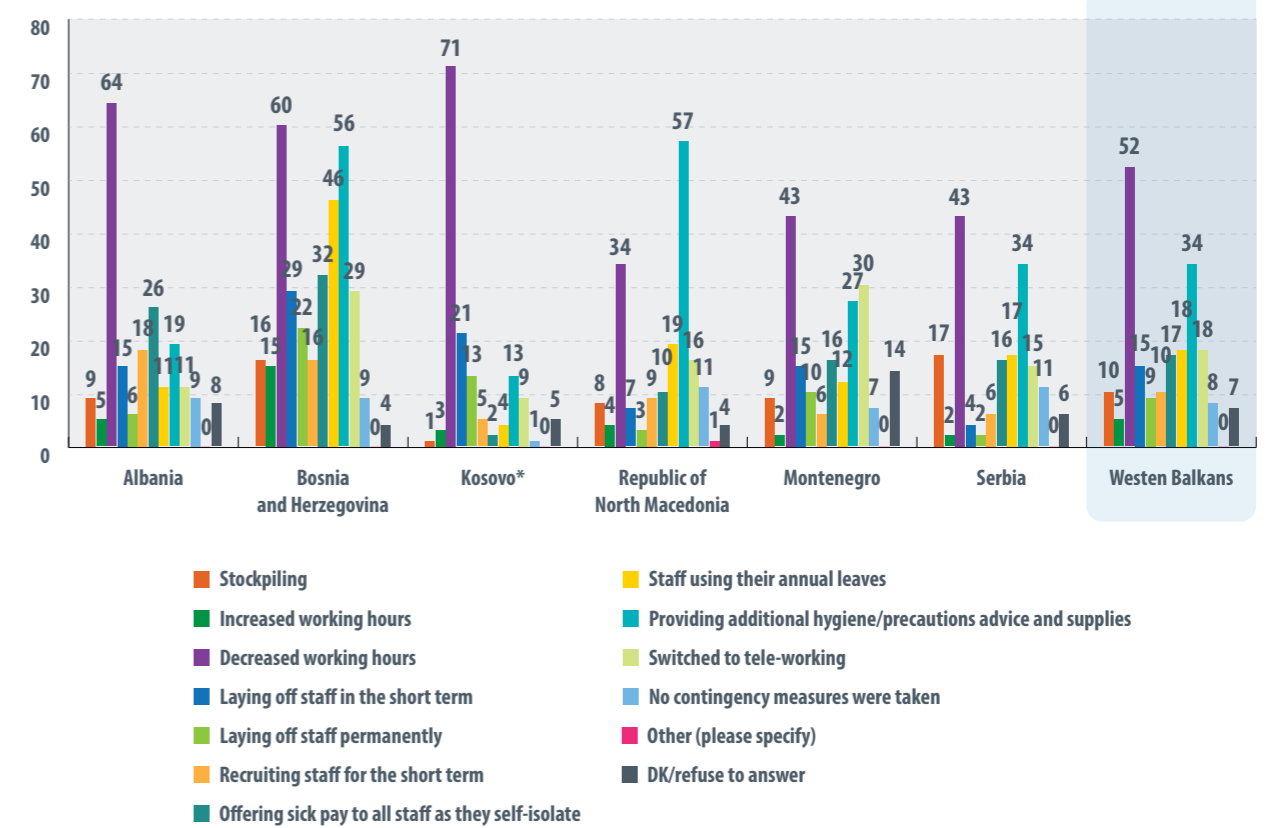


Of the palette of contingency measures, companies in the Western Balkans mostly reduced working hours (52%), followed by measures to secure additional hygiene (34%) (Figure 207). The reduced working hours top the list in all Western Balkans economies, except in the Republic of North Macedonia, where the hy-

giene-related measures popped up first (57%). In Albania, for instance, sick leave was the second-ranking contingency measure (26%), while in Kosovo*, it was the short-term lay-offs (21%). In Montenegro, 30% responded that they switched to teleworking.

Figure 207 – What contingency measures, if any, has your business taken to mitigate the impact of coronavirus/Covid-19 spreading?

(All respondents - N=1200, %)

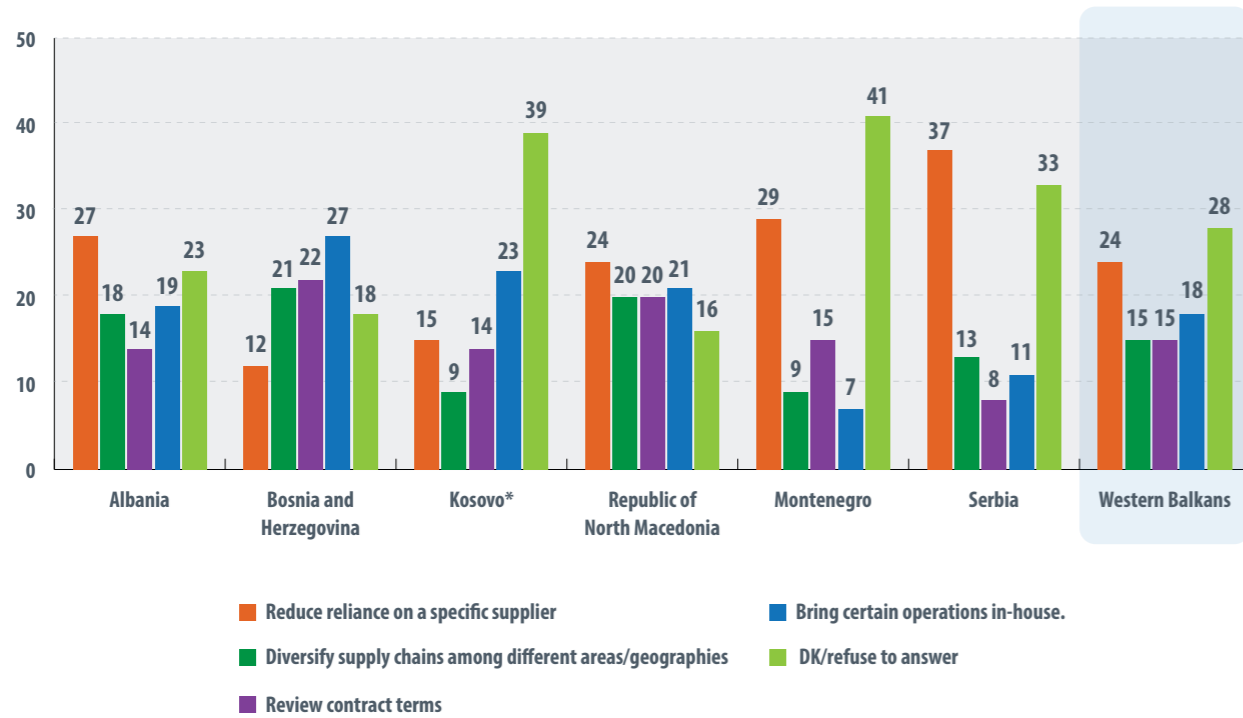


In terms of the supply-chain disruptions imposed by Covid-19, out of the majority of companies that accepted to provide insights (28% refused to answer), 24% reduced reliance on a specific supplier, 18% brought certain operations in-house, while 15% geographically diversified purchases and reviewed contract terms, each (Figure 208). The distribution of these four reac-

tions across the region differs. For instance, in Serbia and Montenegro, stronger majority (37% and 29%, respectively) reduced reliance on specific supplier; in the Republic of North Macedonia, all four responses were almost equal; in Kosovo* and Bosnia and Herzegovina, the reduction of outsourcing dominated (23% and 27%, respectively).

Figure 208 – In light of Covid-19 pandemic and supply chains disruptions, which of the following measures have you considered?

(All respondents - N=1200, %)

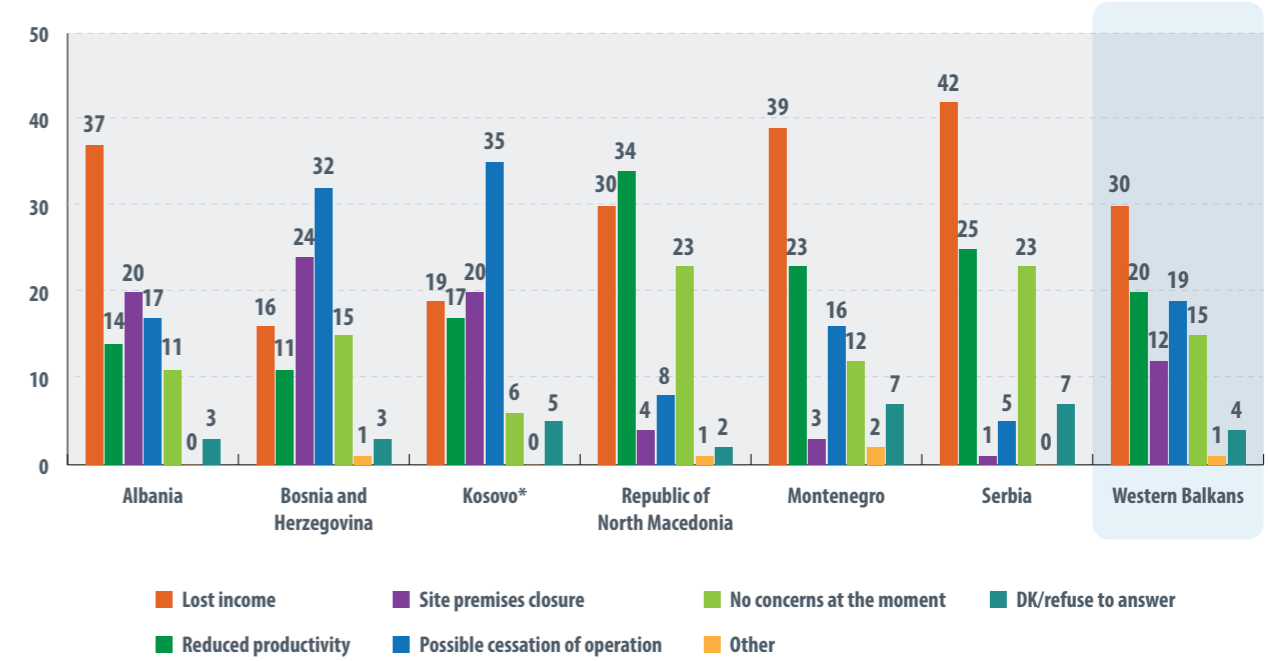


Lost income during Covid-19 remains the key concern for Western Balkans' businesses (Figure 209). This problem is dominant in Serbia (42%), Montenegro (39%) and Albania (37%). In Kosovo*, a majority of 35% responded they were concerned about the possible ces-

sation of operation, as well in Bosnia and Herzegovina (32%). In the Republic of North Macedonia, reduced productivity is the key present concern (34%), although succinctly followed by the lost income concern (30%).

Figure 209 – In light of Covid-19 pandemic and supply chains disruptions, which of the following measures have you considered?

(All respondents - N=1200, %)



FINANCIAL AND OPERATIONAL PERFORMANCE

Amid Covid-19, 72% of businesses responded that their access to finance declined (**Figure 210**). While this share varies across the region, from 50% in Kosovo* and Montenegro, to 80% in Bosnia and Herzegovina, it remained the key feature of the crisis when liquidity positions of companies are considered. Considering that a part of the deployed government measures aimed at direct aiding of company's liquidity, dominant share of companies (70%) responded that they were useful at least to some degree (**Figure 211**). Yet, such satisfaction differed across the region: in Serbia, 12%

evaluated measures as very useful, 29% as useful, and 51% as somewhat useful, totalling to 92%). On the other hand, in Kosovo*, the total usefulness was assessed as positive by only 48% of respondents, while in Bosnia and Herzegovina by 52%. In Bosnia and Herzegovina, the share of those assessing measures as extremely useless has been the highest among the Western Balkan economies, 20%. In Albania, the Republic of North Macedonia and Montenegro, responses have been more evenly distributed, with a dominant share of respondents saying measures were somewhat useful.

Figure 210 – Has your business's access to financial resources changed since the outbreak of COVID-19?

(All respondents - N=1200, %)

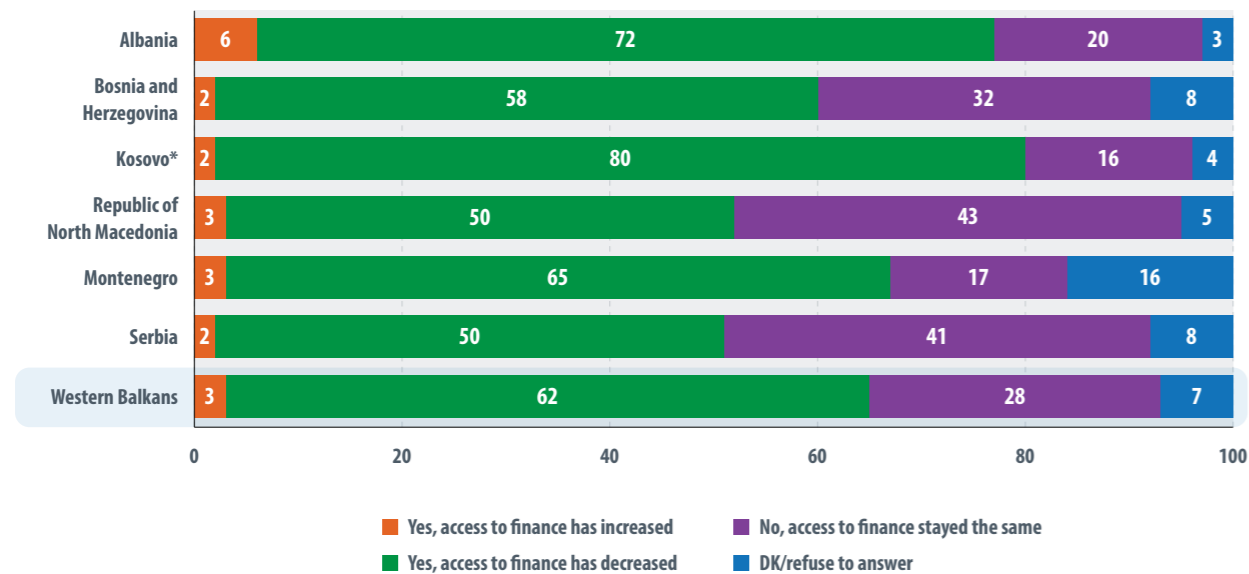
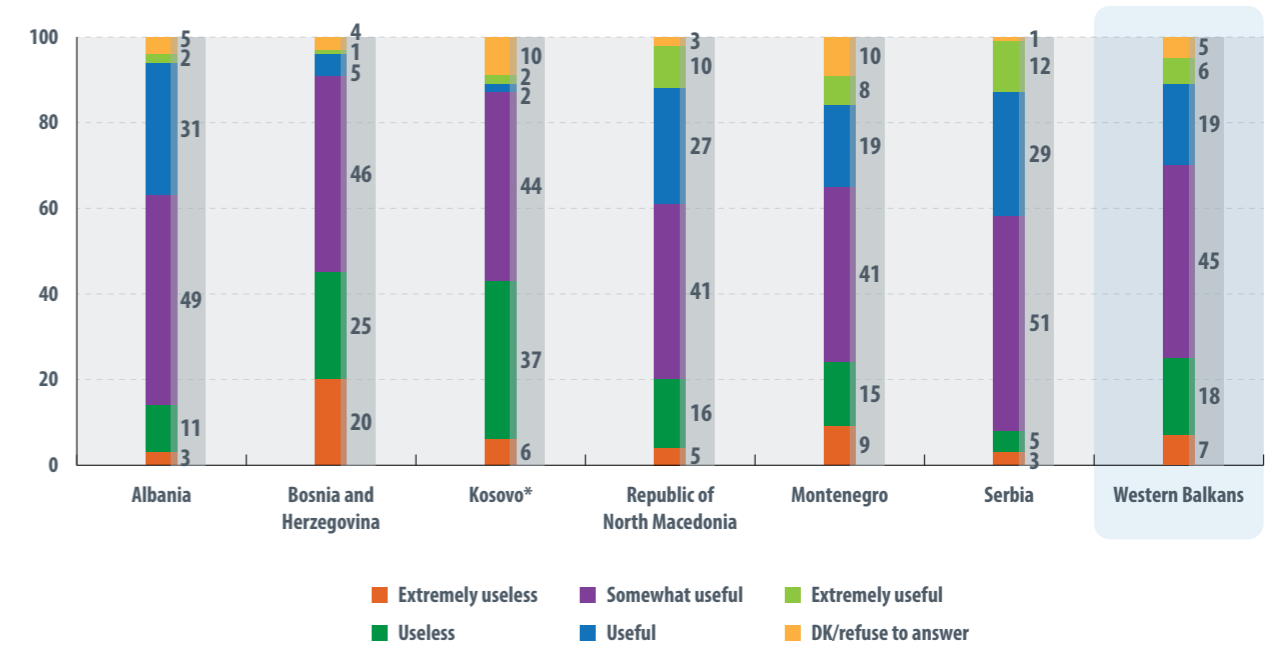


Figure 211 – In your opinion how useful are the Government's economic measures in your economy?

(All respondents - N=1200, %)

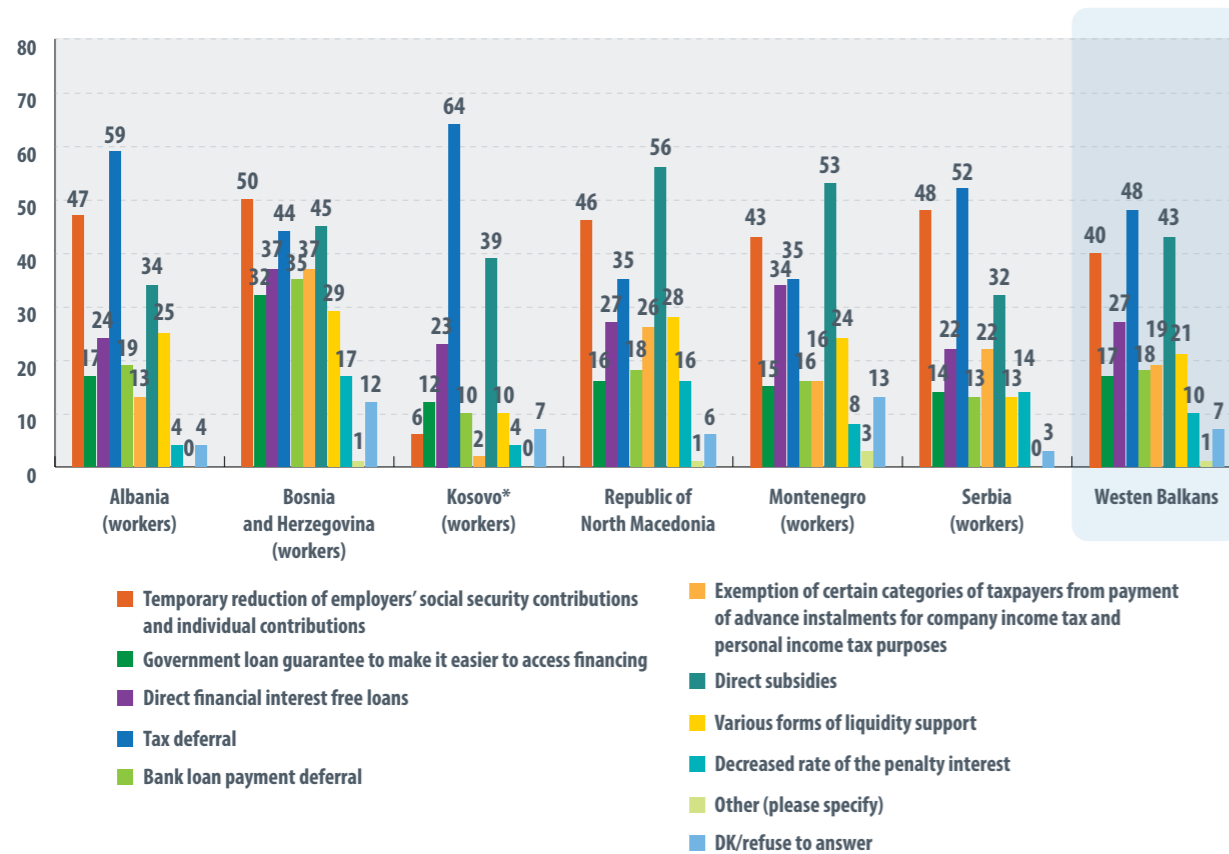


Interest-free loans constitute the measure that helped the most to Western Balkan businesses (**Figure 212**), with satisfaction ranging from 64% in Kosovo* to 35% in the Republic of North Macedonia and Montenegro. The temporary reductions of social-security contributions are second-ranked at the level of region, ranging from 56% in the Republic of North Macedonia to 34% in Albania. Tax deferrals are considered of the third most important at the level of Western Balkans, ranging from

6% in Kosovo* to 50% in Bosnia and Herzegovina. Bank loan payment deferrals are fourth-ranked. Some measures were more important in some of the Western Balkan economies than in others, likely reflecting the varieties in the design of the aid packages. For example, in Albania, government loan guarantees were also prominent (25%), while in Bosnia, the forms of liquidity support stood out (37%).

Figure 212 – Which of the following measures of the Government would assist your business the most to help you overcome the crisis created by COVID-19 pandemic?

(All respondents - N=1200, %)

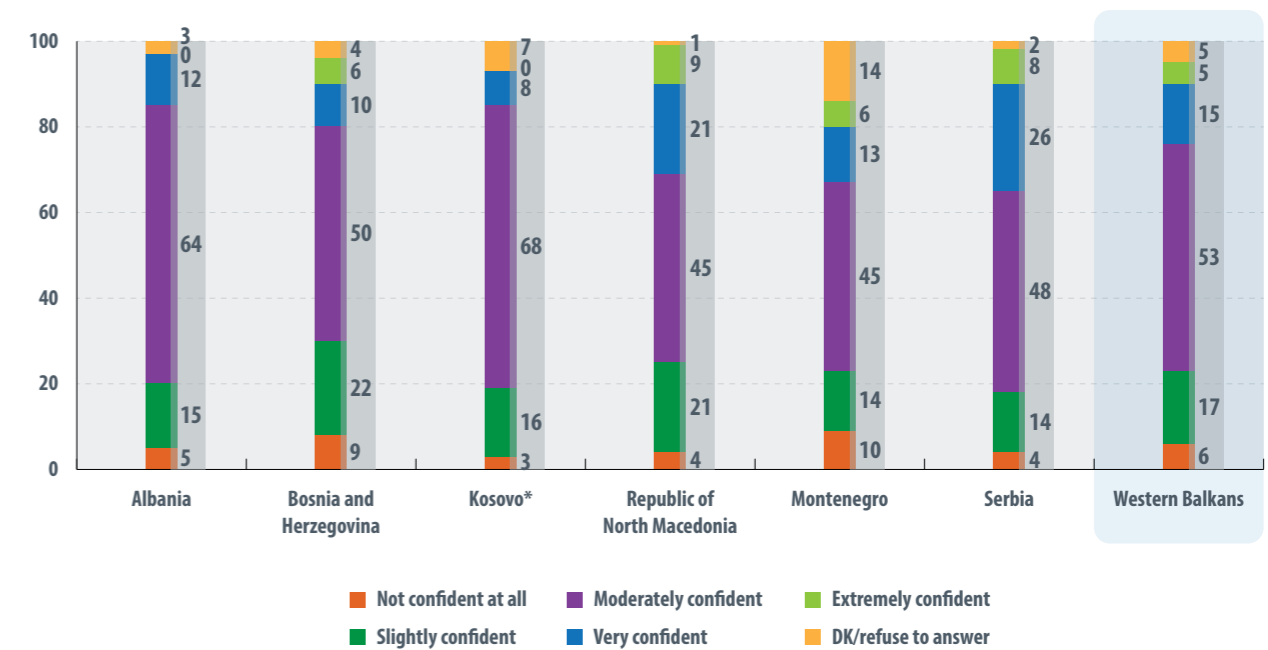


Western Balkan businesses are moderately confident that they have the financial resources to continue operating throughout the COVID-19 outbreak, as 53% of respondents said so (Figure 213). This share ranges from 45% in the Republic of North Macedonia and Montenegro to 68% in Kosovo*, yet remaining dominant. The share of respondents who are very confident is the

highest in Serbia (26%), while those who are extremely confident are the most numerous in Kosovo* (8%). On the other side, the share of respondents who are limitedly confident is the largest in Bosnia and Herzegovina (22%), while those who are not confident at all reach the highest level in Montenegro (10%).

Figure 213 – How confident are you that your business has the financial resources to continue operating throughout the coronavirus/COVID-19 outbreak?

(All respondents - N=1200, %)

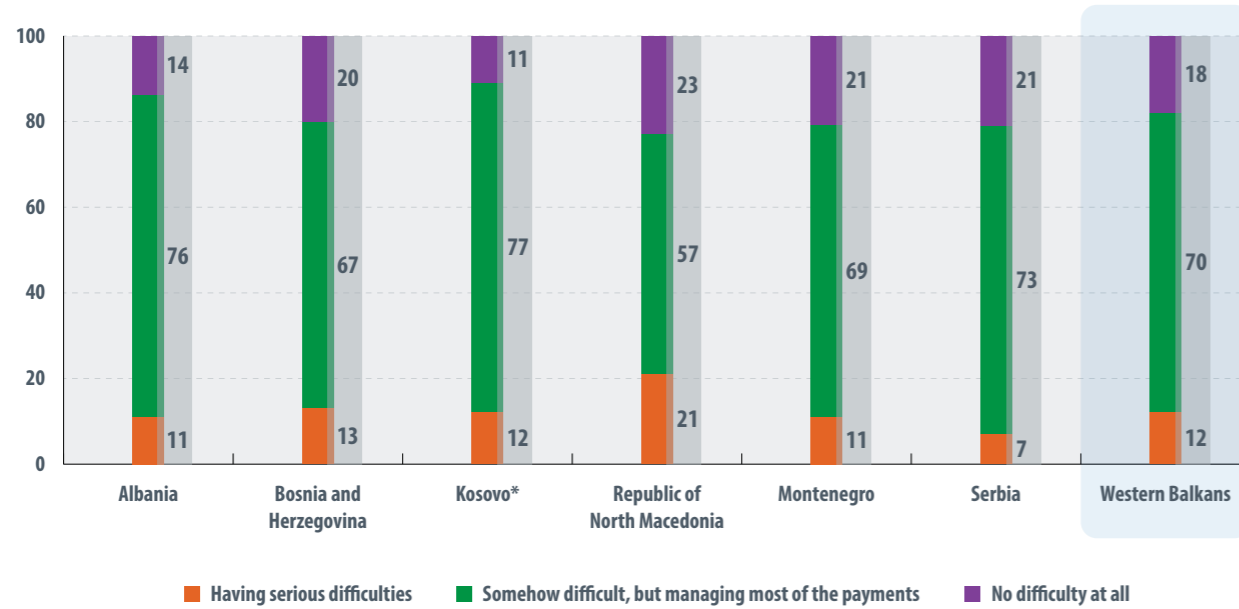


The majority of companies manage to make most of their payment, although some difficulties arise (70%) (Figure 214). The share of those facing serious problems is the highest in the Republic of North Macedonia

(21%), albeit the Republic of North Macedonia also features the highest share of respondents who do not face any problem (23%).

Figure 214 – Are you having trouble in making the obligatory payments (taxes, wages, utilities, etc)?

(All respondents - N=1200, %)



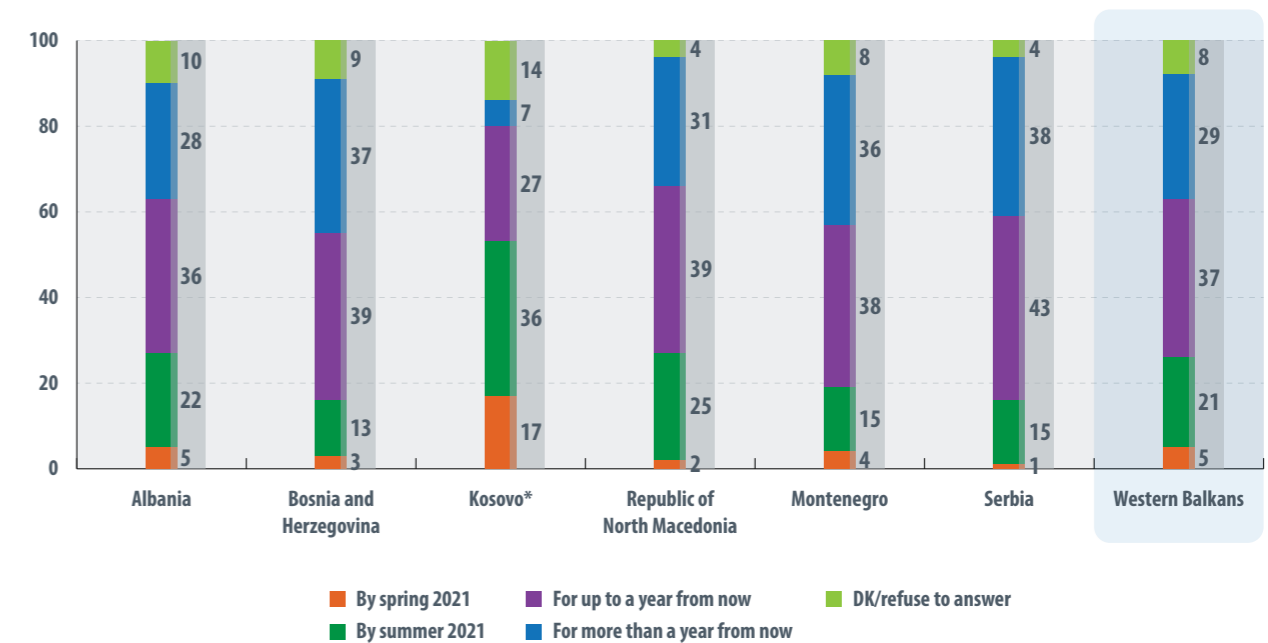
OUTLOOK – FUTURE EXPECTATIONS

Western Balkans' businesses remain pessimistic about the future (**Figure 215**): 37% consider the return to normality will happen a year from now (beginning of 2022), while another 29% believe it will occur beyond that timeframe. The pessimism is particularly articulated in Serbia (43% and 38%, respectively) and Bosnia and Herzegovina (37% and 39%, respectively), while Kosovars are clearly optimistic. Of the latter, 17% expect a return to normalcy by the spring of 2021, and additional 36% by the summer of 2021. In general, the share of respondents who expect that the life will get back to normal by the summer of 2021 is not negligible in the rest of the Western Balkan economies: from 13% in Bosnia and Herzegovina to 25% in the Republic of North Macedonia.

pect a return to normalcy by the spring of 2021, and additional 36% by the summer of 2021. In general, the share of respondents who expect that the life will get back to normal by the summer of 2021 is not negligible in the rest of the Western Balkan economies: from 13% in Bosnia and Herzegovina to 25% in the Republic of North Macedonia.

Figure 215 – When do you think the coronavirus/COVID-19 pandemic will be contained and life will return to normal?

(All respondents - N=1200, %)



Most of the businesses are neutral about the post-Covid-19 economic conditions: 49% on average (**Figure 216**). The pessimism in this regard is the highest in Albania (33%) and the Republic of North Macedonia (29%), while optimism is the highest in Montenegro

(48%) and Kosovo* (42%). The same expectations are expressed when companies were asked about when the economy would recover: 36% think in 2 years, 33% think beyond that timeframe, 17% by the end of 2021, and 7% already during 2021 (Figure 217).

Figure 216 – How is your overall confidence level in economic conditions after the COVID-19 situation?

(All respondents - N=1200, %)

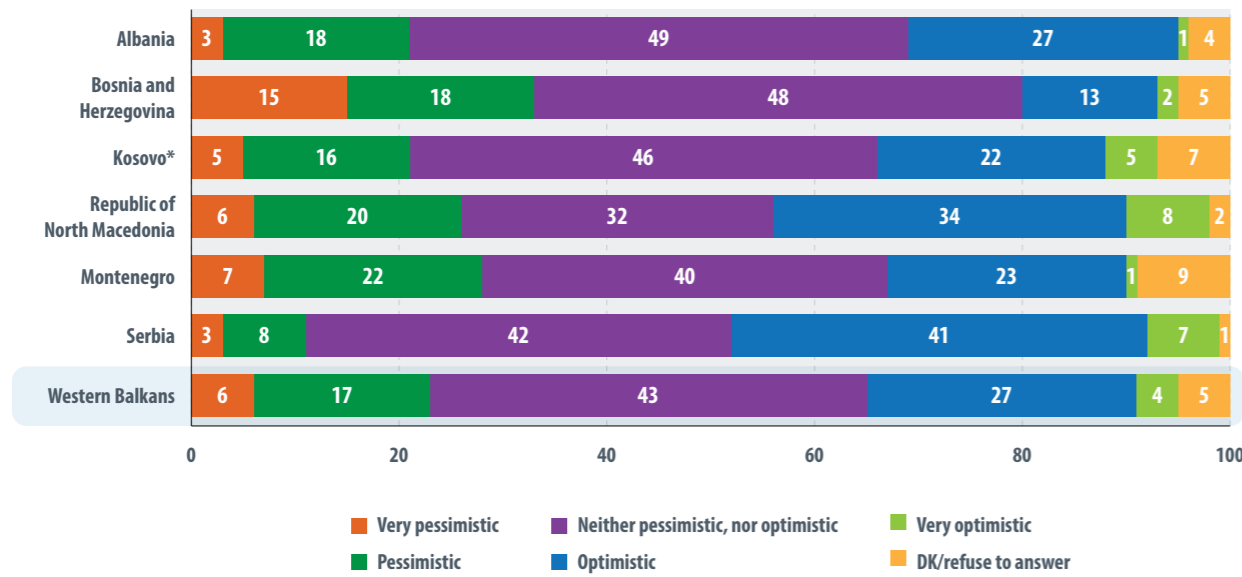


Figure 218 – What about your business? How much time will it take for your business to recover once the lockdown from COVID-19 is over?

(All respondents - N=1200, %)

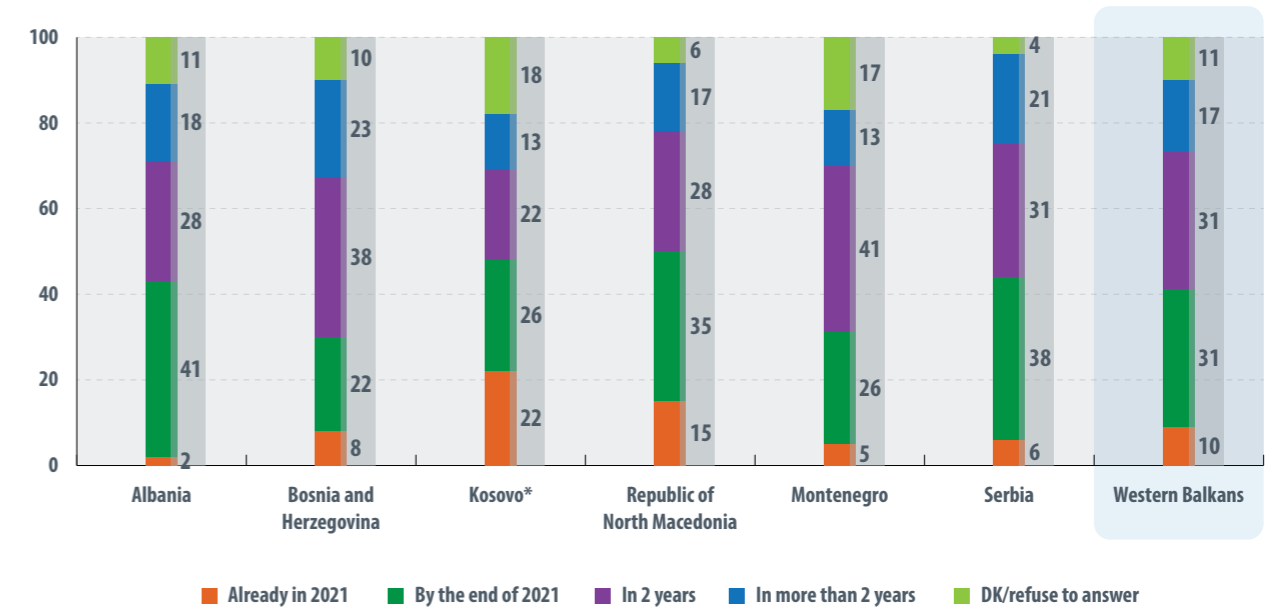
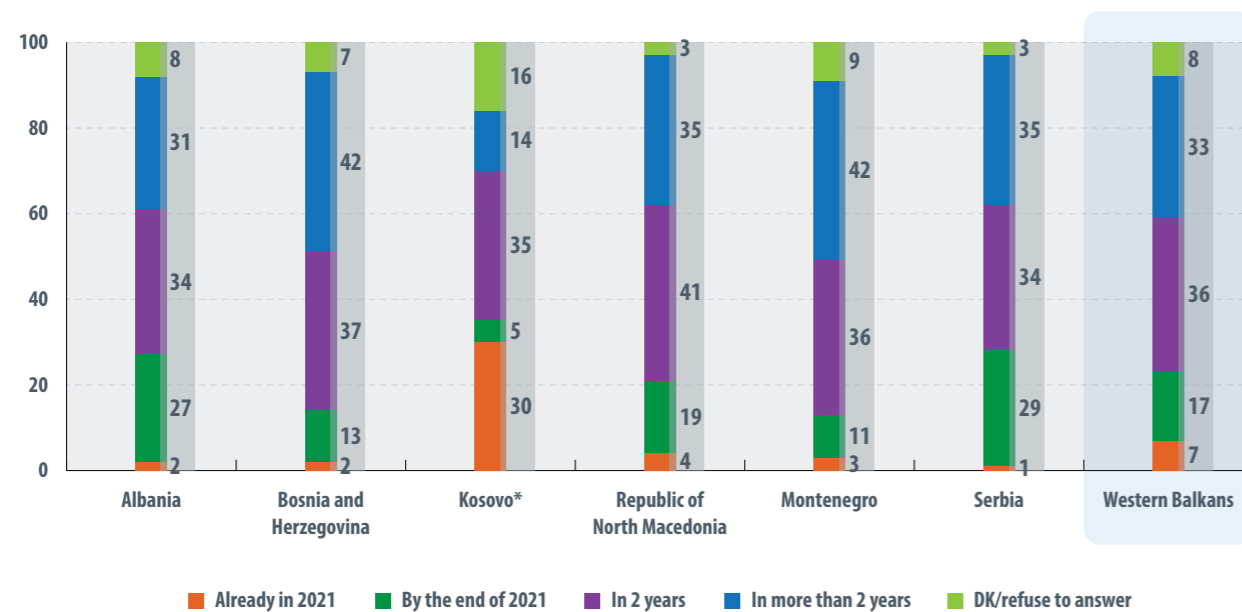


Figure 217 – In your opinion, how much time will it take for the overall economy to recover once the lockdown from COVID-19 is over?

(All respondents - N=1200, %)



Responses regarding own business resemble this picture, with slightly more optimism. While 31% considered the return to normalcy would happen by the end of 2022, equal share considered it would take place by the end of 2021. The pessimism concerning own business is the strongest in Bosnia and Herzegovina, where

23% of respondents expect normalisation beyond 2022, followed by 41% in Montenegro who said so for 2022. On the other hand, Kosovars* are the most optimistic, as 22% expect normalisation of their own business during 2021, followed by 41% of Albanians who expect this by the end of 2021.

FOCUS ON LARGE COMPANIES

The situation in the economy was reported to have deteriorated by 52.6% of large companies² in 2020 (Figure 219), more than double the share a year ago (24%), yet lower than for the overall sample of companies (74%). Similarly, 32% of large companies exhibited deterioration of their business activity in 2020, compared to 61% of micro firms. This resonates the notion that the impact of the corona-crisis has been stronger on small-

er companies; large companies have more frequently built buffers, part of which were deployed during the crisis. Likewise, large companies less frequently expect that the number of workers will decline in the next year (Figure 222). 42% of large companies reported that they expect an increase of jobs, compared to only 11% of micro-enterprises.

Figure 219 – How has the general economic situation changed over the past 12 months? Has it deteriorated, remained unchanged or improved?

(All respondents - N=1200, %)

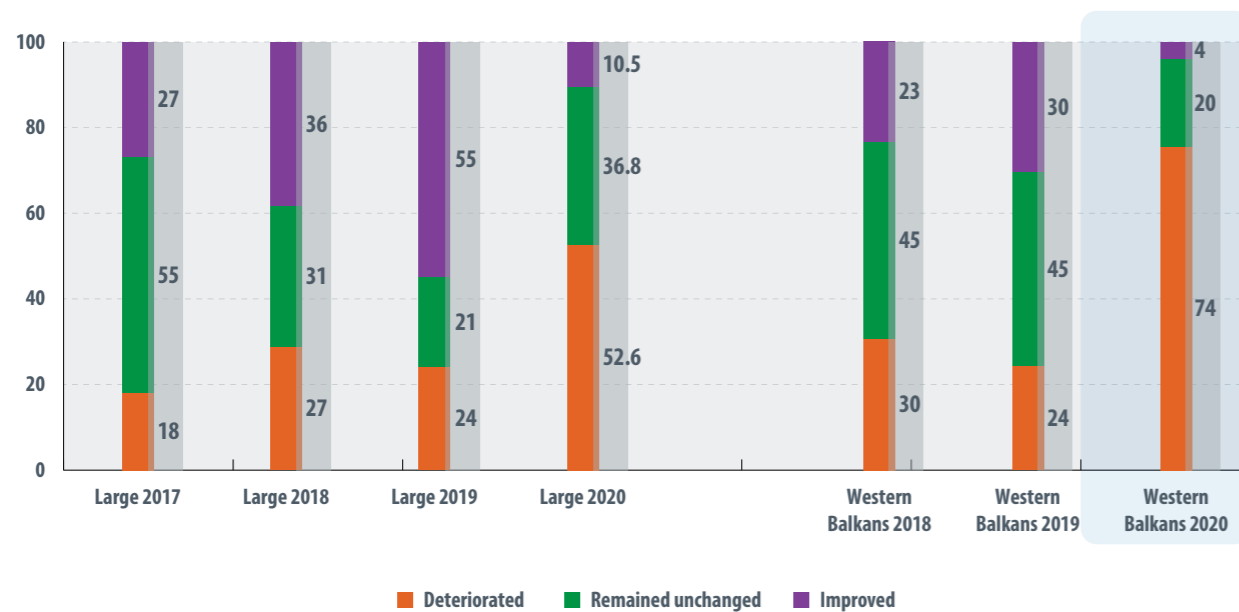


Figure 220 – How do you expect the general economic situation in your economy to develop over the next 12 months? Will it mostly deteriorate, remain unchanged or improve?

(All respondents - N=1200, %)

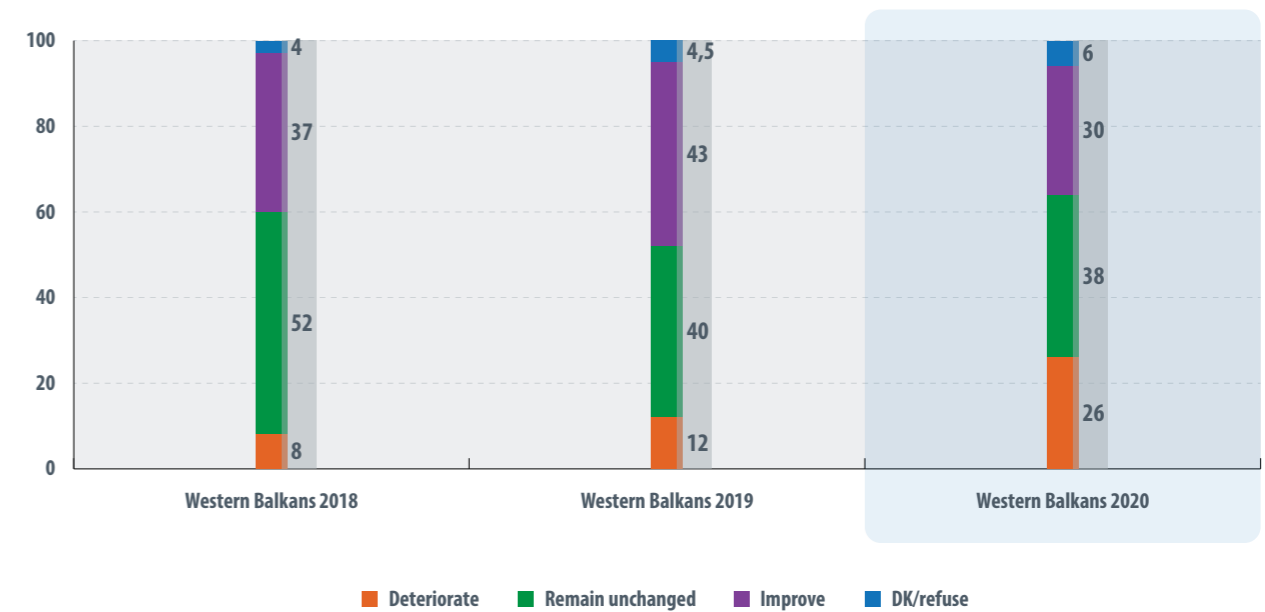
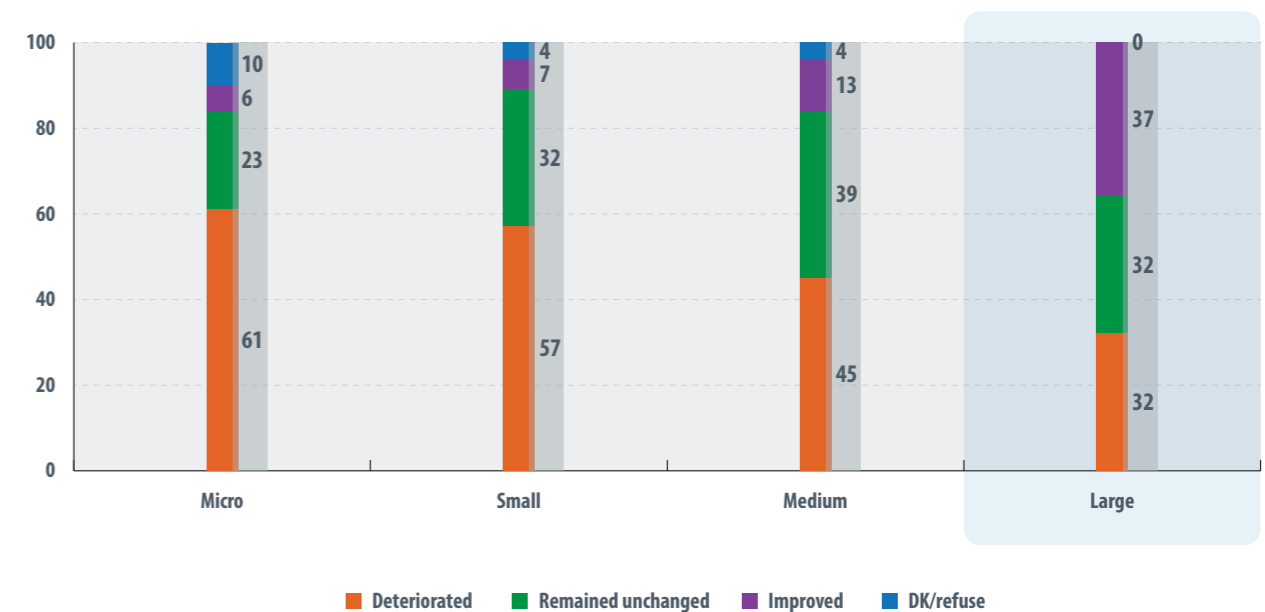


Figure 221 – How has your business situation developed over the past 12 months? Has it deteriorated, remained unchanged or improved?

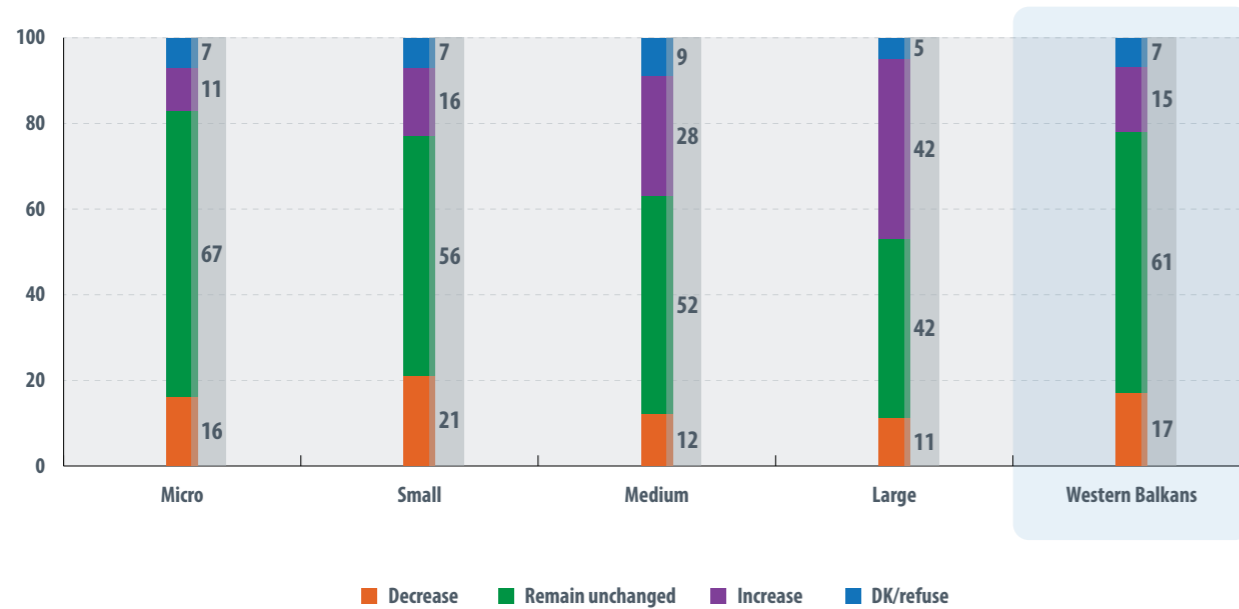
(All respondents - N=1200, %)



2. For the purposes of this report, any enterprise that employs more than 250 people is referred to as a large enterprise.

Figure 222 – How do you expect the number of people employed in your company to change over the next 12 months?

(All respondents - N=1200, %)



Similar conclusions could be drawn if large companies are observed through the demand for these products (Figure 223 and Figure 224). 32% of them reported a decrease of demand during the pandemic, as opposed

to 55% of the entire sample. In perspective, for the next year, 52.6% expect their demand to pick up, as compared to only one third of companies in the entire sample.

Figure 223 – How has the demand for your company's products/services changed over the past 12 months? Has it deteriorated, remained unchanged or improved?

(All respondents - N=1200, %)

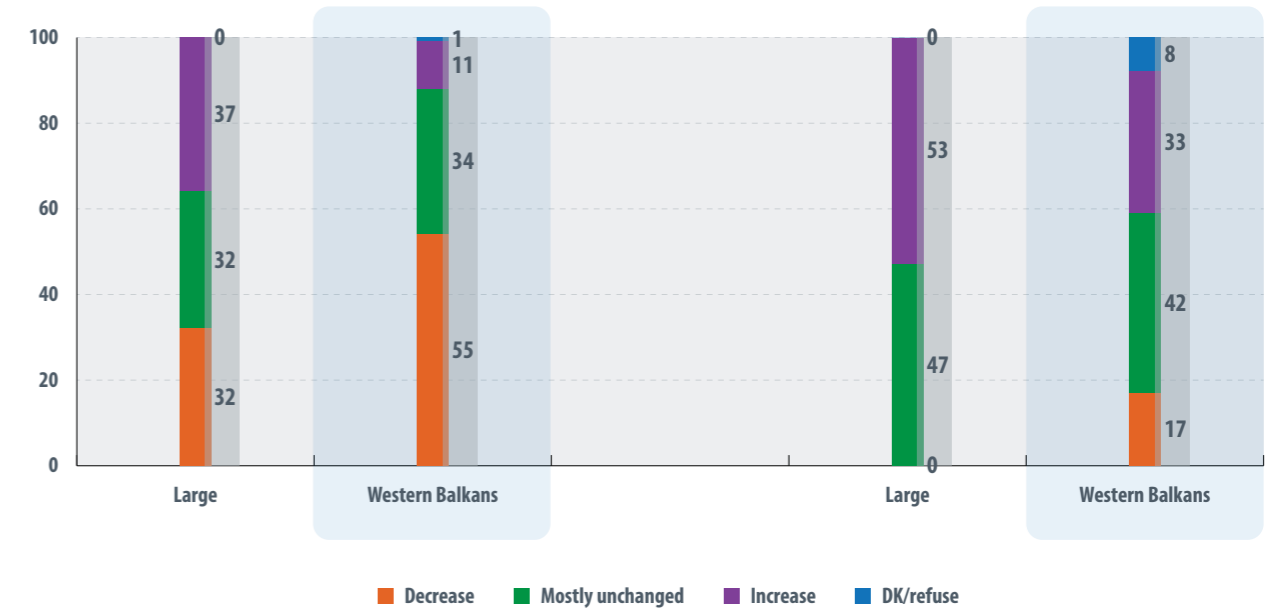


Figure 224 – How do you expect the demand for your company's products/services to change over the next 12 months? Will it decrease, remain mostly unchanged or increase?

(All respondents - N=1200, %)

Large companies, on average, report labour regulations, skills and quantity of labour as more problematic than what the other companies said (Figure 225). However, the difference in the averages is too small to be statistically meaningful. Likewise, large firms fi-

nanced their operations during the pandemic predominantly with internal funds (58%), but this share has not been significantly different than for the firms of other sizes (Figure 226).

Figure 225 – Can you tell how problematic are these different factors for the operation and growth of your business? Can you please rate each?

(All respondents - N=1200, 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)

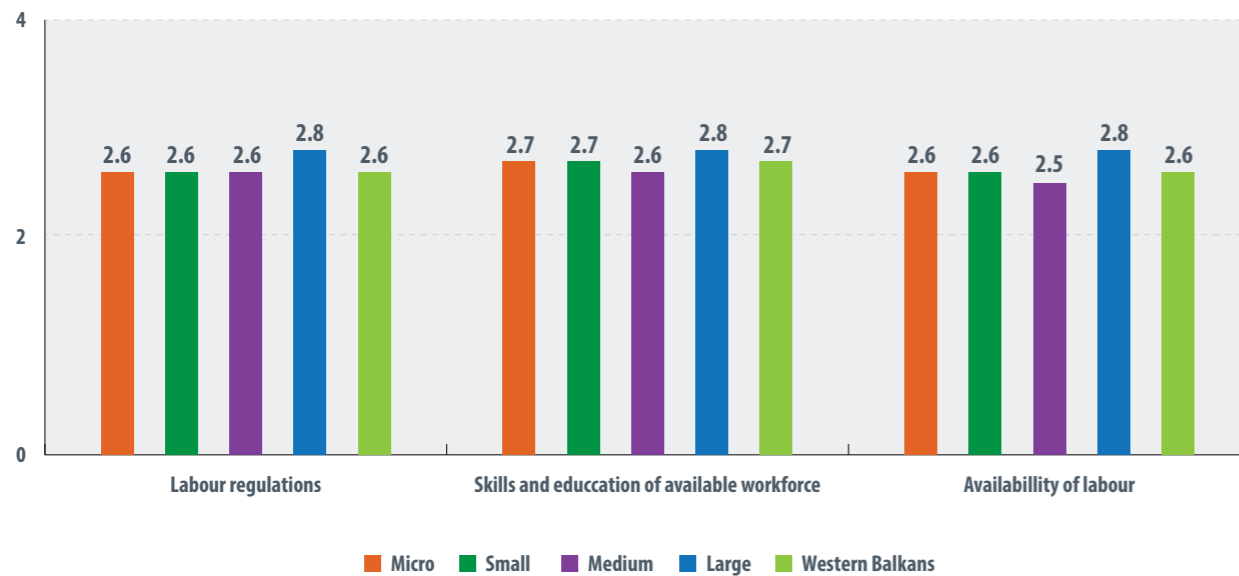
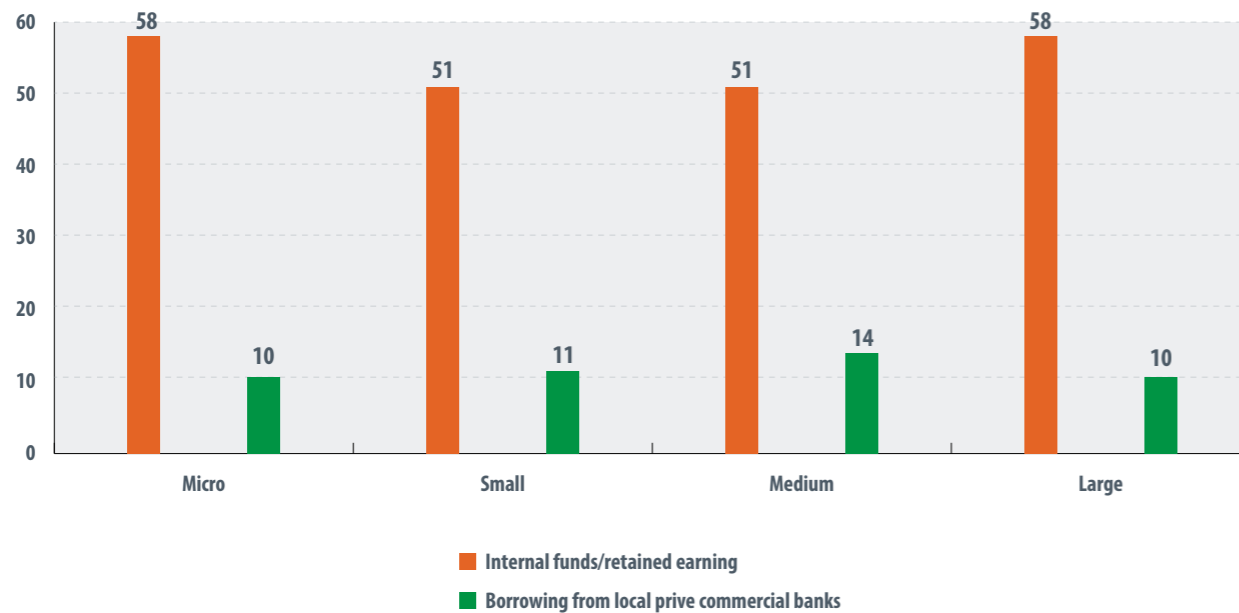


Figure 226 – What proportion of your firm’s working capital and new fixed investment has been financed from each of the following sources, over the past 12 months?

(All respondents - N=1200, %)

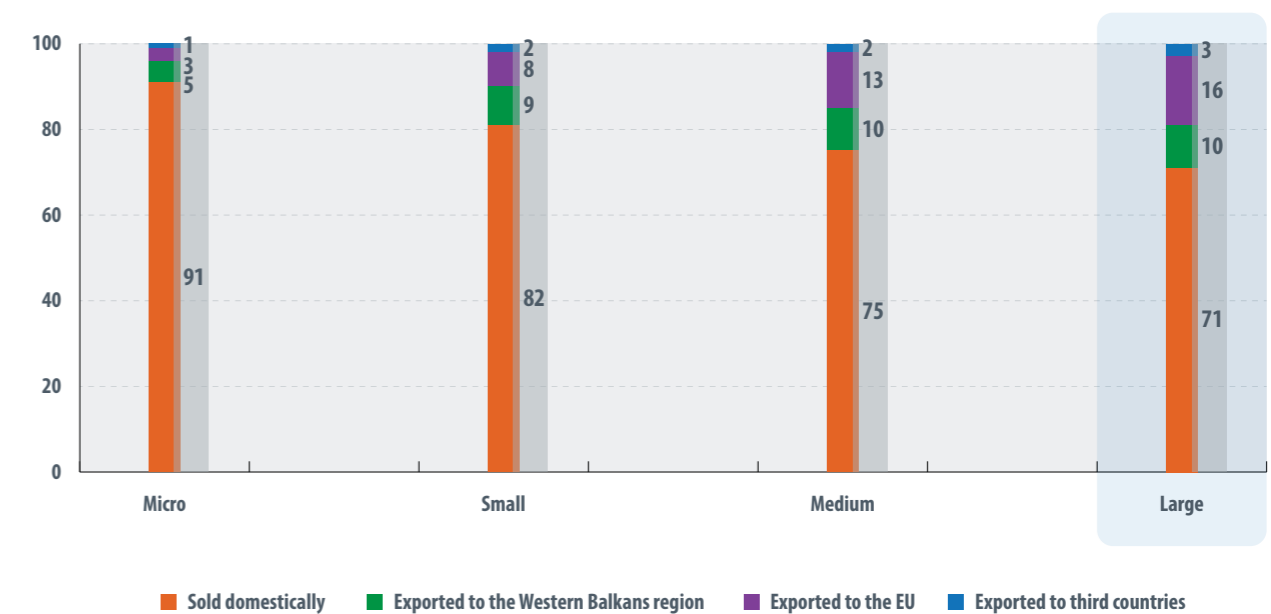


Large firms are more frequently exporters (Figure 227). 29% of them reported they exported either in the region or in the EU or elsewhere, as compared to, for instance, only 9% of micro-firms. The positive correlation

between the export-orientation and the size of the firm is apparent. Yet, even the share of large firms who sell only domestically, 71%, is still very large.

Figure 227 – What percentages of your company’s sales are made domestically, exported to the WB region, to the EU or to the third countries?

(All respondents - N=1200, %)



37% of large companies agree that their products and services can well compete on the market of the Western Balkans (Figure 228), while 47% are confident in being competitive on the EU market (Figure 229). This observation resonates the same conclusion for the entire sample of respondents. The sentiment regarding own competitiveness on the regional and European

markets subsided over years however (Figure 230 and Figure 231, respectively). For example, 77% of large respondents fully agreed that they could compete on the regional market in 2017, as opposed to only 37% in 2020. Likewise, 70% strongly believed they were competitive on the European market in 2017, and the share dwindled to 47% in 2020.

Figure 228 – To what extent do you agree with the following statements - My company's products, goods and services can compete well with products, goods and services from the Western Balkans?
(Large companies, N=19, share of total, %)

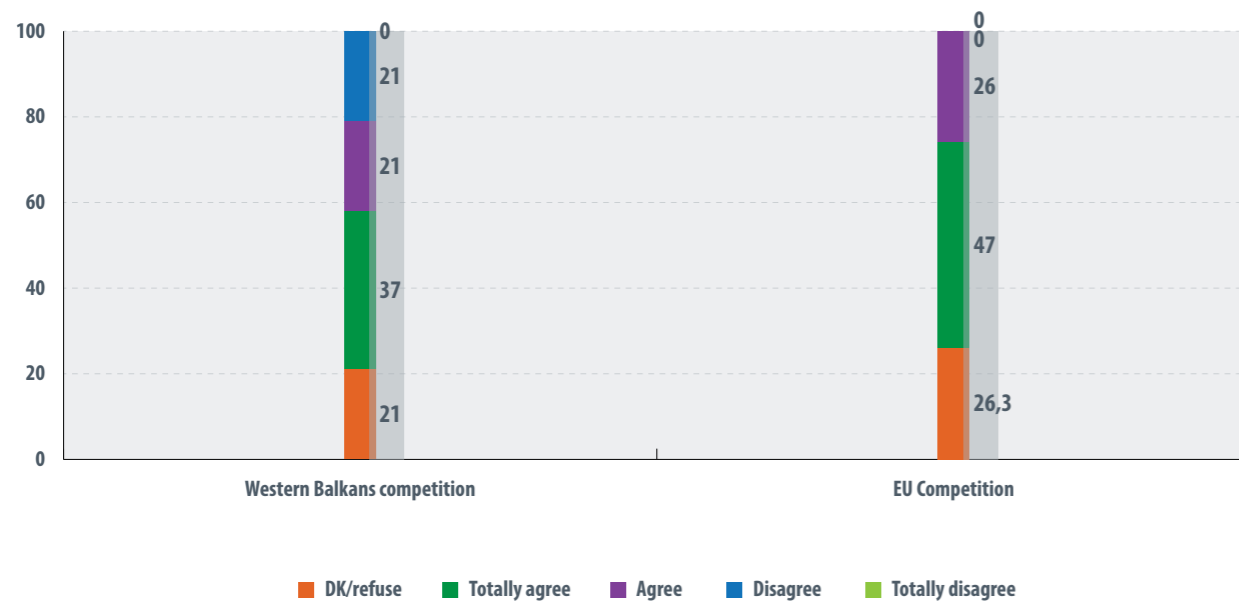


Figure 229 – To what extent do you agree with the following statements - My company's products, goods and services can compete well with products, goods and services from other EU countries?
(Large companies - N=19, share of total, %)

Figure 231 – To what extent do you agree with the following statements - My company's products, goods and services can compete well with products, goods and services from other EU countries?
(Large companies - N=19, share of total, %)

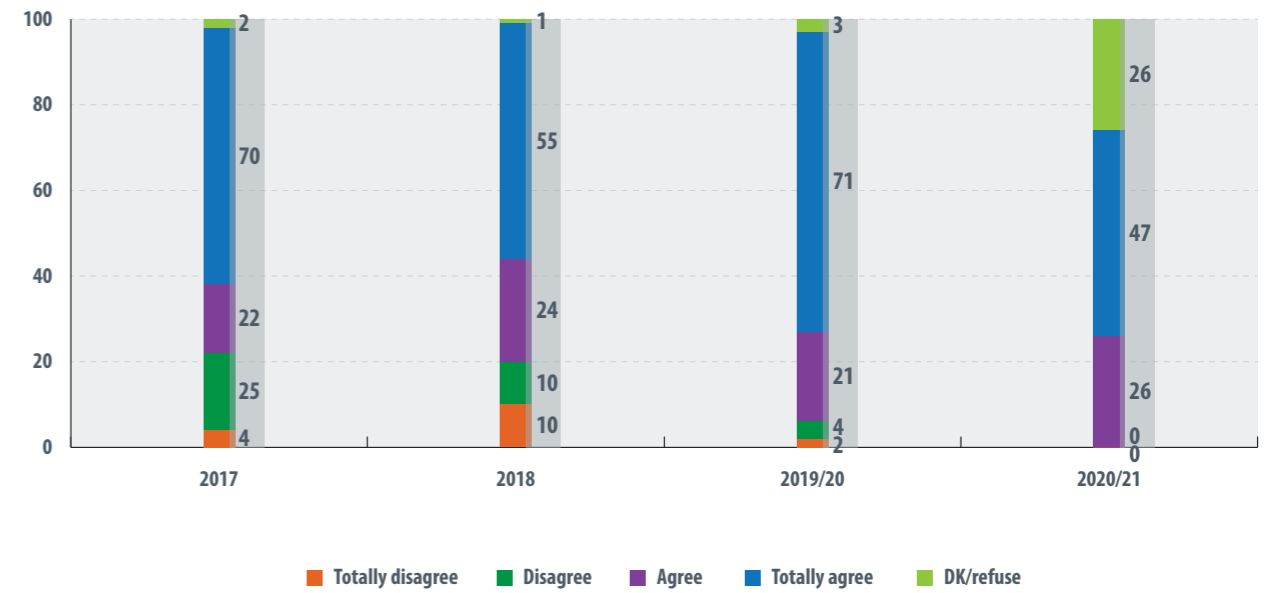
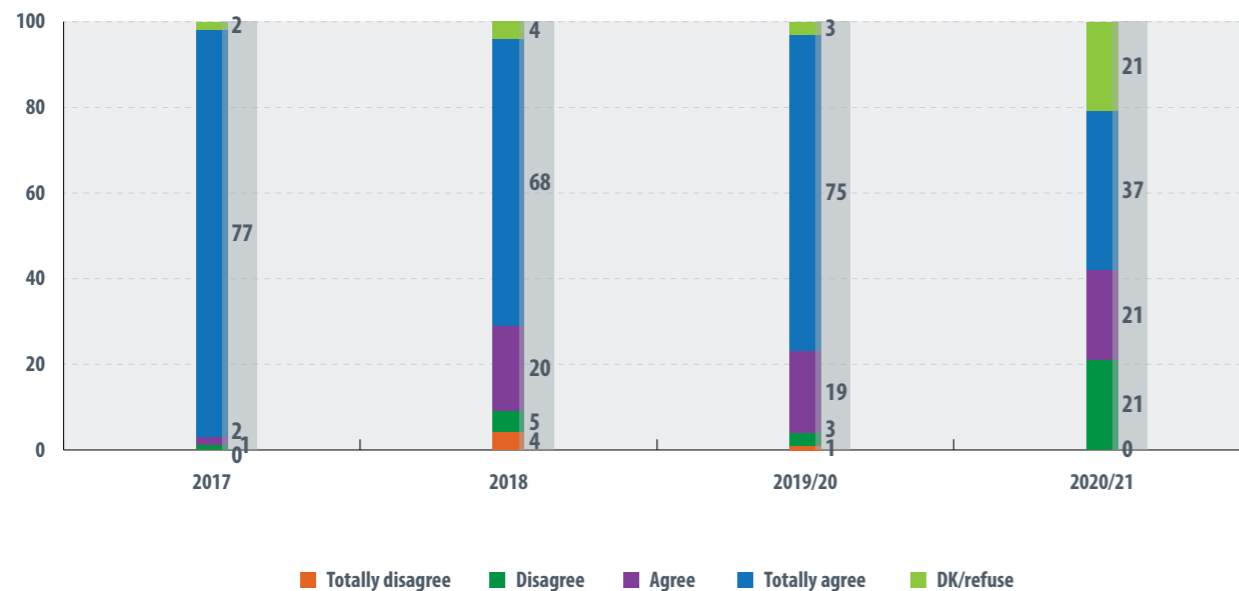


Figure 230 – To what extent do you agree with the following statements - My company's products, goods and services can compete well with products, goods and services from the Western Balkans?
(Large companies - N=19, share of total, %)



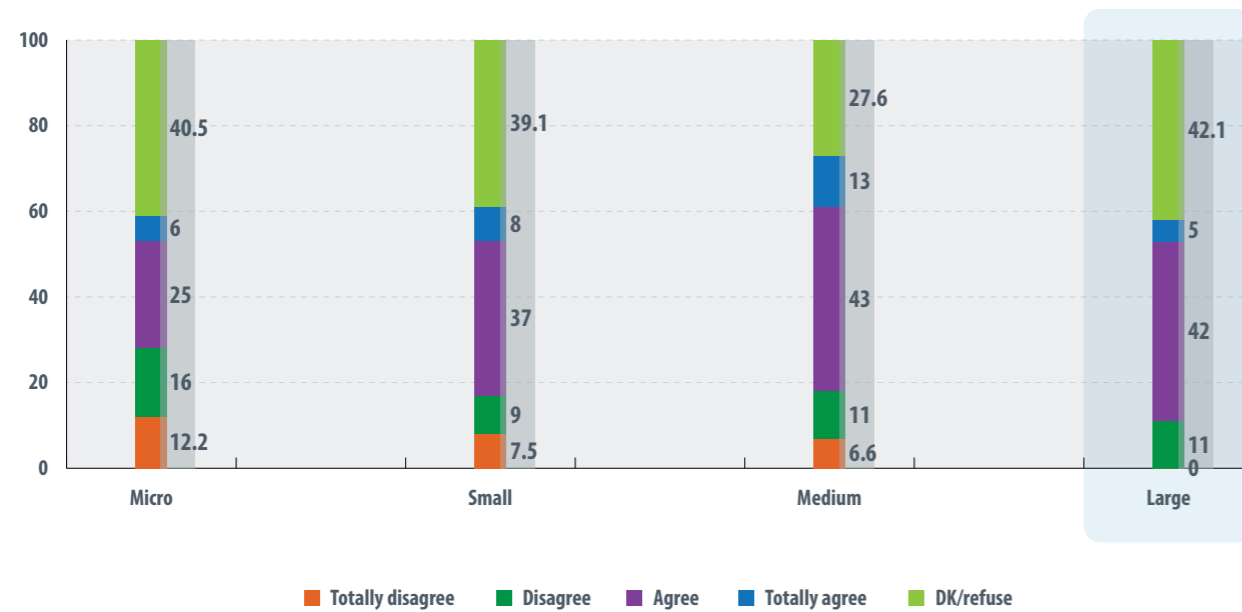
On average, large companies do not consider CEFTA 2006 to have been more beneficial than what other companies thought (Figure 232). 42% of large companies reflected agreement that CEFTA 2006 has been beneficial for them, as compared to 25% of micro companies. However, these shares in small and medi-

um-sized enterprises are similar: 37% and 43%, respectively. Yet, there have been no large companies who expressed total disagreement, as compared to 12.2% in micro companies, 7.5% in small ones, and 6.6% in medium-sized enterprises.



Figure 232 – To what extent do you agree with the following statements - “My company has benefited from the regional free trade agreement (CEFTA 2006)”?

(All respondents - N=1200, share of total, %)



Large companies more frequently use internet for a variety of objectives, as revealed on **Figure 233**. The primary reason for using internet is communication, almost among all large companies (95%), followed by

searching of the internet for business purposes and sales of goods and services online. Particularly, when compared to micro-firms, the usage of internet is significantly more advanced in the large companies.

Figure 233 – Does your company use the Internet for...?

(All respondents - N=1200, share of total, %)



Large companies introduced a new product last year (16%), yet they do not differ in frequency than the other companies. They were, however, more active in innovating during the last three years (16% compared to 9% in the case of micro firms). Furthermore, 21% of

large companies pursued innovation of products and services in the two observed timeframes, clearly more frequently than micro-firms. Overall, while there are tendencies that large companies innovate more frequently, differences are not stark.

Figure 234 – Have you introduced new or significantly improved product or service?

(All respondents - N=1200, share of total, %)

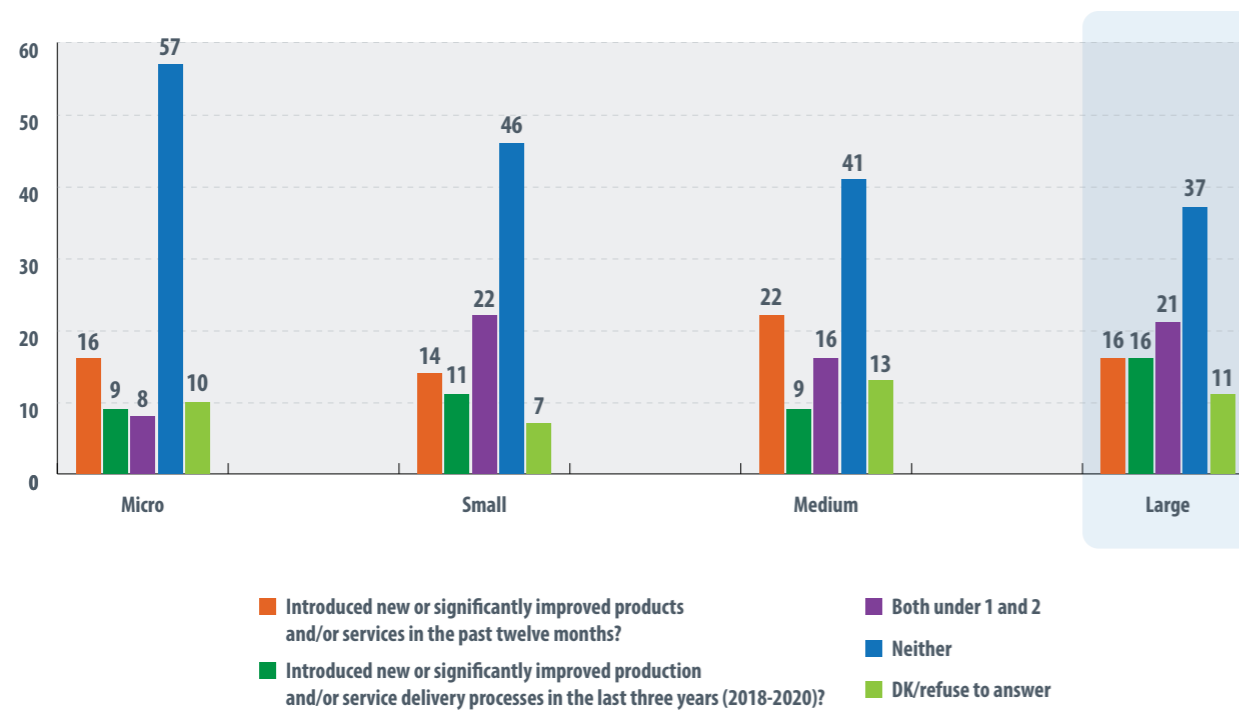


Figure 235 – How often do you use the following when hiring new employees?

(Large companies - N=19, share of total, %)

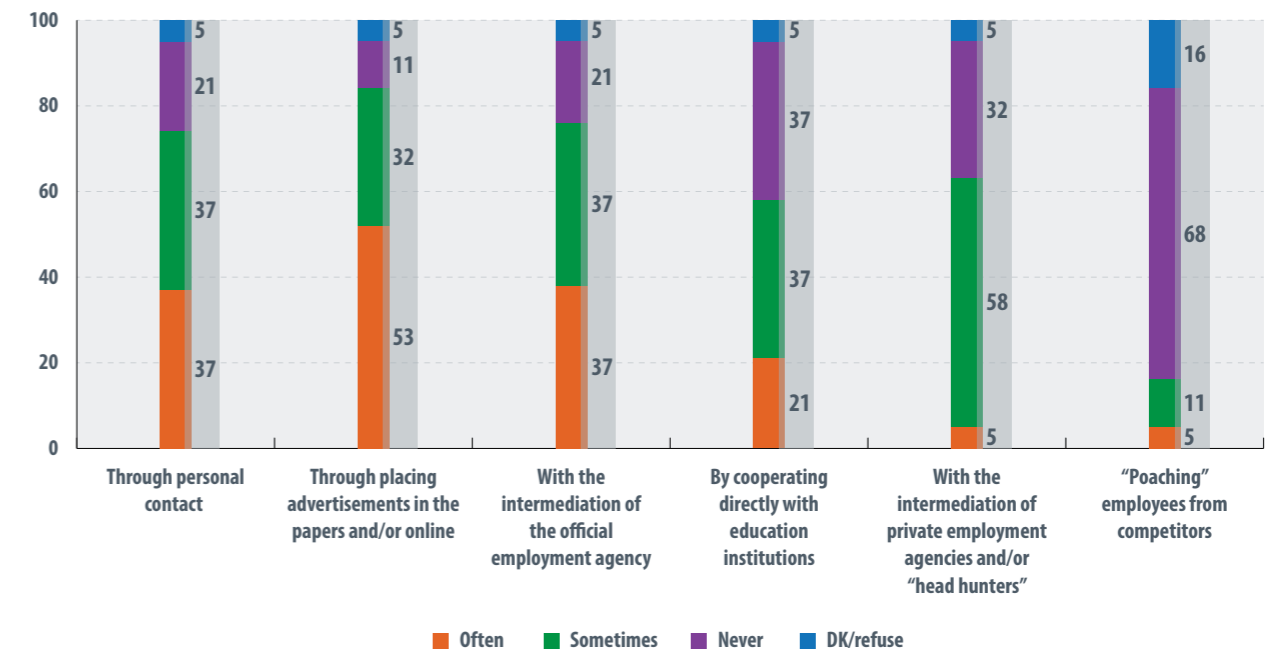
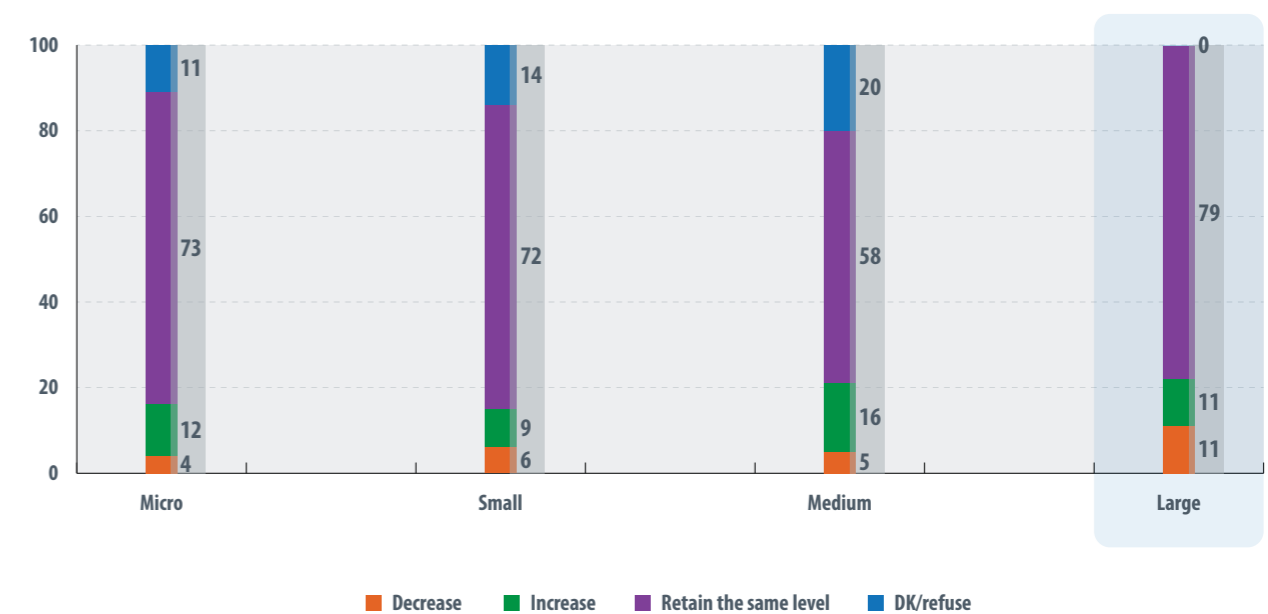


Figure 236 – If you could change the number of full-time workers your company currently employs without any restrictions, what would be your optimal level of employment as a percent of your existing workforce? Would you decrease, increase or retain the same level of employees?

(All respondents - N=1200, share of total, %)



Contrary to the overall sample, large companies more frequently rely on advertisements in hiring workers (53% do this often), and utilise an employment agency in so doing (37% do this often) (Figure 235). The channel which was ranked first for the overall sample – personal contacts, has a third-level significance for

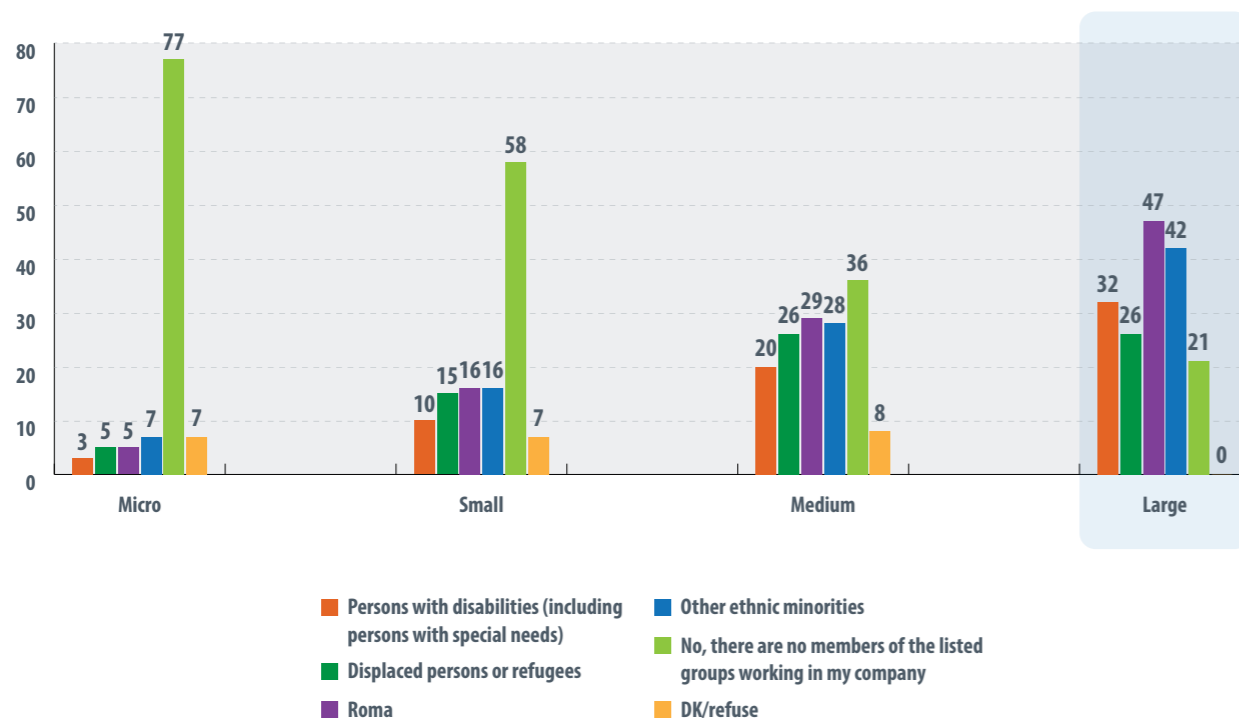
large companies. Yet, large companies do not manifest significantly different opinion on the optimal number of workers: 79% of large companies said they would retain the same level of workers; this is the case for 73% of micro-firms.

Large companies have a palette of employees with respect to employment of vulnerable groups (Figure 237). For example, 47% of them employ Roma, which is the case for only 5% of micro-firms. 42% of large com-

panies employ ethnic minorities, as opposed to only 7% of micro-firms, and 16% of small firms. Similar differences appear with regard to persons with disabilities and displaced persons or refugees.

Figure 237 – Do you have somebody from the below mentioned vulnerable groups working in your company?

(All respondents - N=1200, share of total, %)

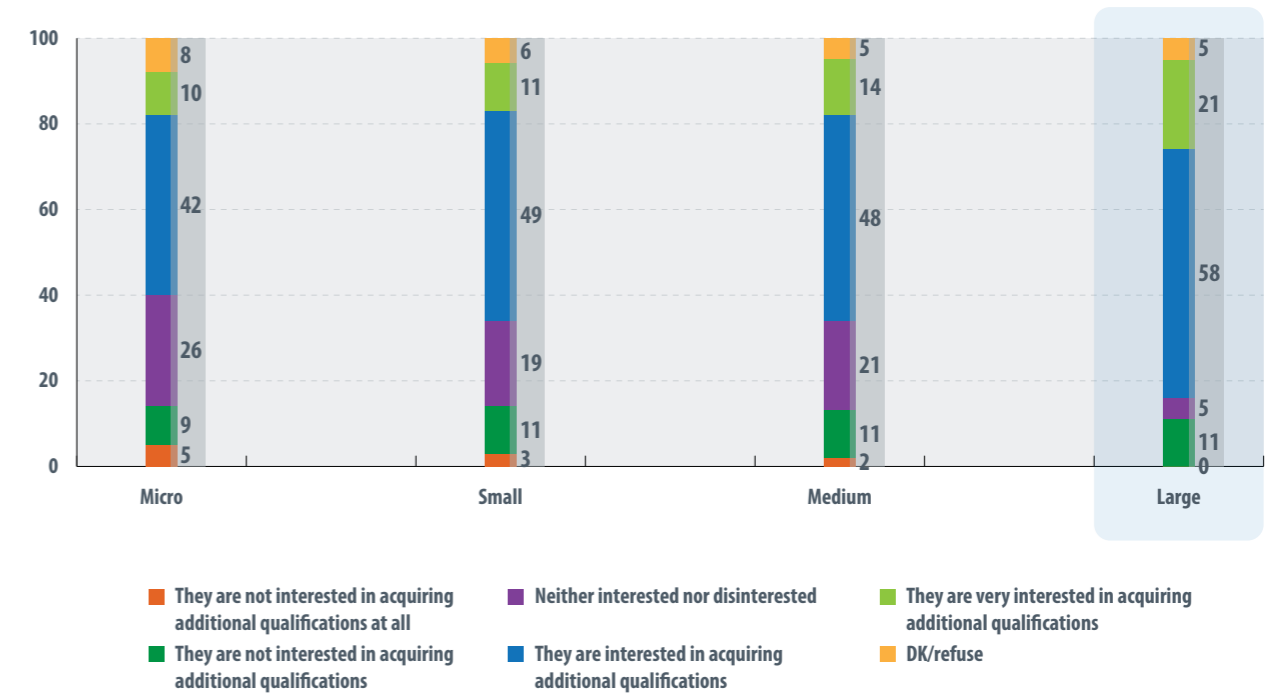


Employees of large companies manifest higher readiness to acquire additional qualifications (Figure 238). A sheer majority of 79% said they were interested or very interested in so doing, as compared to 60% in the case

of small companies. None of the large companies manifested total absence of such interest, as opposed to 5% of the micro enterprises.

Figure 238 – How would you assess the readiness of employees in your company to acquire additional qualifications in order to advance and get promoted?

(All respondents - N=1200, share of total, %)



FOCUS ON EXPORTERS

Export-oriented companies offer their goods and services on foreign markets and are important not only as a source of sales revenue but also as a driver of competitiveness and innovation in the face of international competition. The situation in the economy was reported to have deteriorated by 67% of exporters in 2020 (Figure 239), less than the percentage of non-exporters who said the same (77%). Similarly, 47% of export-

ers exhibited deterioration of their business activity in 2020, compared to 61% of non-exporters (Figure 240). This resonates the notion that exporters were hit by the crisis but they also exhibit a strong potential for fast recovery. Yet, exporters do not largely differ from non-exporters in terms of their expectation about the evolution of the economic situation over the next year.

Figure 239 – 1. How has the general economic situation changed over the past 12 months? Has it deteriorated, remained unchanged or improved? 2. How do you expect the general economic situation in [ECONOMY] to develop over the next 12 months? Will it mostly deteriorate, remain unchanged or improve?

(All respondents - N=1200, %)

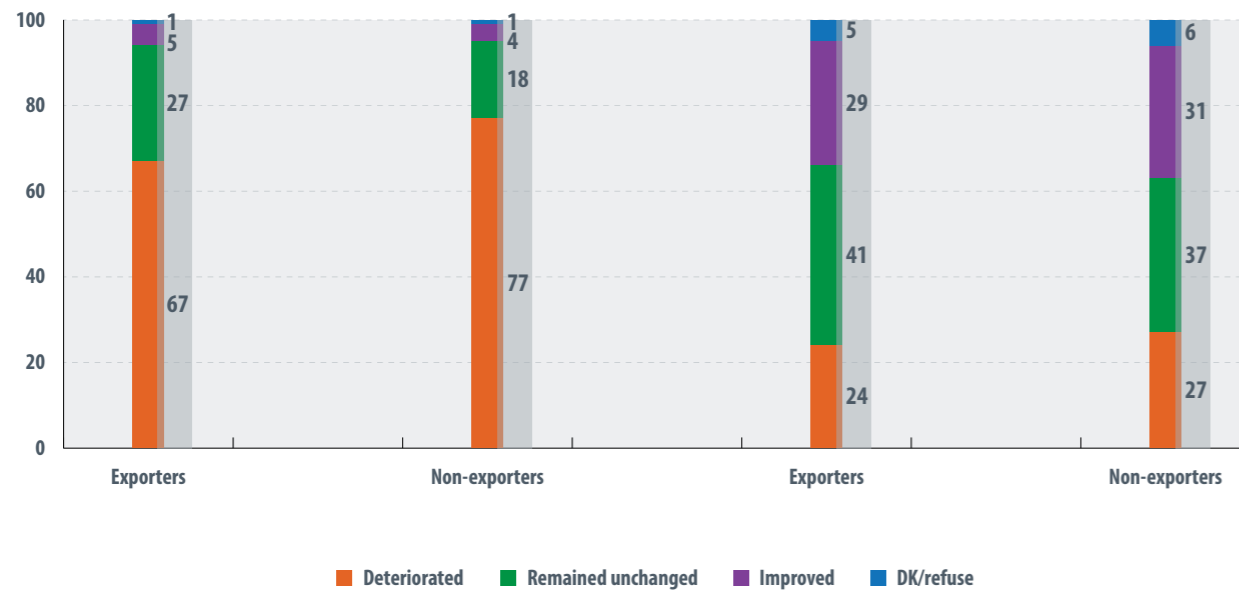
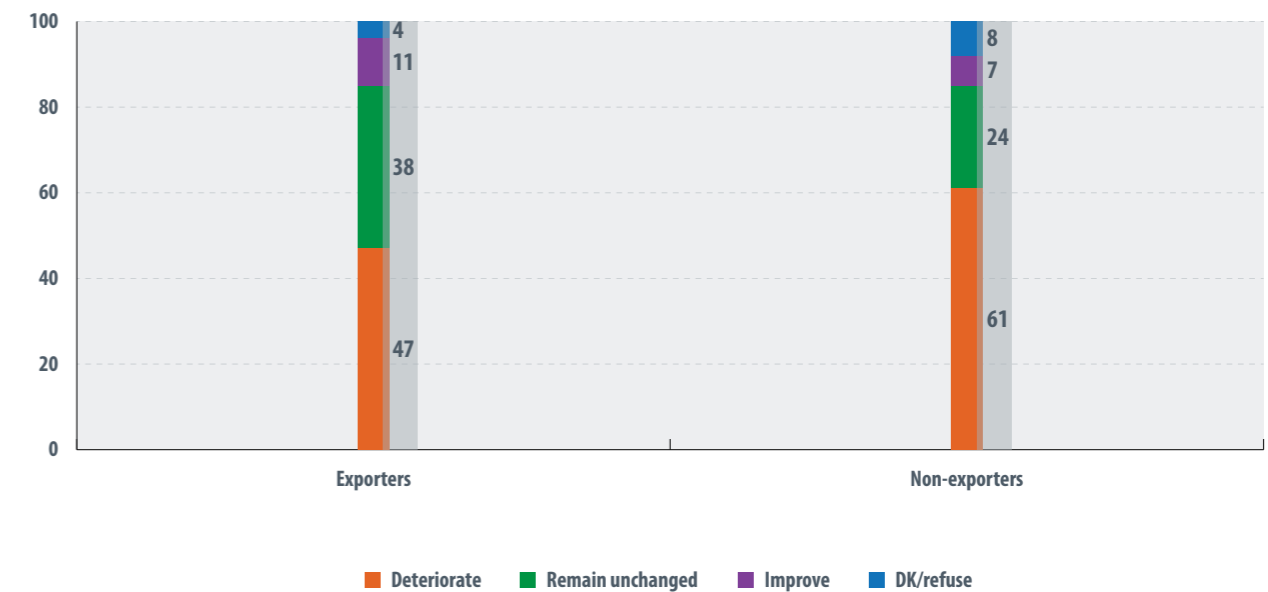


Figure 240 – How has your business situation developed over the past 12 months? Has it deteriorated, remained unchanged or improved?

(All respondents - N=1200, %)



Similar conclusions could be reached if exporters are observed through the demand for these products (Figure 241 and Figure 242). 46% of them reported a decrease of demand during the pandemic, as opposed to 57% of non-exporters. In perspective, for the next year, 34% of them expect their demand to pick up, almost the same share as for non-exporters. Exporters are not

different from non-exporters in terms of labour and other costs (Figure 243), as well in terms of the expectations regarding the number of the employed in the next year (Figure 244). Similar perception between exporters and non-exporters is revealed about the availability, quality and affordability of road, railroad, waterway and air transport

Figure 245 – For your business purposes, how would you rate the combination of availability, quality and affordability of road, railroad, waterway and air transport?

(All respondents - N=1200, %)

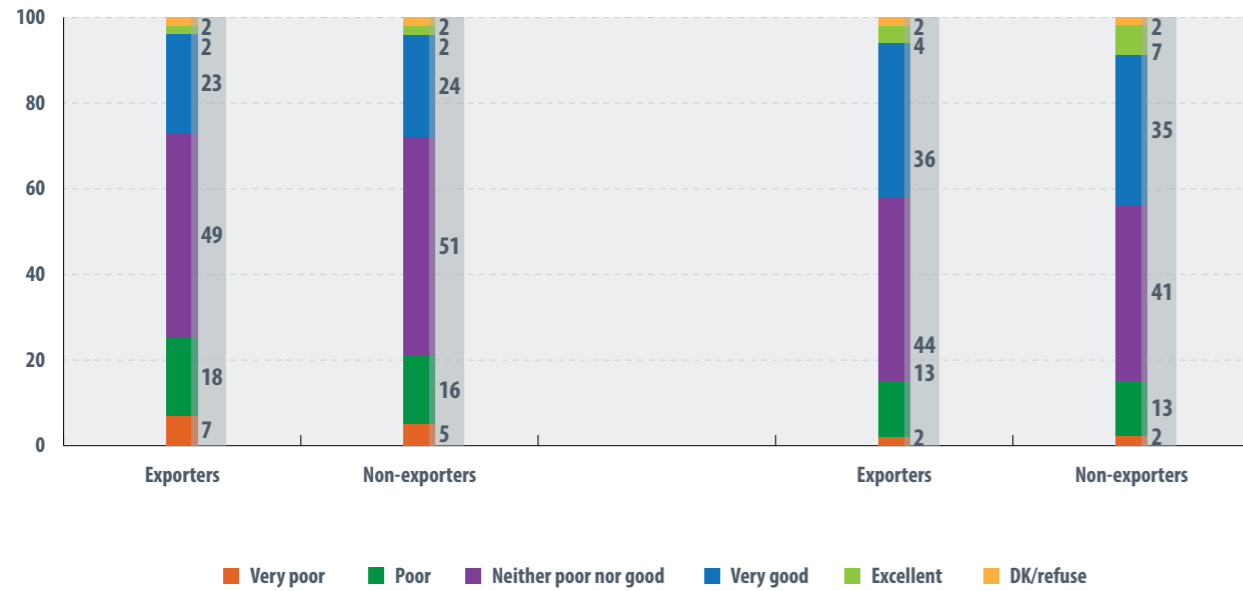


Figure 246 – For your business purposes, how would you rate the combination of availability, quality and affordability of electricity, gas and water supply?

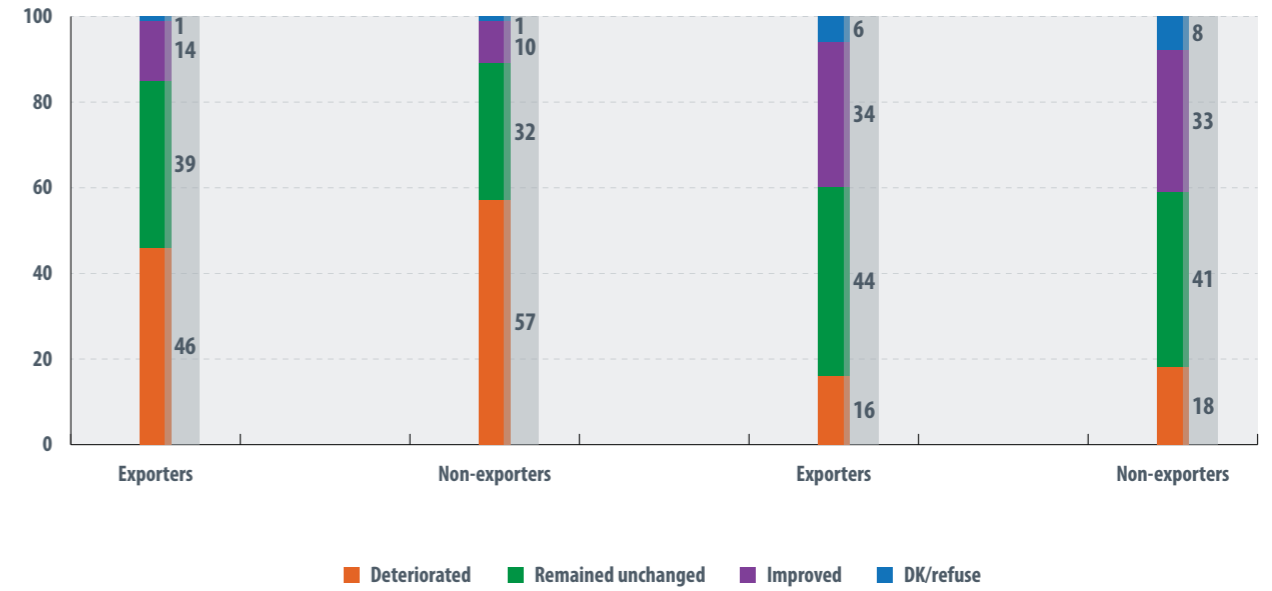
(All respondents - N=1200, %)

Figure 241 – How has the demand for your company's products/services changed over the past 12 months? Has it deteriorated remained unchanged or improved?

(All respondents - N=1200, %)

Figure 242 – How do you expect the demand for your company's products/services to change over the next 12 months? Will it decrease, remain mostly unchanged or increase?

(All respondents - N=1200, %)



and of electricity, gas and water supply. Exporters were self-deterred from submitting tender documents slightly less frequently than non-exporters: 23% of

them responded affirmatively, as opposed to 26% of non-exporters (Figure 247).

Figure 243 – How have your labour and other costs (e.g. energy, etc.) changed over the past 12 months?

(All respondents - N=1200, %)

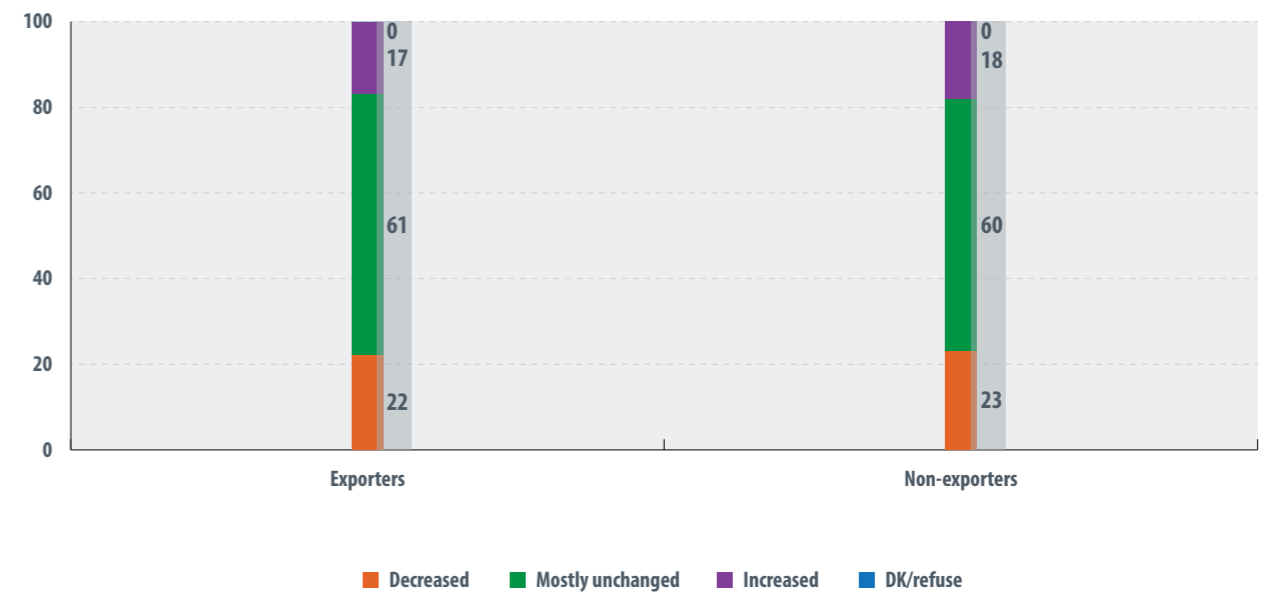


Figure 244 – How do you expect the number of people employed in your company to change over the next 12 months?

(All respondents - N=1200, %)

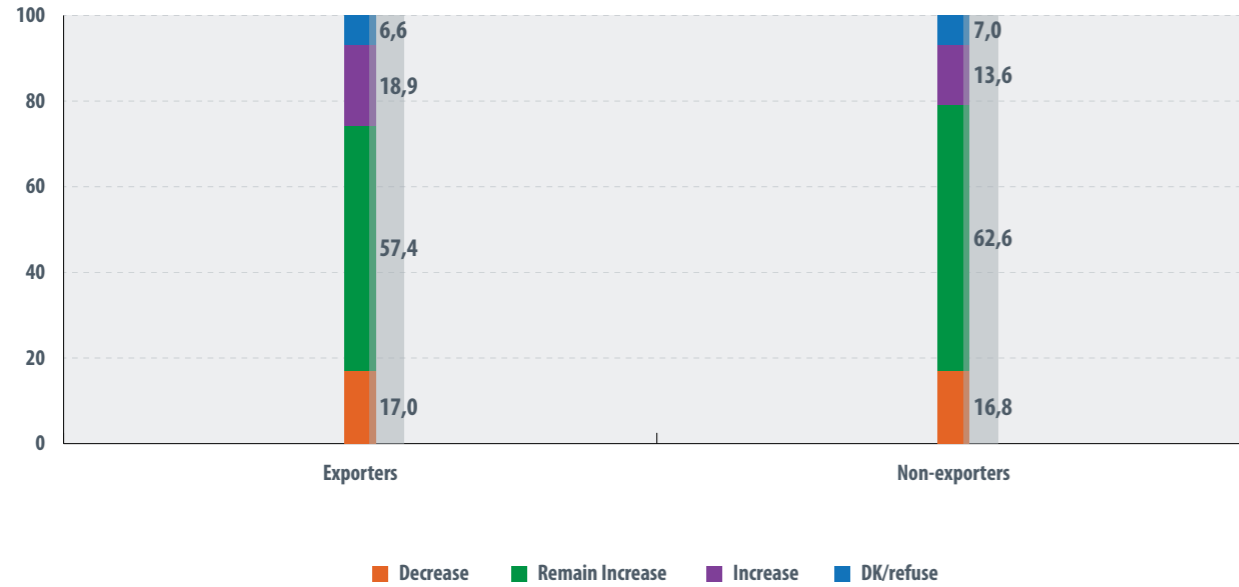


Figure 247 – In the past three years, has your company decided not to take part in a public tender or a public procurement procedure, even though you could have offered the goods or services solicited?

(All respondents - N=1200, %)

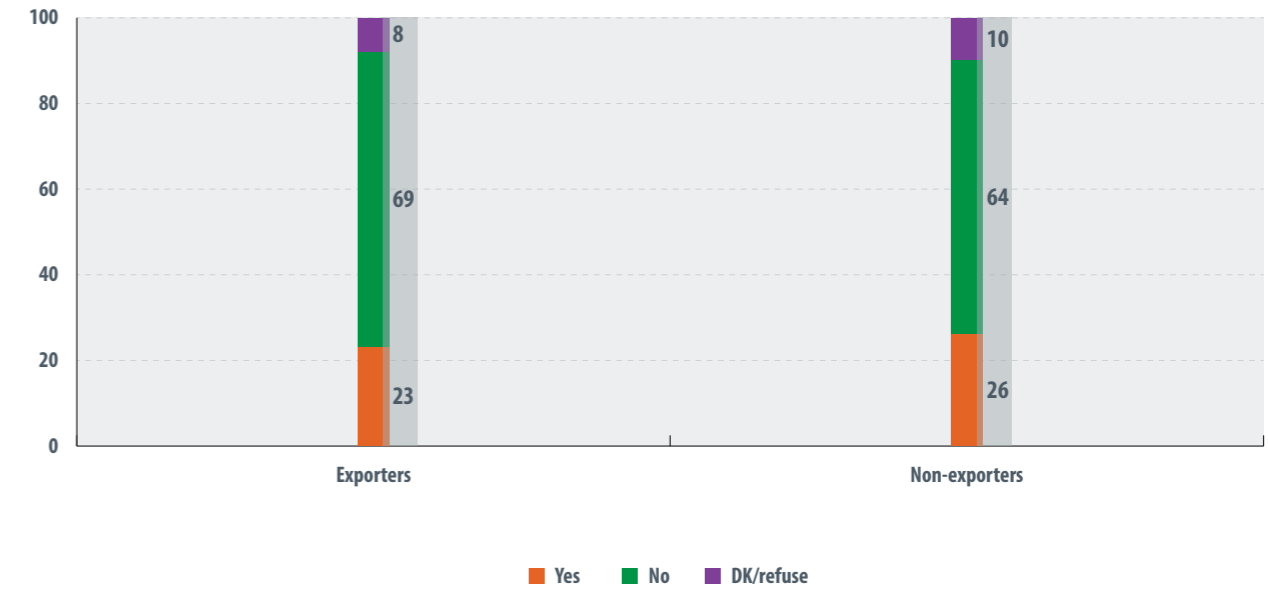


Figure 245 – For your business purposes, how would you rate the combination of availability, quality and affordability of road, railroad, waterway and air transport?

(All respondents - N=1200, %)

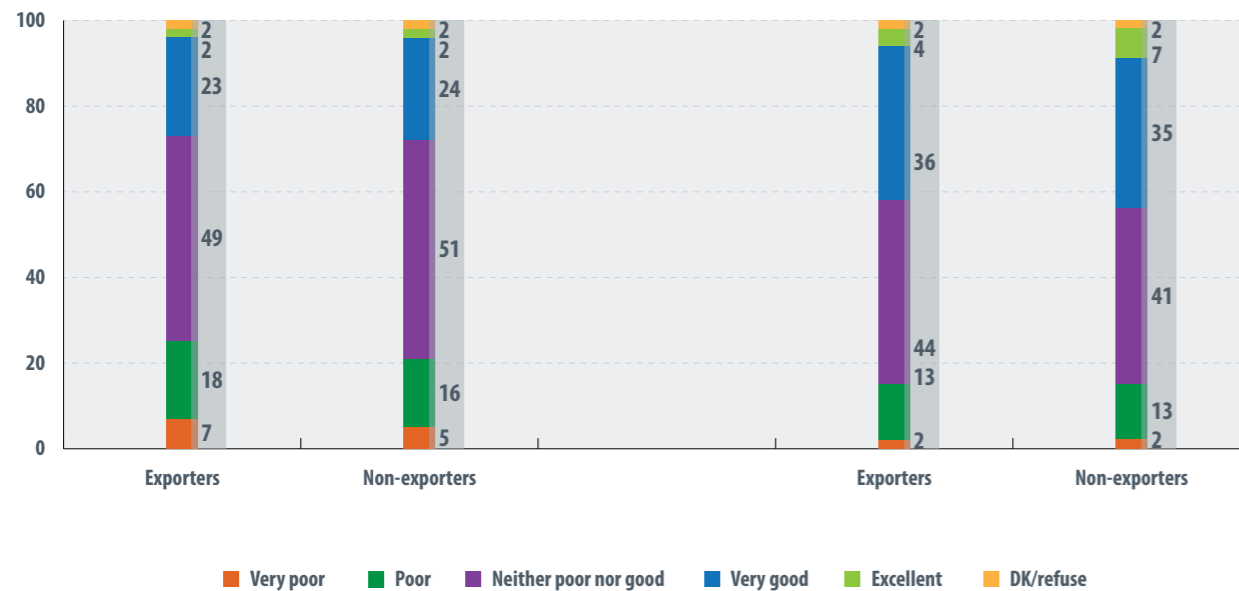


Figure 246 – For your business purposes, how would you rate the combination of availability, quality and affordability of electricity, gas and water supply?

(All respondents - N=1200, %)

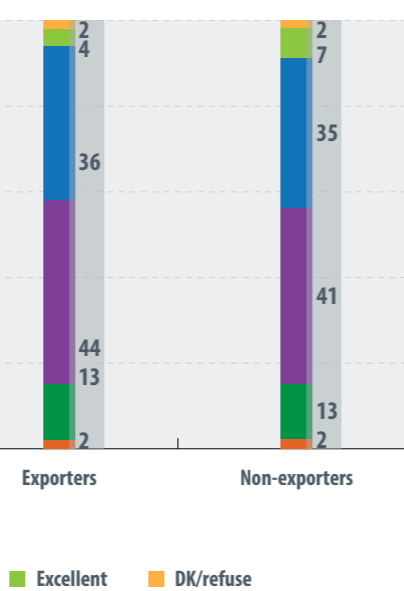
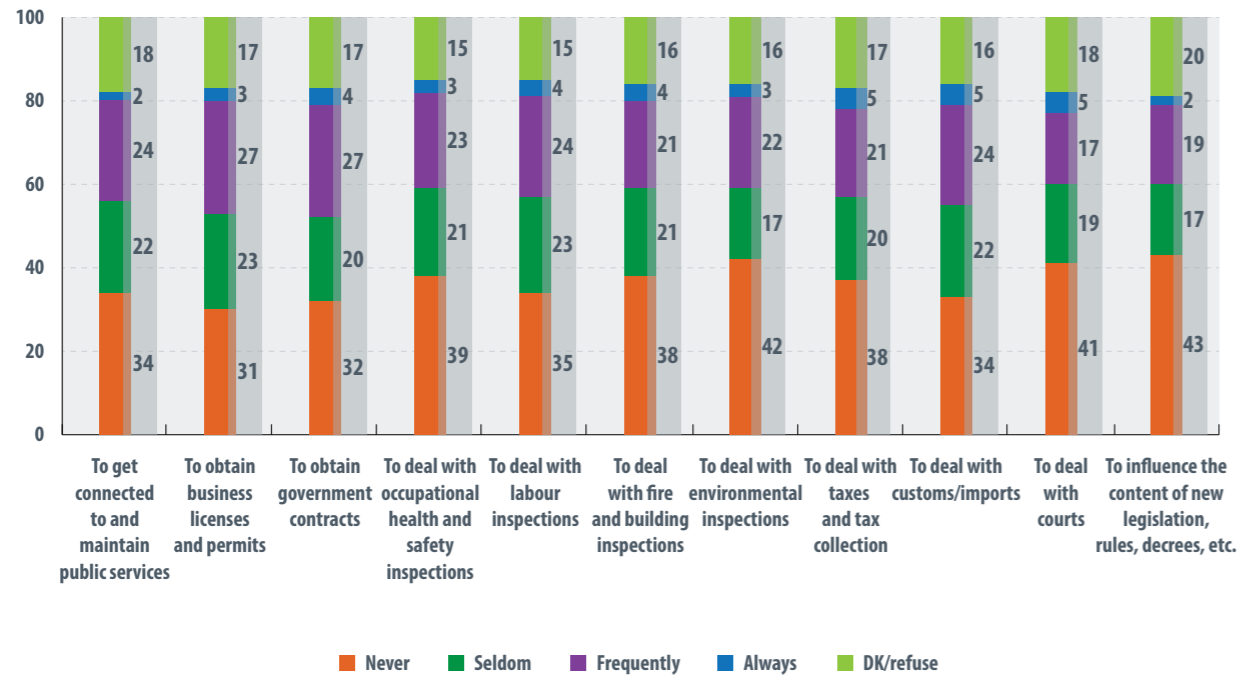


Figure 248 presents the frequency with which exporters may have been in a situation to make various unofficial payments/gifts in 11 purposes, ranging from getting connected to public services to influencing the content of new legislation. Predominantly, in each purpose susceptible to unofficial payments, exporters never made an unofficial payment or a gift, which is the answer provided by about one third of them. However, it is notable that such share is smaller than for the entire sample (Figure 110), where half of respondents

checked the 'never' option. This reveals that exporters were more prone to be asked or to give bribe than other companies, which may be a combination of the manifestation of their power and of the expectations of officials (taking bribes), that exporters are usually larger and financially capable companies that could offer a bribe. About 1%-3% of the total sample responded that they gave bribes, while this percentage extends to 5% specifically for exporters.

Figure 248 – Thinking now of unofficial payments/gifts that companies like yours would make in a given year, could you please tell me how often would they make payments/gifts for the following purposes?

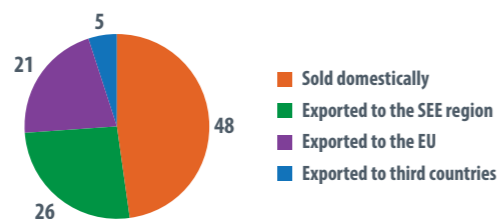
(Exporters only - N=317, scores are on a scale of 1 to 4 where 1 means never and 4 always, %)



Nearly half the exporters also sell on the domestic market (Figure 249). 26% of them reported sales in the re-

Figure 249 – What percentages of your company’s sales are made domestically, exported to the Western Balkans region, to the EU, or to the third countries?

(Exporters only- N=333, share of total, %)

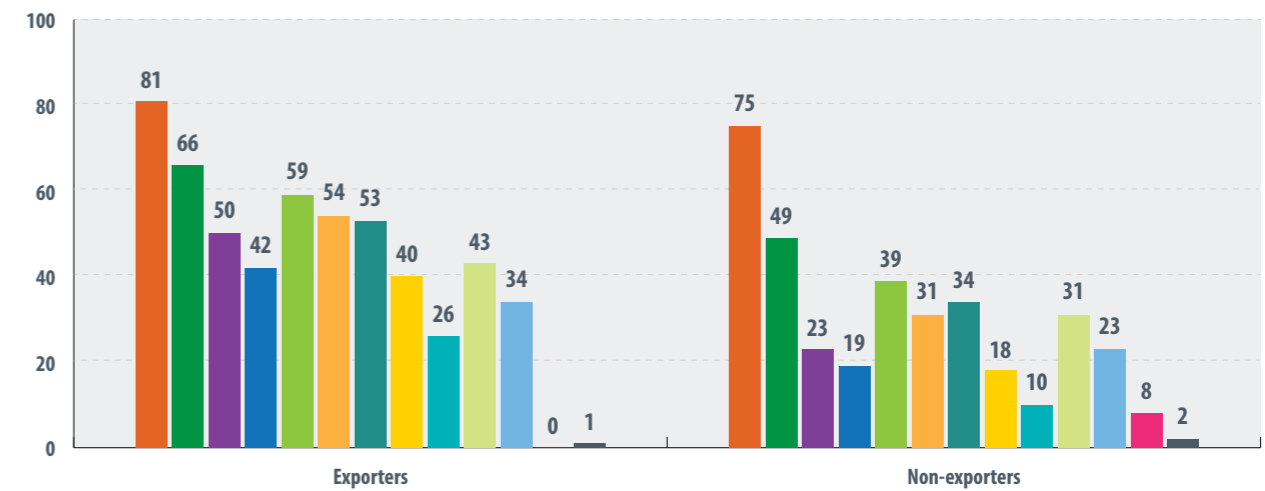


Exporters more frequently rely on internet than non-exporters, for variety of purposes (Figure 250). The differences in internet usage between the two groups are more pronounced for the conduct of financial transactions (66% versus 49%), for presentation through

a website (50% versus 23%), online sales (42% versus 19%), advertising (59% versus 39%) and communication with customers (54% versus 31%). These differences may be contributing to different productivity levels between exporters and non-exporters.

Figure 250 – Does your company use the Internet for...?

(All respondents - N=1200, share of total, %)

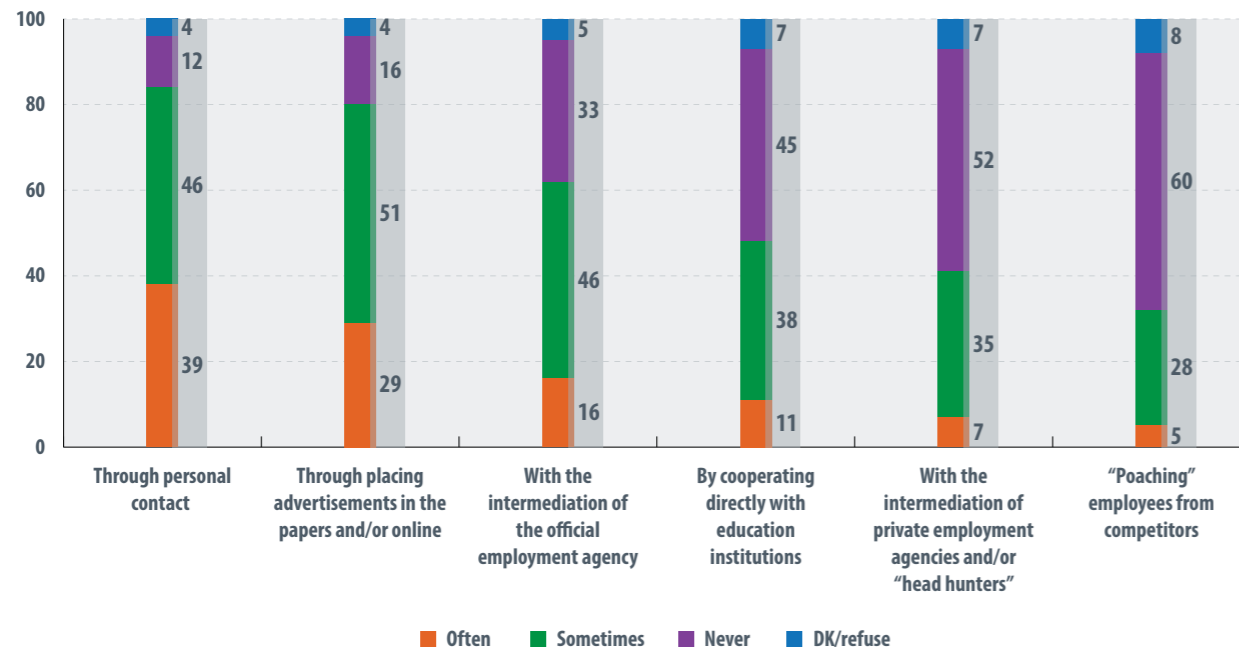


- Communication (email, skype, etc.)
- Executing banking or financial transactions online
- Presenting your company through company website
- Searching the Internet for innovative ideas, new trends, partners etc.
- Advertising on Facebook, YouTube, GoogleAds, etc.
- Communication with customers/clients/partners through social networks (Facebook, Twitter, LinkedIn, etc.)
- Data storage (i.e. the cloud), web-based applications or other internal operational needs
- Provision of customer services or support online
- Purchasing goods or services for your company over the Internet
- Selling your goods or services over the Internet
- Online trainings – internal (organized by your company) or external ones
- DK/refuse
- We dont use Internet

In terms of hiring practices, the approaches of exporters do not significantly differ than for the overall sample (Figure 251): exporters mainly rely on personal contact, followed by paper or online advertising.

Figure 251 – How often do you use the following when hiring new employees? Please mark each of the following methods with 1 often, 2 sometimes or 3 never.

(Exporters only- N=333, share of total, %)



Exporters favour workers from abroad (Figure 252) and from the region (Figure 253). The majority responded that this is likely or very likely to happen: 41% for workers from abroad and 43% for regional workers.

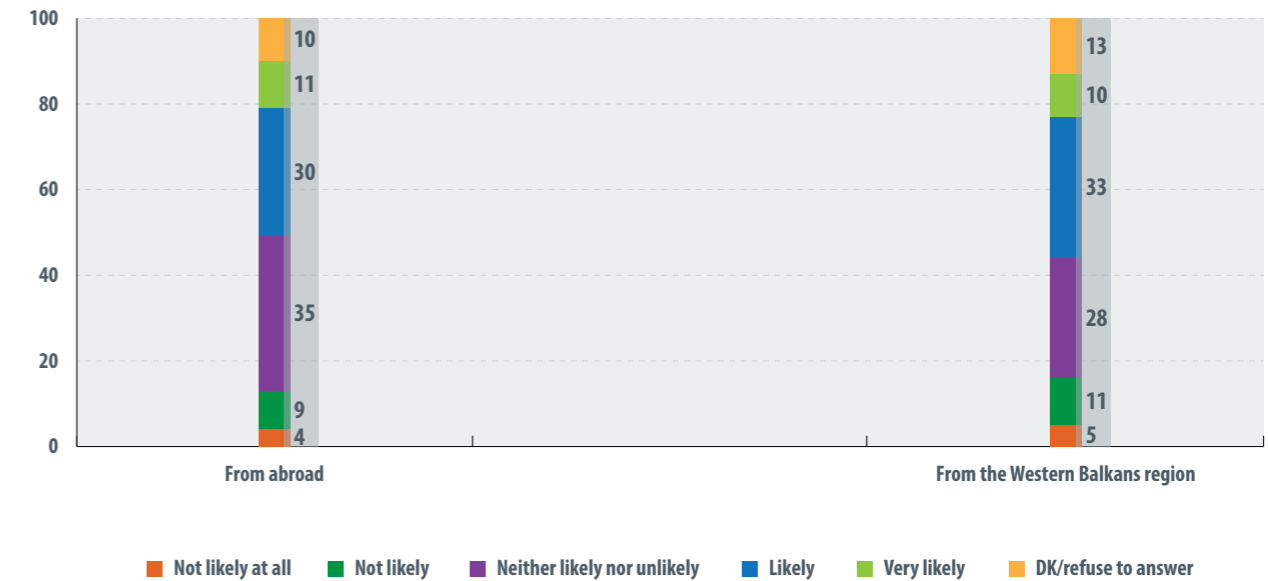
The larger share among exporters reflects the exposure they have to companies and cultures abroad, which propels more favourable attitude towards hiring foreign workers.

Figure 252 – How likely would you employ workers from abroad in your company?

(Exporters only- N=333, share of total, %)

Figure 253 – How likely would you employ workers from the region in your company?

(Exporters only- N=333, share of total, %)

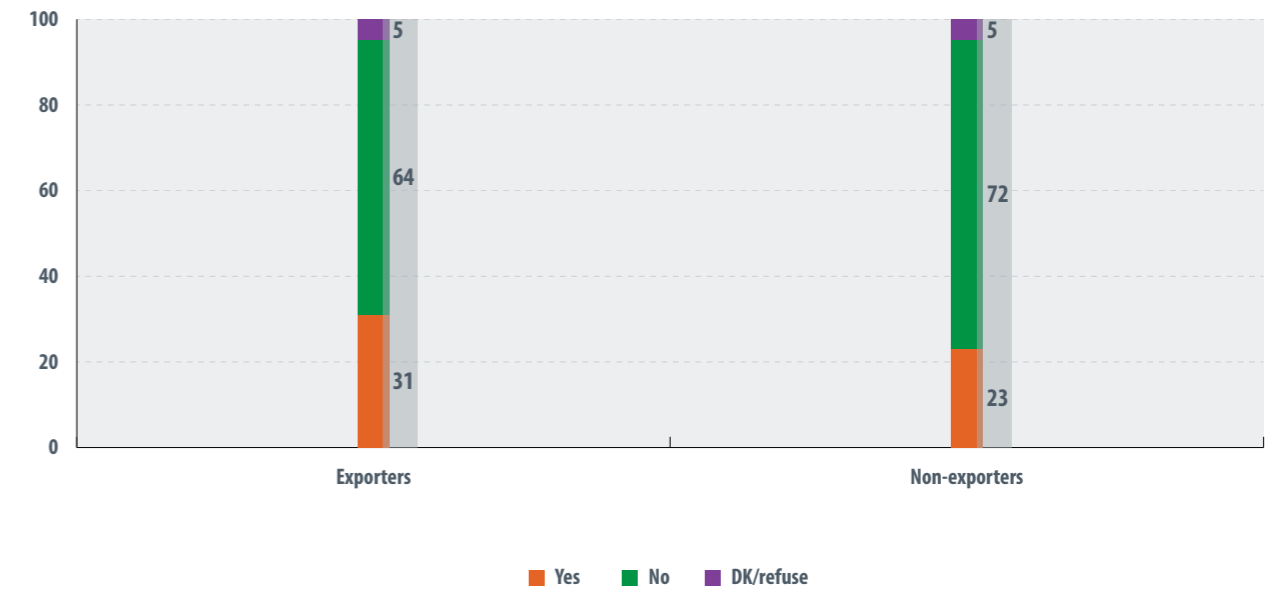


Exporters may be experiencing higher productivity levels than non-exporters, which is testified by the notion

that 31% of them invested in training of their staff, as compared to 23% of non-exporters (Figure 254).

Figure 254 – 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 for training required by the law?

(Exporters only- N=333, share of total, %)

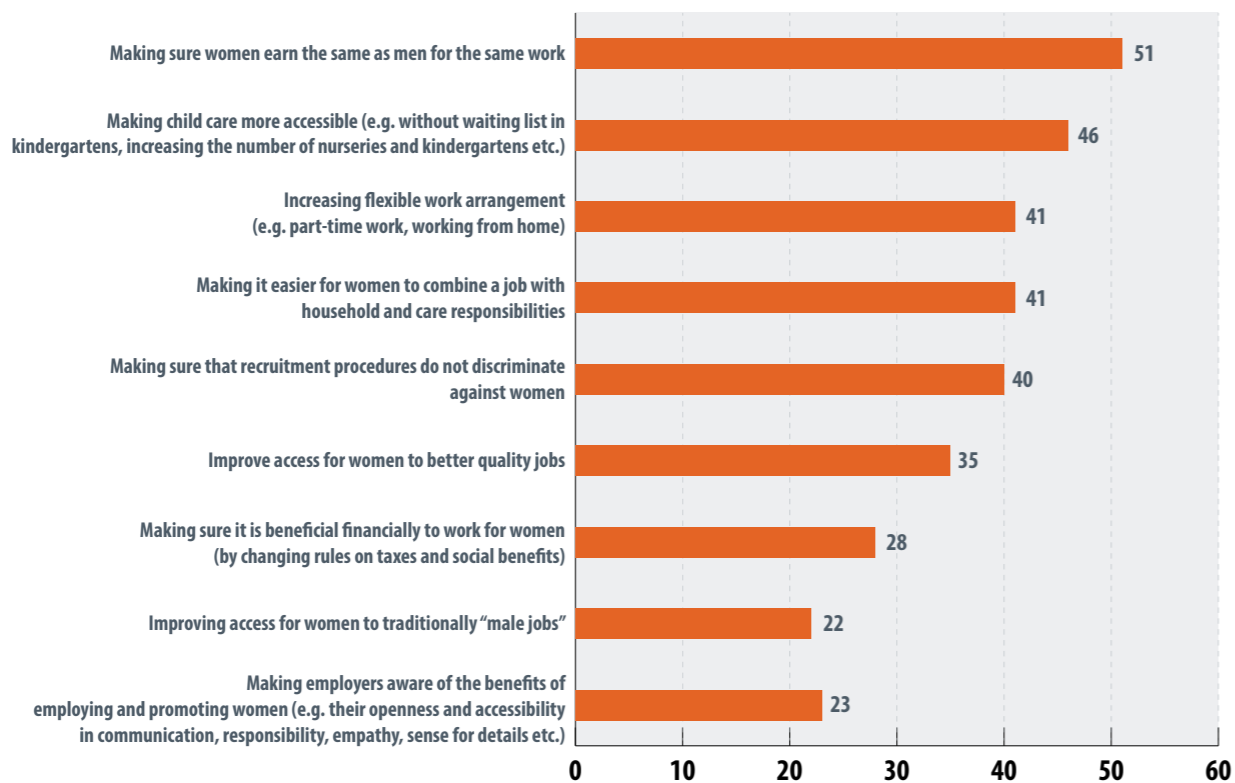


In terms of engaging women as workers, attitudes of exporters resonate those of the overall sample (**Figure 255**): 51% consider equal earnings as a vehicle for increasing their participation in the labour market; 46%

referred to childcare infrastructure; 41% favoured flexible work arrangements and combining of work and care responsibilities.

Figure 255 – In your opinion, what are the most effective ways to increase the number of women in the labour market?

(Exporters only- N=333, share of total, %)



CONCLUSIONS

The Covid-19 pandemic implications brought the growing business sentiment in the Western Balkans to a halt. About six years of gains in this respect were lost during the pandemic. This accentuates the need for a faster resolution of the Covid-19 crisis, so that businesses could return to normality in a reasonable period of time, which they project to extend beyond 2021. For then, Western Balkans economies do need faster and sustained growth rates, first to attain the pre-pandemic level of economic development, and then to gain new momentum for approaching the development levels of the EU. For this objective, the regional cooperation remains a leitmotif: common goals and initiatives to accelerate growth and living standards approximation. Then, sustained growth is both a precondition and a tool for building a democratic society.

The attitudes of businesses towards their respective governments fluctuate between moderate dissatisfaction and moderate satisfaction, with large shares of respondents being neutral on a dozen of governance issues. When being asked about their governments' conduct, ethics, transparency, accountability or willingness to include them in the decision-making process, they tend to express dissatisfaction, yet shrinking. Still, businesses recognise governments' efforts to digitalise public services, advance technological and innovation capabilities, and enhance physical infrastructure. The perception of corruption is still high, and in some cases growing. Hence, upholding the rule of law should remain a prime concern of policymakers.

While the negative impact of Covid-19 on businesses has been widespread across the region, it may be considered a chance for governments to demonstrate adequate responsiveness, which has been to a large extent manifested through a variety of measures to support companies' liquidity and jobs. By so doing, Western Balkan governments reflected concern, willingness and capacity to act and rescue important gains attained over the preceding decade. In this way, the government reduced the potential long-term scarring loom-

ing from the crisis. Yet, the post-pandemic prudence will be required, particularly in terms of how the public debt is managed, since it soared in order to finance shortfalls in the budgets – a strategy pursued globally and propelled by the IMF.

Given the halts in regional trade cooperation and the import-export potentials globally, Western Balkan businesses remained stuck to operate on the domestic market, reflecting their structural weakness to compete on the global marketplace. Yet, the majority of them expressed confidence that their products were highly competitive on the European markets. Both businesses and governments may reap the fruits of such confidence, if structural reforms to turn such buoyancy into actual competitiveness are put on a fast-track after the pandemic.

While innovation capacities continued improving, including with decent governments' activities, the innovation attitudes of Western Balkan businesses, and particularly of micro, small and medium-sized enterprises, should be further supported and incentivised. Only one in ten companies on average gets financial support for innovative activities, however, these more often target large companies than SMEs.

Finally, while labour markets have been under a strain during the Covid-19 crisis, the structural problems will again pick up as the pandemic subsides. Lack of skills, intense emigration, gender gaps, hesitancy towards Roma as workers all represent fertile grounds for investment in active labour market policies and strategies that tackle such bottlenecks.

NOTE ON METHODOLOGY

Methodology used for Business Opinion Survey was the quantitative research and data collection method - CAPI (Computer-Assisted Personal Interviewing).

The survey was conducted via personal household interviews carried out by trained interviewers from Data Centrum Research institute in December 2020 and February 2021 in Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, the Republic of North Macedonia. In Serbia, due to the COVID measures, the used methodology is CATI (Computer-Assisted Telephone Interviewing).

QUESTIONNAIRE

The survey questionnaire was provided by the RCC.

The Business Opinion Survey questionnaire was composed of 110 questions, including the added section and those on business demographics.

The questionnaire was originally written in English and subsequently translated into related local languages.

In Kosovo*, both Albanian and Serbian versions of the questionnaire were used, and in the Republic of North Macedonia, the questionnaire was translated and used in Macedonian and Albanian.

The RCC reviewed and approved all the translations of the questionnaires.

Since the CAPI methodology was used in the research, all questionnaires were converted to a digital form and installed on interviewers' laptops/tablets.

The programmed questionnaires were reviewed by a responsible person in each economy.

INTERVIEWERS

The survey was conducted by experienced interviewers in all economies. All interviewers were trained for

the specific project and were given written and verbal instructions containing general description of the questionnaire, of the method of selecting the companies, and of the respondent selection method. In addition to the instructions, all interviewers were trained to understand research goals, interviewing method and eligible respondent selection (a member of a company's management board/team). In addition, project coordinators reviewed the entire digital questionnaire jointly with the interviewers and emphasised some important elements

SAMPLE

Business Opinion Survey was conducted among N=200 respondents in each economy, with a total of 1,200 respondents from the entire Western Balkans. For the Business Opinion Survey, the target respondents were:

- a member of a company's management board/team, decision takers in the respective enterprises

The sample was prepared by using the latest official data of the National Business Centre, in each of the economies.

- Method** → Business Opinion Survey implemented in the form Face to Face Interviews, in the respondents offices!
- LOI** → Very high duration of Interview (50 - 65 minutes), that caused:
 - a. High level of termination mid-interview.
 - c. High refusal rate (50% up to 60%)
 The length of the interview was higher than the expectations due to the details shared on the bidding process.
- Extra Section** → COVID-19 section made the survey became more complex and voluminous; Suggestion for other waves: COVID-19 or any other extra sections to be conducted as a different survey and methodology (i.e CATI)
- Other Issues** → The start of the year, till end of March is a busy period for businesses need to consolidate their statements and balance sheets for tax reporting purposes. (Albania and Kosovo)
- COVID-19** → Due to COVID-19 measures, a lot of decision makers in respective business, adapted the way of working from home (especially in the corporates). Thus, reaching them F2F was harder! The winter weather and the total/partial lockdown in a few economies caused a few problems of transportation, by slowing down the fieldwork data collection! The fieldwork was conducted with partial number of employees, due to cases with the virus amongst the staff!

Figure 256 – Sample structure by respondent's position

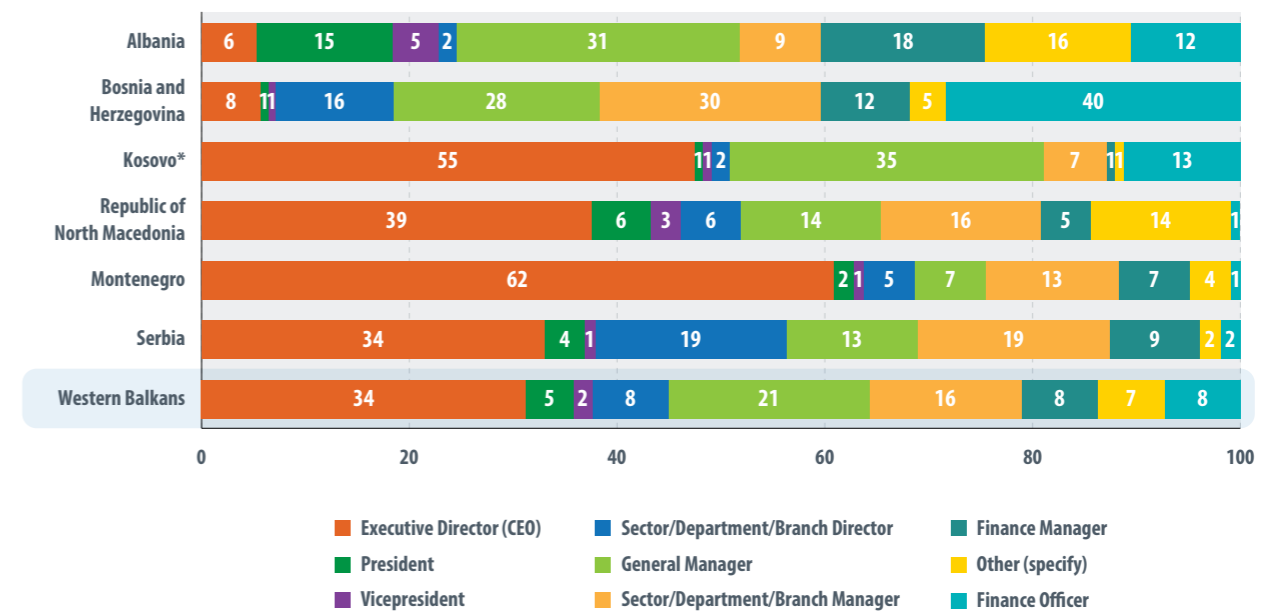


Figure 257 – Sample structure by largest shareholder

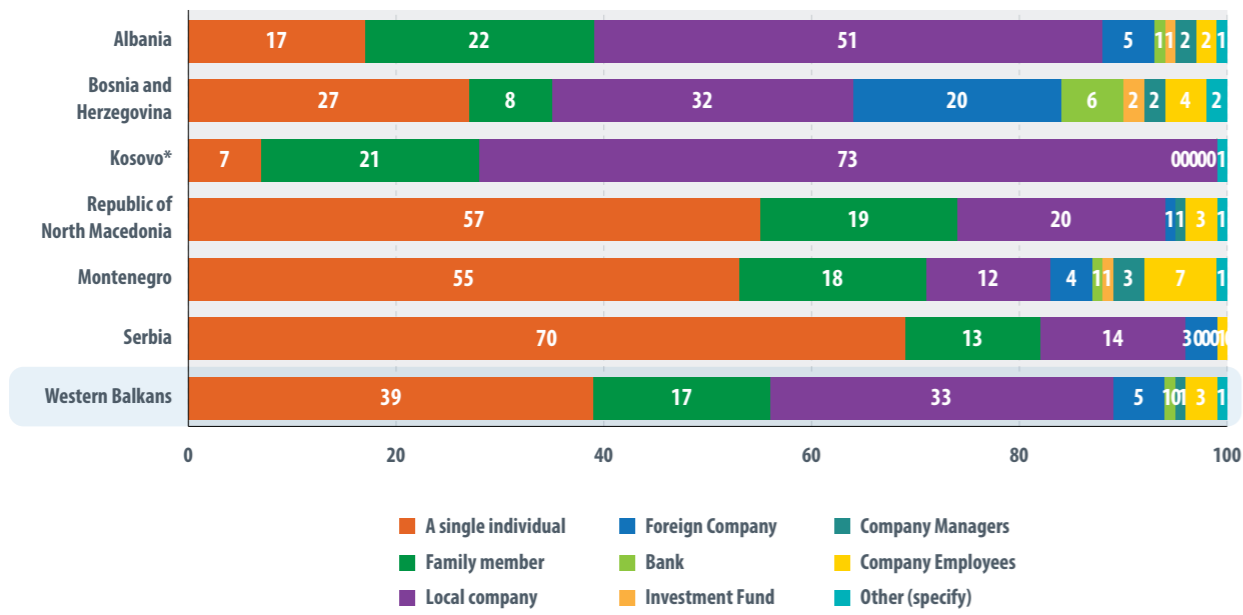


Figure 259 – Sample structure by business area

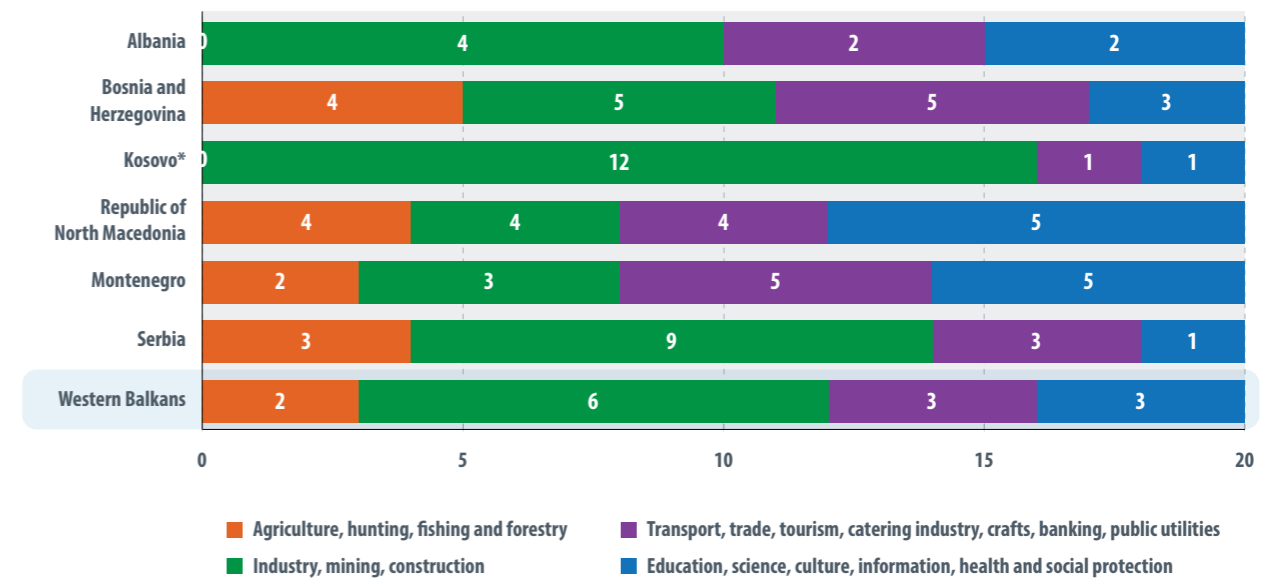


Figure 258 – Sample structure by number of employees

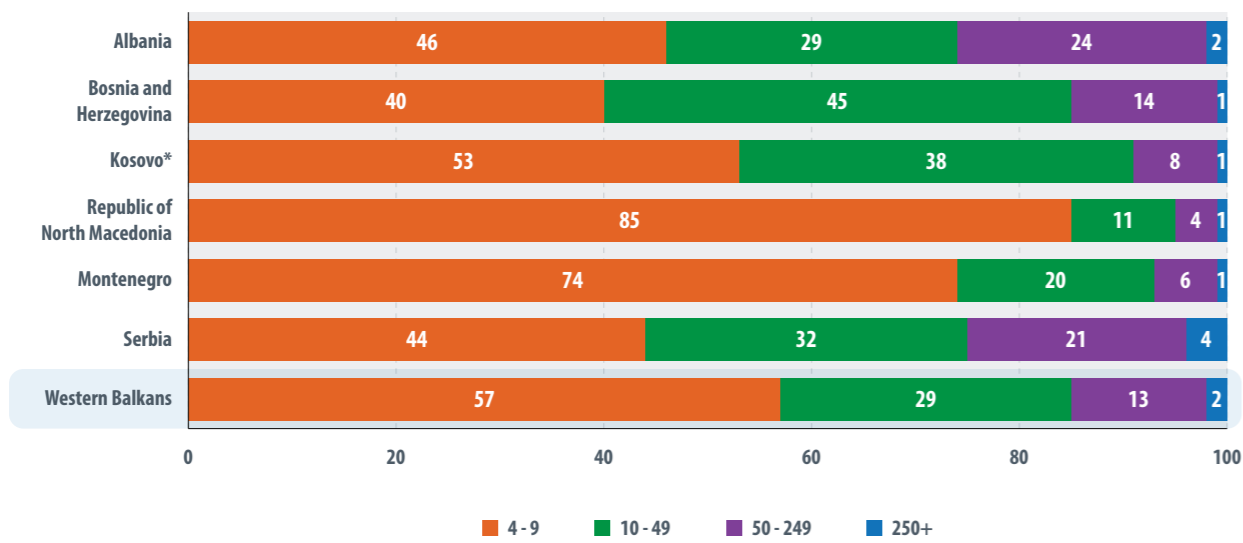
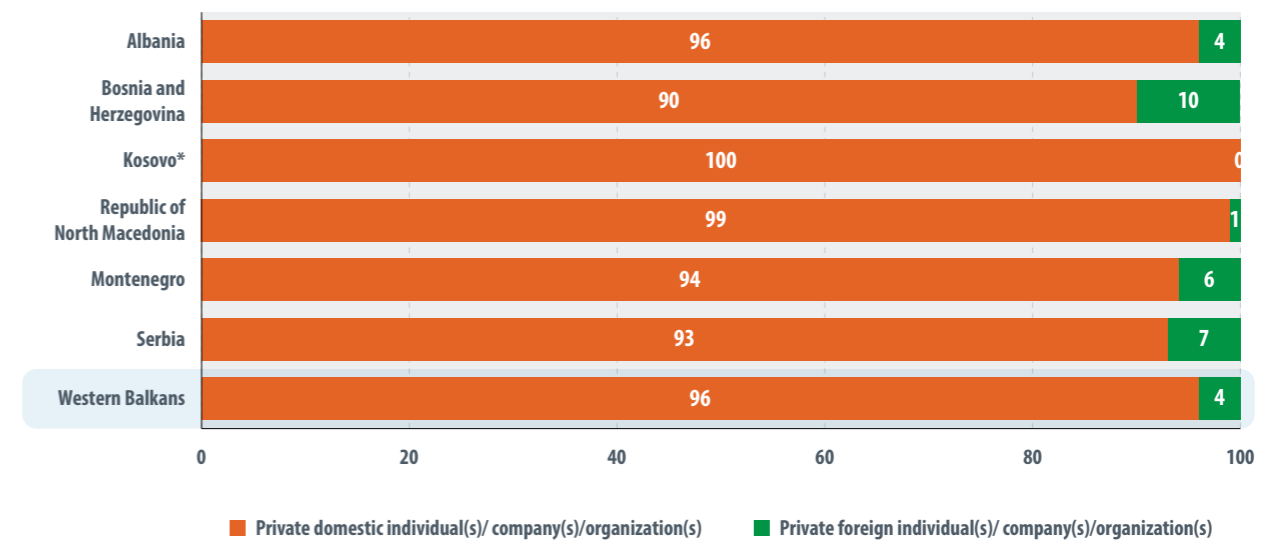


Figure 260 – Sample structure by ownership







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